

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**  
(State or other jurisdiction of

Incorporation or organization)

**66-0667416**  
(IRS Employer

Identification Number)

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**Popular Center Building**

**209 Muñoz Rivera Avenue**

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

**00918**  
(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.  Yes  No

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, \$0.01 par value, 103,251,872 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. (the Corporation, Popular, we, us, our) financial condition, results of operations, plans, objectives, future performance and business, including, but not limited to, statements with respect to the adequacy of the allowance for loan losses, delinquency trends, market risk and the impact of interest rate changes, capital markets conditions, capital adequacy and liquidity, and the effect of legal proceedings and new accounting standards on the Corporation's financial condition and results of operations. All statements contained herein that are not clearly historical in nature are forward-looking, and the words anticipate, believe, continues, expect, estimate, intend, project and similar expressions and future or conditional verbs such as will, would, should, could, may, or similar expressions are generally intended to identify forward-looking statements.

These statements are not guarantees of future performance and involve certain risks, uncertainties, estimates and assumptions by management that are difficult to predict.

Various factors, some of which are beyond Popular's control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to:

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

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

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

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

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

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

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

the performance of the stock and bond markets;

competition in the financial services industry;

additional Federal Deposit Insurance Corporation (FDIC) assessments; and

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possible legislative, tax or regulatory changes.

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

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

(In thousands, except share information)	March 31, 2013	December 31, 2012
<b>Assets:</b>		
Cash and due from banks	\$ 242,290	\$ 439,363
<b>Money market investments:</b>		
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
<b>Total money market investments</b>	<b>1,344,244</b>	<b>1,085,580</b>
<b>Trading account securities, at fair value:</b>		
Pledged securities with creditors right to repledge	258,677	271,624
Other trading securities	41,096	42,901
<b>Investment securities available-for-sale, at fair value:</b>		
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
<b>Loans held-in-portfolio:</b>		
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
<b>Total loans held-in-portfolio, net</b>	<b>24,312,823</b>	<b>24,008,557</b>
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
<b>Total assets</b>	<b>\$ 36,942,714</b>	<b>\$ 36,507,535</b>
<b>Liabilities and Stockholders Equity</b>		
<b>Liabilities:</b>		
<b>Deposits:</b>		
Non-interest bearing	\$ 5,613,701	\$ 5,794,629
Interest bearing	21,399,516	21,205,984

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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.*

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

(In thousands, except per share information)	Quarters ended March 31,	
	2013	2012
<b>Interest income:</b>		
Loans	\$ 385,414	\$ 387,942
Money market investments	955	948
Investment securities	37,356	45,070
Trading account securities	5,514	5,891
<b>Total interest income</b>	<b>429,239</b>	<b>439,851</b>
<b>Interest expense:</b>		
Deposits	38,343	51,679
Short-term borrowings	9,782	13,583
Long-term debt	35,767	37,007
<b>Total interest expense</b>	<b>83,892</b>	<b>102,269</b>
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
<b>Net interest income after provision for loan losses</b>	<b>121,491</b>	<b>236,859</b>
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
<b>Total non-interest income</b>	<b>17,575</b>	<b>123,908</b>
<b>Operating expenses:</b>		
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



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Total operating expenses	316,250	296,167
(Loss) income before income tax	(177,184)	64,600
Income tax (benefit) expense	(56,877)	16,192
<b>Net (Loss) Income</b>	\$ (120,307)	\$ 48,408
<b>Net (Loss) Income Applicable to Common Stock</b>	\$ (121,237)	\$ 47,477
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