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)

	Quarters ended March 31,	
(In thousands)	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:

	Quarters ended March 31,	
(In thousands)	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)

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.

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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

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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).

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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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(In thousands)	At December 31, 2012 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.

	At March 31, 2013				
(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	$ 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%

	At December 31, 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	$ 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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(In thousands)	At March 31, 2013 Puerto Rico Non-accrual loans	Puerto Rico Accruing loans past-due 90 days or more	U.S. mainland Non-accrual loans	U.S. mainland Accruing loans past-due 90 days or more	Popular, Inc. Non-accrual loans	Popular, Inc. 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.

(In thousands)	At December 31, 2012 Puerto Rico Non-accrual loans	Puerto Rico Accruing loans past-due 90 days or more	U.S. mainland Non-accrual loans	U.S. mainland Accruing loans past-due 90 days or more	Popular, Inc. Non-accrual loans	Popular, Inc. 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	Past due 60-89 days	Past due 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	Past due 60-89 days	Past due 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	7,359	18,312
Net write-down related to loans sold	(161,297)	(1,846)				(163,143)
Ending balance	$ 160,883	$ 6,403	$ 130,466	$ 3,895	$ 122,374	$ 424,021

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For the quarter ended March 31, 2013
Puerto Rico - Covered loans

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 72,060	$ 9,946	$ 20,914	$	$ 5,986	$ 108,906
Provision (reversal of provision)	6,156	5,792	1,810		3,798	17,556
Charge-offs	(10,565)	(9,759)	(2,062)		(4,567)	(26,953)
Recoveries	30	314	11		3	358
Ending balance	$ 67,681	$ 6,293	$ 20,673	$	$ 5,220	$ 99,867

For the quarter ended March 31, 2013
U.S. Mainland

(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 80,067	$ 1,567	$ 30,348	$ 33,102	$ 31,320	$ 176,404
Provision (reversal of provision)	(3,977)	(531)	3,921	(439)	3,034	2,008
Charge-offs	(12,382)		(4,017)	(7,099)	(7,197)	(30,695)
Recoveries	4,279		1,227	5,213	1,044	11,763
Ending balance	$ 67,987	$ 1,036	$ 31,479	$ 30,777	$ 28,201	$ 159,480

For the quarter ended March 31, 2013
Popular, Inc.

(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Beginning balance	$ 369,742	$ 17,375	$ 170,289	$ 33,102	$ 2,894	$ 137,205	$ 730,607
Provision (reversal of provision)	131,056	8,003	33,943	(439)	1,985	49,308	223,856
Charge-offs	(55,393)	(11,388)	(23,838)	(7,099)	(1,543)	(39,124)	(138,385)
Recoveries	12,443	1,588	2,224	5,213	559	8,406	30,433
Net write-down related to loans sold	(161,297)	(1,846)					(163,143)
Ending balance	$ 296,551	$ 13,732	$ 182,618	$ 30,777	$ 3,895	$ 155,795	$ 683,368

For the quarter ended March 31, 2012
Puerto Rico - Non-covered loans

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 255,453	$ 5,850	$ 72,322	$ 4,651	$ 115,126	$ 453,402
Provision (reversal of provision)	3,394	450	36,411	470	27,067	67,792
Charge-offs	(47,644)	(280)	(13,491)	(1,217)	(32,238)	(94,870)
Recoveries	10,126	651	1,265	1,063	8,107	21,212
Ending balance	$ 221,329	$ 6,671	$ 96,507	$ 4,967	$ 118,062	$ 447,536

For the quarter ended March 31, 2012
Puerto Rico - Covered Loans

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 94,472	$ 20,435	$ 5,310	$	$ 4,728	$ 124,945
Provision (reversal of provision)	(300)	9,556	5,410		3,543	18,209

Charge-offs	(4,102)	(264)	(203)		(89)	(4,658)
Recoveries						
Ending balance	$ 90,070	$ 29,727	$ 10,517	$	$ 8,182	$ 138,496

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(In thousands)	For the quarter ended March 31, 2012 U.S. Mainland Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 113,979	$ 2,631	$ 29,939	$ 46,228	$ 44,184	$ 236,961
Provision (reversal of provision)	(4,864)	(3)	4,261	12,055	3,273	14,722
Charge-offs	(19,602)	(1,396)	(5,332)	(8,473)	(10,358)	(45,161)
Recoveries	2,737	1,230	104	4,915	1,724	10,710
Ending balance	$ 92,250	$ 2,462	$ 28,972	$ 54,725	$ 38,823	$ 217,232

(In thousands)	For the quarter ended March 31, 2012 Popular, Inc. 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)	(1,770)	10,003	46,082	12,055	470	33,883	100,723
Charge-offs	(71,348)	(1,940)	(19,026)	(8,473)	(1,217)	(42,685)	(144,689)
Recoveries	12,863	1,881	1,369	4,915	1,063	9,831	31,922
Ending balance	$ 403,649	$ 38,860	$ 135,996	$ 54,725	$ 4,967	$ 165,067	$ 803,264

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 March 31, 2013	March 31, 2012
Balance at beginning of period	$ 95,407	$ 83,477
Provision for loan losses	14,041	11,370
Net charge-offs	(17,875)	(288)
Balance at end of period	$ 91,573	$ 94,559

The following tables present information at March 31, 2013 and December 31, 2012 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.

(In thousands)	At March 31, 2013 Puerto Rico Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Specific ALLL non-covered loans	$ 21,770	$ 135	$ 58,206	$ 1,662	$ 24,379	$ 106,152
General ALLL non-covered loans	139,113	6,268	72,260	2,233	97,995	317,869
ALLL - non-covered loans	160,883	6,403	130,466	3,895	122,374	424,021
Specific ALLL covered loans	1,417					1,417
General ALLL covered loans	66,264	6,293	20,673		5,220	98,450

ALLL - covered loans	67,681	6,293	20,673		5,220	99,867
Total ALLL	$ 228,564	$ 12,696	$ 151,139	$ 3,895	$ 127,594	$ 523,888
Loans held-in-portfolio:						
Impaired non-covered loans	$ 231,986	$ 43,514	$ 578,471	$ 4,358	$ 109,718	$ 968,047
Non-covered loans held-in-portfolio excluding impaired loans	5,968,604	197,773	5,158,122	539,214	3,113,816	14,977,529
Non-covered loans held-in-portfolio	6,200,590	241,287	5,736,593	543,572	3,223,534	15,945,576
Impaired covered loans	23,412					23,412
Covered loans held-in-portfolio excluding impaired loans	1,921,397	306,550	1,045,564		65,523	3,339,034
Covered loans held-in-portfolio	1,944,809	306,550	1,045,564		65,523	3,362,446
Total loans held-in-portfolio	$ 8,145,399	$ 547,837	$ 6,782,157	$ 543,572	$ 3,289,057	$ 19,308,022

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	At March 31, 2013 U.S. Mainland					
(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Specific ALLL	$ 6	$	$ 17,491	$	$ 93	$ 17,590
General ALLL	67,981	1,036	13,988	30,777	28,108	141,890
Total ALLL	$ 67,987	$ 1,036	$ 31,479	$ 30,777	$ 28,201	$ 159,480
Loans held-in-portfolio:						
Impaired loans	$ 69,953	$ 5,884	$ 53,192	$ 15,031	$ 2,676	$ 146,736
Loans held-in-portfolio,excluding impaired loans	3,479,885	24,327	1,084,125	337,481	615,615	5,541,433
Total loans held-in-portfolio	$ 3,549,838	$ 30,211	$ 1,137,317	$ 352,512	$ 618,291	$ 5,688,169

	At March 31, 2013 Popular, Inc.						
(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Specific ALLL non-covered loans	$ 21,776	$ 135	$ 75,697	$	$ 1,662	$ 24,472	$ 123,742
General ALLL non-covered loans	207,094	7,304	86,248	30,777	2,233	126,103	459,759
ALLL - non-covered loans	228,870	7,439	161,945	30,777	3,895	150,575	583,501
Specific ALLL covered loans	1,417						1,417
General ALLL covered loans	66,264	6,293	20,673			5,220	98,450
ALLL - covered loans	67,681	6,293	20,673			5,220	99,867
Total ALLL	$ 296,551	$ 13,732	$ 182,618	$ 30,777	$ 3,895	$ 155,795	$ 683,368
Loans held-in-portfolio:							
Impaired non-covered loans	$ 301,939	$ 49,398	$ 631,663	$ 15,031	$ 4,358	$ 112,394	$ 1,114,783
Non-covered loans held-in-portfolio excluding impaired loans	9,448,489	222,100	6,242,247	337,481	539,214	3,729,431	20,518,962
Non-covered loans held-in-portfolio	9,750,428	271,498	6,873,910	352,512	543,572	3,841,825	21,633,745
Impaired covered loans	23,412						23,412
Covered loans held-in-portfolio excluding impaired loans	1,921,397	306,550	1,045,564			65,523	3,339,034
Covered loans held-in-portfolio	1,944,809	306,550	1,045,564			65,523	3,362,446
Total loans held-in-portfolio	$ 11,695,237	$ 578,048	$ 7,919,474	$ 352,512	$ 543,572	$ 3,907,348	$ 24,996,191

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(In thousands)	At December 31, 2012 Puerto Rico Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Specific ALLL non-covered loans	$ 17,323	$ 120	$ 58,572	$ 1,066	$ 17,779	$ 94,860
General ALLL non-covered loans	200,292	5,742	60,455	1,828	82,120	350,437
ALLL - non-covered loans	217,615	5,862	119,027	2,894	99,899	445,297
Specific ALLL covered loans	8,505					8,505
General ALLL covered loans	63,555	9,946	20,914		5,986	100,401
ALLL - covered loans	72,060	9,946	20,914		5,986	108,906
Total ALLL	$ 289,675	$ 15,808	$ 139,941	$ 2,894	$ 105,885	$ 554,203
Loans held-in-portfolio:						
Impaired non-covered loans	$ 447,779	$ 35,849	$ 557,137	$ 4,881	$ 130,663	$ 1,176,309
Non-covered loans held-in-portfolio excluding impaired loans	5,848,505	176,418	4,391,787	535,642	3,103,666	14,056,018
Non-covered loans held-in-portfolio	6,296,284	212,267	4,948,924	540,523	3,234,329	15,232,327
Impaired covered loans	109,241					109,241
Covered loans held-in-portfolio excluding impaired loans	2,135,406	361,396	1,076,730		73,199	3,646,731
Covered loans held-in-portfolio	2,244,647	361,396	1,076,730		73,199	3,755,972
Total loans held-in-portfolio	$ 8,540,931	$ 573,663	$ 6,025,654	$ 540,523	$ 3,307,528	$ 18,988,299

(In thousands)	At December 31, 2012 U.S. Mainland Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Specific ALLL	$ 25	$	$ 16,095	$	$ 107	$ 16,227
General ALLL	80,042	1,567	14,253	33,102	31,213	160,177
Total ALLL	$ 80,067	$ 1,567	$ 30,348	$ 33,102	$ 31,320	$ 176,404
Loans held-in-portfolio:						
Impaired loans	$ 79,885	$ 5,960	$ 54,093	$ 18,744	$ 2,714	$ 161,396
Loans held-in-portfolio, excluding impaired loans	3,482,033	34,630	1,075,490	365,473	631,843	5,589,469
Total loans held-in-portfolio	$ 3,561,918	$ 40,590	$ 1,129,583	$ 384,217	$ 634,557	$ 5,750,865

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At December 31, 2012 Popular, Inc.							
(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Specific ALLL non-covered loans	$ 17,348	$ 120	$ 74,667	$	$ 1,066	$ 17,886	$ 111,087
General ALLL non-covered loans	280,334	7,309	74,708	33,102	1,828	113,333	510,614
ALLL - non-covered loans	297,682	7,429	149,375	33,102	2,894	131,219	621,701
Specific ALLL covered loans	8,505						8,505
General ALLL covered loans	63,555	9,946	20,914			5,986	100,401
ALLL - covered loans	72,060	9,946	20,914			5,986	108,906
Total ALLL	$ 369,742	$ 17,375	$ 170,289	$ 33,102	$ 2,894	$ 137,205	$ 730,607
Loans held-in-portfolio:							
Impaired non-covered loans	$ 527,664	$ 41,809	$ 611,230	$ 18,744	$ 4,881	$ 133,377	$ 1,337,705
Non-covered loans held-in-portfolio excluding impaired loans	9,330,538	211,048	5,467,277	365,473	535,642	3,735,509	19,645,487
Non-covered loans held-in-portfolio	9,858,202	252,857	6,078,507	384,217	540,523	3,868,886	20,983,192
Impaired covered loans	109,241						109,241
Covered loans held-in-portfolio excluding impaired loans	2,135,406	361,396	1,076,730			73,199	3,646,731
Covered loans held-in-portfolio	2,244,647	361,396	1,076,730			73,199	3,755,972
Total loans held-in-portfolio	$ 12,102,849	$ 614,253	$ 7,155,237	$ 384,217	$ 540,523	$ 3,942,085	$ 24,739,164

Impaired loans

The following tables present loans individually evaluated for impairment at March 31, 2013 and December 31, 2012.

March 31, 2013 Puerto Rico	Impaired Loans With an Allowance			Impaired Loans With No Allowance		Impaired Loans - Total		
(In thousands)	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial multi-family	$	$	$	$ 8,503	$ 8,503	$ 8,503	$ 8,503	$
Commercial real estate non-owner occupied	18,352	21,975	499	23,341	24,126	41,693	46,101	499
Commercial real estate owner occupied	44,210	60,295	6,405	41,445	51,194	85,655	111,489	6,405
Commercial and industrial	48,686	52,961	14,866	47,449	50,030	96,135	102,991	14,866
Construction	5,028	12,193	135	38,486	88,166	43,514	100,359	135
Mortgage	491,679	513,829	58,206	86,792	97,259	578,471	611,088	58,206
Leasing	4,358	4,358	1,662			4,358	4,358	1,662
Consumer:								
Credit cards	24,149	24,149	959			24,149	24,149	959
Personal	84,708	84,708	23,264			84,708	84,708	23,264
Auto	861	861	156			861	861	156

Covered loans	17,163	17,163	1,417	6,249	6,249	23,412	23,412	1,417
Total Puerto Rico	$ 739,194	$ 792,492	$ 107,569	$ 252,265	$ 325,527	$ 991,459	$ 1,118,019	$ 107,569

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March 31, 2013
U.S. mainland

(In thousands)	Impaired Loans With an Allowance Recorded investment	Impaired Loans With an Allowance Unpaid principal balance	Impaired Loans With an Allowance Related allowance	Impaired Loans With No Allowance Recorded investment	Impaired Loans With No Allowance Unpaid principal balance	Impaired Loans - Total Recorded investment	Impaired Loans - Total Unpaid principal balance	Impaired Loans - Total Related allowance
Commercial multi-family	$	$	$	$ 7,072	$ 10,542	$ 7,072	$ 10,542	$
Commercial real estate non-owner occupied	402	447	6	40,634	59,679	41,036	60,126	6
Commercial real estate owner occupied				19,846	25,078	19,846	25,078	
Commercial and industrial				1,999	1,999	1,999	1,999	
Construction				5,884	5,884	5,884	5,884	
Mortgage	47,405	51,765	17,491	5,787	6,793	53,192	58,558	17,491
Legacy				15,031	25,526	15,031	25,526	
Consumer:								
HELOCs	200	200	9			200	200	9
Auto	90	90	1			90	90	1
Other	2,386	2,386	83			2,386	2,386	83
Total U.S. mainland	$ 50,483	$ 54,888	$ 17,590	$ 96,253	$ 135,501	$ 146,736	$ 190,389	$ 17,590

March 31, 2013
Popular, Inc.

(In thousands)	Impaired Loans With an Allowance Recorded investment	Impaired Loans With an Allowance Unpaid principal balance	Impaired Loans With an Allowance Related allowance	Impaired Loans With No Allowance Recorded investment	Impaired Loans With No Allowance Unpaid principal balance	Impaired Loans - Total Recorded investment	Impaired Loans - Total Unpaid principal balance	Impaired Loans - Total Related allowance
Commercial multi-family	$	$	$	$ 15,575	$ 19,045	$ 15,575	$ 19,045	$
Commercial real estate non-owner occupied	18,754	22,422	505	63,975	83,805	82,729	106,227	505
Commercial real estate owner occupied	44,210	60,295	6,405	61,291	76,272	105,501	136,567	6,405
Commercial and industrial	48,686	52,961	14,866	49,448	52,029	98,134	104,990	14,866
Construction	5,028	12,193	135	44,370	94,050	49,398	106,243	135
Mortgage	539,084	565,594	75,697	92,579	104,052	631,663	669,646	75,697
Legacy				15,031	25,526	15,031	25,526	
Leasing	4,358	4,358	1,662			4,358	4,358	1,662
Consumer:								
Credit cards	24,149	24,149	959			24,149	24,149	959
HELOCs	200	200	9			200	200	9
Personal	84,708	84,708	23,264			84,708	84,708	23,264
Auto	951	951	157			951	951	157
Other	2,386	2,386	83			2,386	2,386	83
Covered loans	17,163	17,163	1,417	6,249	6,249	23,412	23,412	1,417
Total Popular, Inc.	$ 789,677	$ 847,380	$ 125,159	$ 348,518	$ 461,028	$ 1,138,195	$ 1,308,408	$ 125,159

December 31, 2012
Puerto Rico

(In thousands)	Impaired Loans With an Allowance Recorded investment	Impaired Loans With an Allowance Unpaid principal balance	Impaired Loans With an Allowance Related allowance	Impaired Loans With No Allowance Recorded investment	Impaired Loans With No Allowance Unpaid principal balance	Impaired Loans - Total Recorded investment	Impaired Loans - Total Unpaid principal balance	Impaired Loans - Total Related allowance

Commercial multi-family	$ 271	$ 288	$ 6	$ 13,080	$ 19,969	$ 13,351	$ 20,257	$ 6
Commercial real estate non-owner occupied	22,332	25,671	1,354	55,320	63,041	77,652	88,712	1,354
Commercial real estate owner occupied	100,685	149,342	12,614	121,476	167,639	222,161	316,981	12,614
Commercial and industrial	70,216	85,508	3,349	64,399	99,608	134,615	185,116	3,349
Construction	1,865	3,931	120	33,984	70,572	35,849	74,503	120
Mortgage	517,341	539,171	58,572	39,796	42,913	557,137	582,084	58,572
Leasing	4,881	4,881	1,066			4,881	4,881	1,066
Consumer:								
Credit cards	42,514	42,514	1,666			42,514	42,514	1,666
Personal	86,884	86,884	16,022			86,884	86,884	16,022
Auto	772	772	79			772	772	79
Other	493	493	12			493	493	12
Covered loans	64,762	64,762	8,505	44,479	44,479	109,241	109,241	8,505
Total Puerto Rico	$ 913,016	$ 1,004,217	$ 103,365	$ 372,534	$ 508,221	$ 1,285,550	$ 1,512,438	$ 103,365

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December 31, 2012
U.S. mainland

(In thousands)	Impaired Loans With an Allowance Recorded investment	Impaired Loans With an Allowance Unpaid principal balance	Impaired Loans With an Allowance Related allowance	Impaired Loans With No Allowance Recorded investment	Impaired Loans With No Allowance Unpaid principal balance	Impaired Loans - Total Recorded investment	Impaired Loans - Total Unpaid principal balance	Impaired Loans - Total Related allowance
Commercial multi-family	$ 1,327	$ 1,479	$ 25	$ 6,316	$ 9,898	$ 7,643	$ 11,377	$ 25
Commercial real estate non-owner occupied				45,815	64,783	45,815	64,783	
Commercial real estate owner occupied				20,369	22,968	20,369	22,968	
Commercial and industrial				6,058	8,026	6,058	8,026	
Construction				5,960	5,960	5,960	5,960	
Mortgage	45,319	46,484	16,095	8,774	10,328	54,093	56,812	16,095
Legacy				18,744	29,972	18,744	29,972	
Consumer:								
HELOCs	201	201	11			201	201	11
Auto	91	91	2			91	91	2
Other	2,422	2,422	94			2,422	2,422	94
Total U.S. mainland	$ 49,360	$ 50,677	$ 16,227	$ 112,036	$ 151,935	$ 161,396	$ 202,612	$ 16,227

December 31, 2012
Popular, Inc.

(In thousands)	Impaired Loans With an Allowance Recorded investment	Impaired Loans With an Allowance Unpaid principal balance	Impaired Loans With an Allowance Related allowance	Impaired Loans With No Allowance Recorded investment	Impaired Loans With No Allowance Unpaid principal balance	Impaired Loans - Total Recorded investment	Impaired Loans - Total Unpaid principal balance	Impaired Loans - Total Related allowance
Commercial multi-family	$ 1,598	$ 1,767	$ 31	$ 19,396	$ 29,867	$ 20,994	$ 31,634	$ 31
Commercial real estate non-owner occupied	22,332	25,671	1,354	101,135	127,824	123,467	153,495	1,354
Commercial real estate owner occupied	100,685	149,342	12,614	141,845	190,607	242,530	339,949	12,614
Commercial and industrial	70,216	85,508	3,349	70,457	107,634	140,673	193,142	3,349
Construction	1,865	3,931	120	39,944	76,532	41,809	80,463	120
Mortgage	562,660	585,655	74,667	48,570	53,241	611,230	638,896	74,667
Legacy				18,744	29,972	18,744	29,972	
Leasing	4,881	4,881	1,066			4,881	4,881	1,066
Consumer:								
Credit cards	42,514	42,514	1,666			42,514	42,514	1,666
HELOCs	201	201	11			201	201	11
Personal	86,884	86,884	16,022			86,884	86,884	16,022
Auto	863	863	81			863	863	81
Other	2,915	2,915	106			2,915	2,915	106
Covered loans	64,762	64,762	8,505	44,479	44,479	109,241	109,241	8,505
Total Popular, Inc.	$ 962,376	$ 1,054,894	$ 119,592	$ 484,570	$ 660,156	$ 1,446,946	$ 1,715,050	$ 119,592

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The following table presents the average recorded investment and interest income recognized on impaired loans for the quarters ended March 31, 2013 and 2012.

	For the quarter ended March 31, 2013					
	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	$ 10,927	$ 64	$ 7,358	$ 39	$ 18,285	$ 103
Commercial real estate non-owner occupied	59,673	400	43,426	35	103,099	435
Commercial real estate owner occupied	153,908	528	20,108	26	174,016	554
Commercial and industrial	115,375	584	4,029	15	119,404	599
Construction	39,682	391	5,922		45,604	391
Mortgage	567,804	7,734	53,643	502	621,447	8,236
Legacy			16,888		16,888	
Leasing	4,620				4,620	
Consumer:						
Credit cards	33,332				33,332	
Helocs			201		201	
Personal	85,796				85,796	
Auto	817		91		908	
Other	247		2,404		2,651	
Covered loans	66,327	59			66,327	59
Total Popular, Inc.	$ 1,138,508	$ 9,760	$ 154,070	$ 617	$ 1,292,578	$ 10,377

	For the quarter ended March 31, 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	$ 15,721	$	$ 10,187	$ 90	$ 25,908	$ 90
Commercial real estate non-owner occupied	56,977	181	63,881	487	120,858	668
Commercial real estate owner occupied	201,750	576	44,604		246,354	576
Commercial and industrial	128,146	483	32,976	37	161,122	520
Construction	50,385	16	27,545		77,930	16
Mortgage	365,100	5,573	51,717	482	416,817	6,055
Legacy			48,311	46	48,311	46
Leasing	5,758				5,758	
Consumer:						
Credit cards	38,959				38,959	
Personal	92,901				92,901	
Auto			46		46	
Other	4,803		2,444		7,247	
Covered loans	81,327				81,327	
Total Popular, Inc.	$ 1,041,827	$ 6,829	$ 281,711	$ 1,142	$ 1,323,538	$ 7,971

Modifications

Troubled debt restructurings related to non-covered loan portfolios amounted to $1.0 billion at March 31, 2013 (December 31, 2012 - $1.2 billion). The amount of outstanding commitments to lend additional funds to debtors owing receivables whose terms have been modified in troubled debt restructurings amounted to $127 thousand related to the construction loan portfolio and $3 million related to the commercial loan portfolio at March 31, 2013 (December 31, 2012 - $120 thousand and $4 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 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.

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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 loans modifications are made infrequently and are not offered if the Corporation also holds the first mortgage. Home equity loans 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.

As part of its NPL reduction strategy and in order to expedite the resolution of delinquent construction and commercial loans, commencing in 2012, the Corporation routinely enters into liquidation agreements with borrowers and guarantors through the regular legal process, bankruptcy procedures and in certain occasions, out of Court transactions. These liquidation agreements, in general, contemplate the following conditions: (1) consent to judgment by the borrowers and guarantors; (2) acknowledgement by the borrower of the debt, its liquidity and maturity; (3) acknowledgment of the default in payments. The contractual interest rate is not reduced and continues to accrue during the term of the agreement. At the end of the period, borrower is obligated to remit all amounts due or be subject to the Corporation s exercise of its foreclosure rights and further collection efforts. Likewise, the borrower s failure to make stipulated payments will grant the Corporation the ability to exercise its foreclosure rights. This strategy procures to expedite the foreclosure process, resulting in a more effective and efficient collection process. Although in general, these liquidation agreements do not contemplate the forgiveness of principal or interest as debtor is required to cover all outstanding amounts when the agreement becomes due, it could be construed that the Corporation has granted a concession by temporarily accepting a payment schedule that is different from the contractual payment schedule. Accordingly, loans under these program agreements are considered TDRs.

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.

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The following tables present the loan count by type of modification for those loans modified in a TDR during the quarters ended March 31, 2013 and 2012.

Puerto Rico
For the quarter ended March 31, 2013

	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Commercial real estate non-owner occupied		1		
Commercial real estate owner occupied	1	1		
Commercial and industrial	2	2		
Mortgage	4	13	130	6
Leasing		10	8	
Consumer:				
Credit cards	288			236
Personal	232	8		
Other	19			
Total	546	35	138	242

U.S. mainland
For the quarter ended March 31, 2013

	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Commercial real estate non-owner occupied		2		
Commercial real estate owner occupied			1	
Mortgage			3	
Total		2	4	

Popular, Inc.
For the quarter ended March 31, 2013

	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Commercial real estate non-owner occupied		3		
Commercial real estate owner occupied	1	1	1	
Commercial and industrial	2	2		
Mortgage	4	13	133	6
Leasing		10	8	
Consumer:				
Credit cards	288			236
Personal	232	8		
Other	19			

Total	546	37	142	242

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Puerto Rico
For the quarter ended March 31, 2012

	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Commercial real estate non-owner occupied	1	3		
Commercial real estate owner occupied	2	8		
Commercial and industrial	17	31		
Construction	1	1		
Mortgage	36	41	335	45
Leasing		28		
Consumer:				
Credit cards	547			340
Personal	388	9		
Auto			2	
Other	11			
Total	1,003	121	337	385

U.S. mainland
For the quarter ended March 31, 2012

	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Commercial real estate non-owner occupied				1
Construction				1
Mortgage	2		25	
Legacy				2
Total	2		25	4

Popular, Inc.
For the quarter ended March 31, 2012

	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Commercial real estate non-owner occupied	1	3		1
Commercial real estate owner occupied	2	8		
Commercial and industrial	17	31		
Construction	1	1		1
Mortgage	38	41	360	45
Legacy				2
Leasing		28		
Consumer:				
Credit cards	547			340
Personal	388	9		
Auto			2	
Other	11			

Total	1,005	121	362	389

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The following tables present by class, quantitative information related to loans modified as TDRs during the quarters ended March 31, 2013 and 2012.

Puerto Rico
For the quarter ended March 31, 2013

(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	$ 1,248	$ 741	$ (10)
Commercial real estate owner occupied	2	4,566	4,586	(340)
Commercial and industrial	4	160	161	(1)
Mortgage	153	24,898	26,789	3,427
Leasing	18	327	315	103
Consumer:				
Credit cards	524	4,265	5,146	37
Personal	240	3,832	3,846	993
Other	19	49	48	
Total	961	$ 39,345	$ 41,632	$ 4,209

U.S. Mainland
For the quarter ended March 31, 2013

(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	$ 1,594	$ 1,559	$ (2)
Commercial real estate owner occupied	1	381	287	(10)
Mortgage	3	226	228	23
Total	6	$ 2,201	$ 2,074	$ 11

Popular, Inc.
For the quarter ended March 31, 2013

(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	3	$ 2,842	$ 2,300	$ (12)
Commercial real estate owner occupied	3	4,947	4,873	(350)
Commercial and industrial	4	160	161	(1)
Mortgage	156	25,124	27,017	3,450
Leasing	18	327	315	103
Consumer:				
Credit cards	524	4,265	5,146	37
Personal	240	3,832	3,846	993

Other	19		49		48		
Total	967	$	41,546	$	43,706	$	4,220

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Puerto Rico
For the quarter ended March 31, 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	4	$ 878	$ 878	$ (38)
Commercial real estate owner occupied	10	3,212	3,212	(37)
Commercial and industrial	48	6,373	6,373	21
Construction	2	1,097	1,097	52
Mortgage	457	61,916	62,510	4,644
Leasing	28	510	486	50
Consumer:				
Credit cards	887	7,225	8,366	40
Personal	397	4,782	4,788	720
Auto	2	45	24	(1)
Other	11	41	41	
Total	1,846	$ 86,079	$ 87,775	$ 5,451

U.S. Mainland
For the quarter ended March 31, 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	$ 3,545	$ 3,545	$
Construction	1	1,573	1,573	
Mortgage	27	3,021	3,111	478
Legacy	2	951	951	
Total	31	$ 9,090	$ 9,180	$ 478

Popular, Inc.
For the quarter ended March 31, 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	5	$ 4,423	$ 4,423	$ (38)
Commercial real estate owner occupied	10	3,212	3,212	(37)
Commercial and industrial	48	6,373	6,373	21
Construction	3	2,670	2,670	52
Mortgage	484	64,937	65,621	5,122
Legacy	2	951	951	
Leasing	28	510	486	50
Consumer:				
Credit cards	887	7,225	8,366	40
Personal	397	4,782	4,788	720
Auto	2	45	24	(1)

Other	11		41		41		
Total	1,877	$	95,169	$	96,955	$	5,929

One loan comprising a recorded investment of approximately $1.2 million was restructured into multiple notes (Note A / B split) during the quarter ended March 31, 2013. The Corporation recorded approximately $0.5 million in loan charge-offs as part of the loan restructuring. The renegotiations of this loan 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 $0.7 million at March 31, 2013 with a related allowance for loan losses amounting to approximately $21 thousand.

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The following tables present by class, TDRs that were subject to payment default 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 March 31, 2013 is inclusive of all partial paydowns and charge-offs since the modification date. Loans modified as a TDR that were fully paid down, charged-off or foreclosed upon by period end are not reported.

Puerto Rico
Defaulted during the quarter ended March 31, 2013

(Dollars In thousands)	Loan count	Recorded investment as of first default date	
Commercial and industrial	1	$	932
Mortgage	63		8,871
Leasing	7		44
Consumer:			
Credit cards	131		1,120
Personal	41		577
Total [1]	243	$	11,544

[1] Excludes loans for which the Corporation has entered into liquidation agreements with borrowers and guarantors and is accepting payments which differ from the contractual payment schedule. The Corporation considers these as defaulted loans and does not intent to return them to accrual status.

U.S. mainland
Defaulted during the quarter ended March 31, 2013

(Dollars In thousands)	Loan count	Recorded investment as of first default date	
Commercial real estate non-owner occupied	1	$	1,139
Total	1	$	1,139

Popular, Inc.
Defaulted during the quarter ended March 31, 2013

(Dollars In thousands)	Loan count	Recorded investment as of first default date	
Commercial real estate non-owner occupied	1	$	1,139
Commercial and industrial	1		932
Mortgage	63		8,871
Leasing	7		44
Consumer:			
Credit cards	131		1,120
Personal	41		577
Total	244	$	12,683

Puerto Rico
Defaulted during the quarter ended March 31, 2012

(Dollars In thousands)	Loan count	Recorded investment as of first default date	
Commercial real estate non-owner occupied	1	$	1,770
Commercial real estate owner occupied	7		1,746
Commercial and industrial	7		1,070

Mortgage	159		23,088
Leasing	9		369
Consumer:			
Credit cards	240		2,046
Personal	96		739
Other	1		1
Total	520	$	30,829

U.S. mainland Defaulted during the quarter ended March 31, 2012			
(Dollars In thousands)	Loan count	Recorded investment as of first default date	
Commercial real estate non-owner occupied	1	$	1,935
Mortgage	3		413
Total	4	$	2,348

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Popular, Inc.
Defaulted during the quarter ended March 31, 2012

(Dollars In thousands)	Loan count	Recorded investment as of first default date
Commercial real estate non-owner occupied	2	$ 3,705
Commercial real estate owner occupied	7	1,746
Commercial and industrial	7	1,070
Mortgage	162	23,501
Leasing	9	369
Consumer:		
Credit cards	240	2,046
Personal	96	739
Other	1	1
Total	524	$ 33,177

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 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 March 31, 2013 and December 31, 2012.

March 31, 2013

(In thousands)	Watch	Special Mention	Substandard	Doubtful	Loss	Sub-total	Pass/ Unrated	Total
Puerto Rico[1]								
Commercial multi-family	$ 1,565	$ 144	$ 9,302	$	$	$ 11,011	$ 103,586	$ 114,597
Commercial real estate non-owner occupied	107,148	133,658	404,352			645,158	1,021,532	1,666,690
Commercial real estate owner occupied	195,629	116,309	413,218	1,239		726,395	1,001,676	1,728,071
Commercial and industrial	440,078	187,972	328,605	4,281	634	961,570	1,729,662	2,691,232
Total Commercial	744,420	438,083	1,155,477	5,520	634	2,344,134	3,856,456	6,200,590
Construction	1,091	33,915	40,034	10,416		85,456	155,831	241,287
Mortgage			572,359			572,359	5,164,234	5,736,593
Leasing			2,477		1,528	4,005	539,567	543,572
Consumer:								
Credit cards			22,930			22,930	1,132,075	1,155,005
Home equity lines of credit			1,184		2,875	4,059	12,156	16,215
Personal			7,847		161	8,008	1,222,490	1,230,498
Auto			8,404			8,404	584,087	592,491
Other			3,162			3,162	226,163	229,325
Total Consumer			43,527		3,036	46,563	3,176,971	3,223,534
Total Puerto Rico	$ 745,511	$ 471,998	$ 1,813,874	$ 15,936	$ 5,198	$ 3,052,517	$ 12,893,059	$ 15,945,576
U.S. mainland								
Commercial multi-family	$ 79,121	$ 27,807	$ 63,194	$	$	$ 170,122	$ 749,570	$ 919,692
Commercial real estate non-owner occupied	123,885	31,089	190,414			345,388	934,463	1,279,851

Commercial real estate owner occupied	14,864	8,699	107,535			131,098	426,159	557,257
Commercial and industrial	25,310	7,654	58,968			91,932	701,106	793,038
Total Commercial	243,180	75,249	420,111			738,540	2,811,298	3,549,838
Construction			21,106			21,106	9,105	30,211
Mortgage			28,046			28,046	1,109,271	1,137,317
Legacy	21,226	12,551	103,026			136,803	215,709	352,512
Consumer:								
Credit cards			505		21	526	14,041	14,567
Home equity lines of credit			3,177		4,385	7,562	455,011	462,573
Personal			110		575	685	138,483	139,168
Auto					4	4	630	634
Other			27			27	1,322	1,349
Total Consumer			3,819		4,985	8,804	609,487	618,291
Total U.S. mainland	$ 264,406	$ 87,800	$ 576,108	$	$ 4,985	$ 933,299	$ 4,754,870	$ 5,688,169
Popular, Inc.								
Commercial multi-family	$ 80,686	$ 27,951	$ 72,496	$	$	$ 181,133	$ 853,156	$ 1,034,289
Commercial real estate non-owner occupied	231,033	164,747	594,766			990,546	1,955,995	2,946,541
Commercial real estate owner occupied	210,493	125,008	520,753	1,239		857,493	1,427,835	2,285,328
Commercial and industrial	465,388	195,626	387,573	4,281	634	1,053,502	2,430,768	3,484,270
Total Commercial	987,600	513,332	1,575,588	5,520	634	3,082,674	6,667,754	9,750,428
Construction	1,091	33,915	61,140	10,416		106,562	164,936	271,498
Mortgage			600,405			600,405	6,273,505	6,873,910
Legacy	21,226	12,551	103,026			136,803	215,709	352,512
Leasing			2,477		1,528	4,005	539,567	543,572
Consumer:								
Credit cards			23,435		21	23,456	1,146,116	1,169,572
Home equity lines of credit			4,361		7,260	11,621	467,167	478,788
Personal			7,957		736	8,693	1,360,973	1,369,666
Auto			8,404		4	8,408	584,717	593,125
Other			3,189			3,189	227,485	230,674
Total Consumer			47,346		8,021	55,367	3,786,458	3,841,825
Total Popular, Inc.	$ 1,009,917	$ 559,798	$ 2,389,982	$ 15,936	$ 10,183	$ 3,985,816	$ 17,647,929	$ 21,633,745

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The following table presents the weighted average obligor risk rating at March 31, 2013 for those classifications that consider a range of rating scales.

Weighted average obligor risk rating	(Scales 11 and 12) Substandard	(Scales 1 through 8) Pass
Puerto Rico:[1]		
Commercial multi-family	11.90	5.57
Commercial real estate non-owner occupied	11.08	6.56
Commercial real estate owner occupied	11.25	6.93
Commercial and industrial	11.22	6.66
Total Commercial	11.19	6.69
Construction	11.94	7.85

	Substandard	Pass
U.S. mainland:		
Commercial multi-family	11.30	7.11
Commercial real estate non-owner occupied	11.39	7.01
Commercial real estate owner occupied	11.29	6.72
Commercial and industrial	11.15	6.71
Total Commercial	11.32	6.69
Construction	11.28	7.91
Legacy	11.28	7.51

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

December 31, 2012

(In thousands)	Watch	Special Mention	Substandard	Doubtful	Loss	Sub-total	Pass/ Unrated	Total
Puerto Rico[1]								
Commercial multi-family	$ 978	$ 255	$ 16,736	$	$	$ 17,969	$ 97,124	$ 115,093
Commercial real estate non-owner occupied	120,608	156,853	252,068			529,529	820,904	1,350,433
Commercial real estate owner occupied	195,876	140,788	647,458	1,242		985,364	1,057,122	2,042,486
Commercial and industrial	438,758	201,660	410,026	4,162	682	1,055,288	1,732,984	2,788,272
Total Commercial	756,220	499,556	1,326,288	5,404	682	2,588,150	3,708,134	6,296,284
Construction	645	31,789	41,278			73,712	138,555	212,267
Mortgage			569,334			569,334	4,379,590	4,948,924
Leasing			4,742		123	4,865	535,658	540,523
Consumer:								
Credit cards			22,965			22,965	1,160,107	1,183,072
Home equity lines of credit			1,333		3,269	4,602	12,204	16,806
Personal			8,203		77	8,280	1,237,502	1,245,782
Auto			8,551			8,551	551,765	560,316

Other			3,036			3,036	225,317	228,353
Total Consumer			44,088		3,346	47,434	3,186,895	3,234,329
Total Puerto Rico	$ 756,865	$ 531,345	$ 1,985,730	$ 5,404	$ 4,151	$ 3,283,495	$ 11,948,832	$ 15,232,327
U.S. mainland								
Commercial multi-family	$ 78,490	$ 22,050	$ 71,658	$	$	$ 172,198	$ 734,489	$ 906,687
Commercial real estate non-owner occupied	108,806	55,911	204,532			369,249	914,750	1,283,999
Commercial real estate owner occupied	22,423	6,747	113,161			142,331	423,633	565,964
Commercial and industrial	24,489	8,889	65,562			98,940	706,328	805,268
Total Commercial	234,208	93,597	454,913			782,718	2,779,200	3,561,918
Construction	5,268		21,182			26,450	14,140	40,590
Mortgage			34,077			34,077	1,095,506	1,129,583
Legacy	26,176	15,225	109,470			150,871	233,346	384,217
Consumer:								
Credit cards			505			505	14,636	15,141
Home equity lines of credit			3,150		4,304	7,454	466,775	474,229
Personal			785		941	1,726	141,403	143,129
Auto					4	4	764	768
Other			3			3	1,287	1,290
Total Consumer			4,443		5,249	9,692	624,865	634,557
Total U.S. mainland	$ 265,652	$ 108,822	$ 624,085	$	$ 5,249	$ 1,003,808	$ 4,747,057	$ 5,750,865
Popular, Inc.								
Commercial multi-family	$ 79,468	$ 22,305	$ 88,394	$	$	$ 190,167	$ 831,613	$ 1,021,780
Commercial real estate non-owner occupied	229,414	212,764	456,600			898,778	1,735,654	2,634,432
Commercial real estate owner occupied	218,299	147,535	760,619	1,242		1,127,695	1,480,755	2,608,450
Commercial and industrial	463,247	210,549	475,588	4,162	682	1,154,228	2,439,312	3,593,540
Total Commercial	990,428	593,153	1,781,201	5,404	682	3,370,868	6,487,334	9,858,202
Construction	5,913	31,789	62,460			100,162	152,695	252,857
Mortgage			603,411			603,411	5,475,096	6,078,507
Legacy	26,176	15,225	109,470			150,871	233,346	384,217
Leasing			4,742		123	4,865	535,658	540,523
Consumer:								
Credit cards			23,470			23,470	1,174,743	1,198,213
Home equity lines of credit			4,483		7,573	12,056	478,979	491,035
Personal			8,988		1,018	10,006	1,378,905	1,388,911
Auto			8,551		4	8,555	552,529	561,084
Other			3,039			3,039	226,604	229,643
Total Consumer			48,531		8,595	57,126	3,811,760	3,868,886
Total Popular, Inc.	$ 1,022,517	$ 640,167	$ 2,609,815	$ 5,404	$ 9,400	$ 4,287,303	$ 16,695,889	$ 20,983,192

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The following table presents the weighted average obligor risk rating at December 31, 2012 for those classifications that consider a range of rating scales.

Weighted average obligor risk rating	(Scales 11 and 12) Substandard	(Scales 1 through 8) Pass
Puerto Rico:[1]		
Commercial multi-family	11.94	5.68
Commercial real estate non-owner occupied	11.28	6.98
Commercial real estate owner occupied	11.51	6.93
Commercial and industrial	11.35	6.69
Total Commercial	11.42	6.81
Construction	11.99	7.86

	Substandard	Pass
U.S. mainland:		
Commercial multi-family	11.26	7.12
Commercial real estate non-owner occupied	11.38	7.04
Commercial real estate owner occupied	11.28	6.64
Commercial and industrial	11.19	6.73
Total Commercial	11.31	6.81
Construction	11.28	7.21
Legacy	11.30	7.48

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

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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 80% reimbursement under 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.

	Quarters ended March 31,	
(In thousands)	2013	2012
Balance at beginning of year	$ 1,399,098	$ 1,915,128
(Amortization) accretion of loss share indemnification asset, net	(40,204)	(29,375)
Credit impairment losses to be covered under loss sharing agreements	14,045	13,422
Decrease due to reciprocal accounting on the discount accretion for loans and unfunded commitments accounted for under ASC Subtopic 310-20	(193)	(248)
Reimbursable expenses	7,783	2,267
Net payments to (from) FDIC under loss sharing agreements	107	(20,896)
Other adjustments attributable to FDIC loss sharing agreements	(44)	59
Balance at end of period	$ 1,380,592	$ 1,880,357

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%).

The following table provides the fair value and the undiscounted amount of the true-up payment obligation at March 31, 2013 and December 31, 2012.

(In thousands)	March 31, 2013	December 31, 2012
Carrying amount (fair value)	$ 118,294	$ 111,519
Undiscounted amount	$ 181,512	$ 178,522

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

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

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Note 10 Transfers of financial assets and mortgage servicing rights

The Corporation typically transfers conforming residential mortgage loans in conjunction with GNMA, FNMA and FHLMC 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, FNMA and FHLMC 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 19 to the consolidated financial statements for a description of such arrangements.

No liabilities were incurred as a result of these securitizations during the quarters ended March 31, 2013 and 2012 because they did not contain any credit recourse arrangements. During the quarter ended March 31, 2013 the Corporation recorded a net gain of $17.7 million (March 31, 2012 - $13.7 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 ended March 31, 2013 and 2012.

	Proceeds Obtained During the Quarter Ended March 31, 2013			
(In thousands)	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Trading account securities:				
Mortgage-backed securities - GNMA		$ 285,252		$ 285,252
Mortgage-backed securities - FNMA		128,142		128,142
Total trading account securities		$ 413,394		$ 413,394
Mortgage servicing rights			$ 4,743	$ 4,743
Total		$ 413,394	$ 4,743	$ 418,137

	Proceeds Obtained During the Quarter Ended March 31, 2012			
(In thousands)	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Trading account securities:				
Mortgage-backed securities - GNMA		$ 190,178		$ 190,178
Mortgage-backed securities - FNMA		59,535		59,535
Total trading account securities		$ 249,713		$ 249,713
Mortgage servicing rights			$ 3,233	$ 3,233
Total		$ 249,713	$ 3,233	$ 252,946

During the quarter ended March 31, 2013, the Corporation retained servicing rights on whole loan sales involving approximately $36 million in principal balance outstanding (March 31, 2012 - $53 million), with realized gains of approximately $1.5 million (March 31, 2012 - gains of $1.9 million). All loan sales performed during the quarters ended March 31, 2013 and 2012 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.

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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 quarter ended March 31, 2013 and 2012.

Residential MSRs		
(In thousands)	March 31, 2013	March 31, 2012
Fair value at beginning of period	$ 154,430	$ 151,323
Purchases	45	474
Servicing from securitizations or asset transfers	5,102	3,757
Changes due to payments on loans[1]	(6,064)	(4,161)
Reduction due to loan repurchases	(995)	(810)
Changes in fair value due to changes in valuation model inputs or assumptions	1,444	5,755
Other disposals	(13)	(7)
Fair value at end of period	$ 153,949	$ 156,331

[1] Represents changes due to collection / realization of expected cash flows over time.
Residential mortgage loans serviced for others were $16.6 billion at March 31, 2013 (December 31, 2012 - $16.7 billion).

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 ended March 31, 2013 amounted to $11.2 million (March 31, 2012 - $12.1 million). The banking subsidiaries receive servicing fees based on a percentage of the outstanding loan balance. At March 31, 2013, those weighted average mortgage servicing fees were 0.27% (March 31, 2012 0.28%). 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 ended March 31, 2013 and 2012 were as follows:

	Quarter ended	
	March 31, 2013	March 31, 2012
Prepayment speed	8.2%	5.6%
Weighted average life	12.2 years	17.8 years
Discount rate (annual rate)	11.1%	11.5%

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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:

Originated MSRs		
(In thousands)	March 31, 2013	December 31, 2012
Fair value of servicing rights	$ 103,919	$ 102,727
Weighted average life	10.6 years	10.2 years
Weighted average prepayment speed (annual rate)	9.4%	9.8%
Impact on fair value of 10% adverse change	$ (3,430)	$ (3,226)
Impact on fair value of 20% adverse change	$ (7,166)	$ (7,018)
Weighted average discount rate (annual rate)	12.3%	12.3%
Impact on fair value of 10% adverse change	$ (3,855)	$ (3,518)
Impact on fair value of 20% adverse change	$ (7,905)	$ (7,505)

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:

Purchased MSRs		
(In thousands)	March 31, 2013	December 31, 2012
Fair value of servicing rights	$ 50,030	$ 51,703
Weighted average life	10.9 years	11.0 years
Weighted average prepayment speed (annual rate)	9.2%	9.1%
Impact on fair value of 10% adverse change	$ (2,275)	$ (2,350)
Impact on fair value of 20% adverse change	$ (3,915)	$ (4,024)
Weighted average discount rate (annual rate)	11.4%	11.4%
Impact on fair value of 10% adverse change	$ (2,408)	$ (2,516)
Impact on fair value of 20% adverse change	$ (4,146)	$ (4,317)

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 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 March 31, 2013, the Corporation serviced $2.8 billion (December 31, 2012 - $2.9 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 March 31, 2013, the Corporation had recorded $58 million in mortgage loans on its consolidated statements of financial condition related to this buy-back option program (December 31, 2012 - $56 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. During the quarter ended March 31, 2013, the Corporation repurchased approximately $55 million (December 31, 2012 - $255 million) of mortgage loans under the GNMA buy-back option program. The determination to repurchase these loans was based on the economic benefits of the transaction, which results in a reduction of the servicing costs for these severely delinquent loans, mostly related to principal and interest advances. Furthermore, due to their guaranteed nature, the risk associated with the loans is minimal. The Corporation places these loans under its loss mitigation programs and once brought back to current status, these may be either retained in portfolio or re-sold in the secondary market.

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Note 11 Other assets

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

(In thousands)	March 31, 2013	December 31, 2012
Net deferred tax assets (net of valuation allowance)	$ 607,799	$ 541,499
Investments under the equity method	276,756	246,776
Bank-owned life insurance program	230,419	233,475
Prepaid FDIC insurance assessment	24,982	27,533
Prepaid taxes	84,740	88,360
Other prepaid expenses	63,145	60,626
Derivative assets	40,111	41,925
Trades receivables from brokers and counterparties	144,171	137,542
Others	179,111	191,842
Total other assets	$ 1,651,234	$ 1,569,578

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Note 12 Goodwill and other intangible assets

The changes in the carrying amount of goodwill for the three months ended March 31, 2013 and 2012, allocated by reportable segments, were as follows (refer to Note 32 for the definition of the Corporation s reportable segments):

	2013				
(In thousands)	Balance at January 1, 2013	Goodwill on acquisition	Purchase accounting adjustments	Other	Balance at March 31, 2013
Banco Popular de Puerto Rico	$ 245,679	$	$	$	$ 245,679
Banco Popular North America	402,078				402,078
Total Popular, Inc.	$ 647,757	$	$	$	$ 647,757

	2012				
(In thousands)	Balance at January 1, 2012	Goodwill on acquisition	Purchase accounting adjustments	Other	Balance at March 31, 2012
Banco Popular de Puerto Rico	$ 246,272	$	$ (439)	$	$ 245,833
Banco Popular North America	402,078				402,078
Total Popular, Inc.	$ 648,350	$	$ (439)	$	$ 647,911

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.

	March 31, 2013					
(In thousands)	Balance at January 1, 2013 (gross amounts)	Accumulated impairment losses	Balance at January 1, 2013 (net amounts)	Balance at March 31, 2013 (gross amounts)	Accumulated impairment losses	Balance at March 31, 2013 (net amounts)
Banco Popular de Puerto Rico	$ 245,679	$	$ 245,679	$ 245,679	$	$ 245,679
Banco Popular North America	566,489	164,411	402,078	566,489	164,411	402,078
Total Popular, Inc.	$ 812,168	$ 164,411	$ 647,757	$ 812,168	$ 164,411	$ 647,757

	December 31, 2012					
(In thousands)	Balance at January 1, 2012 (gross amounts)	Accumulated impairment losses	Balance at January 1, 2012 (net amounts)	Balance at December 31, 2012 (gross amounts)	Accumulated impairment losses	Balance at December 31, 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

At March 31, 2013 and December 31, 2012, 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
March 31, 2013			
Core deposits	$ 77,885	$ 45,654	$ 32,231
Other customer relationships	16,835	3,405	13,430
Other intangibles	135	82	53
Total other intangible assets	$ 94,855	$ 49,141	$ 45,714
December 31, 2012			
Core deposits	$ 77,885	$ 43,627	$ 34,258
Other customer relationships	16,835	2,974	13,861
Other intangibles	135	73	62
Total other intangible assets	$ 94,855	$ 46,674	$ 48,181

There were no core deposits or any customer relationships intangibles that became fully amortized during the quarter ended March 31, 2013.

During the quarter ended March 31, 2013, the Corporation recognized $ 2.5 million in amortization expense related to other intangible assets with definite useful lives (March 31, 2012 - $ 2.6 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 2013	$ 7,403
Year 2014	9,227
Year 2015	7,084
Year 2016	6,799
Year 2017	4,050
Year 2018	3,970

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Note 13 Deposits

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

(In thousands)	March 31, 2013	December 31, 2012
Savings accounts	$ 6,780,585	$ 6,694,014
NOW, money market and other interest bearing demand deposits	5,727,473	5,601,261
Total savings, NOW, money market and other interest bearing demand deposits	12,508,058	12,295,275
Certificates of deposit:		
Under $100,000	5,736,995	5,666,973
$100,000 and over	3,154,463	3,243,736
Total certificates of deposit	8,891,458	8,910,709
Total interest bearing deposits	$ 21,399,516	$ 21,205,984

A summary of certificates of deposit by maturity at March 31, 2013 follows:

(In thousands)	
2013	$ 5,043,608
2014	1,515,972
2015	1,057,418
2016	544,304
2017	486,093
2018 and thereafter	244,063
Total certificates of deposit	$ 8,891,458

At March 31, 2013, the Corporation had brokered deposits amounting to $ 3.0 billion (December 31, 2012 - $ 2.8 billion).

The aggregate amount of overdrafts in demand deposit accounts that were reclassified to loans was $22 million at March 31, 2013 (December 31, 2012 - $17 million).

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Note 14 Borrowings

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

(In thousands)	March 31, 2013	December 31, 2012
Assets sold under agreements to repurchase	$ 2,265,675	$ 2,016,752

The repurchase agreements outstanding at March 31, 2013 were collateralized by $ 1.9 billion (December 31, 2012 - $ 1.6 billion) in investment securities available-for-sale, $ 259 million (December 31, 2012 - $ 272 million) in trading securities and $ 139 million (December 31, 2012 - $ 133 million) in securities sold not yet delivered 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 $ 238 million in securities purchased under agreements to resell to which the Corporation has the right to repledge the securities (December 31, 2012 - $ 227 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, these securities 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)	March 31, 2013	December 31, 2012
Advances with the FHLB paying interest at maturity, at fixed rates ranging from 0.38% to 0.43%	$ 950,000	$ 635,000
Others	1,200	1,200
Total other short-term borrowings	$ 951,200	$ 636,200

Note: Refer to the Corporation s 2012 Annual Report for rates information corresponding to the short-term borrowings outstanding at December 31, 2012.

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

(In thousands)	March 31, 2013	December 31, 2012
Advances with the FHLB with maturities ranging from 2013 through 2021 paying interest at monthly fixed rates ranging from 0.63% to 4.50%	$ 547,372	$ 577,490
Term notes with maturities ranging from 2014 to 2016 paying interest semiannually at fixed rates ranging from 7.47% to 7.86%	233,639	236,620
Term notes with maturities ranging from 2013 to 2014 paying interest monthly at a floating rate of 3.00% over the 10-year U.S. Treasury note rate[1]	25	133
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 16)	439,800	439,800
Junior subordinated deferrable interest debentures (related to trust preferred securities) ($936,000 less discount of $428,401 at March 31, 2013 and $436,530 at December 31, 2012), 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 16)[2]	507,599	499,470
Others	24,034	24,208
Total notes payable	$ 1,752,469	$ 1,777,721

Note: Refer to the Corporation s 2012 Annual Report for rates information corresponding to the long-term borrowings outstanding at December 31, 2012.

[1] The 10-year U.S. Treasury note key index rate at March 31, 2013 and December 31, 2012 was 1.85% and 1.76%, respectively.

[2] 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 March 31, 2013 and December 31, 2012.

A breakdown of borrowings by contractual maturities at March 31, 2013 is included in the table below.

(In thousands)	Assets sold under agreements to repurchase	Short-term borrowings	Notes payable	Total
Year				
2013	$ 1,523,478	$ 951,200	$ 50,554	$ 2,525,232
2014			189,445	189,445
2015	174,135		41,109	215,244
2016	453,062		311,507	764,569
2017	115,000		69,034	184,034
Later years			583,221	583,221
No stated maturity			936,000	936,000
Subtotal	2,265,675	951,200	2,180,870	5,397,745
Less: Discount			428,401	428,401
Total borrowings	$ 2,265,675	$ 951,200	$ 1,752,469	$ 4,969,344

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Note 15 Offsetting of financial assets and liabilities

The following tables present the potential effect of rights of setoff associated with the Corporation s recognized financial assets and liabilities at March 31, 2013 and December 31, 2012.

As of March 31, 2013				Gross Amounts Not Offset in the Statement of Financial Position			
(In thousands)	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Financial Instruments	Securities Collateral Received	Cash Collateral Received	Net Amount
Derivatives	$ 40,142	$	$ 40,142	$ 442	$ 1,248	$ 412	$ 38,040
Reverse repurchase agreements	226,139		226,139	960	225,179		
Total	$ 266,281	$	$ 266,281	$ 1,402	$ 226,427	$ 412	$ 38,040

As of March 31, 2013				Gross Amounts Not Offset in the Statement of Financial Position			
(In thousands)	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Financial Instruments	Securities Collateral Pledged	Cash Collateral Pledged	Net Amount
Derivatives	$ 37,936	$	$ 37,936	$ 442	$ 25,071	$	$ 12,423
Repurchase agreements	2,265,675		2,265,675	960	2,264,715		
Total	$ 2,303,611	$	$ 2,303,611	$ 1,402	$ 2,289,786	$	$ 12,423

As of December 31, 2012				Gross Amounts Not Offset in the Statement of Financial Position			
(In thousands)	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Financial Instruments	Securities Collateral Received	Cash Collateral Received	Net Amount
Derivatives	$ 41,935	$	$ 41,935	$ 649	$ 1,770	$	$ 39,516
Reverse repurchase agreements	213,462		213,462	1,041	212,421		
Total	$ 255,397	$	$ 255,397	$ 1,690	$ 214,191	$	$ 39,516

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(In thousands)	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Securities Collateral Pledged	Cash Collateral Received	Net Amount
As of December 31, 2012							
Derivatives	$ 42,585	$	$ 42,585	$ 649	$ 30,390	$	$ 11,546
Repurchase agreements	2,016,752		2,016,752	1,041	2,015,711		
Total	$ 2,059,337	$	$ 2,059,337	$ 1,690	$ 2,046,101	$	$ 11,546

The Corporation s derivatives are subject to agreements which allow a right of set-off with each respective counterparty. In addition, the Corporation s Repurchase Agreements and Reverse Repurchase Agreements have a right of set-off with the respective counterparty under the supplemental terms of the Master Repurchase Agreements. In an event of default each party has a right of set-off against the other party for amounts owed in the related agreement and any other amount or obligation owed in respect of any other agreement or transaction between them.

Note 16 Trust preferred securities

At March 31, 2013 and December 31, 2012, 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 March 31, 2013 and December 31, 2012.

(Dollars in thousands)

Issuer	BanPonce Trust I	Popular Capital Trust I	Popular North America Capital Trust I	Popular Capital Trust Il	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.

[8] Carrying value of junior subordinated debentures of $ 508 million at March 31, 2013 ($ 936 million aggregate liquidation amount, net of $ 428 million discount) and $ 499 million at December 31, 2012 ($ 936 million aggregate liquidation amount, net of $ 437 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). As of March 31, 2013 and December 31, 2012, 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.

Section 171 of the Dodd-Frank Act, enacted in July 2010, included 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. Although the federal banking supervisors issued a joint notice of proposed rulemaking in June 2012 that contained a phase-out schedule for non-qualifying capital instruments pursuant to Section 171, a final rule has not been adopted. At March 31, 2013, the Corporation had $ 427 million in trust preferred securities (capital securities) that would be subject to the phase-out provision when adopted. Applying the phase-out schedule as proposed in the June 2012 joint notice of proposed rulemaking, the Corporation would phase out $107 million of trust preferred securities in 2013. The trust preferred securities issued to the U.S. Treasury pursuant to the Emergency Economic Stabilization Act of 2008, are exempt from the phase-out provision under the proposed guidance.

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Note 17 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 $432 million at March 31, 2013 (December 31, 2012 - $432 million). There were no transfers between the statutory reserve account and the retained earnings account during the quarters ended March 31, 2013 and March 31, 2012.

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Note 18 Other comprehensive loss

The following table presents accumulated other comprehensive loss by component at March 31, 2013 and December 31, 2012.

(In thousands)	At March 31, 2013	At December 31, 2012
Foreign currency translation adjustment	$ (30,553)	$ (31,277)
Adjustment of pension and postretirement benefit plans	(342,137)	(348,306)
Tax effect	120,609	122,460
Net of tax amount	(221,528)	(225,846)
Unrealized holding gains on investments	144,014	172,969
Tax effect	(13,452)	(18,401)
Net of tax amount	130,562	154,568
Unrealized net losses on cash flow hedges	(698)	(447)
Tax effect	209	134
Net of tax amount	(489)	(313)
Accumulated other comprehensive loss	$ (122,008)	$ (102,868)

The following table presents the amounts reclassified out of each component of accumulated other comprehensive loss during the quarters ended March 31, 2013 and 2012.

	Reclassifications Out of Accumulated Other Comprehensive Loss		
	Affected Line Item in the	Quarters ended March 31,	
(In thousands)	Consolidated Statements of Operations	2013	2012
Adjustment of pension and postretirement benefit plans			
Amortization of net losses	Personnel costs	$ (6,169)	$ (6,289)
Amortization of prior service cost	Personnel costs		50
	Total before tax	(6,169)	(6,239)
	Income tax benefit	1,851	1,725
	Total net of tax	$ (4,318)	$ (4,514)
Unrealized net losses on cash flow hedges			
Forward contracts	Trading account profit (loss)	$ 152	$ (2,316)
	Total before tax	152	(2,316)
	Income tax (expense) benefit	(45)	696
	Total net of tax	$ 107	$ (1,620)

Total reclassification adjustments, net of tax	$ (4,211)	$ (6,134)

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Note 19 Guarantees

At March 31, 2013, the Corporation recorded a liability of $1.1 million (December 31, 2012 - $0.6 million and March 31, 2012 - $1.0 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. At March 31, 2013, the Corporation serviced $ 2.8 billion (December 31, 2012 - $ 2.9 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 ended March 31, 2013, the Corporation repurchased approximately $ 30 million of unpaid principal balance in mortgage loans subject to the credit recourse provisions (March 31, 2012 - $ 50 million). 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 March 31, 2013, the Corporation s liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to $ 48 million (December 31, 2012 - $ 52 million; March 31, 2012 - $ 56 million).

The following table presents the changes in the Corporation s liability for estimated losses related to loans serviced with credit recourse provisions during the quarters ended March 31, 2013 and 2012.

(In thousands)	2013	2012
Balance as of beginning of period	$ 51,673	$ 58,659
Additions for new sales		
Provision for recourse liability	4,097	4,232
Net charge-offs / terminations	(7,787)	(6,776)
Balance as of end of period	$ 47,983	$ 56,115

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 $ 2.0 million in unpaid principal balance with

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losses amounting to $ 0.4 million during the three-month period ended March 31, 2013 (March 31, 2012 - $ 0.4 million and $ 0.1 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 March 31, 2013, the Corporation established a reserve for certain specific representation and warranties made in connection with BPPR s sale of commercial and construction loans, and commercial and single family real estate owned. The purchaser s sole remedy under the indemnity clause is to seek monetary damages from BPPR, for a maximum of $18.0 million. BPPR is not required to repurchase any of the assets. BPPR recognized a reserve of approximately $10.7 million, representing its best estimate of the loss that would be incurred in connection with this indemnification. BPPR s obligations under this clause end one year after the closing except to any claim asserted prior to such termination date.

Also, 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 March 31, 2013, the related representation and warranty reserve amounted to $ 6.9 million, and the related serviced portfolio approximated $2.7 billion (December 31, 2012 - $ 7.6 million and $2.9 billion, respectively).

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 BPPR for the quarters ended March 31, 2013 and 2012.

(In thousands)	2013	2012
Balance as of beginning of period	$ 7,587	$ 8,522
Additions for new sales	10,700	
(Reversal) provision for representation and warranties	(290)	297
Net charge-offs / terminations	(394)	(257)
Balance as of end of period	$ 17,603	$ 8,562

In addition, at March 31, 2013, 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 March 31, 2013, the Corporation s reserve for estimated losses from such representation and warranty arrangements amounted to $ 9 million, which was included as part of other liabilities in the consolidated statement of financial condition (December 31, 2012 - $ 8 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 ended March 31, 2013 and 2012.

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(In thousands)	2013	2012
Balance as of beginning of period	$ 7,740	$ 10,625
Additions for new sales		
Provision for representation and warranties	1,265	
Net charge-offs / terminations	(153)	
Other - settlements paid		
Balance as of end of period	$ 8,852	$ 10,625

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 March 31, 2013, the Corporation serviced $ 16.6 billion in mortgage loans for third-parties, including the loans serviced with credit recourse (December 31, 2012 - $ 16.7 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 of the foreclosure proceedings and the Corporation would not receive any future servicing income with respect to that loan. At March 31, 2013, the outstanding balance of funds advanced by the Corporation under such mortgage loan servicing agreements was approximately $33 million (December 31, 2012 - $19 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.

Popular, Inc. Holding Company (PIHC) fully and unconditionally guarantees certain borrowing obligations issued by certain of its wholly-owned consolidated subsidiaries amounting to $ 0.5 billion at March 31, 2013 (December 31, 2012 - $ 0.5 billion). In addition, at March 31, 2013 and December 31, 2012, 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 16 to the consolidated financial statements for further information on the trust preferred securities.

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Note 20 Commitments and contingencies

Off-balance sheet risk

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)	March 31, 2013	December 31, 2012
Commitments to extend credit:		
Credit card lines	$ 4,356,067	$ 4,379,071
Commercial lines of credit	2,513,647	2,044,382
Other unused credit commitments	351,849	351,537
Commercial letters of credit	20,500	20,634
Standby letters of credit	134,829	127,519
Commitments to originate mortgage loans	66,344	41,187

At March 31, 2013, the Corporation maintained a reserve of approximately $4 million for potential losses associated with unfunded loan commitments related to commercial and consumer lines of credit (December 31, 2012 - $5 million).

Other commitments

At March 31, 2013, the Corporation also maintained other non-credit commitments for $10 million, primarily for the acquisition of other investments (December 31, 2012 - $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 32 to the consolidated financial statements.

The Corporation s loan portfolio is diversified by loan category. However, approximately $14.6 billion, or 67% of the Corporation s loan portfolio not covered under the FDIC loss sharing agreements, excluding loans held-for-sale, at March 31, 2013, consisted of real estate related loans, including residential mortgage loans, construction loans and commercial loans secured by commercial real estate (December 31, 2012 - $13.3 billion, or 64%).

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 our total assets or deposits, or in relation to our overall business. At March 31, 2013, the Corporation had approximately $0.9 billion of credit facilities granted to the Puerto Rico Government, its municipalities and public corporations, of which $215 million were uncommitted lines of credit (December 31, 2012 - $0.8 billion and $75 million, respectively). Of the total credit facilities granted, $596 million was outstanding at March 31, 2013, of which none were uncommitted lines of credit (December 31, 2012 - $681 billion and $61 million respectively). As part of its investment securities portfolio, the Corporation had $210 million in obligations issued or guaranteed by the Puerto Rico Government, its municipalities and public corporations (December 31, 2012 - $217 million).

Additionally, the Corporation holds consumer mortgage loans with an outstanding balance of $294 million at March 31, 2013 that are guaranteed by the Puerto Rico Housing Authority (December 31, 2012 - $294 million). These mortgage loans are secured by the underlying properties and the guarantees serve to cover any shortfall in collateral in the event of a borrower default.

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 $118 million at March 31, 2013 (December 31, 2012 - $112 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 $13.9 million as of March 31, 2013. 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.

<u>Ongoing Class Action Litigation</u>

I. Banco Popular is currently a defendant in two class action lawsuit arising from its consumer banking and trust-related activities:

The Overdraft Fee Litigation

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 on July 3, 2012 and approved by the Court on September 6, 2012.

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On January 16, 2013, a reasonableness hearing was held in the matter of reference. Counsel for both parties appeared, as well as representatives from the three non-profit organizations that were proposed as potential recipients of the settlement funds. The Court was informed that all class-members had been notified of the proposed settlement. The Court then approved the designation of all non-profit organizations (a fourth non-profit organization was approved for inclusion shortly after the hearing). The parties agreed to file a proposed Final Order and Judgment. The Court requested that a public notice be published upon entry of final judgment to inform class-members of their right to seek consumer counseling services from these organizations.

In March 2013, a settlement payment amounting to $ 430 thousand was made to the order of, inter alia, the four separate Court-approved non-profit organizations and the nominal plaintiff.

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. Such motions were submitted on August 8, 2012.

On March 27, 2013, judgment was entered by the Court granting defendants motions to dismiss in their entirety. This judgment is now final and unappealable.

II. Banco Popular North America is currently a defendant in one class action lawsuit arising from its consumer banking activity:

On November 21, 2012, BPNA was served with a class action complaint captioned *Valle v. Popular Community Bank* filed in the New York State Supreme Court (New York County), whereby plaintiffs (existing BPNA customers) allege, among other things, that BPNA engages in unfair and deceptive acts and trade practices relative to the assessment of overdraft fees and payment processing on consumer deposit accounts. The complaint further alleges that BPNA improperly disclosed its consumer overdraft policies and, additionally, that the overdraft rates and fees assessed by BPNA violate New York s usury laws. The complaint seeks unspecified damages, including punitive damages, interest, disbursements, and attorneys fees and costs.

BPNA removed the case to federal court (S.D.N.Y.), and plaintiffs subsequently filed a motion to remand the action to state court. BPNA is awaiting the court s ruling on remand to determine procedural posture and next steps.

Note 21 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, FNMA and FHLMC. 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, GNMA, and FHLMC) 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 and FHLMC. Moreover, through their guarantee obligations, agencies (FNMA, GNMA, and FHLMC) 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 March 31, 2013.

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 23 to the consolidated financial statements for additional information on the debt securities outstanding at March 31, 2013 and December 31, 2012, 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 March 31, 2013 and December 31, 2012.

(In thousands)	March 31, 2013	December 31, 2012
Assets		
Servicing assets:		
Mortgage servicing rights	$ 105,545	$ 105,246
Total servicing assets	$ 105,545	$ 105,246
Other assets:		
Servicing advances	$ 1,412	$ 1,106
Total other assets	$ 1,412	$ 1,106
Total assets	$ 106,957	$ 106,352
Maximum exposure to loss	$ 106,957	$ 106,352

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 $9.2 billion at March 31, 2013 (December 31, 2012 - $9.2 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 March 31, 2013 and December 31, 2012, 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 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 subservicer, 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 March 31, 2013 and December 31, 2012. See note 22 for information on eliminations.

(In thousands)	March 31, 2013	December 31, 2012
Assets		
Loans held-in-portfolio:		
Acquisition loan	$ 16,002	$ 39,775
Advances under the advance facility	7,777	5,315
Total loans held-in-portfolio	$ 23,779	$ 45,090
Accrued interest receivable	$ 67	$ 122
Other assets:		
Investment in PRLP 2011 Holdings LLC	$ 31,938	$ 35,969
Total other assets	$ 31,938	$ 35,969
Total assets	$ 55,784	$ 81,181
Deposits	$ (3,663)	$ (5,334)
Total liabilities	$ (3,663)	$ (5,334)
Total net assets	$ 52,121	$ 75,847
Maximum exposure to loss	$ 52,121	$ 75,847

The Corporation determined that the maximum exposure to loss under a worst case scenario at March 31, 2013 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.

On March 25, 2013, BPPR completed a sale of assets with a book value of $509.0 million, of which $500.6 million were in non-performing status, comprised of commercial and construction loans, and commercial and single family real estate owned, with a combined unpaid principal balance on loans and appraised value of other real estate owned of approximately $987.0 million to a newly created joint venture, CPG PR Portfolio 2013-1 International, LLC. The joint venture is majority owned by Caribbean Property Group LLC and certain affiliates of Perella Weinberg Partners Asset Based Value Strategy. 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 assets in an amount equal to the sum of 57% of the purchase price of the assets and closing costs, for a total acquisition loan of $182.4 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 $35.0 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 $30.0 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 March 2013, BPPR received $92.3 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 and real estate owned sold.

The Corporation has determined that CPG PR Portfolio 2013-1 International, 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 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 PR Asset Portfolio Servicing International, LLC, an affiliate of CPG.

The initial fair value of the Corporation s equity interest in the joint venture was determined based on the fair value of the loans and real estate owned transferred to the joint venture of $306 million which represented the purchase price of the loans agreed by the parties and was an arm s-length transaction between market participants in accordance with ASC Topic 820, reduced by the acquisition loan provided by BPPR to the joint venture, for a total net equity of $124 million. Accordingly, the 24.9% equity interest held by the Corporation was valued at $31 million. Thus, the fair value of the equity interest is considered a Level 2 fair value measurement since the inputs were based on observable market inputs.

The Corporation holds variable interests in this VIE in the form of the 24.9% equity interest (the Investment in CPG PR Portfolio 2013-1 International, 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, related to the Corporation s variable interests in the non-consolidated VIE, CPG PR Portfolio 2013-1 International, LLC and its maximum exposure to loss at March 31, 2013.

(In thousands)	March 31, 2013
Assets	
Loans held-in-portfolio:	
Acquisition loan	$ 182,419
Advances under the working capital line	1,059
Total loans held-in-portfolio	$ 183,478
Accrued interest receivable	$ 116
Other assets:	
Investment in CPG PR Portfolio 2013-1 International	$ 31,086
Total other assets	$ 31,086
Total assets	$ 214,680
Deposits	$ (17,689)
Total liabilities	$ (17,689)
Total net assets	$ 196,991
Maximum exposure to loss	$ 196,991

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Note 22 Related party transactions with affiliated company / joint venture

EVERTEC

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 30 Related party transactions to the consolidated financial statements included in the Corporation s 2012 Annual Report for details on this sale to an unrelated third-party. As of March 31, 2013, the Corporation had a 48.5% interest in the holding company of EVERTEC. On April 12, 2013, EVERTEC completed an initial public offering of its common stock. In conjunction with this offering, the Corporation sold a number of shares held in EVERTEC, retaining a stake of 33.5%. Refer to additional information on Note 33, Subsequent events.

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 quarters ended March 31, 2013 and 2012, the Corporation did not receive any capital distributions from its investments in EVERTEC s holding company.

(In thousands)	March 31, 2013	December 31, 2012
Equity investment in EVERTEC	$ 74,509	$ 73,916
Intra-company eliminations (detailed in next table)	22,593	27,209
Equity investment in EVERTEC, net of eliminations	$ 97,102	$ 101,125

The Corporation had the following financial condition accounts outstanding with EVERTEC at March 31, 2013 and December 31, 2012. 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 March 31, 2013 (December 31, 2012 - 51.5%).

	At March 31, 2013			At December 31, 2012		
(In thousands)	100%	Popular s 48.5% interest (eliminations)	51.5% majority interest	100%	Popular s 48.5% interest (eliminations)	51.5% majority interest
Loans	$ 53,684	$ 26,026	$ 27,658	$ 53,589	$ 25,980	$ 27,609
Investment securities	35,000	16,968	18,032	35,000	16,968	18,032
Deposits	29,443	14,274	15,169	19,968	9,680	10,288
Accounts receivables (Other assets)	3,232	1,567	1,665	4,085	1,980	2,105
Accounts payable (Other liabilities)	15,871	7,694	8,177	16,582	8,039	8,543
Net total	$ 46,602	$ 22,593	$ 24,009	$ 56,124	$ 27,209	$ 28,915

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 quarters ended March 31, 2013 and 2012. 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 quarters ended March 31, 2013 (March 31, 2012 - 49%).

	March 31,	
(In thousands)	2013	2012

Share of (loss) income from the equity investment in EVERTEC	$ (548)	$ 1,730
Intra-company eliminations considered in other operating income (detailed in next table)	(13,660)	(13,345)
Share of loss from the equity investment in EVERTEC, net of eliminations	$ (14,208)	$ (11,615)

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 ended March 31, 2013 and 2012. Items that represent expenses to the Corporation are presented with parenthesis. For consolidation purposes, for the quarter ended March 31, 2013, 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 (March 31, 2012 - 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 quarter ended March 31, 2013 (March 31, 2012 - 51%).

	March 31, 2013			March 31, 2012			
(In thousands)	100%	Popular s 48.5% interest (eliminations)	51.5% majority interest	100%	Popular s 49% interest (eliminations)	51% majority interest	Category
Interest income on loan to EVERTEC	$ 853	$ 413	$ 440	$ 823	$ 403	$ 420	Interest income
Interest income on investment securities issued by EVERTEC	963	467	496	963	472	491	Interest income
Interest expense on deposits	(27)	(13)	(14)	(110)	(54)	(56)	Interest expense
ATH and credit cards interchange income from services to EVERTEC	6,025	2,921	3,104	5,853	2,868	2,985	Other service fees
Processing fees on services provided by EVERTEC	(37,876)	(18,362)	(19,514)	(36,659)	(17,963)	(18,696)	Professional fees
Rental income charged to EVERTEC	1,681	815	866	1,682	824	858	Net occupancy
Transition services provided to EVERTEC	204	99	105	213	105	108	Other operating expenses
Total	$ (28,177)	$ (13,660)	$ (14,517)	$ (27,235)	$ (13,345)	$ (13,890)	

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 $ 1.0 million at March 31, 2013 and December 31, 2012. Also, EVERTEC has a letter of credit issued by BPPR, for an amount of $3.6 million at March 31, 2013 (December 31, 2012 - $2.9 million). 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.

PRLP 2011 Holdings LLC

As indicated in Note 21 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 Corporation s equity in PRLP 2011 Holdings, LLC, 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.

(In thousands)	March 31, 2013	December 31, 2012
Equity investment in PRLP 2011 Holdings, LLC	$ 25,246	$ 22,747
Intra-company eliminations (detailed in next table)	6,692	13,222
	$ 31,938	$ 35,969

Equity investment in PRLP 2011 Holdings, LLC , net of eliminations	

The Corporation had the following financial condition accounts outstanding with PRLP 2011 Holdings, LLC at March 31, 2013 and 2012. 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.

	At March 31, 2013			At December 31, 2012		
(In thousands)	100%	Popular s 24.9% interest (eliminations)	75.1% majority interest	100%	Popular s 24.9% interest (eliminations)	75.1% majority interest
Loans	$ 31,663	$ 7,884	$ 23,779	$ 60,040	$ 14,950	$ 45,090
Deposits (non-interest bearing)	4,877	1,214	3,663	7,103	1,769	5,334
Accrued interest receivable	89	22	67	163	41	122
Net total	$ 26,875	$ 6,692	$ 20,183	$ 53,100	$ 13,222	$ 39,878

The Corporation s proportionate share of income or loss from PRLP 2011 Holdings, LLC is included in other operating income in the consolidated statements of operations. The following table presents the Corporation s proportionate share of income (loss) from PRLP 2011 Holdings, LLC for the quarters ended March 31, 2013 and 2012.

	March 31,	
(In thousands)	2013	2012
Share of income from the equity investment in PRLP 2011 Holdings, LLC	$ 1,996	$ 6,510
Intra-company eliminations considered in other operating income (detailed in next table)	99	195
Share of income from the equity investment in PRLP 2011 Holdings, LLC , net of eliminations	$ 2,095	$ 6,705

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 quarters ended March 31, 2013 and 2012.

	March 31, 2013			March 31, 2012			
(In thousands)	100%	Popular s 24.9% interest (eliminations)	75.1% majority interest	100%	Popular s 24.9% interest (eliminations)	75.1% majority interest	Category
Interest income on loan to PRLP 2011 Holdings, LLC	$ 397	$ 99	$ 298	$ 785	$ 195	$ 590	Interest income

CPG PR Portfolio 2013-1 International, LLC

As indicated in Note 21 to the consolidated financial statements, effective March 2013 the Corporation holds a 24.9% equity interest in CPG PR Portfolio 2013-1 International, LLC and currently provides certain financing to the joint venture as well as holds certain deposits from the entity. CPG PR Portfolio 2013-1 International, LLC financial information is reported on a one-quarter lag.

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Note 23 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. There have been no changes in the Corporation s methodologies used to estimate the fair value of assets and liabilities since December 31, 2012.

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.

Fair Value on a Recurring and Nonrecurring Basis

The following fair value hierarchy tables present information about the Corporation s assets and liabilities measured at fair value on a recurring basis at March 31, 2013 and December 31, 2012 and on a nonrecurring basis in periods subsequent to initial recognition at March 31, 2013 and 2012:

At March 31, 2013				
(In thousands)	Level 1	Level 2	Level 3	Total
RECURRING FAIR VALUE MEASUREMENTS				
Assets				
Investment securities available-for-sale:				
U.S. Treasury securities	$	$ 29,820	$	$ 29,820
Obligations of U.S. Government sponsored entities		1,224,738		1,224,738
Obligations of Puerto Rico, States and political subdivisions		52,940		52,940
Collateralized mortgage obligations - federal agencies		2,609,263		2,609,263
Collateralized mortgage obligations - private label		1,934		1,934
Mortgage-backed securities		1,351,176	7,043	1,358,219
Equity securities	4,520	3,675		8,195
Other		36,122		36,122
Total investment securities available-for-sale	$ 4,520	$ 5,309,668	$ 7,043	$ 5,321,231

Trading account securities, excluding derivatives:								
Obligations of Puerto Rico, States and political subdivisions	$		$	20,697	$		$	20,697

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Collateralized mortgage obligations		539	2,025	2,564
Mortgage-backed securities - federal agencies		244,824	10,936	255,760
Other		18,577	2,143	20,720
Total trading account securities	$	$ 284,637	$ 15,104	$ 299,741
Mortgage servicing rights	$	$	$ 153,949	$ 153,949
Derivatives		40,142		40,142
Total assets measured at fair value on a recurring basis	$ 4,520	$ 5,634,447	$ 176,096	$ 5,815,063
Liabilities				
Derivatives	$	$ (37,936)	$	$ (37,936)
Contingent consideration			(118,777)	(118,777)
Total liabilities measured at fair value on a recurring basis	$	$ (37,936)	$ (118,777)	$ (156,713)

At December 31, 2012 (In thousands)	Level 1	Level 2	Level 3	Total
RECURRING FAIR VALUE MEASUREMENTS				
Assets				
Investment securities available-for-sale:				
U.S. Treasury securities	$	$ 37,238	$	$ 37,238
Obligations of U.S. Government sponsored entities		1,096,318		1,096,318
Obligations of Puerto Rico, States and political subdivisions		54,981		54,981
Collateralized mortgage obligations - federal agencies		2,367,065		2,367,065
Collateralized mortgage obligations - private label		2,473		2,473
Mortgage-backed securities		1,476,077	7,070	1,483,147
Equity securities	3,827	3,579		7,406
Other		35,573		35,573
Total investment securities available-for-sale	$ 3,827	$ 5,073,304	$ 7,070	$ 5,084,201
Trading account securities, excluding derivatives:				
Obligations of Puerto Rico, States and political subdivisions	$	$ 24,801	$	$ 24,801
Collateralized mortgage obligations		618	2,499	3,117
Mortgage-backed securities - federal agencies		251,046	11,817	262,863
Other		21,494	2,240	23,734
Total trading account securities	$	$ 297,959	$ 16,556	$ 314,515
Mortgage servicing rights	$	$	$ 154,430	$ 154,430
Derivatives		41,935		41,935
Total assets measured at fair value on a recurring basis	$ 3,827	$ 5,413,198	$ 178,056	$ 5,595,081
Liabilities				
Derivatives	$	$ (42,585)	$	$ (42,585)
Contingent consideration			(112,002)	(112,002)
Total liabilities measured at fair value on a recurring basis	$	$ (42,585)	$ (112,002)	$ (154,587)

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(In thousands)	Quarter ended March 31, 2013 Level 1	Level 2	Level 3	Total	
NONRECURRING FAIR VALUE MEASUREMENTS					
Assets					Write-downs
Loans[1]	$	$	$ 16,740	$ 16,740	$ (10,675)
Loans held-for-sale[2]					(2,176)
Other real estate owned[3]		15,645	18,757	34,402	(15,665)
Other foreclosed assets[3]			113	113	(56)
Total assets measured at fair value on a nonrecurring basis	$	$ 15,645	$ 35,610	$ 51,255	$ (28,572)

[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 $1 million at March 31, 2013.

(In thousands)	Quarter ended March 31, 2012 Level 1	Level 2	Level 3	Total	
NONRECURRING FAIR VALUE MEASUREMENTS					
Assets					Write-downs
Loans[1]	$	$	$ 49,876	$ 49,876	$ (10,541)
Loans held-for-sale[2]			8,144	8,144	(1,348)
Other real estate owned[3]			76,648	76,648	(12,734)
Other foreclosed assets[3]			85	85	(40)
Total assets measured at fair value on a nonrecurring basis	$	$	$ 134,753	$ 134,753	$ (24,663)

[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 March 31, 2012.

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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 ended March 31, 2013 and 2012.

	Quarter ended March 31, 2013							
(In thousands)	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, 2013	$ 7,070	$ 2,499	$ 11,818	$ 2,240	$ 154,430	$ 178,057	$ (112,002)	$ (112,002)
Gains (losses) included in earnings	(1)	3	(92)	(96)	(5,615)	(5,801)	(6,775)	(6,775)
Gains (losses) included in OCI	(1)					(1)		
Purchases		5	27		5,147	5,179		
Sales		(375)				(375)		
Settlements	(25)	(107)	(817)		(13)	(962)		
Balance at March 31, 2013	$ 7,043	$ 2,025	$ 10,936	$ 2,144	$ 153,949	$ 176,097	$ (118,777)	$ (118,777)
Changes in unrealized gains (losses) included in earnings relating to assets still held at March 31, 2013	$	$ 2	$ (30)	$ (55)	$ 1,443	$ 1,360	$ (6,775)	$ (6,775)

	Quarter ended March 31, 2012							
(In thousands)	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	$ (99,761)	$ (99,761)
Gains (losses) included in earnings	(2)	61	936	37	784	1,816	(1,073)	(1,073)
Gains (losses) included in OCI	(7)					(7)		
Purchases		61	3,359	6	4,231	7,657		
Sales			(4,078)	(91)		(4,169)		
Settlements	(200)	(180)	(421)		(7)	(808)		
Transfers into Level 3			2,405			2,405		
Transfers out of Level 3			(7,615)			(7,615)		
Balance at March 31, 2012	$ 7,226	$ 2,750	$ 16,363	$ 3,988	$ 156,331	$ 186,658	$ (100,834)	$ (100,834)
Changes in unrealized gains (losses) included in earnings relating to assets still held at March 31, 2012	$	$ 59	$ 956	$ 104	$ 5,755	$ 6,874	$ (1,073)	$ (1,073)

There were no transfers in and/or out of Level 3 for financial instruments measured at fair value on a recurring basis during the quarter ended March 31, 2013. There were no transfers in and/or out of Level 1 during the quarter ended March 31, 2013.

There were $2 million in transfers from Level 2 to Level 3 and $8 million in transfers from Level 3 to Level 2 for financial instruments measured at fair value on a recurring basis during the quarter ended March 31, 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 ended March 31, 2012.

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Gains and losses (realized and unrealized) included in earnings for the quarters ended March 31, 2013 and 2012 for Level 3 assets and liabilities included in the previous tables are reported in the consolidated statements of operations as follows:

	Quarter ended March 31, 2013		Quarter ended March 31, 2012	
(In thousands)	Total gains (losses) included in earnings	Changes in unrealized to gains (losses) relating assets still held at reporting date	Total gains (losses) included in earnings	Changes in unrealized to gains (losses) relating assets still held at reporting date
Interest income	$ (1)	$	$ (2)	$
FDIC loss share (expense) income	(6,775)	(6,775)	(1,622)	(1,622)
Other service fees	(5,615)	1,443	784	5,755
Trading account loss	(185)	(83)	1,034	1,119
Other operating income (loss)			549	549
Total	$ (12,576)	$ (5,415)	$ 743	$ 5,801

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 March 31, 2013	Valuation Technique	Unobservable Inputs	Weighted Average (Range)
Collateralized mortgage obligations - trading	$ 2,025	Discounted cash flow model	Weighted average life Yield Constant prepayment rate	2.2 years (0.2 - 5.3 years) 3.7% (0.5% - 4.7%) 26.1% (15.2% - 26.8%)
Other - trading	$ 1,107	Discounted cash flow model	Weighted average life Yield Constant prepayment rate	5.4 years 11.4% 10.8%
Mortgage servicing rights	$ 153,949	Discounted cash flow model	Prepayment speed Weighted average life Discount rate	9.4% (4.9% - 25.1%) 10.7 years (4.0 - 20.2 years) 12.0% (10.0 - 15.5%)
Contingent consideration	$ (118,777)	Discounted cash flow model	Credit loss rate on covered loans Risk premium component of discount rate	20.1% (0.0% - 100.0%) 4.6%
Loans held-in-portfolio	$ 16,740	External Appraisal	Haircut applied on	13.11% (5.0% - 30.0%)

			external appraisals	
Other real estate owned			Haircut applied on	
	$ 18,757[1]	External Appraisal	external appraisals	23.6% (16.9% - 40.0%)

[1] Other real estate owned in which haircuts were not applied to external appraisals were excluded from this table.

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 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.

Note 24 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 March 31, 2013 and December 31, 2012, 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 23.

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 include 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 cash balances, including those held at the Federal Reserve. These money market investments are classified as Level 2, except for cash balances which generate interest, including those held at the Federal Reserve, which are classified as Level 1.

Investment securities held-to-maturity

Obligations of Puerto Rico, States and political subdivisions: 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.

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 16 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.

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.

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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.

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.

	March 31, 2013					December 31, 2012	
(In thousands)	Carrying amount	Level 1	Level 2	Level 3	Fair value	Carrying amount	Fair value
Financial Assets:							
Cash and due from banks	$ 242,290	$ 242,290	$	$	$ 242,290	$ 439,363	$ 439,363
Money market investments	1,344,244	1,034,006	310,238		1,344,244	1,085,580	1,085,580
Trading account securities, excluding derivatives[1]	299,741		284,637	15,104	299,741	314,515	314,515
Investment securities available-for-sale[1]	5,321,231	4,520	5,309,668	7,043	5,321,231	5,084,201	5,084,201
Investment securities held-to-maturity:							
Obligations of Puerto Rico, States and political subdivisions	114,892			115,243	115,243	116,177	117,558
Collateralized mortgage obligation-federal agency	126			133	133	140	144
Other	26,500		1,250	25,251	26,501	26,500	26,531
Total investment securities held-to-maturity	$ 141,518	$	$ 1,250	$ 140,627	$ 141,877	$ 142,817	$ 144,233
Other investment securities:							
FHLB stock	$ 102,271	$	$ 102,271	$	$ 102,271	$ 89,451	$ 89,451
FRB stock	80,174		80,174		80,174	79,878	79,878
Trust preferred securities	14,197		13,197	1,000	14,197	14,197	14,197
Other investments	1,935			4,068	4,068	1,917	3,975
Total other investment securities	$ 198,577	$	$ 195,642	$ 5,068	$ 200,710	$ 185,443	$ 187,501
Loans held-for-sale	$ 201,495	$	$ 4,340	$ 204,524	$ 208,864	$ 354,468	$ 381,361
Loans not covered under loss sharing agreement with the FDIC	21,050,244			18,349,852	18,349,852	20,361,491	17,424,038
	3,262,579			3,495,096	3,495,096	3,647,066	3,925,440

Loans covered under loss sharing agreements with the FDIC							
FDIC loss share asset	1,380,592			1,234,798	1,234,798	1,399,098	1,241,579
Mortgage servicing rights	153,949			153,949	153,949	154,430	154,430
Derivatives	40,142		40,142		40,142	41,935	41,935

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	March 31, 2013					December 31, 2012	
(In thousands)	Carrying amount	Level 1	Level 2	Level 3	Fair value	Carrying amount	Fair value
Financial Liabilities:							
Deposits:							
Demand deposits	$ 18,121,759	$	$ 18,121,759	$	$ 18,121,759	$ 18,089,904	$ 18,089,904
Time deposits	8,891,458		8,969,027		8,969,027	8,910,709	8,994,363
Total deposits	$ 27,013,217	$	$ 27,090,786	$	$ 27,090,786	$ 27,000,613	$ 27,084,267
Assets sold under agreements to repurchase:							
Securities sold under agreements to repurchase	$ 1,627,485	$	$ 1,633,856	$	$ 1,633,856	$ 1,378,562	$ 1,385,237
Structured repurchase agreements	638,190		714,332		714,332	638,190	720,620
Total assets sold under agreements to repurchase	$ 2,265,675	$	$ 2,348,188	$	$ 2,348,188	$ 2,016,752	$ 2,105,857
Other short-term borrowings[2]	$ 951,200	$	$ 951,200	$	$ 951,200	$ 636,200	$ 636,200
Notes payable:							
FHLB advances	$ 547,372	$	$ 575,193	$	$ 575,193	$ 577,490	$ 608,313
Medium-term notes	233,664		244,397	739	245,136	236,753	247,194
Junior subordinated deferrable interest debentures (related to trust preferred securities)	439,800		389,685		389,685	439,800	363,659
Junior subordinated deferrable interest debentures (Troubled Asset Relief Program)	507,599			809,275	809,275	499,470	824,458
Others	24,034			24,034	24,034	24,208	24,208
Total notes payable	$ 1,752,469	$	$ 1,209,275	$ 834,048	$ 2,043,323	$ 1,777,721	$ 2,067,832
Derivatives	$ 37,936	$	$ 37,936	$	$ 37,936	$ 42,585	$ 42,585
Contingent consideration	$ 118,777	$	$	$ 118,777	$ 118,777	$ 112,002	$ 112,002

(In thousands)	Notional amount	Level 1	Level 2	Level 3	Fair value	Notional amount	Fair value
Commitments to extend credit	$ 7,221,563	$	$	$ 2,330	$ 2,330	$ 6,774,990	$ 2,858
Letters of credit	155,329			2,152	2,152	148,153	1,544

[1] Refer to Note 23 to the consolidated financial statements for the fair value by class of financial asset and its hierarchy level.

[2] Refer to Note 14 to the consolidated financial statements for the composition of short-term borrowings.

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Note 25 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 ended March 31, 2013 and 2012:

(In thousands, except per share information)	Quarters ended March 31, 2013	2012
Net income (loss)	$ (120,307)	$ 48,408
Preferred stock dividends	(930)	(931)
Net income (loss) applicable to common stock	$ (121,237)	$ 47,477
Average common shares outstanding	102,664,608	102,341,805
Average potential dilutive common shares	348,596	152,695
Average common shares outstanding - assuming dilution	103,013,204	102,494,500
Basic and dilutive EPS[1]	$ (1.18)	$ 0.46

[1] All periods presented reflect the 1-for-10 reverse stock split effected on May 29, 2012.

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 ended March 31, 2013, there were 25,953 weighted average antidilutive stock options outstanding (March 31, 2012 41,478). Additionally, the Corporation has outstanding a warrant issued to the U.S. Treasury to purchase 2,093,284 shares of common stock, which have an antidilutive effect at March 31, 2013 and 2012.

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Note 26 Other service fees

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

	Quarters ended March 31,	
(In thousands)	2013	2012
Mortgage servicing fees, net of fair value adjustments	$ 5,631	$ 12,931
Insurance fees	12,073	12,390
Credit card fees and discounts	14,691	12,559
Debit card fees	8,470	9,165
Sale and administration of investment products	8,717	8,889
Trust fees	4,458	4,081
Processing fees		1,774
Other fees	4,763	4,250
Total other services fees	$ 58,803	$ 66,039

Note 27 FDIC loss share (expense) income

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

	Quarters ended March 31,	
(In thousands)	2013	2012
(Amortization) accretion of loss share indemnification asset	$ (40,204)	$ (29,375)
80% mirror accounting on credit impairment losses[1]	14,045	13,422
80% mirror accounting on reimbursable expenses	7,783	2,267
80% mirror accounting on discount accretion on loans and unfunded commitments accounted for under ASC 310-20	(193)	(248)
Change in true-up payment obligation	(6,775)	(1,622)
Other	(922)	301
Total FDIC loss share (expense) income	$ (26,266)	$ (15,255)

[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 28 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 Quarters ended March 31, 2013	2012	Benefit Restoration Plans Quarters ended March 31, 2013	2012
Interest Cost	$ 6,966	$ 7,495	$ 373	$ 393
Expected return on plan assets	(10,804)	(9,810)	(542)	(526)
Amortization of net loss	5,363	5,426	333	323
Total net periodic pension cost (benefit)	$ 1,525	$ 3,111	$ 164	$ 190

The Corporation did not make any contributions to the pension and benefit restoration plans during the quarter ended March 31, 2013. The total contributions expected to be paid during the year 2013 for the pension and benefit restoration plans amount to approximately $51 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)	Quarters ended March 31, 2013	2012
Service cost	$ 564	$ 548
Interest cost	1,712	1,950
Amortization of prior service cost		(50)
Amortization of net loss	473	540
Total postretirement cost	$ 2,749	$ 2,988

Contributions made to the postretirement benefit plan for the quarter ended March 31, 2013 amounted to approximately $1.8 million. The total contributions expected to be paid during the year 2013 for the postretirement benefit plan amount to approximately $6.8 million.

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Note 29 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
$ 185.00 - $ 185.00	1,536	$ 185.00	0.36	1,536	$ 185.00
$ 192.50 - $ 272.00	103,717	$ 252.39	1.25	103,717	$ 252.39
$ 185.00 - $ 272.00	105,253	$ 251.41	1.24	105,253	$ 251.41

There was no intrinsic value of options outstanding at March 31, 2013 and 2012.

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

(Not in thousands)	Options Outstanding	Weighted-Average Exercise Price
Outstanding at December 31, 2011	206,946	$ 207.83
Granted		
Exercised		
Forfeited		
Expired	(45,960)	155.68
Outstanding at December 31, 2012	160,986	$ 222.71
Granted		
Exercised		
Forfeited		
Expired	(55,733)	168.52
Outstanding at March 31, 2013	105,253	$ 251.41

The stock options exercisable at March 31, 2013 totalled 105,253 (March 31, 2012 168,216). There were no stock options exercised during the quarters ended March 31, 2013 and 2012. Thus, there was no intrinsic value of options exercisable during the quarters ended March 31, 2013 and 2012.

There were no new stock option grants issued by the Corporation under the Stock Option Plan during 2012 and 2013.

There was no stock option expense recognized for the quarters ended March 31, 2013 and 2012.

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 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, 2011	241,934	$ 31.98
Granted	359,427	17.72
Vested	(96,353)	37.61
Forfeited	(13,785)	26.59
Non-vested at December 31, 2012	491,223	$ 20.59
Granted	104,059	27.86
Vested	(1,127)	24.17
Forfeited	(804)	18.40
Non-vested at March 31, 2013	593,351	$ 21.86

During the quarter ended March 31, 2013, 104,059 shares of restricted stock (March 31, 2012 152,190) were awarded to management under the Incentive Plan, from which all shares were awarded consistent with the requirements of the TARP Interim Final Rule.

During the quarter ended March 31, 2013, the Corporation recognized $ 1.2 million of restricted stock expense related to management incentive awards, with a tax benefit of $ 0.3 million (March 31, 2012 - $ 0.9 million, with a tax benefit of $ 0.2 million). The total unrecognized compensation cost related to non-vested restricted stock awards and performance shares to members of management at March 31, 2013 was $ 7.0 million and is expected to be recognized over a weighted-average period of 1.9 years.

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, 2011		
Granted	41,174	$ 16.37
Vested	(41,174)	16.37
Forfeited		
Non-vested at December 31, 2012		
Granted	2,404	$ 27.04
Vested	(2,404)	27.04
Forfeited		

Non-vested at March 31, 2013

During the quarter ended March 31, 2013, the Corporation granted 2,404 shares of restricted stock to members of the Board of Directors of Popular, Inc., which became vested at grant date (March 31, 2012 5,375). During this period, the Corporation recognized $0.1 million of restricted stock expense related to these restricted stock grants, with a tax benefit of $35 thousand (March 31, 2012 - $0.1 million, with a tax benefit of $35 thousand). The fair value at vesting date of the restricted stock vested during the quarter ended March 31, 2013 for directors was $65 thousand.

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Note 30 Income taxes

The reason for the difference between the income tax (benefit) expense applicable to income before provision for income taxes and the amount computed by applying the statutory tax rate in Puerto Rico, were as follows:

	Quarters ended			
	March 31, 2013		March 31, 2012	
(In thousands)	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax at statutory rates	$ (53,155)	30%	$ 19,380	30%
Net benefit of net tax exempt interest income	(7,418)	4	(7,014)	(11)
Deferred tax asset valuation allowance	(3,425)	2	1,167	2
Non-deductible expenses	6,010	(3)	5,639	9
Difference in tax rates due to multiple jurisdictions	(2,059)	1	(3,207)	(5)
Effect of income subject to preferential tax rate	2,137	(1)	(971)	(2)
Others	1,033	(1)	1,198	2
Income tax (benefit) expense	$ (56,877)	32%	$ 16,192	25%

The decrease in income tax expense for the quarter ended March 31, 2013 compared to the same quarter of 2012 was mainly due to the loss generated on the Puerto Rico banking operations by the sale of non-performing assets during March 2013.

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

(In thousands)	2013	2012
Deferred tax assets:		
Tax credits available for carryforward	$ 2,666	$ 2,666
Net operating loss and other carryforward available	1,268,804	1,201,174
Postretirement and pension benefits	95,198	97,276
Deferred loan origination fees	6,037	6,579
Allowance for loan losses	587,189	592,664
Deferred gains	10,219	10,528
Accelerated depreciation	6,916	6,699
Intercompany deferred gains	3,624	3,891
Other temporary differences	29,203	31,864
Total gross deferred tax assets	2,009,856	1,953,341
Deferred tax liabilities:		
Differences between the assigned values and the tax basis of assets and liabilities recognized in purchase business combinations	38,504	37,281
Difference in outside basis between financial and tax reporting on sale of a business	6,400	6,400
FDIC-assisted transaction	54,293	53,351
Unrealized net gain on trading and available-for-sale securities	44,053	51,002
Deferred loan origination costs	3,800	3,459
Other temporary differences	8,704	10,142
Total gross deferred tax liabilities	155,754	161,635
Valuation allowance	1,259,683	1,260,542

Net deferred tax asset	$ 594,419	$ 531,164

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The net deferred tax asset shown in the table above at March 31, 2013 is reflected in the consolidated statements of financial condition as $608 million in net deferred tax assets in the Other assets caption (December 31, 2012 - $541 million) and $13 million in deferred tax liabilities in the Other liabilities caption (December 31, 2012 - $10 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 March 31, 2013. 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 March 31, 2013, the Corporation recorded a valuation allowance of approximately $ 1.3 billion on the deferred tax assets of its U.S. operations (December 31, 2012 - $ 1.3 billion).

At March 31, 2013, the Corporation s net deferred tax assets related to its Puerto Rico operations amounted to $622 million. The Corporation s Puerto Rico banking operation is in a cumulative loss position for the three-year period ended March 31, 2013 taking into account taxable income exclusive of reversing temporary differences (adjusted taxable income). This cumulative loss position was mainly due to the sale of assets, most of which were in non-performing status, comprised of commercial and construction loans and commercial and single family real estate owned generated during the first quarter of 2013. The Corporation weights all available positive and negative evidence to assess the 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; and (iv) unrealized gain on appreciated assets that could be realized to increase taxable income. 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)	2013	2012
Balance at January 1	$ 13.4	$ 19.5
Additions for tax positions -January through March	0.2	0.7
Balance at March 31	$ 13.6	$ 20.2

The accrued interest related to uncertain tax positions approximated $4.6 million at March 31, 2013 (December 31, 2012 - $4.3 million). Management determined that at March 31, 2013 and December 31, 2012, 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 $17.3 million at March 31, 2013 (March 31, 2012 - $25.3 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 March 31, 2013, the following years remain subject to examination in the U.S. Federal jurisdiction: 2009 and thereafter; and in the Puerto Rico jurisdiction, 2008 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 $10 million.

Note 31 Supplemental disclosure on the consolidated statements of cash flows

Additional disclosures on cash flow information and non-cash activities for the quarters ended March 31, 2013 and March 31, 2012 are listed in the following table:

(In thousands)	March 31, 2013	March 31, 2012
Non-cash activities:		
Loans transferred to other real estate	$ 85,520	$ 49,812
Loans transferred to other property	7,852	5,552
Total loans transferred to foreclosed assets	93,372	55,364
Transfers from loans held-in-portfolio to loans held-for-sale	178,157	28,294
Transfers from loans held-for-sale to loans held-in-portfolio	16,109	421
Loans securitized into investment securities[1]	413,394	236,327
Trades receivables from brokers and counterparties	144,171	71,007
Trades payables to brokers and counterparties	37,149	1,700
Recognition of mortgage servicing rights on securitizations or asset transfers	5,102	3,757
Loans sold to a joint venture in exchange for an acquisition loan and an equity interest in the joint venture	194,514	

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

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Note 32 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 March 31, 2013, 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.

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.

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.

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

2013

For the quarter ended March 31, 2013

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	$ 304,929	$ 68,018	$
Provision for loan losses	221,885	2,011	
Non-interest income	16,476	10,071	
Amortization of intangibles	1,788	680	
Depreciation expense	9,766	2,325	
Other operating expenses	249,635	54,847	
Income tax (benefit) expense	(52,865)	936	
Net (loss) income	$ (108,804)	$ 17,290	$
Segment assets	$ 27,926,980	$ 8,726,783	$ (11,496)

For the quarter ended March 31, 2013

(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	$ 372,947	$ (27,613)	$ 13	$ 345,347
Provision for loan losses	223,896	(40)		223,856
Non-interest income	26,547	8,260	(17,232)	17,575
Amortization of intangibles	2,468			2,468
Depreciation expense	12,091	163		12,254
Other operating expenses	304,482	14,880	(17,834)	301,528
Income tax benefit	(51,929)	(5,133)	185	(56,877)
Net loss	$ (91,514)	$ (29,223)	$ 430	$ (120,307)
Segment assets	$ 36,642,267	$ 5,302,912	$ (5,002,465)	$ 36,942,714

2012

For the quarter ended March 31, 2012

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	$ 290,107	$ 74,075	$
Provision for loan losses	85,857	14,726	
Non-interest income	113,734	15,456	
Amortization of intangibles	1,913	680	
Depreciation expense	9,387	2,029	
Loss on early extinguishment of debt	69		
Other operating expenses	222,357	61,882	
Income tax expense	17,353	936	

Net income	$ 66,905	$ 9,278	$

(In thousands)	For the quarter ended March 31, 2012 Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	$ 364,182	$ (26,816)	$ 216	$ 337,582
Provision for loan losses	100,583	140		100,723
Non-interest income	129,190	11,506	(16,788)	123,908
Amortization of intangibles	2,593			2,593
Depreciation expense	11,416	340		11,756
Loss on early extinguishment of debt	69			69
Other operating expenses	284,239	14,826	(17,316)	281,749
Income tax expense (benefit)	18,289	(2,296)	199	16,192
Net income (loss)	$ 76,183	$ (28,320)	$ 545	$ 48,408

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

2013

(In thousands)	For the quarter ended March 31, 2013 Banco Popular de Puerto Rico Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$ 113,704	$ 189,153	$ 2,072	$	$ 304,929
Provision for loan losses	145,773	76,112			221,885
Non-interest (loss) income	(65,128)	58,218	23,402	(16)	16,476
Amortization of intangibles	1	1,709	78		1,788
Depreciation expense	3,976	5,491	299		9,766
Other operating expenses	78,833	154,285	16,533	(16)	249,635
Income tax (benefit) expense	(55,651)	678	2,108		(52,865)
Net (loss) income	$ (124,356)	$ 9,096	$ 6,456	$	$ (108,804)
Segment assets	$ 12,272,350	$ 19,079,369	$ 572,196	$ (3,996,935)	$ 27,926,980

2012

(In thousands)	For the quarter ended March 31, 2012 Banco Popular de Puerto Rico Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$ 100,196	$ 186,258	$ 3,649	$ 4	$ 290,107
Provision for loan losses	13,698	72,159			85,857
Non-interest income	21,092	66,004	26,664	(26)	113,734
Amortization of intangibles	9	1,708	196		1,913
Depreciation expense	4,168	4,979	240		9,387
Loss on early extinguishment of debt	69				69
Other operating expenses	61,181	143,847	17,355	(26)	222,357
Income tax expense	9,762	4,301	3,288	2	17,353
Net income	$ 32,401	$ 25,268	$ 9,234	$ 2	$ 66,905

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

2013

For the quarter ended March 31, 2013
Banco Popular North America

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 67,117	$ 901	$	$ 68,018
Provision for loan losses	2,282	(271)		2,011
Non-interest income (loss)	11,209	(1,138)		10,071
Amortization of intangibles	680			680
Depreciation expense	2,325			2,325
Other operating expenses	54,168	679		54,847
Income tax expense	936			936
Net income (loss)	$ 17,935	$ (645)	$	$ 17,290
Segment assets	$ 9,456,652	$ 358,803	$ (1,088,672)	$ 8,726,783

2012

For the quarter ended March 31, 2012
Banco Popular North America

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 73,607	$ 468	$	$ 74,075
Provision for loan losses	9,396	5,330		14,726
Non-interest income	15,292	164		15,456
Amortization of intangibles	680			680
Depreciation expense	2,029			2,029
Other operating expenses	61,023	859		61,882
Income tax expense	936			936
Net income (loss)	$ 14,835	$ (5,557)	$	$ 9,278

Geographic Information

	Quarter ended	
(In thousands)	March 31, 2013	March 31, 2012
Revenues:[1]		
Puerto Rico	$ 268,366	$ 353,510
United States	75,639	83,724
Other	18,917	24,256
Total consolidated revenues	$ 362,922	$ 461,490

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

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Selected Balance Sheet Information:

(In thousands)	March 31, 2013	December 31, 2012
Puerto Rico		
Total assets	$ 26,917,363	$ 26,582,248
Loans	18,635,331	18,484,977
Deposits	19,924,408	19,984,830
United States		
Total assets	$ 8,932,871	$ 8,816,143
Loans	5,811,395	5,852,705
Deposits	6,111,777	6,049,168
Other		
Total assets	$ 1,092,480	$ 1,109,144
Loans	750,960	755,950
Deposits [1]	977,032	966,615

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

Note 33 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 March 31, 2013.

EVERTEC s Initial Public Offering

On April 12, 2013, EVERTEC, Inc. (EVERTEC or the Company) completed an initial public offering (IPO) of 28.8 million shares of common stock, generating proceeds of approximately $575.8 million. In connection with the IPO, EVERTEC sold 6.3 million shares of newly issued common stock in the offering and Apollo Global Management LLC (Apollo) and Popular respectively sold 13.7 million and 8.8 million shares of the Company retaining a stake of 29.1% and 33.5%, respectively.

On April 30, 2013, EVERTEC refinanced all of its outstanding debt. As part of this refinancing, Popular will receive payment in full for its portion of the EVERTEC debt held by it. As a result of these transactions, Popular will recognize an after tax gain of approximately $171.0 million during the second quarter of 2013, comprised of: a $130.5 million gain on the sale of its previously held EVERTEC common stock; a $45.6 million gain on its investment in EVERTEC resulting from the issuance of the new common stock by EVERTEC; an estimated $5.3 million gain from the repayment of the debt; an estimated $5.7 million from the accelerated payment of contractual consulting fees and a loss of approximately $16.1 million from Popular s proportionate share of EVERTEC s debt prepayment penalty, consulting fees and other related costs.

After the transaction, Popular s investment in EVERTEC will have a book value of $74.9 million. Total cash proceeds received by Popular from the sale of the shares and repayment of the debt were $257.3 million.

Non-Binding Letter of Intent to Sell Portfolio of Non-Performing Residential Mortgage Loans

On May 6, 2013, BPPR entered into a non-binding letter of intent with an unrelated third party with respect to the sale of a portfolio of non-performing residential mortgage loans, with an unpaid principal balance of approximately $595 million and book value of approximately $515 million. The non-binding letter of intent contemplates that BPPR would have the option to acquire a 10% beneficial interest in the pool of mortgage loans following the closing date.

The non-binding letter of intent contemplates a purchase price of approximately $290 million, or 48.75% of the unpaid principal balance of the loans as of the agreed cut-off date. To the extent that BPPR exercises its option to acquire a 10% beneficial interest in the pool of mortgage loans there would be a corresponding 10% reduction in the total net cash proceeds. The contemplated transaction is subject to numerous conditions, including due diligence, which may result in a reduction in the amount of loans sold, as well as a reduction in the purchase price.

The non-binding letter of intent contemplates that the terms of the transaction would be finalized and the transaction closed in the second quarter of 2013. In connection with the proposed transaction, the Corporation has determined its intent to sell the mortgage loans and therefore the loans will be transferred to loans held for sale and marked to market in the second quarter, resulting in an after-tax loss of approximately $135 million, irrespective of whether this transaction is consummated.

There can be no assurances that the transaction contemplated by the non-binding letter of intent will be consummated on the terms proposed, if at all.

Note 34 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 March 31, 2013 and December 31, 2012, and the results of their operations and cash flows for periods ended March 31, 2013 and 2012.

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 March 31, 2013, BPPR could have declared a dividend of approximately $268 million (December 31, 2012 - $404 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 (Unaudited)

	At March 31, 2013				
(In thousands)	Popular Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Assets:					
Cash and due from banks	$ 4,939	$ 622	$ 242,344	$ (5,615)	$ 242,290
Money market investments	18,629	1,235	1,325,615	(1,235)	1,344,244
Trading account securities, at fair value	1,423		298,350		299,773
Investment securities available-for-sale, at fair value	44,099		5,294,100	(16,968)	5,321,231
Investment securities held-to-maturity, at amortized cost	185,000		141,518	(185,000)	141,518
Other investment securities, at lower of cost or realizable value	10,850	4,492	183,235		198,577
Investment in subsidiaries	4,170,893	1,660,554		(5,831,447)	
Loans held-for-sale, at lower of cost or fair value			201,495		201,495
Loans held-in-portfolio:					
Loans not covered under loss sharing agreements with the FDIC	259,851		21,700,357	(230,326)	21,729,882
Loans covered under loss sharing agreements with the FDIC			3,362,446		3,362,446
Less - Unearned income			96,137		96,137
Allowance for loan losses	134		683,234		683,368
Total loans held-in-portfolio, net	259,717		24,283,432	(230,326)	24,312,823
FDIC loss share asset			1,380,592		1,380,592
Premises and equipment, net	2,453	114	530,218		532,785
Other real estate not covered under loss sharing agreements with the FDIC			154,699		154,699
Other real estate covered under loss sharing agreements with the FDIC			172,378		172,378
Accrued income receivable	2,405	31	133,331	(225)	135,542
Mortgage servicing assets, at fair value			153,949		153,949
Other assets	119,888	14,692	1,534,094	(17,440)	1,651,234
Goodwill			647,757		647,757
Other intangible assets	554		51,273		51,827
Total assets	$ 4,820,850	$ 1,681,740	$ 36,728,380	$ (6,288,256)	$ 36,942,714
Liabilities and Stockholders Equity					
Liabilities:					
Deposits:					
Non-interest bearing	$	$	$ 5,619,489	$ (5,788)	$ 5,613,701
Interest bearing			21,414,852	(15,336)	21,399,516
Total deposits			27,034,341	(21,124)	27,013,217
Assets sold under agreements to repurchase			2,265,675		2,265,675
Other short-term borrowings			1,155,500	(204,300)	951,200
Notes payable	798,411	382,627	571,431		1,752,469
Subordinated notes			185,000	(185,000)	
Other liabilities	51,296	43,926	940,541	(46,753)	989,010
Total liabilities	849,707	426,553	32,152,488	(457,177)	32,971,571

Stockholders equity:					
Preferred stock	50,160				50,160
Common stock	1,033	2	55,628	(55,630)	1,033
Surplus	4,143,311	4,215,008	5,859,926	(10,066,407)	4,151,838
Accumulated deficit	(100,884)	(3,003,182)	(1,212,096)	4,206,751	(109,411)
Treasury stock, at cost	(469)				(469)
Accumulated other comprehensive (loss) income, net of tax	(122,008)	43,359	(127,566)	84,207	(122,008)
Total stockholders equity	3,971,143	1,255,187	4,575,892	(5,831,079)	3,971,143
Total liabilities and stockholders equity	$ 4,820,850	$ 1,681,740	$ 36,728,380	$ (6,288,256)	$ 36,942,714

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Condensed Consolidating Statement of Financial Condition (Unaudited)

	At December 31, 2012				
(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Assets:					
Cash and due from banks	$ 1,103	$ 624	$ 439,552	$ (1,916)	$ 439,363
Money market investments	18,574	867	1,067,006	(867)	1,085,580
Trading account securities, at fair value	1,259		313,266		314,525
Investment securities available-for-sale, at fair value	42,383		5,058,786	(16,968)	5,084,201
Investment securities held-to-maturity, at amortized cost	185,000		142,817	(185,000)	142,817
Other investment securities, at lower of cost or realizable value	10,850	4,492	170,101		185,443
Investment in subsidiaries	4,285,957	1,653,636		(5,939,593)	
Loans held-for-sale, at lower of cost or fair value			354,468		354,468
Loans held-in-portfolio:					
Loans not covered under loss sharing agreements with the FDIC	286,080		21,050,205	(256,280)	21,080,005
Loans covered under loss sharing agreements with the FDIC			3,755,972		3,755,972
Less - Unearned income			96,813		96,813
Allowance for loan losses	241		730,366		730,607
Total loans held-in-portfolio, net	285,839		23,978,998	(256,280)	24,008,557
FDIC loss share asset			1,399,098		1,399,098
Premises and equipment, net	2,495	115	533,183		535,793
Other real estate not covered under loss sharing agreements with the FDIC			266,844		266,844
Other real estate covered under loss sharing agreements with the FDIC			139,058		139,058
Accrued income receivable	1,675	112	124,266	(325)	125,728
Mortgage servicing assets, at fair value			154,430		154,430
Other assets	112,775	12,614	1,457,852	(13,663)	1,569,578
Goodwill			647,757		647,757
Other intangible assets	554		53,741		54,295
Total assets	$ 4,948,464	$ 1,672,460	$ 36,301,223	$ (6,414,612)	$ 36,507,535
Liabilities and Stockholders Equity					
Liabilities:					
Deposits:					
Non-interest bearing	$	$	$ 5,796,992	$ (2,363)	$ 5,794,629
Interest bearing			21,216,085	(10,101)	21,205,984
Total deposits			27,013,077	(12,464)	27,000,613
Assets sold under agreements to repurchase			2,016,752		2,016,752
Other short-term borrowings			866,500	(230,300)	636,200
Notes payable	790,282	385,609	601,830		1,777,721
Subordinated notes			185,000	(185,000)	
Other liabilities	48,182	42,120	923,138	(47,191)	966,249

Total liabilities	838,464	427,729	31,606,297	(474,955)	32,397,535
Stockholders equity:					
Preferred stock	50,160				50,160
Common stock	1,032	2	55,628	(55,630)	1,032
Surplus	4,141,767	4,206,708	5,859,926	(10,058,107)	4,150,294
Retained earnings (accumulated deficit)	20,353	(3,012,365)	(1,114,802)	4,118,640	11,826
Treasury stock, at cost	(444)				(444)
Accumulated other comprehensive (loss) income, net of tax	(102,868)	50,386	(105,826)	55,440	(102,868)
Total stockholders equity	4,110,000	1,244,731	4,694,926	(5,939,657)	4,110,000
Total liabilities and stockholders equity	$ 4,948,464	$ 1,672,460	$ 36,301,223	$ (6,414,612)	$ 36,507,535

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Condensed Statement of Operations (Unaudited)

	Quarter ended March 31, 2013				
(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Interest income:					
Loans	$ 1,009	$	$ 384,949	$ (544)	$ 385,414
Money market investments	38	1	955	(39)	955
Investment securities	4,146	81	36,507	(3,378)	37,356
Trading account securities			5,514		5,514
Total interest income	5,193	82	427,925	(3,961)	429,239
Interest expense:					
Deposits			38,358	(15)	38,343
Short-term borrowings			9,950	(168)	9,782
Long-term debt	24,758	7,276	6,645	(2,912)	35,767
Total interest expense	24,758	7,276	54,953	(3,095)	83,892
Net interest (expense) income	(19,565)	(7,194)	372,972	(866)	345,347
Provision for loan losses- non-covered loans	(40)		206,340		206,300
Provision for loan losses- covered loans			17,556		17,556
Net interest (expense) income after provision for loan losses	(19,525)	(7,194)	149,076	(866)	121,491
Service charges on deposit accounts			43,722		43,722
Other service fees			61,785	(2,982)	58,803
Trading account profit (loss)	76		(151)		(75)
Net gain on sale of loans, including valuation adjustments on loans held-for-sale			(48,959)		(48,959)
Adjustments (expense) to indemnity reserves on loans sold			(16,143)		(16,143)
FDIC loss share expense			(26,266)		(26,266)
Other operating income	870	2,562	16,721	(13,660)	6,493
Total non-interest income	946	2,562	30,709	(16,642)	17,575
Operating expenses:					
Personnel costs	7,379		108,610		115,989
Net occupancy expenses	828	1	22,644	815	24,288
Equipment expenses	1,080		10,870		11,950
Other taxes	83		11,503		11,586
Professional fees	2,311	22	68,225	(18,423)	52,135
Communications	93		6,739		6,832
Business promotion	430		12,487		12,917
FDIC deposit insurance			9,280		9,280
Other real estate owned (OREO) expenses			46,741		46,741
Other operating expenses	(12,615)	108	35,089	(518)	22,064
Amortization of intangibles			2,468		2,468
Total operating expenses	(411)	131	334,656	(18,126)	316,250
Loss before income tax and equity in earnings of subsidiaries	(18,168)	(4,763)	(154,871)	618	(177,184)

Income tax expense (benefit)	515		(57,577)	185	(56,877)
Loss before equity in earnings of subsidiaries	(18,683)	(4,763)	(97,294)	433	(120,307)
Equity in undistributed (losses) earnings of subsidiaries	(101,624)	13,946		87,678	
Net (Loss) income	$ (120,307)	$ 9,183	$ (97,294)	$ 88,111	$ (120,307)
Comprehensive (loss) income, net of tax	$ (139,447)	$ 2,156	$ (119,034)	$ 116,878	$ (139,447)

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Condensed Statement of Operations (Unaudited)

	Quarter ended March 31, 2012				
(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Interest income:					
Loans	$ 1,691	$	$ 387,496	$ (1,245)	$ 387,942
Money market investments	12	8	947	(19)	948
Investment securities	4,042	81	44,168	(3,221)	45,070
Trading account securities			5,891		5,891
Total interest income	5,745	89	438,502	(4,485)	439,851
Interest expense:					
Deposits			51,741	(62)	51,679
Short-term borrowings		143	14,292	(852)	13,583
Long-term debt	23,527	8,077	8,315	(2,912)	37,007
Total interest expense	23,527	8,220	74,348	(3,826)	102,269
Net interest (expense) income	(17,782)	(8,131)	364,154	(659)	337,582
Provision for loan losses- non-covered loans	140		82,374		82,514
Provision for loan losses- covered loans			18,209		18,209
Net interest (expense) income after provision for loan losses	(17,922)	(8,131)	263,571	(659)	236,859
Service charges on deposit accounts			46,589		46,589
Other service fees			68,962	(2,923)	66,039
Trading account loss			(2,143)		(2,143)
Net gain on sale of loans, including valuation adjustments on loans held-for-sale			15,471		15,471
Adjustments (expense) to indemnity reserves on loans sold			(3,875)		(3,875)
FDIC loss share expense			(15,255)		(15,255)
Other operating income	2,952	(169)	27,644	(13,345)	17,082
Total non-interest income	2,952	(169)	137,393	(16,268)	123,908
Operating expenses:					
Personnel costs	7,904		113,587		121,491
Net occupancy expenses	861	1	22,476	824	24,162
Equipment expenses	880		10,461		11,341
Other taxes	713		12,725		13,438
Professional fees	1,991	3	64,129	(18,018)	48,105
Communications	133		6,998		7,131
Business promotion	411		12,439		12,850
FDIC deposit insurance			24,926		24,926
Loss on early extinguishment of debt			69		69
Other real estate owned (OREO) expenses			14,165		14,165
Other operating expenses	(12,280)	110	28,543	(477)	15,896
Amortization of intangibles			2,593		2,593

Total operating expenses	613	114	313,111	(17,671)	296,167
(Loss) income before income tax and equity in earnings of subsidiaries	(15,583)	(8,414)	87,853	744	64,600
Income tax expense	672		15,321	199	16,192
(Loss) income before equity in earnings of subsidiaries	(16,255)	(8,414)	72,532	545	48,408
Equity in undistributed earnings of subsidiaries	64,663	6,006		(70,669)	
Net Income (Loss)	$ 48,408	$ (2,408)	$ 72,532	$ (70,124)	$ 48,408
Comprehensive income (loss), net of tax	$ 47,171	$ (2,088)	$ 69,021	$ (66,933)	$ 47,171

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Condensed Consolidating Statement of Cash Flows (Unaudited)

	Quarter ended March 31, 2013				
(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Cash flows from operating activities:					
Net (loss) income	$ (120,307)	$ 9,183	$ (97,294)	$ 88,111	$ (120,307)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:					
Equity in undistributed losses (earnings) of subsidiaries	101,624	(13,946)		(87,678)	
Provision for loan losses	(40)		223,896		223,856
Amortization of intangibles			2,468		2,468
Depreciation and amortization of premises and equipment	162	1	12,091		12,254
Net accretion of discounts and amortization of premiums and deferred fees	8,034	19	(22,310)		(14,257)
Fair value adjustments on mortgage servicing rights			5,615		5,615
FDIC loss share expense			26,266		26,266
Adjustments (expense) to indemnity reserves on loans sold			16,143		16,143
Earnings from investments under the equity method	(870)	(2,563)	(6,161)		(9,594)
Deferred income tax benefit	136		(60,849)	185	(60,528)
Loss (gain) on:					
Disposition of premises and equipment			(1,468)		(1,468)
Sale of loans, including valuation adjustments on loans held for sale			48,959		48,959
Sale of foreclosed assets, including write-downs			38,363		38,363
Acquisitions of loans held-for-sale			(15,335)		(15,335)
Proceeds from sale of loans held-for-sale			51,000		51,000
Net disbursements on loans held-for-sale			(382,810)		(382,810)
Net (increase) decrease in:					
Trading securities	(164)		423,400		423,236
Accrued income receivable	(730)	81	(9,065)	(101)	(9,815)
Other assets	(264)	47	24,806	3,592	28,181
Net increase (decrease) in:					
Interest payable		1,809	(2,040)	(24)	(255)
Pension and other postretirement benefits obligations			1,470		1,470
Other liabilities	(2,427)	(3)	(26,619)	463	(28,586)
Total adjustments	105,461	(14,555)	347,820	(83,563)	355,163
Net cash (used in) provided by operating activities	(14,846)	(5,372)	250,526	4,548	234,856
Cash flows from investing activities:					
Net increase in money market investments	(54)	(368)	(258,610)	368	(258,664)
Purchases of investment securities:					
Available-for-sale			(736,069)		(736,069)
Held-to-maturity			(250)		(250)
Other			(49,018)		(49,018)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:					
Available-for-sale			497,175		497,175
Held-to-maturity			2,078		2,078
Other			35,884		35,884
Net repayments on loans	26,255		468,008	(25,954)	468,309

Proceeds from sale of loans			43,044		43,044
Acquisition of loan portfolios			(1,026,485)		(1,026,485)
Net payments to FDIC under loss sharing agreements			(107)		(107)
Return of capital from equity method investments		438			438
Capital contribution to subsidiary	(8,300)			8,300	
Mortgage servicing rights purchased			(45)		(45)
Acquisition of premises and equipment	(145)		(11,838)		(11,983)
Proceeds from sale of:					
Premises and equipment	26		4,179		4,205
Foreclosed assets			71,930		71,930
Net cash provided by (used in) investing activities	17,782	70	(960,124)	(17,286)	(959,558)
Cash flows from financing activities:					
Net increase (decrease) in:					
Deposits			4,866	(8,661)	(3,795)
Assets sold under agreements to repurchase			248,923		248,923
Other short-term borrowings			289,000	26,000	315,000
Payments of notes payable		(3,000)	(45,281)		(48,281)
Proceeds from issuance of notes payable			14,882		14,882
Proceeds from issuance of common stock	1,545				1,545
Dividends paid	(620)				(620)
Treasury stock acquired	(25)				(25)
Capital contribution from parent		8,300		(8,300)	
Net cash provided by financing activities	900	5,300	512,390	9,039	527,629
Net increase (decrease) in cash and due from banks	3,836	(2)	(197,208)	(3,699)	(197,073)
Cash and due from banks at beginning of period	1,103	624	439,552	(1,916)	439,363
Cash and due from banks at end of period	$ 4,939	$ 622	$ 242,344	$ (5,615)	$ 242,290

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Condensed Consolidating Statement of Cash Flows (Unaudited)

	Quarter ended March 31, 2012				
(In thousands)	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)	$ 48,408	$ (2,408)	$ 72,532	$ (70,124)	$ 48,408
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:					
Equity in undistributed earnings of subsidiaries	(64,663)	(6,006)		70,669	
Provision for loan losses	140		100,583		100,723
Amortization of intangibles			2,593		2,593
Depreciation and amortization of premises and equipment	161	1	11,594		11,756
Net accretion of discounts and amortization of premiums and deferred fees	6,920	28	(10,863)	(162)	(4,077)
Fair value adjustments on mortgage servicing rights			(784)		(784)
Fair value change in equity appreciation instrument					
FDIC loss share expense			15,255		15,255
Amortization of prepaid FDIC assessment			24,926		24,926
Adjustments (expense) to indemnity reserves on loans sold			3,875		3,875
(Earnings) losses from investments under the equity method	(2,952)	170	(12,620)		(15,402)
Deferred income tax expense	468		3,751	199	4,418
Loss (gain) on:					
Disposition of premises and equipment			(6,284)		(6,284)
Sale of loans, including valuation adjustments on loans held for sale			(15,471)		(15,471)
Sale of foreclosed assets, including write-downs			10,163		10,163
Acquisitions of loans held-for-sale			(76,118)		(76,118)
Proceeds from sale of loans held-for-sale			63,460		63,460
Net disbursements on loans held-for-sale			(223,500)		(223,500)
Net (increase) decrease in:					
Trading securities			270,691		270,691
Accrued income receivable	(643)	73	(613)	(174)	(1,357)
Other assets	719	99	14,521	10,673	26,012
Net increase (decrease) in:					
Interest payable		2,525	(4,815)	41	(2,249)
Pension and other postretirement benefits obligations			4,720		4,720
Other liabilities	(2,766)	(11)	(705)	1,061	(2,421)
Total adjustments	(62,616)	(3,121)	174,359	82,307	190,929
Net cash (used in) provided by operating activities	(14,208)	(5,529)	246,891	12,183	239,337
Cash flows from investing activities:					
Net decrease (increase) in money market investments	24,046	(13,973)	71,925	(10,087)	71,911
Purchases of investment securities:					
Available-for-sale			(529,445)		(529,445)
Held-to-maturity			(250)		(250)
Other			(47,629)		(47,629)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:					
Available-for-sale			388,472		388,472
Held-to-maturity			1,539		1,539

Other			31,800		31,800
Net repayments on loans	37,014		191,114	(37,055)	191,073
Proceeds from sale of loans			21,304		21,304
Acquisition of loan portfolios			(140,005)		(140,005)
Net payments from FDIC under loss sharing agreements			20,896		20,896
Capital contribution to subsidiary	(50,000)			50,000	
Mortgage servicing rights purchased			(474)		(474)
Acquisition of premises and equipment	(199)		(12,099)		(12,298)
Proceeds from sale of:					
Premises and equipment	6		11,940		11,946
Foreclosed assets			25,923		25,923
Net cash provided by (used in) investing activities	10,867	(13,973)	35,011	2,858	34,763
Cash flows from financing activities:					
Net increase (decrease) in:					
Deposits			(720,912)	(24,994)	(745,906)
Assets sold under agreements to repurchase			(51,601)	24,060	(27,541)
Other short-term borrowings		(30,500)	448,400	37,100	455,000
Payments of notes payable			(22,284)		(22,284)
Proceeds from issuance of notes payable			2,719		2,719
Proceeds from issuance of common stock	2,062				2,062
Dividends paid	(620)				(620)
Treasury stock acquired	(6)				(6)
Capital contribution from parent		50,000		(50,000)	
Net cash provided by (used in) financing activities	1,436	19,500	(343,678)	(13,834)	(336,576)
Net decrease in cash and due from banks	(1,905)	(2)	(61,776)	1,207	(62,476)
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	$ 4,460	$ 930	$ 473,020	$ (5,604)	$ 472,806

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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 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, 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 32 to the consolidated financial statements presents information about the Corporation s business segments. As of March 31, 2013, the Corporation had a 48.5% interest in the holding company of 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. On April 12, 2013, EVERTEC completed an initial public offering of its common stock. In conjunction with this offering, the Corporation sold a number of shares held in EVERTEC, retaining a stake of 33.5%. Refer to additional information on Note 33, Subsequent events.

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.

OVERVIEW

For the quarter ended March 31, 2013, the Corporation recorded a net loss of $120.3 million, compared with net income of $48.4 million for the same quarter of the previous year. The results for the first quarter of 2013 reflected an after tax loss of $180.6 million on a bulk sale of assets, most of which were in non-performing status, and valuation adjustments. Excluding the impact of this transaction the adjusted net income would have been $60.3 million.

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Recent significant events

On April 12, 2013 EVERTEC, Inc. (EVERTEC or the Company) completed an initial public offering (IPO) of 25.3 million shares of common stock, raising approximately $505.3 million. In connection with the IPO, EVERTEC sold 6.3 million shares of newly issued common stock in the offering and Apollo Global Management LLC (Apollo) and Popular, respectively, sold 13.7 million and 8.8 million shares of the Company, retaining a stake of 29.1% and 33.5%, respectively.

On April 30, 2013, EVERTEC refinanced all of its outstanding debt. As part of this refinancing, Popular will receive payment in full for its portion of the EVERTEC debt held by it. As a result of these transactions, Popular will recognize an after-tax gain of approximately $171.0 million during the second quarter of 2013, comprised of the following:

- $130.5 million gain on the sale of its previously held EVERTEC common stock
- $45.6 million gain on its investment in EVERTEC resulting from the issuance of the new common stock by EVERTEC
- An estimated $5.3 million gain from the repayment of the debt
- An estimated $5.7 million from the accelerated payment of contractual consulting fees
- A loss of approximately $16.1 million from Popular s proportionate share of EVERTEC s debt prepayment penalty, consulting fees and other related costs

After the transaction, Popular s investment in EVERTEC will have a book value of $74.9 million. Total cash proceeds received by Popular from the sale of the shares and repayment of the debt were $257.3 million.

On March 25, 2013, BPPR completed a sale of assets with a book value of $509 million, of which $501 million were in non-performing status, comprised of commercial and construction loans, and commercial and single-family real estate owned, with a combined unpaid principal balance on loans and appraised value of other real estate owned of approximately $987 million to a newly created joint venture. BPPR retained a 24.9% equity interest in the joint venture. BPPR provided seller financing for approximately $182.4 million to fund a portion of the purchase price and certain closing costs. In addition, BPPR provided financing of $65.0 million to cover cost-to-complete amounts and expenses of certain assets, as well as certain expenses of the purchasing entity. This transaction resulted in an after-tax loss of $174.4 million.

Financial highlights for the quarter ended March 31, 2013

Taxable equivalent net interest income was $355.6 million for the first quarter of 2013, down $8.3 million, or 2%, from the same quarter of the prior year. However, net interest margin increased by 13 basis points from 4.39% to 4.52% mainly resulting from a reduction in the average cost of funds by 24 basis points primarily from time deposits and other short-term borrowings as a result of the Corporation s strategy to continue to reduce its funding costs. In addition, the cost of funds in the medium and long-term debt category decreased due to maturities of FHLB advances. The net interest margin also benefited from a higher yield on covered loans by 131 basis points as a result of reductions in expected losses accompanied by higher than expected actual cash flows for various pools. The average yield in the Corporation s earning assets decreased by 10 basis points, mainly from lower yields on investment securities and non-covered loans. 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.

The Corporation continued to make significant progress in credit quality during the quarter, reflective of key strategies executed to reduce non-performing loans, as well as stabilizing economic conditions and improvements in the underlying quality of the loan portfolios. Credit metrics showed steady improvements with non-performing assets, non-performing loans held-in portfolio, and net charge-offs reaching their lowest points in the credit cycle. Non-performing loans held-in-portfolio were down 55% than peak levels in the third quarter of 2010. The ratio of annualized net charge-offs to average non-covered loans held-in-portfolio (excluding the impact of the bulk sale of assets) decreased to 1.55%, reaching the lowest level since 2008. Also, non-covered OREO decreased by $112 million from December 31, 2012, primarily as a result of the bulk sale of assets during the quarter ended March 31, 2013.

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Provision for loan losses totalled $223.9 million for the first quarter of 2013 compared with $100.7 million for the same quarter of 2012. The provision for loan losses includes the impact of $148.8 million related to the bulk loan sale completed during the first quarter of 2013. Excluding the impact of the sale, the provision for loan losses for the first quarter of 2013 would have been $75.1 million, a decline of $25.6 million from the first quarter of 2012. Excluding the impact of the bulk sale, the provision for loan losses for non-covered loans for the first quarter of 2013 reflected lower net charge-offs by $26.8 million, with decreases in both the P.R. and U.S mainland operations, primarily in the commercial loan portfolio. Also, the allowance for loan losses for non-covered loans decreased across all loan portfolios as a result of continued improvement in credit trends, except for the mortgage portfolio. The mortgage portfolio experienced higher reserve requirements prompted by higher loss trends, and higher specific reserves for loans restructured under loss mitigation programs.

In addition, non-covered non-performing loans held-in-portfolio declined by $375 million to $1.1 billion, down 26% from December 31, 2012, mainly due to the impact of the sale of NPLs with book value of approximately $333 million. Excluding the impact of the bulk sale, NPLs held-in-portfolio decreased by $42 million, with reductions reflected in both the P.R and U.S. mainland operations.

These improvements in credit quality during the first quarter of 2013 led to a decrease in the allowance for loan losses to non-covered loans held-in-portfolio ratio from 2.96% at December 31, 2012 to 2.70% at March 31, 2013. The general and specific reserves related to non-covered loans amounted to $460 million and $124 million, respectively, at March 31, 2013, compared with $511 million and $111 million, respectively, at December 31, 2012. The decrease in the general reserve component was mainly driven by lower loss trends in the commercial loan portfolios, partially offset by higher general reserves in the consumer and residential mortgage portfolio of the BPPR reportable segment. The increase in the specific reserves is primarily driven by consumer troubled debt restructured loans of the BPPR reportable segment.

Non-interest income decreased by $106.3 million or 86% to $17.6 million for the quarter ended March 31, 2013, compared with $123.9 million for the same quarter in the previous year. This decrease was mainly attributed to:

- a decrease of $7.2 million in other service fees mainly due to negative valuation adjustments on mortgage servicing rights;
- the loss on the bulk sale of loans amounting to $61.4 million, which includes an unfavorable valuation adjustment on loans held for sale transferred to held-in-portfolio of $8.8 million;
- an increase of $12.3 million in adjustments to the indemnity reserves on loans sold, due mainly to $10.7 million recorded in connection with the bulk sale of non-performing loans;
- an unfavorable variance in the FDIC loss share expense due to higher amortization of the indemnification asset related to lower expected losses and a change in the fair value of the contingent payment obligation, offset by the mirror accounting of higher expenses which are 80% reimbursable by the FDIC; and
- lower other operating income from investments under the equity method and the impact of a gain on the sale of a real estate property used by BPPR in the first quarter of 2012.

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 $20.1 million or 7% for the first quarter of 2013, when compared with the same quarter of the previous year, principally due to higher OREO expenses by $32.6 million mainly as a result of a loss of $37.0 million on the bulk sale of commercial and single-family real estate owned completed during this quarter. This negative variance was partially offset by a decrease in FDIC deposit insurance of $15.6 million due to the recognition of a credit assessment of $11.3 million during the first quarter of 2013, as a result of revisions in the deposit-insurance premium calculation and efficiencies achieved from the internal reorganization of Popular Mortgage into BPPR during the fourth quarter of 2012. 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.

Income tax benefit amounted to $56.9 million for the quarter ended March 31, 2013, compared with an income tax expense of $16.2 million for the same period of the previous year, primarily due to the loss recognized by the Puerto Rico operations on the bulk sale of non-performing assets. Refer to the Income Taxes section of this MD&A for additional factors that affected this variance.

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Total assets amounted to $36.9 billion at March 31, 2013, compared with $36.5 billion at December 31, 2012. The increase in total assets was attributed to:

- an increase in cash and money market accounts of $62 million, mainly due to increases in deposits and borrowings;
- a $237 million increase in securities available-for-sale resulting from purchases of agency collateralized mortgage obligations and obligations from U. S. Government sponsored entities, mainly at BPNA;
- an increase in the non-covered loans held-in-portfolio of $651 million, due to purchases of $860 million (in unpaid principal balance) of mortgage loans in the P.R. operations, partially offset by a decrease of $108 million in non-covered commercial loans held-in-portfolio as a result of the aforementioned bulk sale of non-performing assets; partially offset by
- a decrease of $394 million in the covered loan portfolio due to the resolution of a large relationship and the normal covered loan portfolio run-off; and
- a decrease in loans held-for-sale of $153 million and non-covered OREO of $112 million, mainly as a result of the bulk sale of non-performing assets.

The Corporation s borrowings amounted to $5.0 billion at March 31, 2013, compared with $4.4 billion at December 31, 2012. The increase in borrowings was mainly driven by an increase in assets sold under agreements to repurchase and other short-term borrowings by $0.2 billion and $0.3 billion, respectively, due to FHLB of NY advances, which were used in part to fund mortgage loan purchases and investment securities during the quarter ended March 31, 2013.

Stockholders equity decreased by $139 million from December 31, 2012 to March 31, 2013, mainly as a result of the net loss for the quarter and a decrease of $24 million in unrealized gains on securities available-for-sale. Capital ratios continued to be strong. The Corporation s Tier 1 risk-based capital ratio stood at 16.52% at March 31, 2013, while the tangible common equity ratio at March 31, 2013 was 8.89%. Refer to Table 20 for capital ratios and Table 21 for Non-GAAP reconciliations.

Table 1 provides selected financial data and performance indicators for the quarters ended March 31, 2013 and 2012.

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 2012 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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Table 1 - Financial highlights

Financial Condition Highlights				**Average for the first quarter**		
(In thousands)	March 31, 2013	December 31, 2012	Variance	March 31, 2013	March 31, 2012	Variance
Money market investments	$ 1,344,244	$ 1,085,580	$ 258,664	$ 1,102,983	$ 1,095,294	$ 7,689
Investment and trading securities	5,961,099	5,726,986	234,113	5,868,382	5,666,127	202,255
Loans	25,197,686	25,093,632	104,054	24,766,993	24,938,842	(171,849)
Earning assets	32,503,029	31,906,198	596,831	31,738,358	31,700,262	38,096
Total assets	36,942,714	36,507,535	435,179	36,361,797	36,555,815	(194,018)
Deposits*	27,013,217	27,000,613	12,604	26,837,059	27,257,768	(420,709)
Borrowings	4,969,344	4,430,673	538,671	4,491,795	4,364,646	127,149
Stockholders equity	3,971,143	4,110,000	(138,857)	3,959,085	3,752,817	206,268

* Average deposits exclude average derivatives.

Operating Highlights	**First Quarter**		
(In thousands, except per share information)	2013	2012	Variance
Net interest income	$ 345,347	$ 337,582	$ 7,765
Provision for loan losses - non-covered loans	206,300	82,514	123,786
Provision for loan losses - covered loans	17,556	18,209	(653)
Non-interest income	17,575	123,908	(106,333)
Operating expenses	316,250	296,167	20,083
Income (loss) before income tax	(177,184)	64,600	(241,784)
Income tax expense (benefit)	(56,877)	16,192	(73,069)
Net income (loss)	$ (120,307)	$ 48,408	$ (168,715)
Net income (loss) applicable to common stock	$ (121,237)	$ 47,477	$ (168,714)
Net income (loss) per common share - basic and diluted	$ (1.18)	$ 0.46	$ (1.64)

	First Quarter	
Selected Statistical Information	2013	2012
Common Stock Data		
Market price		
High	$ 28.92	$ 23.00
Low	21.70	14.30
End	27.60	20.50
Book value per common share at period end	37.98	38.14
Profitability Ratios		
Return on assets	(1.34)%	0.53%
Return on common equity	(12.58)	5.16
Net interest spread (taxable equivalent)	4.28	4.14
Net interest margin (taxable equivalent)	4.52	4.39

Capitalization Ratios

Average equity to average assets	10.89%	10.27%
Tier I capital to risk-weighted assets	16.52	16.51
Total capital to risk-weighted assets	17.80	17.79
Leverage ratio	11.07	11.10

Other Matters

Non-Binding Letter of Intent to Sell Portfolio of Non-Performing Residential Mortgage Loans

On May 6, 2013, BPPR entered into a non-binding letter of intent with an unrelated third party with respect to the sale of a portfolio of non-performing residential mortgage loans, with an unpaid principal balance of approximately $595 million and book value of approximately $515 million. The non-binding letter of intent contemplates that BPPR would have the option to acquire a 10% beneficial interest in the pool of mortgage loans following the closing date.

The non-binding letter of intent contemplates a purchase price of approximately $290 million, or 48.75% of the unpaid principal balance of the loans as of the agreed cut-off date. To the extent that BPPR exercises its option to acquire a 10% beneficial interest in the pool of mortgage loans there would be a corresponding 10% reduction in the total net cash proceeds. The contemplated transaction is subject to numerous conditions, including due diligence, which may result in a reduction in the amount of loans sold, as well as a reduction in the purchase price.

The non-binding letter of intent contemplates that the terms of the transaction would be finalized and the transaction closed in the second quarter of 2013. In connection with the proposed transaction, the Corporation has determined its intent to sell the mortgage loans and therefore the loans will be transferred to loans held for sale and marked to market in the second quarter, resulting in an after-tax loss of approximately $135 million, irrespective of whether this transaction is consummated.

There can be no assurances that the transaction contemplated by the non-binding letter of intent will be consummated on the terms proposed, if at all.

Discussions with the FDIC Regarding Reimbursement for WesternBank Loans

The Corporation s Annual Report on Form 10-K includes a discussion of the terms of BPPR s loss share arrangements with the FDIC under Risk Factors--Our ability to obtain reimbursement under the loss sharing agreements on covered assets depends on our compliance with the terms of the loss sharing agreements. As described in the Form 10-K, BPPR has not received reimbursement for $71.1 million of loss-share claims related to the June 30, 2012 quarter, which have not been paid because of a difference of approximately $26.2 million related to the methodology for the computation of charge-offs for certain late stage real estate collateral dependent loans. Our methodology is consistent with our charge-off policy for non-covered assets and conforms with our regulatory supervisory criteria. We are currently in discussion with the FDIC regarding our charge-off policy and the commercial loss share agreement with the FDIC. To the extent we are not able to successfully resolve this matter either through discussions with the FDIC or the applicable dispute resolution provisions of the commercial loss share agreement, a material difference could result in the timing and amount of charge-offs recorded by us and the amount of charge-offs reimbursed by the FDIC under the commercial loss share agreement. As of March 31, 2013, we had unbilled shared-loss claims relating to periods subsequent to June 30, 2012 of approximately $229.6 million under the commercial loss share agreement with the FDIC related to late stage real estate collateral dependent loans, determined as described above. If the reimbursement amount for these additional claims for periods from June 30, 2012 through March 31, 2013 were calculated in accordance with the FDIC s methodology, the amount of such claims would be reduced by approximately $83.1 million. No assurance can be given that we would be able to claim reimbursement from the FDIC for such difference prior to the expiration of the commercial loss share agreement in April 2015, which could require us to make a material adjustment to the value of our loss share asset and the related true up payment obligation to the FDIC and could have a material adverse effect on our financial results for the period in which such adjustment is taken.

Proposed Sale of Common Stock by Junior Investment Corporation

As disclosed in the proxy statement for our 2013 annual stockholders meeting, Junior Investment Corporation (Junior Investment), a family investment vehicle in which Richard L. Carrión, our Chairman, President and Chief Executive Officer, has an equity interest, owns 1,012,588 shares of the Corporation s common stock, of which 463,380 shares are pledged as collateral to secure a loan by an unaffiliated bank. Mr. Carrión is the President of Junior Investment. Approximately 99.5% of the equity interests in Junior Investment are owned by Mr. Carrión and his five siblings. The remaining equity interests are owned by two other relatives. Mr. Carrión has informed the Corporation that, in connection with the repayment of the loan that is secured by the shares of the Corporation s common stock owned by Junior Investment, Junior Investment intends to sell approximately 420,000 to 460,000 shares of the Corporation s common stock, including all or substantially all the shares of the Corporation s common stock pledged as collateral for the loan, on the open market prior to the close of the window period ending on May 31, 2013. Junior Investment expects to use the majority of the proceeds of the sale of shares of the Corporation s common stock to repay the loan (which has a principal balance of approximately $10.4 million). In addition, in connection with the sale of the Corporation s common stock, the holders of equity interests in Junior Investment will receive approximately $1.75 million in the aggregate in cash from the proceeds of the sale of shares of the Corporation s common stock, including approximately $250,000 to be received by Mr. Carrión, and certain holders of equity in Junior Investment (other than Mr. Carrión) will receive additional common stock of Junior Investment. As a result of the foregoing transactions, Mr. Carrión s common stock interest in Junior Investment will be reduced from 18.27% to 16.58%. Mr. Carrión continues to own 295,989 shares of the Corporation s common stock directly.

Proposed Changes to the Sales and Use Tax Provisions of the Puerto Rico Internal Revenue Code

The Puerto Rico Legislature has under its consideration House Bill 1073 and Senate Bill 544. Both bills propose several changes to the Puerto Rico Internal Revenue Code of 2011 aimed to increase revenue and reduce the budget deficit. The most notable of such changes is the elimination of certain exemptions to the sales and use tax provisions, including the exemption for services rendered to a business (such as the Corporation and its subsidiaries). If these legislative proposals are enacted into law in their current form, the Corporation estimates they will have a negative impact on our operating expenses of approximately $20 million on an annualized basis.

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 2012 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, 2012 (the 2012 Annual Report). Also, refer to Note 2 to the consolidated financial statements included in the 2012 Annual Report for a summary of the Corporation s significant accounting policies.

NET INTEREST INCOME

Net interest income, on a taxable equivalent basis, is presented with its different components on Table 2 for the quarter ended March 31, 2013 as compared with the same period in 2012, 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 quarter. The taxable equivalent computation considers the interest expense disallowance required by the Puerto Rico tax law.

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 ended March 31, 2013 included a favorable impact, excluding the discount accretion on covered loans accounted for under ASC 310-30, of $3.4 million related to those items, compared with a favorable impact of $5.1 million for the same period in 2012. The benefit reduction is mainly related to a higher amortization of premium for acquired mortgages.

The increase in the net interest margin, on a taxable equivalent basis, for the quarter ended March 31, 2013 was mostly related to a reduction in the average cost of sources of funds. Management continues its efforts to lower the cost of deposits throughout the Corporation. This is reflected in the various deposit categories presented in Table 2. The Now and money market category benefits from a higher balance of brokered deposits, which carry a lower cost of funds. Brokered deposits account for approximately 55% of the increase in average volume experienced within this category. The Savings category reflects cost reductions implemented within the Puerto Rico franchise while the Time deposits category reflects both the effect of cost reductions implemented by Management and a reduced cost of brokered certificates of deposits. In addition, collections made from the FDIC related to losses incurred on covered loans and an increase in the average balance of non-interest bearing deposits have assisted in managing the attrition experienced within the time deposits category, of which approximately 38% is due to a reduction in the use of brokered certificates of deposits. During the period from April 1, 2012 to March 31, 2013 the Corporation collected approximately $441 million related to losses incurred on covered loans. This contributes to the increase in average balance exhibited in the other sources of funds category. The reduction experienced in the cost of the other medium and long-term debt category was mainly the result of maturities of Federal Home Loan Bank advances.

In addition to a lower cost of funds, the net interest margin also benefited from a higher yield in the covered loans category. The higher yield resulted mainly from reductions in expected losses identified during the quarterly loss reassessment process as well higher than expected actual cash flows for various pools during the quarter ended March 31, 2013.

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The benefits derived from the items previously discussed were partially offset by a lower yield of investment securities and a lower yield for both commercial and mortgage loans. The reduction in the yield of investment securities was mainly caused by reinvestment of cash flows in lower yielding collateralized mortgage obligations and U.S. Agency securities. The reduction in the yield of commercial loans occurred mainly within the U.S. operations as the average yield for commercial loans decreased by 21 basis-points, from 5.53% to 5.32%. This reduction was mainly due to lower interest income collected on loans coming out of non-performing status. The mortgage loan category presents a substantial increase in average volume, the result of strong originations; strategic purchases during the quarter ended March 31, 2013, as well as loan repurchase activity. These activities contribute to a lower yield in the mortgage loan category since originations and purchases will carry a lower yield than the overall portfolio. In addition, loans that had to be repurchased during 2012, pursuant to recourse agreements, will also exert negative pressure in the mortgage loan yield. It is important to note that during the quarter ended March 31, 2013 the Corporation accounted for these impaired loan repurchases pursuant to ASC Subtopic 310-30, therefore an accretable yield will be determined based on the cash flows expected to be collected, and recorded into income based on the expected life of the loans. These loans, which are delinquent at the time of repurchase, are put through loss mitigation programs for potential restructuring.

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

Quarters ended March 31,

Average Volume			Average Yields / Costs				Interest			Variance Attributable to	
2013	2012	Variance	2013	2012	Variance		2013	2012	Variance	Rate	Volume
($ in millions)									(In thousands)		
$ 1,103	$ 1,095	$ 8	0.35 %	0.35 %	%	Money market investments	$ 955	$ 948	$ 7	$ (19)	$ 26
5,441	5,215	226	3.01	3.75	(0.74)	Investment securities	40,968	48,940	(7,972)	(7,977)	5
427	451	(24)	5.92	6.01	(0.09)	Trading securities	6,237	6,730	(493)	(148)	(345)
6,971	6,761	210	2.77	3.35	(0.58)	Total money market, investment and trading securities	48,160	56,618	(8,458)	(8,144)	(314)
						Loans:					
10,078	10,444	(366)	4.86	4.96	(0.10)	Commercial	120,772	128,866	(8,094)	(3,664)	(4,430)
369	523	(154)	3.92	5.03	(1.11)	Construction	3,566	6,535	(2,969)	(1,287)	(1,682)
543	555	(12)	8.36	8.67	(0.31)	Leasing	11,334	12,021	(687)	(430)	(257)
6,410	5,464	946	5.35	5.72	(0.37)	Mortgage	85,683	78,146	7,537	(5,343)	12,880
3,853	3,661	192	10.29	10.17	0.12	Consumer	97,743	92,591	5,152	1,380	3,772
21,253	20,647	606	6.06	6.19	(0.13)	Sub-total loans	319,098	318,159	939	(9,344)	10,283
3,514	4,292	(778)	8.31	7.00	1.31	Covered loans	72,184	74,764	(2,580)	12,170	(14,750)
24,767	24,939	(172)	6.38	6.33	0.05	Total loans	391,282	392,923	(1,641)	2,826	(4,467)
$ 31,738	$ 31,700	$ 38	5.59 %	5.69 %	(0.10)%	Total earning assets	$ 439,442	$ 449,541	$ (10,099)	$ (5,318)	$ (4,781)
						Interest bearing deposits:					
$ 5,696	$ 5,246	$ 450	0.41 %	0.47 %	(0.06)%	NOW and money market [1]	$ 5,798	$ 6,071	$ (273)	$ (812)	$ 539
6,718	6,507	211	0.26	0.39	(0.13)	Savings	4,314	6,265	(1,951)	(2,128)	177
8,832	10,291	(1,459)	1.30	1.54	(0.24)	Time deposits	28,231	39,343	(11,112)	(6,231)	(4,881)

21,246	22,044	(798)	0.73	0.94	(0.21)	Total deposits	38,343	51,679	(13,336)	(9,171)	(4,165)
2,722	2,511	211	1.46	2.18	(0.72)	Short-term borrowings	9,782	13,583	(3,801)	(4,437)	636
503	473	30	15.94	15.91	0.03	TARP funds [2]	20,032	18,796	1,236	38	1,198
1,267	1,381	(114)	4.98	5.28	(0.30)	Other medium and long-term debt	15,735	18,211	(2,476)	(1,010)	(1,466)
25,738	26,409	(671)	1.31	1.55	(0.24)	Total interest bearing liabilities	83,892	102,269	(18,377)	(14,580)	(3,797)
5,591	5,213	378				Non-interest bearing demand deposits					
409	78	331				Other sources of funds					
$ 31,738	$ 31,700	$ 38	1.07 %	1.30 %	(0.23)%	Total source of funds	83,892	102,269	(18,377)	(14,580)	(3,797)
			4.52 %	4.39 %	0.13 %	Net interest margin					
						Net interest income on a taxable equivalent basis	355,550	347,272	8,278	$ 9,262	$ (984)
			4.28 %	4.14 %	0.14 %	Net interest spread					
						Taxable equivalent adjustment	10,203	9,690	513		
						Net interest income	$ 345,347	$ 337,582	$ 7,765		

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.

[1] Includes interest bearing demand deposits corresponding to certain government entities in Puerto Rico.
[2] Junior subordinated deferrable interest debentures held by the U.S. Treasury.

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PROVISION FOR LOAN LOSSES

The Corporation s provision for loan losses totaled $223.9 million for the quarter ended March 31, 2013 compared with $100.7 million for the same period in 2012. The provision for loan losses for the quarter ended March 31, 2013 includes the impact of $148.8 million related to a bulk loan sale completed during the quarter. Excluding the impact of the sale, the provision for the first quarter was $75.1 million, declining by $25.6 million from the first quarter of 2012.

The provision for loan losses for the non-covered loan portfolio increased by $123.8 million when compared to the first quarter of 2012, mainly due to the impact of the loan sale. Excluding the impact of the sale, the provision for non-covered loan portfolio for the first quarter was $57.5 million, declining by $25.0 million from the first quarter of 2012. The decrease in the provision reflects the improvements in credit quality, as underlying losses and non-performing loans continue to trend downwards both at BPPR and BPNA.

The provision for loan losses for the covered loan portfolio remained stable at $18 million when compared to the first quarter of 2012,

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 for 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.

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NON-INTEREST INCOME

Refer to Table 3 for a breakdown on non-interest income by major categories for the quarters ended March 31, 2013 and 2012.

Table 3 - Non-interest income

	Quarter ended March 31,		
(In thousands)	2013	2012	Variance
Service charges on deposit accounts	$ 43,722	$ 46,589	$ (2,867)
Other service fees:			
Mortgage servicing fees, net of fair value adjustments	5,631	12,931	(7,300)
Insurance fees	12,073	12,390	(317)
Credit card fees and discounts	14,691	12,559	2,132
Debit card fees	8,470	9,165	(695)
Sale and administration of investment products	8,717	8,889	(172)
Trust fees	4,458	4,081	377
Processing fees		1,774	(1,774)
Other fees	4,763	4,250	513
Total other service fees	58,803	66,039	(7,236)
Trading account loss	(75)	(2,143)	2,068
Net (loss) gain on sale of loans, including valuation adjustment on loans held-for-sale	(48,959)	15,471	(64,430)
Adjustment (expense) to indemnity reserves on loans sold	(16,143)	(3,875)	(12,268)
FDIC loss share expense	(26,266)	(15,255)	(11,011)
Other operating income	6,493	17,082	(10,589)
Total non-interest income	$ 17,575	$ 123,908	$ (106,333)

The decrease in non-interest income for the quarter ended March 31, 2013, when compared with the same period of the previous year, was attributed to the following factors:

A decrease of $7.2 million in other service fees primarily due to unfavorable valuation adjustments on mortgage servicing rights, partially offset by higher credit card fees resulting from higher interchange fees from the credit card portfolio.

A $64.4 million decrease in net gain on sale of loans, net of valuation adjustments on loans held-for-sale. This decrease was principally driven by the loss of $61.4 million related to the bulk sale of non-performing commercial and construction loans, which includes an unfavorable valuation adjustment on loans held-for-sale transferred to held-in-portfolio of approximately $8.8 million.

An increase of $12.3 million in adjustments to indemnity reserves on loans sold, mainly as a result of $10.7 million recorded in connection with the bulk sale of non-performing loans.

Unfavorable variance in FDIC loss share expense of $11.0 million. This unfavorable variance was the result of higher amortization of the FDIC loss share asset due to a decrease in expected losses and a change in the fair value in the true up payment obligation, partially offset by a favorable impact from the mirror accounting on the 80% FDIC coverage for reimbursable loan-related expenses on covered loans. Refer to Table 4 for a breakdown of FDIC loss share (expense) income by major categories.

Lower other operating income by $10.6 million principally in the BPPR reportable segment due to lower net earnings on investments accounted for under the equity method by $4.6 million and an unfavorable variance resulting from a $4.6 million gain on the sale of a real estate property that was owned and previously used by BPPR which was sold during the first quarter of 2012.

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The following table provides a summary of the gross revenues derived from the assets acquired in the FDIC- assisted transaction during the quarters ended March 31, 2013 and 2012:

Table 4 - Financial Information - Westernbank FDIC-Assisted Transaction

(In thousands)	Quarters ended March 31, 2013	2012
Interest income:		
Interest income on covered loans, except for discount accretion on ASC 310-20 covered loans	$ 72,184	$ 74,764
Discount accretion on ASC 310-20 covered loans		
Total interest income on covered loans	72,184	74,764
FDIC loss share (expense) income:		
(Amortization) accretion of loss share indemnification asset	(40,204)	(29,375)
80% mirror accounting on credit impairment losses[1]	14,045	13,422
80% mirror accounting on reimbursable expenses	7,783	2,267
80% mirror accounting on discount accretion for loans and unfunded commitments accounted for under ASC 310-20	(193)	(248)
Change in true-up payment obligation	(6,775)	(1,622)
Other	(922)	301
Total FDIC loss share (expense) income	(26,266)	(15,255)
Fair value change in equity appreciation instrument		
Amortization of contingent liability on unfunded commitments (included in other operating income)	242	310
Total revenues	46,160	59,819
Provision for loan losses	17,556	18,209
Total revenues less provision for loan losses	$ 28,604	$ 41,610

[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 March 31, 2013	2012
Covered loans	$ 3,513	$ 4,292
FDIC loss share asset	1,394	1,903

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Operating Expenses

Table 5 provides a breakdown of operating expenses by major categories.

Table 5 - Operating expenses

	Quarters ended March 31,		
(In thousands)	2013	2012	Variance
Personnel costs:			
Salaries	$ 73,345	$ 76,899	$ (3,554)
Commissions, incentives and other bonuses	15,475	12,726	2,749
Pension, postretirement and medical insurance	15,238	18,425	(3,187)
Other personnel costs, including payroll taxes	11,931	13,441	(1,510)
Total personnel costs	115,989	121,491	(5,502)
Net occupancy expenses	24,288	24,162	126
Equipment expenses	11,950	11,341	609
Other taxes	11,586	13,438	(1,852)
Professional fees:			
Collections, appraisals and other credit related fees	10,654	12,558	(1,904)
Programming, processing and other technology services	25,595	24,561	1,034
Other professional fees	15,886	10,986	4,900
Total professional fees	52,135	48,105	4,030
Communications	6,832	7,131	(299)
Business promotion	12,917	12,850	67
FDIC deposit insurance	9,280	24,926	(15,646)
Loss on early extinguishment of debt		69	(69)
Other real estate owned (OREO) expenses	46,741	14,165	32,576
Other operating expenses:			
Credit and debit card processing, volume and interchange expenses	4,975	4,681	294
Transportation and travel	1,476	1,471	5
Printing and supplies	887	1,034	(147)
All other	14,726	8,710	6,016
Total other operating expenses	22,064	15,896	6,168
Amortization of intangibles	2,468	2,593	(125)
Total operating expenses	$ 316,250	$ 296,167	$ 20,083

Operating expenses for the quarter ended March 31, 2013 increased by $20.1 million when compared with the quarter ended March 31, 2012. The increase in operating expenses was impacted by the following main factors:

- an increase in OREO expenses by $32.6 million, principally as a result of the loss of $37.0 million on the bulk sale of commercial and single-family real estate owned completed during this quarter and higher OREO expenses;

an increase in the other operating expenses caption by $6.2 million, mainly due to:

- higher provision for unused commitments by $4.9 million, mostly at the BPPR segment, due to a reversal recorded during the first quarter of 2012, resulting from lower expected disbursements on unfunded commitments;

- higher other general operating expenses by $2.7 million, mostly at BPPR, due to reimbursable expenses (mostly escrow funds and municipal taxes) from the FDIC loss-sharing agreement; offset by

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lower provision for operational losses by $4.4 million at both BPPR and BPNA. The decrease at BPPR of $1.4 million was related to certain servicing and foreclosure expenses, while the BPNA decrease of $2.8 million was due to a litigation settlement accrued during the first quarter of 2012.

an increase in professional fees by $4.0 million, mostly at BPPR, due to higher appraisal, attorneys and consumer servicing fees.

The above variances were partially offset by:

a decrease in FDIC deposit insurance of $15.6 million, mainly due to the recognition of a credit assessment of $11.3 million during the first quarter of 2013, as a result of revisions in the deposit-insurance premium calculation, and efficiencies achieved from the internal reorganization of Popular Mortgage into BPPR during the fourth quarter of 2012; and

a decrease in personnel costs of $5.5 million, mainly due to lower pension plan expenses due to an actuarial adjustment of $1.6 million at BPPR during this quarter, a decrease in medical expenses due to lower claim activity at BPNA during 2013 and lower other personnel costs mainly due to a severance accrual of $1.4 million in the first quarter of 2012, as part of the Corporation s employee exit program; partially offset by higher incentives and commissions, both at BPPR.

INCOME TAXES

Income tax benefit amounted to $56.9 million for the quarter ended March 31, 2013, compared with an income tax expense of $ 16.2 million for the same quarter of 2012. The decrease in income tax expense was primarily on the Puerto Rico operations due to the loss generated by the sale of non-performing assets that took place during the first quarter of 2013.

The components of income tax (benefit) expense for the quarters ended March 31, 2013 and 2012 are included in the following table.

Table 6 Components of Income Tax (Benefit) Expense

	Quarters ended			
	March 31, 2013		March 31, 2012	
(In thousands)	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax at statutory rates	$ (53,155)	30%	$ 19,380	30%
Net benefit of net tax exempt interest income	(7,418)	4	(7,014)	(11)
Deferred tax asset valuation allowance	(3,425)	2	1,167	2
Non-deductible expenses	6,010	(3)	5,639	9
Difference in tax rates due to multiple jurisdictions	(2,059)	1	(3,207)	(5)
Effect of income subject to preferential tax rate	2,137	(1)	(971)	(2)
Others	1,033	(1)	1,198	2
Income tax (benefit) expense	$ (56,877)	32%	$ 16,192	25%

Refer to Note 30 to the consolidated financial statements for a breakdown of the Corporation s deferred tax assets as of March 31, 2013.

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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 32 to the consolidated financial statements.

The Corporate group reported a net loss of $29.2 million for the quarter ended March 31, 2013, compared with a net loss of $28.3 million for the same quarter of the previous year.

Highlights on the earnings results for the reportable segments are discussed below:

Banco Popular de Puerto Rico

The Banco Popular de Puerto Rico reportable segment s net loss amounted to $108.8 million for the quarter ended March 31, 2013, compared with a net income of $66.9 million for the same quarter of the previous year. The principal factors that contributed to the variance in the financial results included the following:

higher net interest income by $14.8 million, or 5%, mostly due to a reduction of $9.2 million in deposits costs, or 19 basis points, related to continuing progress in repricing the deposit base and $6.2 million in the cost of borrowings mainly as a result of maturities of Federal Home Loan Bank advances. In addition to a lower cost of funds, an increase of approximately $583 million in the average volume of the non-covered loan portfolio resulted in a higher interest income of $7.7 million. The non-covered mortgage loan category reflected the highest increase in average volume as a result of strong originations, strategic purchases and loan repurchase activity, all of which carry a lower yield than the overall portfolio. Partially offsetting the favorable impacts in net interest income was a reduction of approximately $5.6 million in interest income from money market, investment and trading securities due to a lower yield of investment securities mainly caused by reinvestment of cash flows in lower yielding collateralized mortgage obligations and U.S. Agency securities. The net interest margin was 5.18% for the quarter ended March 31, 2013, compared to 4.90% for the same period in 2012;

higher provision for loan losses by $136 million, mostly due to the increase in the provision for loan losses on the non-covered loan portfolio of $136.7 million, mainly related to the $148.8 million impact of the bulk sale of non-performing loans. Excluding the impact of the sale, the provision for loan losses declined by $12.1 million to $55.5 million or 18%, due to positive trends in credit quality as underlying losses and non-performing loans continue to trend downwards;

lower non-interest income by $97.3 million, or 86%, mainly due to unfavorable variances of $55.6 million in gain on sale of loans and $6.4 million in valuation adjustments on loans held-for-sale, both driven by the loss of $61.4 million related to the bulk sale of non-performing commercial and construction loans, which includes an unfavorable valuation adjustment on loans held-for-sale transferred to loan held-in-portfolio of approximately $8.8 million. The variance was also related to FDIC loss share expense of $26.3 million recognized for the quarter ended March 31, 2013, compared with $15.3 million for the same quarter previous year. Refer to Table 4 for components of that latter variance. The decrease in non-interest income was also due to unfavorable variances of $10.3 million in adjustments to indemnity reserve mainly as a result of $10.7 million recorded in connection with the bulk sale of non-performing loans and $9.2 million in other operating income mainly due to a decrease of $4.7 million in the income from the equity investment in PRLP 2011 Holdings, LLC and to $4.6 million gain on the sale of a real estate property that was owned and previously used by BPPR which was sold during the first quarter of 2012. Also there was a decrease of $5.2 million in other service fees mostly related to unfavorable fair value adjustments on mortgage servicing rights, partially offset by higher credit card fees mainly due to higher interchange income;

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higher operating expenses by $27.5 million, or 12%, mainly due to an increase of $35.1 million in OREO expenses, primarily related to the loss of $37.0 million on the bulk sale of commercial and single-family real estate owned and higher professional fees by $6.4 million mostly due to higher appraisal, attorneys and consumer servicing fees. Also there was an unfavorable variance of $6.2 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. These unfavorable variances were partially offset by lower FDIC deposit insurance assessment by $15.7 million, mainly due to the recognition of a credit assessment of $11.3 million during the first quarter of 2013 as a result of revisions in the deposit-insurance premium calculation, and efficiencies achieved from the internal reorganization of Popular Mortgage into BPPR during the fourth quarter of 2012; and lower personnel costs by $3.0 million due to a decrease in pension plan related to an adjustment of $1.6 million recorded during this quarter which resulted from actuarial revisions to the discount rate and expected return on assets of the plan and lower other personnel costs mainly due to a severance accrual in the first quarter of 2012 as part of the Corporation s efficiency efforts; and

lower income tax expense by $70.2 million, mainly due an income tax benefit of $52.9 million recognized during the first quarter of 2013, reflecting the net operating loss generated by the sale of non-performing assets, compared with an income tax expense of $17.3 million for the first quarter of 2012.

Banco Popular North America

For the quarter ended March 31, 2013, the reportable segment of Banco Popular North America reported net income of $17.3 million, compared with $9.3 million for the quarter ended March 31, 2012. The principal factors that contributed to the variance in the financial results included the following:

lower net interest income by $6.1 million, or 8%, which was primarily the effect of a lower yield in the loan portfolio by 53 basis points, mainly in the commercial and construction loan categories; and a lower yield of investment securities, both decreasing net interest income by $10.1 million. The unfavorable impact resulting from these reductions was partially offset by a $4.2 million decrease in deposits costs or 28 basis points. The BPNA reportable segment s net interest margin was 3.48% for 2013, compared with 3.78% for 2012;

lower provision for loan losses by $12.7 million, or 86%, principally as a result of lower net charge-offs by $15.5 million mainly from the legacy, commercial, consumer and mortgage loan portfolios due to improved credit performance. Refer to the Credit Risk Management and Loan Quality section of this MD&A for certain quality indicators and further explanations corresponding to the BPNA reportable segment;

lower non-interest income by $5.4 million, or 35%, mostly due to lower gains on sale of commercial loans by $2.4 million, higher adjustments to indemnity reserves by $2.0 million; and lower service charges on deposits by $1.4 million; and

lower operating expenses by $6.7 million, or 10%, mainly due to a decrease in other operating expenses by $3.2 million and $2.0 million in professional fees, both related to a legal settlement recognized in the first quarter of 2012; and lower OREO expenses of $2.5 million related to higher gains on the sale of commercial and mortgage real estate properties. These favorable variances were partially offset by an increase of $1.0 million in net occupancy expenses.

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FINANCIAL CONDITION ANALYSIS

Assets

The Corporation s total assets were $36.9 billion at March 31, 2013 and $36.5 billion at December 31, 2012. Refer to the consolidated financial statements included in this report for the Corporation s consolidated statements of financial condition as of such dates.

Money market investments, trading and investment securities

Money market investments amounted to $1.3 billion at March 31, 2013, compared with $1.1 billion as of December 31, 2012 mainly due to excess liquidity at BPPR, including corporate deposits received at end of the quarter.

Trading account securities amounted to $300 million at March 31, 2013, compared to $315 million at December 31, 2012. The reduction was principally due to lower Puerto Rico and U.S Government obligations and mortgage-back securities. Refer to the Market Risk section of this MD&A for a table that provides a breakdown of the trading portfolio by security type.

Investment securities available-for-sale and held-to-maturity amounted to $5.5 billion at March 31, 2013, compared with $5.2 billion at December 31, 2012. The increase was mainly due to the purchase of agency collateralized mortgage obligations and obligations from U.S Government sponsored entities, partially offset by the maturities and prepayments of mortgage-backed securities during the quarter. Table 7 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.

Table 7 - Breakdown of Investment Securities Available-for-Sale and Held-to-Maturity

(In millions)	March 31, 2013	December 31, 2012	Variance
U.S. Treasury securities	$ 29.8	$ 37.2	$ (7.4)
Obligations of U.S. Government sponsored entities	1,224.8	1,096.3	128.5
Obligations of Puerto Rico, States and political subdivisions	167.8	171.2	(3.4)
Collateralized mortgage obligations	2,611.3	2,369.7	241.6
Mortgage-backed securities	1,358.2	1,483.1	(124.9)
Equity securities	8.2	7.4	0.8
Others	62.6	62.1	0.5
Total investment securities AFS and HTM	$ 5,462.7	$ 5,227.0	$ 235.7

Loans

Refer to Table 8, 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 separately in Table 8. The risks on covered loans are significantly different as a result of the loss protection provided by the FDIC. Also, refer to Note 7 for detailed information about the Corporation s loan portfolio composition and loan purchases and sales.

The Corporation s total loan portfolio remained stable at $25.2 billion when compared to December 31, 2012, balance of $25.1 billion. The slight increase was the net effect of loans purchased and sold during this quarter, in addition to the effect of the portfolio run-off, loans charge-offs and new loan originations, including the loan to the joint venture created as part of the bulk sale of non-performing loans completed during this quarter.

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Table 8 - Loans Ending Balances

(In thousands)	March 31, 2013	December 31, 2012	Variance
Loans not covered under FDIC loss sharing agreements:			
Commercial	$ 9,750,428	$ 9,858,202	$ (107,774)
Construction	271,498	252,857	18,641
Legacy[1]	352,512	384,217	(31,705)
Lease financing	543,572	540,523	3,049
Mortgage	6,873,910	6,078,507	795,403
Consumer	3,841,825	3,868,886	(27,061)
Total non-covered loans held-in-portfolio	21,633,745	20,983,192	650,553
Loans covered under FDIC loss sharing agreements:			
Commercial	1,944,809	2,244,647	(299,838)
Construction	306,550	361,396	(54,846)
Mortgage	1,045,564	1,076,730	(31,166)
Consumer	65,523	73,199	(7,676)
Total covered loans held-in-portfolio[2]	3,362,446	3,755,972	(393,526)
Total loans held-in-portfolio	24,996,191	24,739,164	257,027
Loans held-for-sale:			
Commercial		16,047	(16,047)
Construction		78,140	(78,140)
Legacy[1]	1,681	2,080	(399)
Mortgage	199,814	258,201	(58,387)
Total loans held-for-sale	201,495	354,468	(152,973)
Total loans	$ 25,197,686	$ 25,093,632	$ 104,054

[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.

Non-covered loans

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

Non-covered loans held-in-portfolio amounted to $21.6 billion, an increase $0.7 billion from December 31, 2012 due to the following:

An increase of $0.8 billion in mortgage loans held-in-portfolio principally at the BPPR segment. The increase at BPPR segment was driven by the purchase of mortgage loans, including repurchases, during this quarter, with an unpaid principal balance of $860.3 million;

An increase of $18.6 million in construction loans held-in-portfolio mostly reflected in the BPPR segment, partially offset by a decrease in the BPNA segment. The increase at BPPR segment of $29.0 million was mainly due to the reclassification of $14.1 million from the held-for-sale category, while the decrease at BPNA segment of $10.4 million was due to the run-off activity in this portfolio; partially offset by

A decrease of $107.8 million in commercial loans at both BPPR and BPNA segments. The decrease of $95.7 million at BPPR segment was mainly related to the bulk loan sale completed during this quarter, which decreased the commercial loan portfolio by $337.6 million, net write-downs related to loans sold by $161.3 million and net charge-offs of $24.3 million, offset by the joint venture financing of $182.4 million that resulted from the bulk loan sale. The decrease at the BPNA segment of $12.1 million was due to pay-downs and charge-offs and partially offset by new originations.

A decrease of $31.7 million in the legacy portfolio of the BPNA segment due to the run-off status of this portfolio and net charge-offs of $1.9 million; and

A decrease of $27.1 million in the consumer loan portfolio at BPNA and BPPR segments. The BPNA consumer loan portfolio decreased by $16.3 million as the portfolio continues to run-off; while BPPR decrease $10.8 million mainly due to a decrease in credit cards due to higher payments and charge-offs and decrease in personal loans due to run-off; partially offset by an increase in auto loans due to new loans originations.

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The decrease in loans held-for-sale from December 31, 2012 to March 31, 2013 of $153.0 million was mostly at the BPPR segment driven by the bulk sale of non-performing assets, which reduced construction and commercial loans held-for-sale by approximately $49.7 million and $9.8 million, respectively; the reclassification of the remaining balance of these loans to held-in-portfolio, loans charge-offs, loan repayments and loans transferred to OREO. The decrease in mortgage loans was also at the BPPR segment, principally related to the transfer of loans to the held-in-portfolio category, and net outflows from secondary market transactions by the mortgage loan division.

The covered loans portfolio balance decreased by approximately $393.5 million from December 31, 2012 to March 31, 2013 due to the resolution of a large relationship and the normal portfolio run-off. Refer to Table 8 for a breakdown of the covered loans by major loan type categories. Tables 9 and 10 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 pool 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 9 - Activity in the Carrying Amount of Covered Loans Accounted for Under ASC 310-30

	Quarters ended March 31,	
(In thousands)	2013	2012
Beginning balance	$ 3,491,759	$ 4,036,471
Accretion	64,990	69,337
Collections / charge-offs	(399,086)	(210,903)
Ending balance	$ 3,157,663	$ 3,894,905
Allowance for loan losses (ALLL)	(91,573)	(94,559)
Ending balance, net of ALLL	$ 3,066,090	$ 3,800,346

Table 10 - Activity in the Outstanding Accretable Discount on Covered Loans Accounted for Under ASC 310-30

	Quarters ended March 31,	
(In thousands)	2013	2012
Beginning balance	$ 1,451,669	$ 1,470,259
Accretion [1]	(64,990)	(69,337)
Change in expected cash flows	(14,544)	141,597
Ending balance	$ 1,372,135	$ 1,542,519

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

FDIC loss share asset

Table 11 sets forth the activity in the FDIC loss share asset for the quarter ended March 31, 2013.

Table 11 Activity of Loss Share Asset

	Quarters ended March 31,	
(In thousands)	2013	2012

Balance at beginning of year	$ 1,399,098	$ 1,915,128
(Amortization) accretion of loss share indemnification asset, net	(40,204)	(29,375)
Credit impairment losses to be covered under loss sharing agreements	14,045	13,422
Decrease due to reciprocal accounting on the discount accretion for loans and unfunded commitments accounted for under ASC Subtopic 310-20	(193)	(248)
Reimbursable expenses	7,783	2,267
Net payments to (from) FDIC under loss sharing agreements	107	(20,896)
Other adjustments attributable to FDIC loss sharing agreements	(44)	59
Balance at end of period	$ 1,380,592	$ 1,880,357

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 12 presents the activity associated with the outstanding balance of the FDIC loss share asset amortization (or negative discount) for the periods presented.

Table 12 - Activity in the Remaining FDIC Loss Share Asset Discount

	Quarters ended March 31,	
(In thousands)	2013	2012
Balance at beginning of period [1]	$ 141,800	$ 117,916
(Amortization of negative discount) [2]	(40,204)	(29,375)
Impact of lower projected losses	27,086	18,240
Balance at end of period	$ 128,682	$ 106,781

[1] Positive balance represents negative discount (debit to assets), while a negative balance represents a discount (credit to assets).

[2] 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 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. At March 31, 2013, OREO amounted to $327 million from $406 million at December 31, 2012. The decrease was mainly as a result of the bulk sale of non-performing assets completed during the first quarter of 2013, which reduced OREO by $108 million. Refer to Table 13 for the activity in other real estate owned. The amounts included as covered other real estate are subject to the FDIC loss sharing agreements.

Table 13 - Other Real Estate Owned Activity

	For the quarter ended March 31, 2013				
(In thousands)	Non-covered OREO Commercial/ Construction	Non-covered OREO Mortgage	Covered OREO Commercial/ Construction	Covered OREO Mortgage	Total
Balance at beginning of period	$ 135,862	$ 130,982	$ 99,398	$ 39,660	$ 405,902
Write-downs in value	(4,899)	(7,358)	(3,105)	(303)	(15,665)
Additions	18,318	24,848	34,795	8,973	86,934
Sales	(70,135)	(72,017)	(1,675)	(5,256)	(149,083)
Other adjustments		(902)		(109)	(1,011)
Ending balance	$ 79,146	$ 75,553	$ 129,413	$ 42,965	$ 327,077

	For the quarter ended March 31, 2012				
(In thousands)	Non-covered OREO Commercial/ Construction	Non-covered OREO Mortgage	Covered OREO Commercial/ Construction	Covered OREO Mortgage	Total

Balance at beginning of period	$ 90,230	$ 82,267	$ 77,776	$ 31,359	$ 281,632
Write-downs in value	(3,404)	(7,450)	(1,467)	(413)	(12,734)
Additions	17,686	26,838	4,978	4,136	53,638
Sales	(2,749)	(8,955)	(2,120)	(3,461)	(17,285)
Other adjustments		(695)		(229)	(924)
Ending balance	$ 101,763	$ 92,005	$ 79,167	$ 31,392	$ 304,327

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Other assets

Table 14 provides a breakdown of the principal categories that comprise the caption of Other assets in the consolidated statements of financial condition at March 31, 2013 and December 31, 2012.

Table 14 - Breakdown of Other Assets

(In thousands)	March 31, 2013	December 31, 2012	Variance
Net deferred tax assets (net of valuation allowance)	$ 607,799	$ 541,499	$ 66,300
Investments under the equity method	276,756	246,776	29,980
Bank-owned life insurance program	230,419	233,475	(3,056)
Prepaid FDIC insurance assessment	24,982	27,533	(2,551)
Prepaid taxes	84,740	88,360	(3,620)
Other prepaid expenses	63,145	60,626	2,519
Derivative assets	40,111	41,925	(1,814)
Trades receivables from brokers and counterparties	144,171	137,542	6,629
Others	179,111	191,842	(12,731)
Total other assets	$ 1,651,234	$ 1,569,578	$ 81,656

The increase in other assets from December 31, 2012 to March 31, 2013 of $81.7 million was mainly due to the deferred tax assets related to the loss on the sale of non-performing assets completed during this quarter, in addition to an increase in the investments under the equity method due to the newly created joint venture CPG PR Portfolio 2013-1 International, LLC, in which the Corporation holds a 24.9% of equity interest.

Deposits and Borrowings

The composition of the Corporation s financing sources to total assets at March 31, 2013 and December 31, 2012 is included in Table 15.

Table 15 - Financing to Total Assets

(In millions)	March 31, 2013	December 31, 2012	% increase (decrease) from 2012 to 2013	% of total assets 2013	% of total assets 2012
Non-interest bearing deposits	$ 5,614	$ 5,795	(3.1)%	15.2%	15.9%
Interest-bearing core deposits	16,208	15,993	1.3	43.9	43.8
Other interest-bearing deposits	5,191	5,213	(0.4)	14.1	14.3
Repurchase agreements	2,266	2,017	12.3	6.1	5.5
Other short-term borrowings	951	636	49.5	2.6	1.7
Notes payable	1,753	1,778	(1.4)	4.7	4.9
Others	989	966	2.4	2.7	2.6
Stockholders equity	3,971	4,110	(3.4)	10.7	11.3

Deposits

The Corporation s deposits remained stable from December 31, 2012 to March 31, 2013. 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%. Refer to Table 16 for a breakdown of the Corporation s deposits at March 31, 2013 and December 31, 2012.

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Table 16 - Deposits Ending Balances

(In thousands)	March 31, 2013	December 31, 2012	Variance
Demand deposits [1]	$ 6,265,796	$ 6,442,739	$ (176,943)
Savings, NOW and money market deposits (non-brokered)	11,357,130	11,190,335	166,795
Savings, NOW and money market deposits (brokered)	498,833	456,830	42,003
Time deposits (non-brokered)	6,427,320	6,541,660	(114,340)
Time deposits (brokered CDs)	2,464,138	2,369,049	95,089
Total deposits	$ 27,013,217	$ 27,000,613	$ 12,604

[1] Includes interest and non-interest bearing demand deposits.

Borrowings

The Corporation s borrowings amounted to $5.0 billion at March 31, 2013, compared with $4.4 billion at December 31, 2012. The increase from December 31, 2012 to March 31, 2013 was related to increase in repurchase agreements of $248.9 million due to new repurchase agreements and other short-term borrowings of $315.0 million, mainly FHLB of NY advances, which were used in part to fund the mortgage loans and investment securities purchases during this quarter. Refer to Note 14 to the consolidated financial statements for detailed information on the Corporation s borrowings at March 31, 2013 and December 31, 2012. Also, refer to the Liquidity section in this MD&A for additional information on the Corporation s funding sources.

Other liabilities

Other liabilities increased by $23 million from December 31, 2012 to March 31, 2013. The increase was driven by higher securities trade payables of $33.6 million due to purchases near the end of the quarter and an increase in the reserve for customary representation and warranties. The representation and warranties reserve increase resulted from a reserve of $10.7 million established as part of the previously mentioned BPPR bulk loan sale; partially offset by a lower book overdrafts of $13.0 million and lower incentives compensation accrual by $11.6 million.

Stockholders Equity

Stockholders equity totaled $4.0 billion at March 31, 2013, compared with $4.1 billion at December 31, 2012. The decrease is mainly due as a result of the net loss of $120.3 million for the quarter and a decrease of $24.0 million in unrealized gains in the portfolio of investments securities available-for-sale. Refer to the consolidated statements of financial condition and of changes in stockholders equity for information on the composition of stockholders equity. Also, the disclosures of accumulated other comprehensive (loss) income, an integral component of stockholders equity, are included in the consolidated statements of comprehensive (loss) 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 March 31, 2013 and December 31, 2012 are presented on Table 17. As of such dates, BPPR and BPNA were well-capitalized.

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Table 17 - Capital Adequacy Data

(Dollars in thousands)	March 31, 2013	December 31, 2012
Risk-based capital:		
Tier I capital	$ 3,902,542	$ 4,058,242
Supplementary (Tier II) capital	301,482	298,906
Total capital	$ 4,204,024	$ 4,357,148
Minimum requirement to be well capitalized	2,362,204	2,339,157
Excess capital	1,841,820	2,017,991
Risk-weighted assets:		
Balance sheet items	$ 21,419,005	$ 21,175,833
Off-balance sheet items	2,203,036	2,215,739
Total risk-weighted assets	$ 23,622,041	$ 23,391,572
Adjusted quarterly average assets	$ 35,242,329	$ 35,226,183
Ratios:		
Tier I capital (minimum required 4.00%)	16.52 %	17.35 %
Total capital (minimum required 8.00%)	17.80	18.63
Leverage ratio *	11.07	11.52

* All banks are required to have a minimum Tier I Leverage ratio of 3% or 4% of adjusted quarterly average assets, depending on the bank s classification. At March 31, 2013, the capital adequacy minimum requirement for Popular, Inc. was (in thousands): Total Capital of $ 1,889,763; Tier I Capital of $ 944,882; and Tier I Leverage of $ 1,057,270, based on a 3% ratio, or $ 1,409,693, based on a 4% ratio, according to the entity s classification.

The Corporation s regulatory capital ratios at March 31, 2013 were impacted by the capital reduction due to the net loss for the quarter and an increase in disallowed deferred tax assets, combined with an increase in risk-weighted assets.

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 March 31, 2013 and December 31, 2012, 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.

Section 171 of the Dodd-Frank Act, enacted in July 2010, included 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. Although the federal banking supervisors issued a joint notice of proposed rulemaking in June 2012 that contained a phase-out schedule for non-qualifying capital instruments pursuant to Section 171, a final rule has not been adopted. At March 31, 2013, the Corporation had $427 million in trust preferred securities (capital securities) that would be subject to the phase-out provision when adopted. Applying the phase-out schedule as proposed in the June 2012 joint notice of proposed rulemaking, the Corporation would phase out $107 million of trust preferred securities in 2013. The trust preferred securities issued to the U.S. Treasury pursuant to the Emergency Economic Stabilization Act of 2008 are exempt from the phase-out provision under the proposed guidance.

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.

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Table 18 provides a reconciliation of total stockholders equity to tangible common equity and total assets to tangible assets at March 31, 2013 and December 31, 2012.

Table 18 - Reconciliation of Tangible Common Equity and Tangible Assets

(In thousands, except share or per share information)	March 31, 2013	December 31, 2012
Total stockholders equity	$ 3,971,143	$ 4,110,000
Less: Preferred stock	(50,160)	(50,160)
Less: Goodwill	(647,757)	(647,757)
Less: Other intangibles	(51,827)	(54,295)
Total tangible common equity	$ 3,221,399	$ 3,357,788
Total assets	$ 36,942,714	$ 36,507,535
Less: Goodwill	(647,757)	(647,757)
Less: Other intangibles	(51,827)	(54,295)
Total tangible assets	$ 36,243,130	$ 35,805,483
Tangible common equity to tangible assets	8.89%	9.38%
Common shares outstanding at end of period	103,228,615	103,169,806
Tangible book value per common share	$ 31.21	$ 32.55

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 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.

Table 19 provides a reconciliation of the Corporation s total common stockholders equity (GAAP) to Tier 1 common equity at March 31, 2013 and December 31, 2012, as defined by the Federal Reserve Board, FDIC and other bank regulatory agencies (non-GAAP).

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Table 19 - Reconciliation Tier 1 Common Equity

(In thousands)	March 31, 2013	December 31, 2012
Common stockholders equity	$ 3,920,983	$ 4,059,840
Less: Unrealized gains on available-for-sale securities, net of tax[1]	(130,562)	(154,568)
Less: Disallowed deferred tax assets[2]	(433,543)	(385,060)
Less: Intangible assets:		
Goodwill	(647,757)	(647,757)
Other disallowed intangibles	(10,626)	(14,444)
Less: Aggregate adjusted carrying value of all non-financial equity investments	(1,331)	(1,160)
Add: Pension liability adjustment, net of tax and accumulated net gains (losses) on cash flow hedges[3]	222,016	226,159
Total Tier 1 common equity	$ 2,919,180	$ 3,083,010
Tier 1 common equity to risk-weighted assets	12.36%	13.18%

[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 $135 million of the Corporation s $608 million of net deferred tax assets at March 31, 2013 ($118 million and $541 million, respectively, at December 31, 2012), were included without limitation in regulatory capital pursuant to the risk-based capital guidelines, while approximately $434 million of such assets at March 31, 2013 ($385 million at December 31, 2012) exceeded the limitation imposed by these guidelines and, as disallowed deferred tax assets , were deducted in arriving at Tier 1 capital. The remaining $39 million of the Corporation s other net deferred tax assets at March 31, 2013 ($38 million at December 31, 2012) 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

During 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 them 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 continue under review by the Agencies and their implementation dates, originally expected to occur between 2013 and 2019, remain uncertain.

Based on the Corporation s current level of assets, non-performing assets and the composition of these, management estimates that the implementation of the NPR s, as currently proposed, would reduce our excess capital over well capitalized thresholds as compared to the Basel I rules currently in effect. However, the Corporation expects to continue to exceed the minimum requirements for well capitalized status after the implementation of the NPR s.

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 March 31, 2013, 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

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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 $183 million at March 31, 2013 of which approximately 63% matures in 2013, 17% in 2014, 11% in 2015 and 9% 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 20 presents the contractual amounts related to the Corporation s off-balance sheet lending and other activities at March 31, 2013.

Table 20 - Off-Balance Sheet Lending and Other Activities

	Amount of commitment - Expiration Period				
(In millions)	Remaining 2013	Years 2014 - 2016	Years 2017 - 2019	Years 2020 - thereafter	Total
Commitments to extend credit	$ 6,237	$ 740	$ 186	$ 59	$ 7,222
Commercial letters of credit	20				20
Standby letters of credit	100	35			135
Commitments to originate mortgage loans	64	2			66
Unfunded investment obligations	1	9			10
Total	$ 6,422	$ 786	$ 186	$ 59	$ 7,453

At March 31, 2013, the Corporation maintained a reserve of approximately $4 million for probable 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 20 to the consolidated financial statements for additional information on credit commitments and contingencies.

Guarantees associated with loans sold / serviced

At March 31, 2013, the Corporation serviced $2.8 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 $2.9 billion at December 31, 2012. 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

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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 21 below presents the delinquency status of the residential mortgage loans serviced by the Corporation that are subject to lifetime credit recourse provisions.

Table 21 - Delinquency of Residential Mortgage Loans Subject to Lifetime Credit Recourse

(In thousands)	March 31, 2013	December 31, 2012
Total portfolio	$ 2,827,542	$ 2,932,555
Days past due:		
30 days and over	$ 426,320	$ 412,313
90 days and over	$ 155,552	$ 158,679
As a percentage of total portfolio:		
30 days past due or more	15.08%	14.06%
90 days past due or more	5.50%	5.41%

During the quarter ended March 31, 2013, the Corporation repurchased approximately $30 million (unpaid principal balance) in mortgage loans subject to the credit recourse provisions, compared with $50 million during the same quarter 2012. 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 2011 and 2012, 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. Once the loans are repurchased, they are put through the Corporation s loss mitigation programs.

At March 31, 2013, there were 30 outstanding unresolved claims related to the credit recourse portfolio with a principal balance outstanding of $3.8 million, compared with 59 and $8.0 million, respectively, at December 31, 2012. The outstanding unresolved claims at March 31, 2013 and December 31, 2012 pertained to FNMA.

At March 31, 2013, the Corporation s liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to $48 million, compared with $52 million at December 31, 2012.

Table 22 presents the changes in the Corporation s liability for estimated losses related to loans serviced with credit recourse provisions for the quarters ended March 31, 2013 and 2012.

Table 22 Changes in Liability of Estimated Losses from Credit Recourse Agreements

(In thousands)	2013	2012
Balance as of beginning of period	$ 51,673	$ 58,659
Additions for new sales		
Provision for recourse liability	4,097	4,232
Net charge-offs / terminations	(7,787)	(6,776)

Balance as of end of period	$ 47,983	$ 56,115

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The slight decrease of $135 thousand in the provision for credit recourse liability experienced for the quarter ended March 31, 2013, when compared with the same quarter in 2012 was mainly driven by credit quality stabilization of mortgage loans subject to credit recourse provision.

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.

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 March 31, 2013, the Corporation serviced $16.6 billion in mortgage loans for third-parties, including the loans serviced with credit recourse, compared with $16.7 billion at December 31, 2012. 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 March 31, 2013, the outstanding balance of funds advanced by the Corporation under such mortgage loan servicing agreements was approximately $33 million, compared with $19 million at December 31, 2012. 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.

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 conform 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 $2.0 million in unpaid principal balance with losses amounting to $0.4 million for the quarter ended March 31, 2013. 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 March 31, 2013, the Corporation established a reserve for certain specific representation and warranties made in connection with BPPR s sale of commercial and construction loans, and commercial and single family real estate owned. The purchaser s sole remedy under the indemnity clause is to seek monetary damages from BPPR, for a maximum of $18.0 million. BPPR is not required to repurchase any of the assets. BPPR recognized a reserve of approximately $10.7 million, representing its best estimate of the loss that would be incurred in connection with this indemnification. BPPR s obligations under this clause end one year after the closing except to any claim asserted prior to such termination date.

Also, 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

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financial institution from any repurchase obligation and other claims over the serviced portfolio. At March 31, 2013, the related representation and warranty reserve amounted to $6.9 million and the related serviced portfolio approximated $2.7 billion, compared with $7.6 million and $2.9 billion, respectively, at December 31, 2012.

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 BPPR for the quarters ended March 31, 2013 and 2012.

Table 23 Changes in Liability of Estimated Losses from Customary Representations and Warranties Agreements

(In thousands)	2013	2012
Balance as of beginning of period	$ 7,587	$ 8,522
Additions for new sales	10,700	
(Reversal) provision for representation and warranties	(290)	297
Net charge-offs / terminations	(394)	(257)
Balance as of end of period	$ 17,603	$ 8,562

In addition, at March 31, 2013, 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 March 31, 2013 and December 31, 2012, the Corporation s reserve for estimated losses from such representation and warranty arrangements amounted to $9 million and $8 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 33% of claimed amounts during the 24-month period ended March 31, 2013 (40% during the 24-month period ended December 31, 2012). On the remaining 67% of claimed amounts, the Corporation either repurchased the balance in full or negotiated settlements. For the accounts where the Corporation settled, it averaged paying 42% of claimed amounts during the 24-month period ended March 31, 2013 (60% during the 24-month period ended December 31, 2012). In total, during the 24-month period ended March 31, 2013, the Corporation paid an average of 33% of claimed amounts (24-month period ended December 31, 2012 33%).

E-LOAN s outstanding unresolved claims related to representation and warranty obligations from mortgage loan sales prior to 2009 are presented in Table 24.

Table 24 - E-LOAN s Outstanding Unresolved Claims from Loans Sold

(In thousands)	March 31, 2013	December 31, 2012
By Counterparty:		
GSEs	$ 906	$ 1,270
Whole loan and private-label securitization investors	2,205	533
Total outstanding claims by counterparty	$ 3,111	$ 1,803

By Product Type:		
1st lien (Prime loans)	$ 3,111	$ 1,803
Total outstanding claims by product type	$ 3,111	$ 1,803

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The outstanding claims balance from private-label investors are comprised by three counterparties at March 31, 2013 and two counterparties at December 31, 2012.

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 25 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 ended March 31, 2013 and 2012.

Table 25 Changes in Liability for Estimated Losses Related to Loans Sold by E-LOAN

(In thousands)	2013	2012
Balance as of beginning of period	$ 7,740	$ 10,625
Additions for new sales		
Provision for representation and warranties	1,265	
Net charge-offs / terminations	(153)	
Other - settlements paid		
Balance as of end of period	$ 8,852	$ 10,625

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. Management utilizes various tools to assess IRR, including simulation modeling, static gap analysis, and Economic Value of Equity (EVE). The three methodologies complement each other and are use jointly in the evaluation of the Corporation s IRR. Simulation modeling is prepared for a five year period, which in conjunction with the EVE analysis, provides Management a better view of long term IRR.

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 future 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.

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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 unchanged rates, yield curve twists, + 200 and + 400 basis points parallel ramps and + 200 and + 400 basis points parallel shocks. Given the fact that during the quarter ended March 31, 2013, some market interest rates were close to zero, management has focused on measuring the risk on net interest income in rising rate scenarios. 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. In addition, the model and processes used to assess IRR are subject to third-party validations according to the guidelines established in the Model Governance and Validation policy. 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 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 March 31, 2014. Under a 200 basis points rising rate scenario, projected net interest income increases by $38.5 million, while under a 400 basis points rising rate scenario, projected net interest income increases by $65.7 million, when compared against the Corporation s flat or unchanged interest rates forecast scenario. 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 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 from all future periods, including principal and interest.

EVE sensitivity using interest rate shock scenarios is estimated on a quarterly basis. The current EVE sensitivity is focused on rising 200 and 400 basis point parallel shocks. 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, Banco Popular de Puerto Rico (BPPR) and Popular Securities. 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. BPPR 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, BPPR 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 March 31, 2013, the Corporation held trading securities with a fair value of $300 million, representing approximately 0.8% of the Corporation s total assets, compared with $315 million and 0.9% at December 31, 2012. As shown in Table 26, the trading portfolio consists principally of mortgage-backed securities, which at March 31, 2013 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 $0.1 million for the quarter ended March 31, 2013, compared with $2.1 million for the same quarter in 2012. Table 26 provides the composition of the trading portfolio at March 31, 2013 and December 31, 2012.

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Table 26 - Trading Portfolio

	March 31, 2013		December 31, 2012	
(Dollars in thousands)	Amount	Weighted Average Yield [1]	Amount	Weighted Average Yield [1]
Mortgage-backed securities	$ 255,760	5.33%	$ 262,863	4.64%
Collateralized mortgage obligations	2,564	4.65	3,117	4.57
Commercial paper			1,778	5.05
Puerto Rico and U.S. Government obligations	20,697	4.81	24,801	4.74
Interest-only strips	1,107	11.45	1,136	11.40
Other (includes related trading derivatives)	19,645	4.03	20,830	4.07
Total	$ 299,773	5.22%	$ 314,525	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 $1.3 million, assuming a confidence level of 99%, for the last week in March 2013. 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, mortgage servicing rights and contingent consideration. 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 23 to the consolidated financial statements for information on the Corporation s fair value measurement disclosures required by the applicable accounting standard. At March 31, 2013, approximately $ 5.6 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 March 31, 2013, 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 $ 17 million of financial assets that were measured at fair value on a nonrecurring basis at March 31, 2013, 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 $ 39 million at March 31, 2013, of which $ 22 million were Level 3 assets and $ 17 million were Level 2 assets. Level 3 assets consisted 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.

There were no transfers from Level 2 to Level 3 and no transfers from Level 3 to Level 2 for financial instruments measured at fair value on a recurring basis during the quarter ended March 31, 2013. There were no transfers in and/or out of Level 1 during the quarter ended March 31, 2013. Refer to Note 23 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 March 31, 2013. Also, refer to the Critical Accounting Policies / Estimates in the 2012 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 ended March 31, 2013, 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 ended March 31, 2013, 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 March 31, 2013, the Corporation s portfolio of trading and investment securities available-for-sale amounted to $ 5.6 billion and represented 97% of the Corporation s assets measured at fair value on a recurring basis. At March 31, 2013, net unrealized gains on the trading and available-for-sale investment securities portfolios approximated $12 million and $ 144 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 $ 154 million at March 31, 2013, 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 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 March 31, 2013, inclusion of credit risk in the fair value of the derivatives resulted in a net gain of $1.9 million recorded in the other operating income and interest expense captions of the consolidated statement of operations, which consisted of a gain of $0.3 million resulting from the Corporation s own credit standing adjustment and a gain of $1.6 million from the assessment of the counterparties credit risk.

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. The Board is responsible for establishing the Corporation s tolerance for liquidity risk, including approving relevant risk limits and policies. The Board has delegated the monitoring of these risks to the Risk Management Committee and the ALCO. The management of liquidity risk, on a long-term and day-to-day basis, is the responsibility of the Corporate Treasury Division. The Corporation s Corporate Treasurer is responsible for implementing the policies and procedures approved by the Board and for monitoring the Corporation s liquidity position on an ongoing basis. Also, the Corporate Treasury Division coordinates corporate wide liquidity management strategies and activities with the reportable segments, oversees policy breaches and manages the escalation process. The Financial and Operational Risk Management Division is responsible for the independent monitoring and reporting of adherence with established policies.

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. 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.

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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.

Deposits, including customer deposits, brokered deposits, and public funds deposits, continue to be the most significant source of funds for the Corporation, funding 73% of the Corporation s total assets at March 31, 2013 and 74% at December 31, 2012. The ratio of total ending loans to deposits was 93% at March 31, 2013 and December 31, 2012. In addition to traditional deposits, the Corporation maintains borrowing arrangements. At March 31, 2013, these borrowings consisted primarily of assets sold under agreement to repurchase of $2.3 billion, advances with the FHLB of $1.5 billion, junior subordinated deferrable interest debentures of $947 million (net of discount of $428 million) and term notes of $234 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 the first quarter of 2013, the Corporation s liquidity position remained strong. The Corporation executed several strategies to deploy excess liquidity at its banking subsidiaries and improve the Corporation s net interest margin. During this quarter, the Corporation increased its level of borrowings, primarily repurchase agreements and advances with the FHLB of NY to purchase mortgage loans in BPPR and investment in securities, mainly at BPNA. BPPR also received approximately $92 million in cash in connection with the bulk sale of assets.

The following sections provide further information on the Corporation s major funding activities and needs, as well as the risks involved in these activities. A detailed description of the Corporation s borrowings and available lines of credit, including its 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.

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 Federal Reserve s Discount Window, 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 34 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 capital 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 potential downgrade in the credit ratings.

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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 16 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 81% of total deposits at March 31, 2013 and December 31, 2012. Core deposits financed 67% of the Corporation s earning assets at March 31, 2013 and 68% at December 31, 2012.

Certificates of deposit with denominations of $100,000 and over at March 31, 2013 and December 31, 2012 totaled $3.2 billion, or 12% of total deposits. Their distribution by maturity at March 31, 2013 was as follows:

Table 27 - Distribution by Maturity of Certificate of Deposits of $100,000 and Over

(In thousands)	
3 months or less	$ 1,378,904
3 to 6 months	534,548
6 to 12 months	400,971
Over 12 months	840,040
	$ 3,154,463

At March 31, 2013 and December 31, 2012, approximately 8% of the Corporation s assets were financed by brokered deposits. The Corporation had $3.0 billion in brokered deposits at March 31, 2013, compared with $2.8 billion at December 31, 2012. 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 March 31, 2013 and December 31, 2012, the banking subsidiaries had credit facilities authorized with the FHLB aggregating $2.7 billion and $2.8 billion, respectively, based on assets pledged with the FHLB at those dates. Outstanding borrowings under these credit facilities totaled $1.5 billion at March 31, 2013 and $1.2 billion at December 31, 2012. Such advances are collateralized by loans held-in-portfolio, do not have restrictive covenants and do not have any callable features. 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. Refer to Note 14 to the consolidated financial statements for additional information on the terms of FHLB advances outstanding.

At March 31, 2013 and December 31, 2012, the Corporation s borrowing capacity at the Fed s Discount Window amounted to approximately $3.1 billion, which remained unused as of both dates. This facility is a collateralized source of credit that is highly reliable even under difficult market conditions. The amount available under this borrowing facility is dependent upon the balance of performing loans, securities pledged as collateral and the haircuts assigned to such collateral. At March 31, 2013 and December 31, 2012, this credit facility with the Fed was collateralized by $4.7 billion in loans held-in-portfolio.

During the quarter ended March 31, 2013, the Corporation s bank holding companies did not make any capital contributions to BPNA or BPPR.

On July 25, 2011, PIHC and BPPR entered into a Memorandum of Understanding with the Federal Reserve Bank of New York and the Office of the Commissioner of Financial Institutions of Puerto Rico that requires the approval of these entities prior to the payment of any dividends by BPPR to PIHC. BPNA could not declare any dividends without the approval of the Federal Reserve Board.

At March 31, 2013, 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 funds in the future if the Corporation s financial condition or general market conditions were to deteriorate. 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 financing needs 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 market changes, 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 meet its future growth, revenues may not increase proportionately to cover costs. In this case, profitability would be adversely affected.

Westernbank FDIC-assisted Transaction and Impact on Liquidity

BPPR s liquidity may also be impacted by the loan payment performance and timing of claims made and receipt of reimbursements under the FDIC loss sharing agreements.

In the short-term, there may be a significant amount of the covered loans acquired in the FDIC-assisted transaction that will experience deterioration in payment performance, or will be determined to have inadequate collateral values to repay the loans. In such instances, the Corporation will likely no longer receive payments from the borrowers, which will impact cash flows. The loss sharing agreements will not fully offset the financial effects of such a situation. However, if a loan is subsequently charged-off or written down after the Corporation exhausts its best efforts at collection, the loss sharing agreements will cover 80% of the loss associated with the covered loans, offsetting most of any deterioration in the performance of the covered loans.

The effects of the loss sharing agreements on cash flows and operating results in the long-term will be similar to the short-term effects described above. The long-term effects that we may experience will depend primarily on the ability of the borrowers whose loans are covered by the loss sharing agreements to make payments over time. As the loss sharing agreements are in effect for a period of ten years for one-to-four family loans and five years for commercial, construction and consumer loans (with periods commencing on April 30, 2010), changing economic conditions will likely impact the timing of future charge-offs and the resulting reimbursements from the FDIC. Management believes that any recapture of interest income and recognition of cash flows from the borrowers or received from the FDIC on the claims filed may be recognized unevenly over this period, as management exhausts its collection efforts under the Corporation s normal practices.

Bank Holding Companies

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) asset sales, credit facilities available from affiliate banking subsidiaries and proceeds from potential securities offerings.

The principal use of these funds include the repayment of debt, and interest payments to holders of senior debt and junior subordinated deferrable interest debentures (related to trust preferred securities) and capitalizing its banking subsidiaries. Cash inflows and outflows for the quarter ended March 31, 2013 were not significant. During the quarter ended March 31, 2012, there was a $50 million capital contribution from PIHC to PNA, as part of an internal reorganization.

Another use of liquidity at the parent holding company is the payment of dividends on preferred stock. At the end of 2010, the Corporation resumed paying dividends on its Series A and B preferred stock. The preferred stock dividends amounted to $930 thousand for the first quarter of 2013, out of which $620 thousand were paid. The preferred stock dividends paid were financed 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 Fed 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, however, the cash needs of the Corporation s non-banking subsidiaries other than to repay indebtness and interest are now minimal. These sources of funding have become more costly due to the reductions in the Corporation s credit ratings. The Corporation s principal credit ratings are below investment grade which affects the Corporation s ability to raise funds in the capital markets. 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

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Note 34 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 March 31, 2013, consisted of subordinated notes from BPPR.

The outstanding balance of notes payable at the BHCs amounted to $1.2 billion at March 31, 2013 and December 31, 2012. These borrowings are principally junior subordinated debentures (related to trust preferred securities), including those issued to the U.S. Treasury as part of the 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 a combination of internal liquidity resources stemming mainly from future dividend receipts and new borrowings. Increasing or guaranteeing new debt would be subject to the approval of the Fed.

The contractual maturities of the BHC s notes payable at March 31, 2013 are presented in Table 28.

Table 28 - Distribution of BHC s Notes Payable by Contractual Maturity

Year	(In thousands)
2013	$
2014	78,611
2015	35,164
2016	119,864
2017	
Later years	439,800
No stated maturity	936,000
Sub-total	1,609,439
Less: Discount	428,401
Total	$ 1,181,038

As indicated previously, the BHC did not issue new registered debt in the capital markets during the quarter ended March 31, 2013.

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 March 31, 2013 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 $25 million at March 31, 2013, with the Corporation providing collateral totaling $33 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. In the event of a credit rating downgrade, 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 amounted to approximately $133 million at March 31, 2013. 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.

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CREDIT RISK MANAGEMENT AND LOAN QUALITY

Non-Performing Assets

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 29.

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 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.

Loans 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.

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

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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.

Total non-performing non-covered assets were $1.2 billion at March 31, 2013, declining by $566 million, or 32%, compared with December 31, 2012. Non-performing loans held-in-portfolio declined by $375 million, or 26%, from December 31, 2012, and 55% from peak levels in the third quarter of 2010. These reductions reflect the impact of the sale of assets with book value of $509 million, of which $501 million were in non-performing status. Excluding the impact of the bulk loan sale, non-covered non-performing assets and non-performing loans held-in-portfolio decreased by $65 million and $42 million, respectively.

The composition of non-performing loans continues to be concentrated in real estate, as 93% of non-performing loans were secured by real estate as of March 31, 2013. At March 31, 2013, non-performing loans secured by real estate held-in-portfolio, excluding covered loans, amounted to $785 million in the Puerto Rico operations and $194 million in the U.S. mainland operations. These figures compare to $1.1 billion in the Puerto Rico operations and $208 million in the U.S. mainland operations at December 31, 2012. In addition to the non-performing loans included in Table 29, at March 31, 2013, there were $97 million of non-covered performing loans, mostly commercial loans that in management s opinion, are currently subject to potential future classification as non-performing and are considered impaired, compared with $96 million at December 31, 2012.

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Table 29 - Non-Performing Assets

(Dollars in thousands)	March 31, 2013	As a % of loans HIP by category [4]	December 31, 2012	As a % of loans HIP by category [4]
Commercial	$ 320,787	3.3%	$ 665,289	6.7%
Construction	50,920	18.8	43,350	17.1
Legacy [1]	35,830	10.2	40,741	10.6
Leasing	4,005	0.7	4,865	0.9
Mortgage	600,724	8.7	630,130	10.4
Consumer	38,342	1.0	40,758	1.1
Total non-performing loans held-in- portfolio, excluding covered loans	1,050,608	4.9%	1,425,133	6.8%
Non-performing loans held-for-sale [2]	17,463		96,320	
Other real estate owned (OREO), excluding covered OREO	154,699		266,844	
Total non-performing assets, excluding covered assets	$ 1,222,770		$ 1,788,297	
Covered loans and OREO [3]	196,717		213,469	
Total non-performing assets	$ 1,419,487		$ 2,001,766	
Accruing loans past due 90 days or more[5] [6]	$ 410,065		$ 388,712	
Ratios excluding covered loans:[7]				
Non-performing loans held-in-portfolio to loans held-in-portfolio	4.86%		6.79%	
Allowance for loan losses to loans held-in-portfolio	2.70		2.96	
Allowance for loan losses to non-performing loans, excluding held-for-sale	55.54		43.62	
Ratios including covered loans:				
Non-performing assets to total assets	3.84%		5.48%	
Non-performing loans held-in-portfolio to loans held-in-portfolio	4.30		6.06	
Allowance for loan losses to loans held-in-portfolio	2.73		2.95	
Allowance for loan losses to non-performing loans, excluding held-for-sale	63.57		48.72	

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 segment.

[2] Non-performing loans held-for-sale consist of $1 million in legacy loans and $16 million in mortgage loans as of March 31, 2013 (December 31, 2012 - $78 million in construction loans, $16 million in commercial loans, $2 million in legacy loans and $53 thousand in mortgage loans).

[3] The amount consists of $24 million in non-performing covered loans accounted for under ASC Subtopic 310-20 and $172 million in covered OREO as of March 31, 2013 (December 31, 2012 - $74 million and $139 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 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 $3.4 billion in covered loans at March 31, 2013 (December 31, 2012 - $3.8 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 $0.9 billion at March 31, 2013 (December 31, 2012 - $0.7 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] It is the Corporation s policy to report delinquent residential mortgage loans insured by FHA or guaranteed by the VA as accruing loans past due 90 days or more as opposed to non-performing since the principal repayment is insured. These balances include $99 million of residential mortgage loans insured by FHA or guaranteed by the VA that are no longer accruing interest as of March 31, 2013.

[7] 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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Refer to Table 30 for a summary of the activity in the allowance for loan losses and selected loan losses statistics for the quarters ended March 31, 2013 and 2012.

Table 30 - Allowance for Loan Losses and Selected Loan Losses Statistics - Quarterly Activity

	Quarters ended March 31,					
(Dollars in thousands)	2013 Non-covered loans	2013 Covered loans	2013 Total	2012 Non-covered loans	2012 Covered loans	2012 Total
Balance at beginning of period	$ 621,701	$ 108,906	$ 730,607	$ 690,363	124,945	$ 815,308
Provision for loan losses	206,300	17,556	223,856	82,514	$ 18,209	100,723
	828,001	126,462	954,463	772,877	143,154	916,031
Charged-offs:						
Commercial	44,828	10,565	55,393	67,246	4,102	71,348
Construction	1,629	9,759	11,388	1,676	264	1,940
Leases	1,543		1,543	1,217		1,217
Legacy[1]	7,099		7,099	8,473		8,473
Mortgage	21,776	2,062	23,838	18,823	203	19,026
Consumer	34,557	4,567	39,124	42,596	89	42,685
	111,432	26,953	138,385	140,031	4,658	144,689
Recoveries:						
Commercial	12,413	30	12,443	12,863		12,863
Construction	1,274	314	1,588	1,881		1,881
Leases	559		559	1,063		1,063
Legacy[1]	5,213		5,213	4,915		4,915
Mortgage	2,213	11	2,224	1,369		1,369
Consumer	8,403	3	8,406	9,831		9,831
	30,075	358	30,433	31,922		31,922
Net loans charged-offs:						
Commercial	32,415	10,535	42,950	54,383	4,102	58,485
Construction	355	9,445	9,800	(205)	264	59
Leases	984		984	154		154
Legacy[1]	1,886		1,886	3,558		3,558
Mortgage	19,563	2,051	21,614	17,454	203	17,657
Consumer	26,154	4,564	30,718	32,765	89	32,854
	81,357	26,595	107,952	108,109	4,658	112,767
Net write-down related to loans sold	(163,143)		(163,143)			
Balance at end of period	$ 583,501	$ 99,867	$ 683,368	$ 664,768	$ 138,496	$ 803,264
Ratios:						
Annualized net charge-offs to average loans held-in-portfolio[2]	1.55%		1.76%	2.13%		1.83%
Provision for loan losses to net charge-offs[2]	0.71x		0.70x	0.76x		0.89x

[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 segment.

[2] Excluding provision for loan losses and the net write-down related to the asset sale.

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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The following table presents annualized net charge-offs to average loans held-in-portfolio (HIP) for the non-covered portfolio by loan category for the quarters ended March 31, 2013 and 2012.

Table 31 - Annualized Net Charge-offs to Average Loans HIP (non-covered loans)

	Quarter ended March 31,	
	2013	2012
Commercial	1.34%	2.21%
Construction	0.54	(0.35)
Lease financing	0.73	0.11
Legacy	2.05	2.23
Mortgage	1.25	1.29
Consumer	2.72	3.58
Total annualized net charge-offs to average loans held-in-portfolio	1.55%	2.13%

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.

Excluding the net write-downs related to the asset sale, net charge-offs were $81.4 million or 1.55% of average non-covered loans-held-in portfolio, compared with $108.1 million, or 2.13%, for the same quarter in 2012. The decline of $26.7 million was driven by improvements in the underlying credit performance. The bulk loan sale added $163.1 million in write-downs at the BPPR operations.

Credit quality continued to strengthen during the first quarter of 2013, reflective of key strategies implemented to reduce non-performing loans, coupled with stabilizing economic conditions and improvements in the underlying quality of the portfolios. The Corporation continued to aggressively engage in collection and loss mitigation strategies, loan restructurings and sales in order to reduce non-performing loans. The completion of the asset sale will further accelerate credit quality improvements.

The discussions in the sections that follow assess credit quality performance for the first quarter of 2013 for each of the Corporation s loan portfolios.

Commercial loans

Non-covered non-performing commercial loans held-in-portfolio were $321 million at March 31, 2013, compared with $665 million at December 31, 2012. The decrease of $344 million, or 52%, was principally attributed to reductions in the BPPR segment. The percentage of non-performing commercial loans held-in-portfolio to commercial loans held-in-portfolio decreased from 6.75% at December 31, 2012 to 3.29% at March 31, 2013.

Commercial non-covered non-performing loans held-in-portfolio at the BPPR segment decreased by $336 million from December 31, 2012. This decrease mainly reflects the impact of the sale of non-performing commercial loans with a book value of approximately $329 million. Excluding the impact of the sale, commercial non-covered non-performing loans decreased by $7 million reflective of improved credit performance, as well as loan resolutions.

Commercial non-performing loans held-in-portfolio at the BPNA segment decreased by $9 million from December 31, 2012, led by lower inflows and resolutions of non-performing loans.

For the quarter ended March 31, 2013, inflows of commercial non-performing loans held-in-portfolio at the BPPR segment amounted to $48 million, a decrease of $39 million, or 45%, when compared to inflows for the same period in 2012. Inflows of commercial non-performing loans held-in-portfolio at the BPNA segment amounted to $15 million, a decrease of $16 million, or 51%, compared to inflows for 2012. These reductions were driven by improvements in the underlying quality of the loan portfolio, proactive portfolio management processes, and greater economic stability.

Tables 32 and 33 present the changes in the non-performing commercial loans held-in-portfolio for the quarters ended March 31, 2013 and 2012 for the BPPR (excluding covered loans) and the BPNA segments.

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Table 32 - Activity in Non-Performing Commercial Loans Held-In-Portfolio (Excluding Covered Loans)

	For the quarter ended March 31, 2013		
(In thousands)	BPPR	BPNA	Popular, Inc.
Beginning Balance - NPLs	$ 522,733	$ 142,556	$ 665,289
Plus:			
New non-performing loans	47,735	15,111	62,846
Loans transferred from held-for-sale	790		790
Less:			
Non-performing loans transferred to OREO	(9,198)	(1,558)	(10,756)
Non-performing loans charged-off	(28,850)	(9,881)	(38,731)
Loans returned to accrual status / loan collections	(17,134)	(12,249)	(29,383)
Non-performing loans sold[1]	(329,268)		(329,268)
Ending balance - NPLs	$ 186,808	$ 133,979	$ 320,787

[1] Includes write-downs of $161,297 of loans sold.

Table 33 - Activity in Non-Performing Commercial Loans Held-In-Portfolio (Excluding Covered Loans)

	For the quarter ended March 31, 2012		
(In thousands)	BPPR	BPNA	Popular, Inc.
Beginning Balance - NPLs	$ 631,171	$ 198,921	$ 830,092
Plus:			
New non-performing loans	86,446	30,608	117,054
Advances on existing non-performing loans		227	227
Less:			
Non-performing loans transferred to OREO	(5,481)	(10,434)	(15,915)
Non-performing loans charged-off	(37,924)	(15,121)	(53,045)
Loans returned to accrual status / loan collections	(53,296)	(6,439)	(59,735)
Ending balance - NPLs	$ 620,916	$ 197,762	$ 818,678

Table 34 provides information on commercial non-performing loans and net charge-offs for the BPPR (excluding the Westernbank covered loan portfolio) and the BPNA segments.

Table 34 - Non-Performing Commercial Loans and Net Charge-offs (Excluding Covered Loans)

	BPPR		BPNA		Popular, Inc.	
(Dollars in thousands)	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Non-performing commercial loans	$ 186,808	$ 522,733	$ 133,979	$ 142,556	$ 320,787	$ 665,289
Non-performing commercial loans to commercial loans HIP	3.01%	8.30%	3.77%	4.00%	3.29%	6.75%

	BPPR		BPNA		Popular, Inc.	
	For the quarters ended		For the quarters ended		For the quarters ended	
(Dollars in thousands)	March 31, 2013	March 31, 2012	March 31, 2013	March 31, 2012	March 31, 2013	March 31, 2012

Commercial loan net charge-offs[1]	$ 24,311	$ 37,518	$ 8,104	$ 16,865	$ 32,415	$ 54,383
Commercial loan net charge-offs (annualized) to average commercial loans HIP	1.58%	2.34%	0.91%	1.95%	1.34%	2.20%

[1] Excludes write-downs of $161,297 of loans sold

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There was one commercial loan relationship greater than $10 million in non-accrual status with an outstanding aggregate balance of $13 million at March 31, 2013, compared with two commercial loan relationships with an outstanding aggregate balance of $24 million at December 31, 2012.

Commercial loan net charge-offs, excluding net charge-offs for covered loans and write-downs related to the asset sale, declined by $22.0 million, or 40%, for the quarter ended March 31, 2013, compared with the quarter ended March 31, 2012. Commercial loans annualized net charge-offs to average non-covered loans held-in-portfolio decreased from 2.20% for the quarter ended March 31, 2012 to 1.34% for the quarter ended March 31, 2013. This decrease was due to improvements in credit quality and successful actions taken by the Corporation to address problem loans.

Excluding the impact of the sale, net charge-offs at the BPPR segment were $24.3 million or 1.58% of average non-covered loans held-in-portfolio on an annualized basis, decreasing by $13.2 million from the first quarter of 2012. The bulk loans sale added $161.3 million in commercial write-downs. At the BPNA segment, commercial net charge-offs for the first quarter of 2013 decreased by $8.8 million from the first quarter of 2012. Net charge-offs to average loans held-in-portfolio on an annualized basis was 0.91%, down from 1.95% in the same quarter last year. For the quarter ended March 31, 2013, the charge-offs associated with commercial loans individually evaluated for impairment amounted to approximately $68.2 million in the BPPR segment and $4.3 million in the BPNA segment. Management identified commercial loans considered impaired and charged-off specific reserves based on the value of the collateral.

The allowance for loan losses of the commercial loans held-in-portfolio, excluding covered loans, amounted to $229 million or 2.35% of that portfolio at March 31, 2013, compared with $298 million or 3.02% at December 31, 2012. The ratio of the allowance to non-performing loans held-in-portfolio in the commercial loan category increased to 71.35% at March 31, 2013, from 44.74% at December 31, 2012, mostly driven by the effect of the non-performing loans sale.

The allowance for loan losses for the commercial loan portfolio in the BPPR segment, excluding the allowance for covered loans, totaled $161 million or 2.59% of non-covered commercial loans held-in-portfolio at March 31, 2013, compared with $218 million or 3.46% at December 31, 2012. At the BPNA segment, the allowance for loan losses of the commercial loan portfolio totaled $68 million or 1.92% of commercial loans held-in-portfolio at March 31, 2013, compared with $80 million or 2.25% at December 31, 2012. The decrease in the allowance for loan losses for the commercial loans held-in-portfolio was primarily driven by positive credit quality trends, as non-performing loans and underlying loss trends continue to improve.

The Corporation s commercial loan portfolio secured by real estate (CRE), excluding covered loans, amounted to $6.5 billion at March 31, 2013, of which $2.5 billion was secured with owner occupied properties, compared with $6.5 billion and $2.8 billion, respectively, at December 31, 2012. CRE non-performing loans, excluding covered loans amounted to $264 million at March 31, 2013, compared with $528 million at December 31, 2012. The CRE non-performing loan ratios for the Puerto Rico and U.S. mainland operations were 3.62% and 4.58%, respectively, at March 31, 2013, compared with 11.13% and 4.73%, respectively, at December 31, 2012.

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 for 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. In addition, in order to expedite the resolution of delinquent commercial loans, the Corporation may enter into a liquidation agreement with borrowers. Although in general, these liquidation agreements do not contemplate the forgiveness of principal or interest, loans under this program are considered TDRs since it could be construed that the Corporation has granted concession by temporarily accepting a payment schedule different from the contractual payment schedule. At March 31, 2013, commercial loan TDR, excluding covered loans, for the BPPR and BPNA segments amounted to $154 million and $18 million, respectively, of which $50 million and $18 million were in non-performing status. This compares with $297 million and $16 million, respectively, of which $192 million and $16 million were in non-performing status at December 31, 2012. The outstanding commitments for these commercial loans TDRs amounted to $3 million in the BPPR segment and no commitments outstanding in the BPNA segment at March 31, 2013. Commercial loans that have been modified as part of loss mitigation efforts were individually evaluated for impairment, resulting in a specific reserve of $11 million for the BPPR segment and $6 thousand for the BPNA segment at March 31, 2013, compared with $17 million and $12 thousand, respectively, at December 31, 2012.

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Construction loans

Non-covered non-performing construction loans held-in-portfolio were $51 million at March 31, 2013, compared to $43 million at December 31, 2012. The increase of $8 million, or 17%, was mainly driven by increases in the BPPR segment, as result of $14.2 million in loans reclassified from held-for-sale, in part offset by $3.5 million in non-performing loans sold. Favorable credit quality trends in the construction portfolio derive from de-risking strategies executed by the Corporation over the past several years, to downsize its construction loan portfolio. The ratio of non-performing construction loans to construction loans held-in-portfolio, excluding covered loans, increased from 17.14% at December 31, 2012 to 18.76% at March 31, 2013.

Tables 35 and 36 present changes in non-performing construction loans held-in-portfolio for the quarters ended March 31, 2013 and 2012 for the BPPR (excluding covered loans) and the BPNA segments.

Table 35 - Activity in Non-Performing Construction Loans Held-In-Portfolio (Excluding Covered Loans)

	For the quarter ended March 31, 2013		
(In thousands)	BPPR	BPNA	Popular, Inc.
Beginning Balance - NPLs	$ 37,390	$ 5,960	$ 43,350
Plus:			
Loans transferred from held-for-sale	14,152		14,152
Less:			
Non-performing loans charged-off	(1,082)		(1,082)
Loans returned to accrual status / loan collections	(1,940)	(76)	(2,016)
Non-performing loans sold [1]	(3,484)		(3,484)
Ending balance - NPLs	$ 45,036	$ 5,884	$ 50,920

[1] Includes write-downs of $1,846 of loans sold.

Table 36 - Activity in Non-Performing Construction Loans Held-In-Portfolio (Excluding Covered Loans)

	For the quarter ended March 31, 2012		
(In thousands)	BPPR	BPNA	Popular, Inc.
Beginning Balance - NPLs	$ 53,859	$ 42,427	$ 96,286
Plus:			
New non-performing loans	6,372		6,372
Advances on existing non-performing loans		125	125
Less:			
Non-performing loans charged-off	(371)	(1,380)	(1,751)
Loans returned to accrual status / loan collections	(3,613)	(17,617)	(21,230)
Loans transferred to held-for-sale		(10,332)	(10,332)
Ending balance - NPLs	$ 56,247	$ 13,223	$ 69,470

For the quarter ended March 31, 2013, there were no additions of new construction non-performing loans held-in-portfolio at the BPPR and the BPNA segments, decreasing by $7 million from the quarter ended March 31, 2012. As previously mentioned, the decline in the inflows to non-performing loans was principally due to the strategies implemented by the Corporation to significantly reduce its construction loan exposure.

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 $10 million at March 31, 2013 and December 31, 2012.

Construction loan net charge-offs, excluding covered loans, for the quarter ended March 31, 2013, increased by $560 thousand when compared with the quarter ended March 31, 2012, with increases of $726 thousand and reductions of $166 thousand in the BPPR and BPNA segments, respectively. The bulk loan sale added $1.8 million in construction loan write-downs. For the quarter ended March 31, 2013, the charge-offs associated with construction loans individually evaluated for impairment amounted to $1.4 million in the BPPR segment and none in the BPNA segment. Management identified construction loans considered impaired and charged-off specific reserves based on the value of the collateral.

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The allowance for loan losses corresponding to construction loans portfolio represented 2.74% of that portfolio, excluding covered loans, at March 31, 2013, compared with 2.94% at December 31, 2012. The ratio of the allowance to non-performing loans held-in-portfolio in the construction loans category was 14.61% at March 31, 2013, compared with 17.14% at December 31, 2012. The decrease in the ratio was driven by the effect of the reclassification of construction loans from loans-held-for sale category.

Table 37 provides information on construction non-performing loans and net charge-offs for the BPPR (excluding the covered loan portfolio) and the BPNA segments.

Table 37 - Non-Performing Construction Loans and Net Charge-offs (Excluding Covered Loans)

	BPPR		BPNA		Popular, Inc.	
(Dollars in thousands)	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Non-performing construction loans	$ 45,036	$ 37,390	$ 5,884	$ 5,960	$ 50,920	$ 43,350
Non-performing construction loans to construction loans HIP	18.66%	17.61%	19.48%	14.68%	18.76%	17.14%

	BPPR For the quarters ended		BPNA For the quarters ended		Popular, Inc. For the quarters ended	
(Dollars in thousands)	March 31, 2013	March 31, 2012	March 31, 2013	March 31, 2012	March 31, 2013	March 31, 2012
Construction loan net charge-offs (recoveries) [1]	$ 355	$ (371)	$	$ 166	$ 355	$ (205)
Construction loan net charge-offs (recoveries) (annualized) to average construction loans HIP	0.64%	(0.89)%	%	0.97%	0.54%	(0.35)%

[1] Excludes write-downs of $1,846 of loans sold.

The allowance for loan losses corresponding to the construction loan portfolio for the BPPR segment, excluding the allowance for covered loans, totaled $6 million or 2.65% of non covered construction loans held-in-portfolio at March 31, 2013, compared with $6 million or 2.76% at December 31, 2012. At the BPNA segment, the allowance for loan losses of the construction loan portfolio totaled $1 million or 3.43% of construction loans held-in-portfolio at March 31, 2013, compared with $2 million or 3.86% at December 31, 2012.

Construction 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 payments plan. Construction loans modified in a TDR may also involve extending the interest-only payment period. At March 31, 2013, there were $10 million and $6 million of construction loan TDRs for the BPPR and BPNA segments, respectively, of which $7 million and $6 million, were in non-performing status, compared with $7 million and $6 million, respectively, which were in non-performing status at December 31, 2012. The amount of outstanding commitments to lend additional funds to debtors owing loans whose terms have been modified in troubled debt restructurings amounted to $127 thousand in the BPPR segment and no commitments outstanding in the BPNA segment at March 31, 2013. These construction loan TDRs were individually evaluated for impairment resulting in specific reserves of $135 thousand for the BPPR segment and none for the BPNA segment, at March 31, 2013. At December 31, 2012, there were no specific reserves for the BPPR and BPNA segments.

Legacy loans

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 segment.

Legacy non-performing loans held-in-portfolio were $36 million at March 31, 2013, compared with $41 million at December 31, 2012. The decrease of $5 million, or 12%, was primarily driven by lower inflows to non-performing status and loan resolutions. The percentage of non-performing legacy loans held-in-portfolio to legacy loans held-in-portfolio decreased from 10.60% at December 31, 2012 to 10.16% at March 31, 2013.

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For the quarter ended March 31, 2013, additions to legacy loans in non-performing status amounted to $6 million, a decrease of $11 million, or 63%, compared with the same quarter in 2012. The decrease in the inflows of non-performing legacy loans reflects the improvements in overall loan credit performance.

Tables 38 and 39 present the changes in non-performing legacy loans held in-portfolio for the quarters ended March 31, 2013 and 2012.

Table 38 - Activity in Non-Performing Legacy Loans Held-In-Portfolio (Excluding Covered Loans)

(In thousands)	For the quarter ended March 31, 2013 BPNA	
Beginning Balance - NPLs	$	40,741
Plus:		
New non-performing loans		6,388
Advances on existing non-performing loans		4
Loans transferred from held-for-sale		400
Less:		
Non-performing loans charged-off		(5,315)
Loans returned to accrual status / loan collections		(6,388)
Ending balance - NPLs	$	35,830

Table 39 - Activity in Non-Performing Legacy Loans Held-In-Portfolio (Excluding Covered Loans)

(Dollars in thousands)	For the quarter ended March 31, 2012 BPNA	
Beginning Balance - NPLs	$	75,660
Plus:		
New non-performing loans		17,373
Advances on existing non-performing loans		16
Less:		
Non-performing loans transferred to OREO		(3,370)
Non-performing loans charged-off		(8,489)
Loans returned to accrual status / loan collections		(1,441)
Loans in accrual status transfer to held-for-sale		(672)
Ending balance - NPLs	$	79,077

In the loans held-in-portfolio, there was no legacy loan relationship greater than $10 million in non-accrual status at March 31, 2013 and at December 31, 2012.

For the quarter ended March 31, 2013, legacy net charge-offs decreased by $1.7 million, or 47%, when compared with the quarter ended March 31, 2012. Legacy loan net charge-offs to average non-covered loans held-in-portfolio ratio decreased from 2.28% for the quarter ended March 31, 2012 to 2.05% for the quarter ended March 31, 2013. The improvement in net charge-offs was mainly driven by lower levels of problem loans and the stabilization of the U.S. economic environment. For the quarter ended March 31, 2013, the charge-offs associated with collateral dependent legacy loans amounted to approximately $ 256 thousand.

The allowance for loan losses for the legacy loans held-in-portfolio amounted to $31 million or 8.73% of that portfolio at March 31, 2013, compared with $33 million or 8.62% at December 31, 2012. The ratio of allowance to non-performing loans held-in portfolio in the legacy loan category was 85.90% at March 31, 2013, compared with 81.25% at December 31, 2012.

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Legacy 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, reductions in the payment plan or other actions intended to maximize collection. At March 31, 2013, the Corporation s legacy loans held-in-portfolio included a total of $5 million of loan modifications, compared to $6 million at December 31, 2012. These loans were in non-performing status at such dates. There were no commitments outstanding for these legacy loan TDRs at March 31, 2013. The legacy loan TDRs were evaluated for impairment requiring no specific reserves at March 31, 2013 and December 31, 2012.

Table 40 provides information on legacy non-performing loans and net charge-offs.

Table 40 - Non-Performing Legacy Loans and Net Charge-offs

	BPNA	
(Dollars in thousands)	March 31, 2013	December 31, 2012
Non-performing legacy loans	$ 35,830	$ 40,741
Non-performing legacy loans to legacy loans HIP	10.16%	10.60%

	BPNA	
	For the quarters ended	
(Dollars in thousands)	March 31, 2013	March 31, 2012
Legacy loan net charge-offs	$ 1,886	$ 3,558
Legacy loan net charge-offs (annualized) to average legacy loans HIP	2.05%	2.28%

Mortgage loans

Non-covered non-performing mortgage loans held-in-portfolio were $601 million at March 31, 2013, compared to $630 million at December 31, 2012. The decrease of $29 million was driven by reductions of $23 million and $6 million in the BPPR and BPNA segments, respectively. The decrease in the BPPR segment was principally due to collection efforts, lower inflows to non-performing loans and charge-off activity. Also, there were $24 million of purchased impaired loans which were accounted for under ASC 310-30 during the first quarter of 2013.

Tables 41 and 42 present changes in non-performing mortgage loans held-in-portfolio for the quarters ended March 31, 2013 and March 31, 2012.

Table 41 - Activity in Non-Performing Mortgage Loans Held-in-Portfolio (Excluding Covered Loans)

	For the quarter ended March 31, 2013		
(Dollars in thousands)	BPPR	BPNA	Popular, Inc.
Beginning Balance - NPLs	$ 596,106	34,024	630,130
Plus:			
New non-performing loans	109,816	4,507	114,323
Less:			
Non-performing loans transferred to OREO	(18,110)	(747)	(18,857)
Non-performing loans charged-off	(14,608)	(3,093)	(17,701)
Loans returned to accrual status / loan collections	(100,473)	(6,698)	(107,171)
Ending balance - NPLs	$ 572,731	$ 27,993	$ 600,724

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Table 42 - Activity in Non-Performing Mortgage Loans Held-in-Portfolio (Excluding Covered Loans)

	For the quarter ended March 31, 2012		
(Dollars in thousands)	BPPR	BPNA	Popular, Inc.
Beginning Balance - NPLs	$ 649,279	37,223	686,502
Plus:			
New non-performing loans	186,510	6,256	192,766
Less:			
Non-performing loans transferred to OREO	(21,573)	(1,064)	(22,637)
Non-performing loans charged-off	(20,427)	(3,496)	(23,923)
Loans returned to accrual status / loan collections	(160,272)	(5,219)	(165,491)
Ending balance - NPLs	$ 633,517	$ 33,700	$ 667,217

For the quarter ended March 31, 2013, additions to mortgage non-performing loans at the BPPR and BPNA segments amounted to $110 million and $5 million, respectively, decreasing by $76.7 million and $1.7 million, respectively, from the same period in 2012. The decline in the inflows at the BPPR segment was the result of greater economic stability and a benefit from the treatment of $23.6 million in purchased impaired loans under ASC 310-30 during the first quarter of 2013.

Mortgage loan net charge-offs, excluding covered loans, increased by $2.1 million, for the quarter ended March 31, 2013, compared with the same period in 2012. Mortgage loan net charge-offs to average mortgage non-covered loans held-in-portfolio decreased from 1.29% for the quarter ended March 31, 2012 to 1.25% for the same period in 2013. The decrease in the mortgage loan net charge-offs ratio was due to lower net charge-offs at the BPNA segment, coupled with the impact of portfolio acquisitions.

Mortgage loan net charge-offs, excluding covered loans, at the BPPR segment amounted to $16.8 million for the quarter ended March 31, 2013, an increase of $4.5 million, when compared to the same period in 2012, mainly due to a moderate increase in delinquency, coupled with current real estate market conditions in Puerto Rico. Notwithstanding, underwriting criteria and high reinstatement rate experience in Puerto Rico continue to maintain losses at relatively low levels. For the quarter ended March 31, 2013, charge-offs associated with mortgage loans individually evaluated for impairment amounted to $3.6 million in the BPPR segment.

The net charge-offs in BPNA s mortgage loan portfolio amounted to approximately $2.8 million for the quarter ended March 31, 2013, a decrease of $2.4 million when compared to the same period in 2012, due to improved credit performance. Mortgage loan net charge-offs to average mortgage non-covered loans held-in-portfolio decreased from 2.53% for the quarter ended March 31, 2012 to 1.00% for the same period in 2013. The net charge-offs for BPNA s non-conventional mortgage loan portfolio amounted to approximately $3.7 million, or 3.26% of average non-conventional mortgage loans held-in-portfolio for the quarter ended March 31, 2013, compared with $3.5 million, or 2.85% of average loans for the same period last year. Net charge-offs were positively impacted by higher recoveries of $1.1 million when compared to the first quarter of 2012. The mortgage loan portfolio in the BPNA 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 the first quarter of 2011. For the quarter ended March 31, 2013, charge-offs associated with mortgage loans individually evaluated for impairment amounted to $0.9 million in the BPNA segment.

The allowance for loan losses for mortgage loans held-in-portfolio, excluding covered loans, amounted to $162 million or 2.36% of that portfolio at March 31, 2013, compared with $149 million or 2.46% at December 31, 2012. The allowance for loan losses corresponding to the mortgage loan portfolio for the BPPR segment totaled $130 million or 2.27% of mortgage loans held-in-portfolio, excluding covered loans, at March 31, 2013 compared with $119 million or 2.41%, respectively, at December 31, 2012. This increase in the allowance was principally driven by the general reserve component mainly due to higher underlying loss trends. At the BPNA segment, the allowance for loan losses corresponding to the mortgage loan portfolio totaled $31 million or 2.77% of mortgage loans held-in-portfolio at March 31, 2013, compared with $30 million or 2.69% at December 31, 2012. The allowance for loan losses for BPNA s non-conventional mortgage loan portfolio amounted to $25 million, or 5.74%, of that particular loan portfolio, compared with $25 million or 5.60%, respectively, at December 31, 2012. The Corporation is no longer originating non-conventional mortgage loans at BPNA.

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. 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 March 31, 2013, the mortgage loan TDRs for the BPPR and BPNA segments amounted to $665 million (including $167 million guaranteed by U.S. sponsored entities) and $53 million, respectively, of which $251 million and $9 million, were in non-performing status. This compares to $624 million (including $148 million guaranteed by U.S. sponsored entities) and $54 million, respectively, of which $263 million and $10 million, were in non-performing status at December 31, 2012. These mortgage loan TDRs were evaluated for impairment resulting in a specific allowance for loan losses of $58 million and $17 million for the BPPR and BPNA segments, respectively, at March 31, 2013, compared to $59 million and $16 million, respectively, at December 31, 2012.

Table 43 provides information on non-performing mortgage loans and net charge-offs for the BPPR, excluding the covered loan portfolio, and the BPNA segments.

Table 43 - Non-Performing Mortgage Loans and Net Charge-offs (Excluding Covered Loans)

	BPPR		BPNA		Popular, Inc.	
(Dollars in thousands)	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Non-performing mortgage loans	$ 572,731	$ 596,106	$ 27,993	$ 34,024	$ 600,724	$ 630,130
Non-performing mortgage loans to mortgage loans HIP	9.98%	12.05%	2.46%	3.01%	8.74%	10.37%

	BPPR For the quarters ended		BPNA For the quarters ended		Popular, Inc. For the quarters ended	
(Dollars in thousands)	March 31, 2013	March 31, 2012	March 31, 2013	March 31, 2012	March 31, 2013	March 31, 2012
Mortgage loan net charge-offs	$ 16,773	$ 12,226	$ 2,790	$ 5,228	$ 19,563	$ 17,454
Mortgage loan net charge-offs (annualized) to average mortgage loans HIP	1.31%	1.07%	1.00%	2.53%	1.25%	1.29%

Consumer loans

Non-performing consumer loans decreased by $3 million from December 31, 2012 to March 31, 2013, primarily as a result of a decrease of $2 million in the BPPR segment. Additions to consumer non-performing loans amounted to $21 million in the BPPR segment for the quarter ended March 31, 2013, compared with additions of $22 million in the first quarter of 2012. The additions to consumer non-performing loans in the BPNA segment amounted to $5 million, compared with additions of $14 million for the same period in 2012.

Consumer loan net charge-offs, excluding covered loans, decreased by $6.6 million, for the quarter ended March 31, 2013, compared with the same period in 2012, driven by reductions of $4.1 million and $2.5 million in the BPPR and BPNA segments, respectively. Consumer loan net charge-offs to average consumer non-covered loans held-in-portfolio decreased from 3.58% for the quarter ended March 31, 2012 to 2.72% for the quarter ended March 31, 2013.

The allowance for loan losses for the consumer portfolio, excluding covered loans, amounted to $151 million, or 3.92%, of that portfolio at March 31, 2013, compared to $131 million, or 3.39%, at December 31, 2012. The allowance for loan losses of the non-covered consumer loan portfolio in the BPPR segment totaled $122 million, or 3.80%, of that portfolio at March 31, 2013, compared with $100 million, or 3.09%, at December 31, 2012. At the BPNA segment, the allowance for loan losses of the consumer loan portfolio totaled $28 million, or 4.56%, of consumer loans at March 31, 2013, compared with $31 million, or 4.94%, at December 31, 2012. The increase in the allowance for loan losses for the consumer loan portfolio was principally due to an increase of $16 million and $6 million in the general and specific reserves, respectively, in the BPPR segment. Although overall the consumer portfolios continue to experience lower loss trends, other environmental factors warrant higher reserves for certain loan types. The increase in the specific reserve component was prompted by refinements of certain assumptions in the expected future cash flow analysis of consumer troubled debt restructures.

At March 31, 2013, the consumer loan TDRs for the BPPR and BPNA segments amounted to $131 million and $3 million, respectively, of which $9 million and $629 thousand, respectively, were in non-performing status, compared with $132 million and $3 million, respectively, of which $8 million and $643 thousand, respectively, were in non-performing status at December 31, 2012. These consumer loan TDRs were evaluated for impairment resulting in a specific allowance for loan losses of $24 million and $93 thousand for BPPR and BPNA segments, respectively, at March 31, 2013, compared with $18 million and $107 thousand, respectively, at December 31, 2012.

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Table 44 provides information on consumer non-performing loans and net charge-offs by segments.

Table 44 - Non-Performing Consumer Loans and Net Charge-offs (Excluding Covered Loans)

	BPPR		BPNA		Popular, Inc.	
(Dollars in thousands)	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Non-performing consumer loans	$ 29,363	$ 30,888	$ 8,979	$ 9,870	$ 38,342	$ 40,758
Non-performing consumer loans to commercial loans HIP	0.91%	0.96%	1.45%	1.56%	1.00%	1.05%

	BPPR For the quarters ended		BPNA For the quarters ended		Popular, Inc. For the quarters ended	
(Dollars in thousands)	March 31, 2013	March 31, 2012	March 31, 2013	March 31, 2012	March 31, 2013	March 31, 2012
Consumer loan net charge-offs	$ 20,001	$ 24,131	$ 6,153	$ 8,634	$ 26,154	$ 32,765
Consumer loan net charge-offs (annualized) to average commercial loans HIP	2.48%	3.25%	3.92%	4.97%	2.72%	3.58%

Combined net charge-offs for E-LOAN s home equity lines of credit and closed-end second mortgages amounted to approximately $4.0 million or 5.17% of those particular average loan portfolios for the quarter ended March 31, 2013, compared with $4.9 million or 5.45% for the quarter ended March 31, 2012. 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 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 March 31, 2013 totaled $299 million with a related allowance for loan losses of $13 million, representing 4.35% of that particular portfolio. E-LOAN s portfolio of home equity lines of credit and closed-end second mortgages outstanding at December 31, 2012 totaled $312 million with a related allowance for loan losses of $17 million, representing 5.47% of that particular portfolio. At March 31, 2013, home equity lines of credit and closed-end second mortgages in which E-LOAN holds both the first and second lien amounted to $238 thousand and $292 thousand, respectively, representing 0.04% and 0.05%, respectively, of the consumer loan portfolio of the BPNA segment. At March 31, 2013, 46% are paying the minimum amount due on the home equity lines of credit. At March 31, 2013, all closed-end second mortgages in which E-LOAN holds the first lien mortgage were in performing status.

Troubled debt restructurings

The following tables present the covered and non-covered loans classified as TDRs according to their accruing status at March 31, 2013 and December 31, 2012.

Table 45 - TDRs Non-Covered Loans

	March 31, 2013		
(In thousands)	Accruing	Non-Accruing	Total
Commercial	$ 104,235	$ 67,180	$ 171,415
Construction	2,946	13,058	16,004
Legacy		5,006	5,006
Mortgage	457,958	260,159	718,117
Leases	1,707	2,652	4,359
Consumer	124,234	9,318	133,552
Total	$ 691,080	$ 357,373	$ 1,048,453

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Table 46 - TDRs Non-Covered Loans

	December 31, 2012		
(In thousands)	Accruing	Non-Accruing	Total
Commercial	$ 105,648	$ 208,119	$ 313,767
Construction	2,969	10,310	13,279
Legacy		5,978	5,978
Mortgage	405,063	273,042	678,105
Leases	1,726	3,155	4,881
Consumer	125,955	8,981	134,936
Total	$ 641,361	$ 509,585	$ 1,150,946

Table 47 - TDRs Covered Loans

	March 31, 2013		
(In thousands)	Accruing	Non-Accruing	Total
Commercial	$ 7,356	$ 9,515	$ 16,871
Construction		5,262	5,262
Mortgage	149	189	338
Consumer	432	60	492
Total	$ 7,937	$ 15,026	$ 22,963

Table 48 - TDRs Covered Loans

	December 31, 2012		
(In thousands)	Accruing	Non-Accruing	Total
Commercial	$ 46,142	$ 4,071	$ 50,213
Construction		7,435	7,435
Mortgage	149	220	369
Consumer	517	106	623
Total	$ 46,808	$ 11,832	$ 58,640

The Corporation s TDR loans totaled $1.0 billion at March 31, 2013, a decrease of $102 million, or 9%, from December 31, 2012, mainly due to a reduction of $142 million in the commercial portfolio. Commercial loan TDRs in the BPPR segment decreased by $144 million from December 31, 2012 primarily related to the bulk loan sale. The intensification of loss mitigation efforts in the mortgage loan portfolio at the BPPR segment led to an increase of $41 million, or 7%, from December 31, 2012, of which $53 million pertain to loans in accruing status.

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.

Other real estate

Other real estate represents real estate property acquired through foreclosure, part of the Corporation s continuous efforts to aggressively resolve non-performing loans. Other real estate not covered under loss sharing agreements with the FDIC decreased by $112 million from December 31, 2012 to March 31, 2013, mainly driven by decreases in the BPPR segment of $108 million as a result of the asset sale, which included $58.6 million and $49.9 million in commercial and mortgage OREO.

Other real estate covered under loss sharing agreements with the FDIC, comprised principally of repossessed commercial real estate properties, amounted to $172 million at March 31, 2013, compared with $139 million at December 31, 2012. 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.

During the first quarter of 2013, the Corporation transferred $87 million of loans to other real estate, sold $149 million of foreclosed properties and recorded write-downs and other adjustments of approximately $17 million.

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 segment, depending on the type of property and/or the age of the appraisal, downward adjustments currently may range between 5% to 40%, including estimated cost to sell. For commercial and construction properties at the BPNA segment, the most typically applied collateral discount rate currently ranges from 10% to 50%, including cost to sell. 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 lender 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 segment, during the first quarter of 2013, appraisals and BPOs of residential properties were 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 10%.

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. 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.

The following tables set forth information concerning the composition of the Corporation s allowance for loan losses (ALLL) at March 31, 2013 and December 31, 2012 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 49 - Composition of ALLL

	March 31, 2013						
(Dollars in thousands)	Commercial	Construction	Legacy [3]	Leasing	Mortgage	Consumer	Total[2]
Specific ALLL	$ 21,776	$ 135	$	$ 1,662	$ 75,697	$ 24,472	$ 123,742
Impaired loans [1]	$ 301,939	$ 49,398	$ 15,031	$ 4,358	$ 631,663	$ 112,394	$ 1,114,783
Specific ALLL to impaired loans [1]	7.21%	0.27%	%	38.14%	11.98%	21.77%	11.10%
General ALLL	$ 207,094	$ 7,304	$ 30,777	$ 2,233	$ 86,248	$ 126,103	$ 459,759
Loans held-in-portfolio, excluding impaired loans [1]	$ 9,448,489	$ 222,100	$ 337,481	$ 539,214	$ 6,242,247	$ 3,729,431	$ 20,518,962
General ALLL to loans held-in-portfolio, excluding impaired loans [1]	2.19%	3.29%	9.12%	0.41%	1.38%	3.38%	2.24%
Total ALLL	$ 228,870	$ 7,439	$ 30,777	$ 3,895	$ 161,945	$ 150,575	$ 583,501
Total non-covered loans held-in-portfolio [1]	$ 9,750,428	$ 271,498	$ 352,512	$ 543,572	$ 6,873,910	$ 3,841,825	$ 21,633,745
ALLL to loans held-in-portfolio [1]	2.35%	2.74%	8.73%	0.72%	2.36%	3.92%	2.70%

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

[2] Excludes covered loans acquired on the Westernbank FDIC-assisted transaction. At March 31, 2013, the general allowance on the covered loans amounted to $98 million while the specific reserve amounted to $1 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 segment.

Table 50 - Composition of ALLL

	December 31, 2012						
(Dollars in thousands)	Commercial	Construction	Legacy[3]	Leasing	Mortgage	Consumer	Total[2]
Specific ALLL	$ 17,348	$ 120	$	$ 1,066	$ 74,667	$ 17,886	$ 111,087
Impaired loans [1]	$ 527,664	$ 41,809	$ 18,744	$ 4,881	$ 611,230	$ 133,377	$ 1,337,705
Specific ALLL to impaired loans [1]	3.29%	0.29%	%	21.84%	12.22%	13.41%	8.30%
General ALLL	$ 280,334	$ 7,309	$ 33,102	$ 1,828	$ 74,708	$ 113,333	$ 510,614
Loans held-in-portfolio, excluding impaired loans [1]	$ 9,330,538	$ 211,048	$ 365,473	$ 535,642	$ 5,467,277	$ 3,735,509	$ 19,645,487
General ALLL to loans held-in-portfolio, excluding impaired loans [1]	3.00%	3.46%	9.06%	0.34%	1.37%	3.03%	2.60%
Total ALLL	$ 297,682	$ 7,429	$ 33,102	$ 2,894	$ 149,375	$ 131,219	$ 621,701
Total non-covered loans held-in-portfolio [1]	$ 9,858,202	$ 252,857	$ 384,217	$ 540,523	$ 6,078,507	$ 3,868,886	$ 20,983,192
	3.02%	2.94%	8.62%	0.54%	2.46%	3.39%	2.96%

ALLL to loans held-in-portfolio [1]	

[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, 2012, the general allowance on the covered loans amounted to $100 million while the specific reserve amounted to $9 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 segment.

At March 31, 2013, the allowance for loan losses, excluding covered loans, decreased by approximately $38 million from December 31, 2012. The ratio of the allowance for loan losses to loans held-in-portfolio, excluding covered loans, stood at 2.70% as of March 31, 2013, compared with 2.96% as of December 31, 2012. The general and specific reserves related to non-covered loans totaled $460 million and $124 million, respectively, at quarter-end, compared with $511 million and $111 million, respectively, as of December 31, 2012. The decrease in the allowance for loan losses was primarily due to continued improvements in credit quality trends, particularly from the commercial portfolio, in part offset by an increase in the specific reserve for consumer troubled debt restructured loans at the BPPR segment.

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At March 31, 2013, the allowance for loan losses for non-covered loans at the BPPR segment totaled $424 million or 2.66% of non-covered loans held-in-portfolio, compared with $445 million or 2.92% of non-covered loans held-in-portfolio at December 31, 2012. The decrease was mainly driven by a reduction of $33 million in the general reserve component, when compared with December 31, 2012, mainly due to improvements in the credit quality trends of the commercial portfolio. As mentioned above, these improvements were partially offset by an increase of $11 million in specific reserves of the consumer troubled debt restructured loans due to refinements of certain assumptions of the expected future cash flow analysis.

The allowance for loan losses at the BPNA segment totaled $159 million or 2.80% of loans held-in-portfolio, compared with $176 million or 3.07% of loans held-in-portfolio at December 31, 2012. The decrease was mainly driven by a reduction of $18 million in the general reserve component, when compared with December 31, 2012, reflective of sustained improvements in the underlying loss trends.

The following table presents the Corporation s recorded investment in loans, excluding covered loans, that were considered impaired and the related valuation allowance at March 31, 2013 and December 31, 2012.

Table 51 - Impaired Loans (Non-Covered Loans) and the Related Valuation Allowance

	March 31, 2013		December 31, 2012	
(In millions)	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
Impaired loans:				
Valuation allowance	$ 772.5	$ 123.7	$ 897.6	$ 111.1
No valuation allowance required	342.3		440.1	
Total impaired loans	$ 1,114.8	$ 123.7	$ 1,337.7	$ 111.1

With respect to the $342 million portfolio of impaired loans for which no allowance for loan losses was required at March 31, 2013, 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 charged-off specific reserves based on the fair value of the collateral less estimated costs to sell.

Average impaired loans were $1.3 billion at March 31, 2013 and March 31, 2012. The Corporation recognized interest income on impaired loans of $10.4 million and $8.0 million, respectively, for the quarters ended March 31, 2013 and March 31, 2012.

The following tables set forth the activity in the specific reserves for impaired loans, excluding covered loans, for the quarters ended March 31, 2013 and 2012.

Table 52 - Activity in Specific ALLL for the Quarter Ended March 31, 2013

(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Leasing	Total
Beginning balance	$ 17,348	$ 120	$ 74,667	$	$ 17,886	$ 1,066	$ 111,087
Provision for impaired loans	138,220	2,263	5,571	256	6,586	596	153,492
Less: Net charge-offs	(72,490)	(1,409)	(4,541)	(256)			(78,696)
Net write-downs	(61,302)	(839)					(62,141)
Specific allowance for loan losses at March 31,2013	$ 21,776	$ 135	$ 75,697	$	$ 24,472	$ 1,662	$ 123,742

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Table 53 - Activity in Specific ALLL for the Quarter Ended March 31, 2012

(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Leasing	Total
Beginning balance	$ 11,738	$ 289	$ 29,063	$ 57	$ 17,046	$ 793	$ 58,986
Provision for impaired loans	32,494	2,079	13,457	1,065	1,944	551	51,590
Less: Net charge-offs	(31,234)	(1,355)	(1,574)	(357)			(34,520)
Specific allowance for loan losses at March 31, 2012	$ 12,998	$ 1,013	$ 40,946	$ 765	$ 18,990	$ 1,344	$ 76,056

For the quarter ended March 31, 2013, total net charge-offs for individually evaluated impaired loans amounted to approximately $78.7 million, of which $73.2 million pertained to the BPPR segment and $5.5 million to the BPNA segment. Most of these net charge-offs were related to the commercial and construction 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 segment, and depending on the type of property and/or the age of the appraisal, downward adjustments currently range from 5% to 40% (including costs to sell). At March 31, 2013, the weighted average discount rate for the BPPR segment was 20%.

For commercial and construction loans at the BPNA segment, downward adjustments to the collateral value currently range from 10% 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 March 31, 2013, the weighted average discount rate for the BPNA segment was 30%.

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 least annually. In the case of the mortgage loan portfolio for the BPPR segment, BPOs of the subject collateral properties are currently subject to downward adjustment of up to approximately 23%, including cost to sell of 5%. In the case of the U.S. mortgage loan portfolio, a 30% haircut is taken, which includes costs to sell.

Discount rates discussed above include costs to sell and may change from time to time based on market conditions.

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The table that follows 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 March 31, 2013.

Table 54 - Non-Covered Impaired Loans with Appraisals Dated 1 year or Older

(In thousands)	Total Impaired Loans Count of Loans	Held-in-portfolio (HIP) Outstanding Principal Balance	Impaired Loans with Appraisals Over One-Year Old [1]
Commercial	184	$ 257,311	14%
Construction	19	46,951	44
Legacy	16	15,031	

[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 March 31, 2013 is presented in the tables below.

Table 55 - Impaired Construction Loans Relied Upon As is or As Developed

	As is			As developed			
(In thousands)	Count	Outstanding Principal Balance	As a % of total construction impaired loans HIP	Count	Outstanding Principal Balance	As a % of total construction impaired loans HIP	Average % of completion
Loans held-in-portfolio [1]	19	$ 27,379	49%	6	$ 28,128	51%	89%

[1] Includes $7 million of construction loans from the BPNA legacy portfolio.

At March 31, 2013, the Corporation accounted for $28 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 $100 million at March 31, 2013. 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 $92 million at March 31, 2013, compared with $95 million at December 31, 2012; and (ii) acquired loans accounted for under ASC Subtopic 310-20, which required an allowance for loan losses of $8 million, compared with $14 million at December 31, 2012.

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 32 to the consolidated financial statements. A significant portion of the Corporation s financial activities and credit exposure is concentrated in Puerto Rico, which is going through a prolonged recession. Puerto Rico s fiscal and economic situation is expected to continue to be challenging in 2013.

The gross product of Puerto Rico increased 0.1 % in fiscal 2012, the first positive growth in five years, according to the most recent data published by the Puerto Rico Planning Board. The Planning Board released its revised projections for economic growth in fiscal 2013-2014 which ends on June 30. It is projecting real growth in gross product of -0.4% and +0.2%, respectively.

Employment continued to be a weak spot with the economy losing 13,033 jobs during the past 12 months, from March 2012 to March 2013, according to recently revised official labor-market figures. The unemployment rate stood at 14.2% as of March 2013. Total non-farm payroll employment (seasonally adjusted) amounted to 915,300, in March 2013, a decline of 1.9% versus the same month a year ago.

A housing-incentive law, along with the low interest-rate scenario and federal refinance programs, has served as a catalyst for higher mortgage origination volumes. The temporary local incentive package for the housing sector was extended until June 2013 with minor modifications. The incentives 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 5 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.

Occupancy rates at hotels and country-inns reached an 8-year high of 80.3% in July 2012, the peak month of non-resident tourism. Following the end of the U.S. recession of 2008-2009, non-resident hotel check-ins began rising again, reaching a growth rate of almost 8% in fiscal year 2012 with respect to the previous year. Total check-ins from resident and non-resident tourists has averaged 129,948 per month during the first 11 months of 2012. Meanwhile, resident hotel check-ins has risen 12.9% during the same period, compared with the previous year. Despite the strong performance, tourism is not a significant sector of the Puerto Rico economy.

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. A slowdown in the economy could increase the level of non-performing assets and could adversely affect its profitability.

General Fund net revenues for fiscal year-to-date March 2013 totaled $5.8 billion, an increase of $171.9 million, compared with fiscal year-to-date March 2012 net revenues, according to the Puerto Rico Treasury Department. The revenue increase in March was the result of two non-recurrent revenue initiatives, which added resources to the General Fund and are helping to reduce the fiscal deficit this year. The General Fund projected revenue shortfall for the fiscal year ending June 30, 2013, was estimated at approximately $910 million, and the projected deficit for fiscal 2013 is approximately $2.2 billion.

In April 13, 2013, the Governor of P.R. submitted to the P.R. Legislature the proposed budget for fiscal 2014. The proposed budget calls for expenditures of $9.8 billion, with an estimated deficit of $775 million, which is down from an estimated $2.2 billion deficit in fiscal 2013. As part of the proposed budget, the administration filed a bill that would make significant changes to the Puerto Rico Internal Revenue Code of 2011, including change to the sales and use tax (SUT), with the objective of increasing revenues by broadening the tax base, as well as other revenue raising measures. Under the proposed legislation, the overall SUT rate of 7.0% will be reduced to 6.5%, but activity that was previously exempt from the SUT, such as services rendered to a business and certain professional services, would be subjected to it. Revenues into the general fund from the SUT are projected to rise from $552 million in fiscal 2013 to $1.6 billion in fiscal 2014. If these legislative proposals are enacted into law in their current form, the Corporation estimates they will have a negative impact on our operating expenses of approximately $20 million on an annualized basis.

On April 4, 2013, the administration enacted a comprehensive pension reform to address the recurrent shortfall of the Commonwealth s Employees Retirement System, the largest of the public retirement systems. The principal elements of the reform include an increase of the retirement age for some groups of employees, an increase in the employee contribution to the system to 10 percent from 8.275 percent and a reduction in Christmas bonus and elimination of summer bonus. Also, active public employees will be granted future benefits based on a new hybrid plan pursuant to which active public employees will be granted future benefits based a defined contribution plan which will be paid through a lifetime annuity, and benefits payable to public employees under the benefit structure know as System 2000 will be converted to a lifetime annuity.

While the measures described above should help in commencing to address the government s fiscal challenges, they could have a negative impact in the business sector and on economic growth in Puerto Rico.

The Commonwealth s general obligation debt is currently rated Baa3 with a negative outlook by Moody s Investors Service (Moody s), BBB- w a negative outlook by Standard & Poor s Ratings Services (S&P), and BBB- with a negative outlook by Fitch, Inc. (Fitch). The Commonwealth s appropriation debt is currently rated Baa2 with a negative outlook by Moody s, BBB- with a negative outlook by S&P, and BBB+ with a stable outlook by Fitch.

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On March 13, 2013, S&P lowered its rating on the Commonwealth s general obligation bonds to BBB- from BBB and affirmed its BBB- rating on the Commonwealth s appropriation debt, in each case with a negative outlook. On March 27, 2013, S&P placed a BBB- rating on the Commonwealth s Employees Retirement System s senior pension funding bonds on Credit Watch with negative outlook.

On December 12, 2012, Moody s Investors Service downgraded the rating of the outstanding general obligation (GO) bonds of the Commonwealth of Puerto Rico from Baa1 to Baa3, with a negative outlook. The downgrade also applied to certain ratings that Moody s bases or caps at the general obligation rating level. The ratings on the following debt was downgraded from Baa2 to Ba1 which is one notch below investment grade : the Commonwealth s appropriation debt issued by Puerto Rico Public Finance Corporation, the revenue bonds of Puerto Rico Aqueduct and Sewer Authority and the subordinate transportation revenue bonds of Puerto Rico Highways and Transportation Authority.

On March 20, 2013, Fitch downgraded the ratings of the following Commonwealth debt to BBB- from BBB+ : Commonwealth general obligation bonds, Public Building Authority government facilities revenue bonds guaranteed by the Commonwealth, Puerto Rico Aqueduct and Sewer Authority Commonwealth guaranty revenue bonds, and Employees Retirement System of the Commonwealth pension funding bonds.

At March 31, 2013, the Corporation had $0.9 billion of credit facilities granted to or guaranteed by the Puerto Rico Government, its municipalities and public corporations, of which $215 million were uncommitted lines of credit. Of the total credit facilities granted, $596 million were outstanding at March 31, 2013, of which none were uncommitted lines of credit. A substantial portion of the Corporation s credit exposure to the Government of Puerto Rico is either 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 March 31, 2013, the Corporation had outstanding $210 million in obligations of Puerto Rico, States and political subdivisions as part of its investment securities portfolio. We continue to closely monitor the political and economic situation of Puerto Rico and evaluate the portfolio for any declines in value that management may consider being other-than- temporary.

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, $871 million of residential mortgages and $168 million in commercial loans were insured or guaranteed by the U.S. Government or its agencies at March 31, 2013. 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 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.

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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.

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.

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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).

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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.

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 2012 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 March 31, 2013 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 20, 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 2012 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 2012 Annual Report.

There have been no material changes to the risk factors previously disclosed under Item 1A. of the Corporation s 2012 Annual Report.

The risks described in our 2012 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.

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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. As of March 31, 2013, the maximum number of shares of common stock that may have been granted under this plan was 1,000,000. On April 30, 2013, the shareholders approved, during the annual shareholders meeting, to amend the plan to increase the number of shares of common stock that may be granted under the plan to 3,500,000.

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 March 31, 2013 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	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
January 1 - January 31				
February 1 - February 28	2,404	$ 27.04		
March 1 - March 31				
Total March 31, 2013	2,404	$ 27.04		

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Item 6. **Exhibits**

Exhibit No.	Exhibit Description
12.1	Computation of the ratios of earnings to fixed charges and preferred stock dividends(1)
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(1)
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(1)
101.INS	XBRL Instance Document(1)
101.SCH	XBRL Taxonomy Extension Schema Document(1)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document(1)
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document(1)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document(1)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document(1)

(1) Included herewith

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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: May 9, 2013	By:	/s/ Carlos J. Vázquez Carlos J. Vázquez Senior Executive Vice President & Chief Financial Officer
Date: May 9, 2013	By:	/s/ Jorge J. García Jorge J. García Senior Vice President & Corporate Comptroller