POPULAR INC
Form 10-Q
November 08, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

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, 103,105,983 shares outstanding as of October 31, 2012.

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Forward-Looking Information

The information included in this Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may relate to Popular, Inc. s (the Corporation , Popular , we, us , our) financial 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, 2011 as well as Part II, Item 1A of this Form 10-Q for a discussion of such factors and certain risks and uncertainties to which the Corporation is subject.

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(UNAUDITED)

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

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

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

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

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

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

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

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

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

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(UNAUDITED)

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

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

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

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

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

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

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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 retail and commercial banking services through its principal banking subsidiary, Banco Popular de Puerto Rico (BPPR), as well as mortgage banking, investment banking, broker-dealer, auto and equipment leasing and financing, and insurance services through specialized subsidiaries. In the U.S. mainland, the Corporation operates Banco Popular North America (BPNA), including its wholly-owned subsidiary E-LOAN. BPNA focuses efforts and resources on the core community banking business. BPNA operates branches in New York, California, Illinois, New Jersey and Florida. E-LOAN markets deposit accounts under its name for the benefit of BPNA. The BPNA branches operate under the name of Popular Community Bank. Note 31 to the consolidated financial statements presents information about the Corporation s business segments.

Principles of Consolidation and Basis of Presentation

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

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

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

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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Note 2 New accounting pronouncements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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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 $900 million at September 30, 2012 (December 31, 2011 $838 million). Cash and due from banks, as well as other short-term, highly liquid securities, are used to cover the required average reserve balances.

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

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

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

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

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

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

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

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

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	At December 31, 2011				
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Weighted average yield
U.S. Treasury securities					
After 1 to 5 years	$ 34,980	$ 3,688	$	$ 38,668	3.35%
Total U.S. Treasury securities	34,980	3,688		38,668	3.35
Obligations of U.S. Government sponsored entities					
Within 1 year	94,492	2,382		96,874	3.45
After 1 to 5 years	655,625	25,860		681,485	3.38
After 5 to 10 years	171,633	2,969		174,602	2.94
After 10 years	32,086	499		32,585	3.20
Total obligations of U.S. Government sponsored entities	953,836	31,710		985,546	3.30
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	765	9		774	4.97
After 1 to 5 years	14,824	283	31	15,076	4.07
After 5 to 10 years	4,595	54		4,649	5.33
After 10 years	37,320	909		38,229	5.38
Total obligations of Puerto Rico, States and political subdivisions	57,504	1,255	31	58,728	5.03
Collateralized mortgage obligations federal agencies					
After 1 to 5 years	2,424	49		2,473	3.28
After 5 to 10 years	55,096	1,446		56,542	2.64
After 10 years	1,589,373	49,462	208	1,638,627	2.84
Total collateralized mortgage obligations federal agencies	1,646,893	50,957	208	1,697,642	2.83
Collateralized mortgage obligations private label					
After 5 to 10 years	5,653	1	181	5,473	0.81
After 10 years	59,460		7,141	52,319	2.44
Total collateralized mortgage obligations private label	65,113	1	7,322	57,792	2.30
Mortgage-backed securities					
Within 1 year	57	1		58	3.91
After 1 to 5 years	7,564	328		7,892	3.86
After 5 to 10 years	111,639	8,020	1	119,658	4.66
After 10 years	1,870,736	141,274	49	2,011,961	4.25
Total mortgage-backed securities	1,989,996	149,623	50	2,139,569	4.27
Equity securities (without contractual maturity)	6,594	426	104	6,916	2.96
Other					
After 5 to 10 years	17,850	700		18,550	10.99
After 10 years	6,311	101		6,412	3.61
Total other	24,161	801		24,962	9.06
Total investment securities available-for-sale	$ 4,779,077	$ 238,461	$ 7,715	$ 5,009,823	3.58%

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.

Proceeds from the sale of investment securities available-for-sale for the nine months ended September 30, 2012 were $ 8.0 million (September 30, 2011 $ 35.1 million). Gross realized gains and losses on the sale of investment securities available-for-sale were as follows:

(In thousands)	For the quarter ended September 30, 2012	For the quarter ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Gross realized gains	$ 65	$ 8,508	$ 65	$ 8,514
Gross realized losses	(1)	(34)	(350)	(130)
Net realized gains (losses) on sale of investment securities available-for-sale	$ 64	$ 8,474	$ (285)	$ 8,384

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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 September 30, 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	$ 46,248	$ 172	$	$	$ 46,248	$ 172
Obligations of Puerto Rico, States and political subdivisions	752	9	2,032	33	2,784	42
Collateralized mortgage obligations federal agencies	218,129	1,312	2,491	4	220,620	1,316
Collateralized mortgage obligations private label			10,263	1,106	10,263	1,106
Mortgage-backed securities	204	4	787	36	991	40
Equity securities	1,852	64	49	12	1,901	76
Total investment securities available-for-sale in an unrealized loss position	$ 267,185	$ 1,561	$ 15,622	$ 1,191	$ 282,807	$ 2,752

	At December 31, 2011					
	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	$ 7,817	$ 28	$ 191	$ 3	$ 8,008	$ 31
Collateralized mortgage obligations federal agencies	90,543	208			90,543	208
Collateralized mortgage obligations private label	13,595	539	44,148	6,783	57,743	7,322
Mortgage-backed securities	5,577	14	1,466	36	7,043	50
Equity securities	5,199	95	2	9	5,201	104
Total investment securities available-for-sale in an unrealized loss position	$ 122,731	$ 884	$ 45,807	$ 6,831	$ 168,538	$ 7,715

Management evaluates investment securities for other-than-temporary (OTTI) declines in fair value on a quarterly basis. Once a decline in value is determined to be other-than-temporary, the value of a debt security is reduced and a corresponding charge to earnings is recognized for anticipated credit losses. Also, for equity securities that are considered other-than-temporarily impaired, the excess of the security s carrying value over its fair value at the evaluation date is accounted for as a loss in the results of operations. The OTTI analysis requires management to consider various factors, which include, but are not limited to: (1) the length of time and the extent to which fair value has been less than the amortized cost basis, (2) the financial condition of the issuer or 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 September 30, 2012, management performed its quarterly analysis of all debt securities in an unrealized loss position. Based on the analyses performed, management concluded that no individual debt security was other-than-temporarily impaired as of such date. At September 30, 2012, the Corporation did not have the intent to sell debt securities in an unrealized loss position and it is not more likely than not that the Corporation will have to sell the investment securities prior to recovery of their amortized cost basis. Also, management evaluated the Corporation s portfolio of equity securities at September 30, 2012. No other-than-temporary impairment losses on equity securities were recorded during the quarter and nine months ended September 30, 2012 ($340 thousand recorded during the quarter and nine months ended September 30, 2011). Management has the intent and ability to hold the investments in equity securities that are at a loss position at September 30, 2012, for a reasonable period of time for a forecasted recovery of fair value up to (or beyond) the cost of these investments.

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

The following table states the name of issuers, and the aggregate amortized cost and fair value of the securities of such issuer (includes available-for-sale and held-to-maturity securities), in which the aggregate amortized cost of such securities exceeds 10% of stockholders equity. This information excludes securities backed by the full faith and credit of the U.S. Government. Investments in obligations issued by a state of the U.S. and its political subdivisions and agencies, which are payable and secured by the same source of revenue or taxing authority, other than the U.S. Government, are considered securities of a single issuer.

	September 30, 2012		December 31, 2011	
(In thousands)	Amortized cost	Fair value	Amortized cost	Fair value
FNMA	$ 1,372,644	$ 1,412,195	$ 1,049,315	$ 1,089,069
FHLB	528,814	540,766	553,940	578,617
Freddie Mac	1,257,159	1,281,095	984,270	1,010,669

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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 September 30, 2012				
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Weighted average yield
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	$ 7,420	$ 20	$	$ 7,440	2.63%
After 1 to 5 years	11,335	619		11,954	5.86
After 5 to 10 years	18,780	1,046		19,826	6.03
After 10 years	57,890	698	384	58,204	3.96
Total obligations of Puerto Rico, States and political subdivisions	95,425	2,383	384	97,424	4.49
Collateralized mortgage obligations federal agencies					
After 10 years	147	6		153	5.45
Total collateralized mortgage obligations federal agencies	147	6		153	5.45
Other					
Within 1 year	250			250	1.05
After 1 to 5 years	26,250	25		26,275	3.41
Total other	26,500	25		26,525	3.39
Total investment securities held-to-maturity	$ 122,072	$ 2,414	$ 384	$ 124,102	4.25%

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

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

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

The following tables present the Corporation s fair value and gross unrealized losses of investment securities held-to-maturity, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2012 and December 31, 2011.

	At September 30, 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	$	$	$ 19,161	$ 384	$ 19,161	$ 384
Total investment securities held-to-maturity in an unrealized loss position	$	$	$ 19,161	$ 384	$ 19,161	$ 384

	At December 31, 2011					
	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	$ 10,323	$ 92	$ 31,062	$ 853	$ 41,385	$ 945
Collateralized mortgage obligations private label			151	9	151	9
Total investment securities held-to-maturity in an unrealized loss position	$ 10,323	$ 92	$ 31,213	$ 862	$ 41,536	$ 954

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

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

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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 the 2011 Annual Report. Also, refer to Note 8 for a description of enhancements to the Corporation s methodology for determining the allowance for loan losses which were effective on March 31, 2012.

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

(In thousands)	Non-covered loans HIP at September 30, 2012	Non-covered loans HIP at December 31, 2011
Commercial multi-family	$ 932,434	$ 808,933
Commercial real estate non-owner occupied	2,643,533	2,665,499
Commercial real estate owner occupied	2,640,074	2,817,266
Commercial and industrial	3,412,590	3,681,629
Construction	258,453	239,939
Mortgage	6,022,422	5,518,460
Leasing	538,014	548,706
Legacy[2]	465,848	648,409
Consumer:		
Credit cards	1,195,413	1,230,029
Home equity lines of credit	506,206	557,894
Personal	1,357,441	1,130,593
Auto	546,481	518,476
Other	234,944	236,763
Total loans held-in-portfolio[1]	$ 20,753,853	$ 20,602,596

[1] Non-covered loans held-in-portfolio at September 30, 2012 are net of $97 million in unearned income and exclude $337 million in loans held-for-sale. (December 31, 2011 - $101 million in unearned income and $363 million in loans held-for-sale.)

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

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

(In thousands)	Covered loans at September 30, 2012	Covered loans at December 31, 2011
Commercial real estate	$ 2,153,790	$ 2,271,295
Commercial and industrial	170,572	241,447
Construction	393,101	546,826
Mortgage	1,106,851	1,172,954
Consumer	79,553	116,181
Total loans held-in-portfolio	$ 3,903,867	$ 4,348,703

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

	Non-covered loans	
(In thousands)	September 30, 2012	December 31, 2011
Commercial	$ 17,696	$ 25,730
Construction	88,030	236,045
Legacy	3,107	468
Mortgage	228,216	100,850
Total	$ 337,049	$ 363,093

During the quarter and nine months ended September 30, 2012, the Corporation recorded purchases (including repurchases) of mortgage loans amounting to $453 million and $1.1 billion, respectively (September 30, 2011 $177 million and $1.1 billion, respectively). Also, the Corporation recorded purchases of $230 million in consumer loans during the nine months ended September 30, 2012 (September 30, 2011 $130 million). In addition, during the quarter and nine months ended September 30, 2012, the Corporation recorded purchases of construction loans amounting to $0.1 million and $1 million, respectively, and none during 2011. There were no purchases of commercial loans during the quarter and nine months ended September 30, 2012 and 2011.

The Corporation performed whole-loan sales involving approximately $94 million and $238 million of residential mortgage loans during the quarter and nine months ended September 30, 2012, respectively (September 30, 2011- $39 million and $309 million, respectively). Also, the Corporation securitized approximately $ 181 million and $ 576 million of mortgage loans into Government National Mortgage Association (GNMA) mortgage-backed securities during the quarter and nine months ended September 30, 2012, respectively (September 30, 2011 $ 194 million and $ 667 million, respectively). Furthermore, the Corporation securitized approximately $ 107 million and $ 238 million of mortgage loans into Federal National Mortgage Association (FNMA) mortgage-backed securities during the quarter and nine months ended September 30, 2012, respectively (September 30, 2011- $ 42 million and $ 163 million, respectively). Also, the Corporation securitized approximately $ 20 million of mortgage loans into Federal Home Loan Mortgage Corporation (FHLMC) mortgage-backed securities during the quarter and nine months ended September 30, 2012. There were no securitizations into FHLMC for the quarter and nine months ended September 30, 2011. The Corporation sold commercial and construction loans with a book value of approximately $9 million and $48 million during the quarter and nine months ended September 30, 2012, respectively (September 30, 2011- $13 million and $27 million, respectively). In addition, during the third quarter of 2011, other construction and commercial loans held-for-sale with a combined book value of $128 million were sold to a joint venture in which the Corporation holds minority interest.

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 September 30, 2012 and December 31, 2011. Accruing loans past due 90 days or more consist primarily of credit cards, FHA / VA and other insured mortgage loans, and delinquent mortgage loans which are included in the Corporation s financial statements pursuant to GNMA s buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option. Also, accruing loans past due 90 days or more include

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residential conventional loans purchased from another financial institution that, although delinquent, the Corporation has received timely payment from the seller / servicer, and, in some instances, have partial guarantees under recourse agreements. However, residential conventional loans purchased from another financial institution, which are in the process of foreclosure, are classified as non-performing mortgage loans.

	At September 30, 2012					
	Puerto Rico		U.S. mainland		Popular, Inc.	
	Non-covered loans					
(In thousands)	Non-accrual loans	Accruing loans past-due 90 days or more	Non-accrual loans	Accruing loans past-due 90 days or more	Non-accrual loans	Accruing loans past-due 90 days or more
Commercial multi-family	$ 24,031	$	$ 17,714	$	$ 41,745	$
Commercial real estate non-owner occupied	72,315		87,439		159,754	
Commercial real estate owner occupied	361,955		38,789		400,744	
Commercial and industrial	154,480	247	15,494		169,974	247
Construction	37,793		12,140		49,933	
Mortgage	598,523	354,356	33,529		632,052	354,356
Leasing	4,837				4,837	
Legacy			48,735		48,735	
Consumer:						
Credit cards		21,648	483		483	21,648
Home equity lines of credit		170	10,436		10,436	170
Personal	19,982	3	1,671		21,653	3
Auto	7,731		8		7,739	
Other	2,379	546	36		2,415	546
Total[1]	$ 1,284,026	$ 376,970	$ 266,474	$	$ 1,550,500	$ 376,970

[1] For purposes of this table non-performing loans exclude $ 109 million in non-performing loans held-for-sale.

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

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

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

September 30, 2012 Puerto Rico Non-covered loans						
	Past due					
(In thousands)	30-59 days	60-89 days	90 days or more	Total past due	Current	Non-covered loans HIP Puerto Rico
Commercial multi-family	$ 427	$	$ 24,031	$ 24,458	$ 94,829	$ 119,287
Commercial real estate non-owner occupied	4,694	1,174	72,315	78,183	1,261,421	1,339,604
Commercial real estate owner occupied	23,205	7,032	361,955	392,192	1,708,447	2,100,639
Commercial and industrial	18,513	5,183	154,727	178,423	2,445,862	2,624,285
Construction	1,040		37,793	38,833	171,923	210,756
Mortgage	249,917	112,807	952,879	1,315,603	3,603,282	4,918,885
Leasing	6,680	1,739	4,837	13,256	524,758	538,014
Consumer:						
Credit cards	15,644	10,174	21,648	47,466	1,133,339	1,180,805
Home equity lines of credit	47	241	170	458	16,788	17,246
Personal	14,467	8,615	19,985	43,067	1,172,033	1,215,100
Auto	25,302	7,319	7,731	40,352	505,170	545,522
Other	4,768	408	2,925	8,101	225,515	233,616
Total	$ 364,704	$ 154,692	$ 1,660,996	$ 2,180,392	$ 12,863,367	$ 15,043,759

September 30, 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	$ 4,778	$ 1,693	$ 17,714	$ 24,185	$ 788,962	$ 813,147
Commercial real estate non-owner occupied	21,266	9,387	87,439	118,092	1,185,837	1,303,929
Commercial real estate owner occupied	2,819		38,789	41,608	497,827	539,435
Commercial and industrial	5,361	1,986	15,494	22,841	765,464	788,305
Construction	6,317		12,140	18,457	29,240	47,697
Mortgage	15,307	13,002	33,529	61,838	1,041,699	1,103,537
Legacy	7,484	6,222	48,735	62,441	403,407	465,848
Consumer:						
Credit cards	244	188	483	915	13,693	14,608
Home equity lines of credit	4,024	2,611	10,436	17,071	471,889	488,960
Personal	528	2,578	1,671	4,777	137,564	142,341
Auto	34	1	8	43	916	959
Other	3	13	36	52	1,276	1,328
Total	$ 68,165	$ 37,681	$ 266,474	$ 372,320	$ 5,337,774	$ 5,710,094

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September 30, 2012
Popular, Inc.
Non-covered loans

(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	$ 5,205	$ 1,693	$ 41,745	$ 48,643	$ 883,791	$ 932,434
Commercial real estate non-owner occupied	25,960	10,561	159,754	196,275	2,447,258	2,643,533
Commercial real estate owner occupied	26,024	7,032	400,744	433,800	2,206,274	2,640,074
Commercial and industrial	23,874	7,169	170,221	201,264	3,211,326	3,412,590
Construction	7,357		49,933	57,290	201,163	258,453
Mortgage	265,224	125,809	986,408	1,377,441	4,644,981	6,022,422
Leasing	6,680	1,739	4,837	13,256	524,758	538,014
Legacy	7,484	6,222	48,735	62,441	403,407	465,848
Consumer:						
Credit cards	15,888	10,362	22,131	48,381	1,147,032	1,195,413
Home equity lines of credit	4,071	2,852	10,606	17,529	488,677	506,206
Personal	14,995	11,193	21,656	47,844	1,309,597	1,357,441
Auto	25,336	7,320	7,739	40,395	506,086	546,481
Other	4,771	421	2,961	8,153	226,791	234,944
Total	$ 432,869	$ 192,373	$ 1,927,470	$ 2,552,712	$ 18,201,141	$ 20,753,853

December 31, 2011
Puerto Rico
Non-covered loans

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

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

(In thousands)	December 31, 2011 Popular, Inc. Non-covered loans 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	$ 15,017	$ 121	$ 29,331	$ 44,469	$ 764,464	$ 808,933
Commercial real estate non-owner occupied	32,378	3,630	131,833	167,841	2,497,658	2,665,499
Commercial real estate owner occupied	53,582	21,452	445,029	520,063	2,297,203	2,817,266
Commercial and industrial	68,558	21,024	224,574	314,156	3,367,473	3,681,629
Construction	608	21,055	96,286	117,949	121,990	239,939
Mortgage	232,666	111,755	967,414	1,311,835	4,206,625	5,518,460
Leasing	7,927	2,301	5,642	15,870	532,836	548,706
Legacy	30,712	7,536	75,660	113,908	534,501	648,409
Consumer:						
Credit cards	14,821	11,708	26,483	53,012	1,177,017	1,230,029
Home equity lines of credit	7,245	3,982	10,222	21,449	536,445	557,894
Personal	21,157	12,541	20,833	54,531	1,076,062	1,130,593
Auto	22,783	5,920	6,864	35,567	482,909	518,476
Other	1,769	1,452	5,639	8,860	227,903	236,763
Total	$ 509,223	$ 224,477	$ 2,045,810	$ 2,779,510	$ 17,823,086	$ 20,602,596

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

(In thousands)	Non-covered loans HFS September 30, 2012	December 31, 2011
Commercial	$ 17,695	$ 25,730
Construction	88,031	236,045
Legacy	3,107	468
Mortgage	53	59

Total	$ 108,886	$ 262,302

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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 September 30, 2012 and December 31, 2011.

	September 30, 2012 Covered loans		December 31, 2011 Covered loans	
(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	$ 22,891	$	$ 14,241	$ 125
Commercial and industrial	51,080	1,155	63,858	1,392
Construction	5,956		4,598	5,677
Mortgage	2,134		423	113
Consumer	660	324	516	377
Total[1]	$ 82,721	$ 1,479	$ 83,636	$ 7,684

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

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

	September 30, 2012 Covered loans					
	Past due					
(In thousands)	30-59 days	60-89 days	90 days or more	Total past due	Current	Covered loans HIP
Commercial real estate	$ 24,365	$ 114,519	$ 491,418	$ 630,302	$ 1,523,488	$ 2,153,790
Commercial and industrial	2,736	1,728	63,356	67,820	102,752	170,572
Construction	809		318,051	318,860	74,241	393,101
Mortgage	27,195	17,506	191,011	235,712	871,139	1,106,851
Consumer	1,669	2,022	11,522	15,213	64,340	79,553
Total covered loans	$ 56,774	$ 135,775	$ 1,075,358	$ 1,267,907	$ 2,635,960	$ 3,903,867

	December 31, 2011 Covered loans					
	Past due					
(In thousands)	30-59 days	60-89 days	90 days or more	Total past due	Current	Covered loans HIP

Commercial real estate	$ 35,286	$ 25,273	$ 519,222	$ 579,781	$ 1,691,514	$ 2,271,295
Commercial and industrial	4,438	1,390	99,555	105,383	136,064	241,447
Construction	997	625	434,661	436,283	110,543	546,826
Mortgage	32,371	28,238	196,541	257,150	915,804	1,172,954
Consumer	2,913	3,289	15,551	21,753	94,428	116,181
Total covered loans	$ 76,005	$ 58,815	$ 1,265,530	$ 1,400,350	$ 2,948,353	$ 4,348,703

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

	Covered loans ASC 310-30					
	September 30, 2012			December 31, 2011		
	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	$ 1,833,800	$ 194,023	$ 2,027,823	$ 1,920,141	$ 215,560	$ 2,135,701
Commercial and industrial	54,753	5,626	60,379	85,859	4,621	90,480
Construction	186,942	194,855	381,797	279,561	260,208	539,769
Mortgage	1,019,667	69,603	1,089,270	1,065,842	102,027	1,167,869
Consumer	61,752	6,188	67,940	95,048	7,604	102,652
Carrying amount	3,156,914	470,295	3,627,209	3,446,451	590,020	4,036,471
Allowance for loan losses	(64,015)	(39,532)	(103,547)	(62,951)	(20,526)	(83,477)
Carrying amount, net of allowance	$ 3,092,899	$ 430,763	$ 3,523,662	$ 3,383,500	$ 569,494	$ 3,952,994

The outstanding principal balance of covered loans accounted pursuant to ASC Subtopic 310-30, including amounts charged off by the Corporation, amounted to $5.1 billion at September 30, 2012 (December 31, 2011 $6.0 billion). At September 30, 2012, none of the acquired loans from the Westernbank FDIC-assisted transaction accounted for under ASC Subtopic 310-30 were considered non-performing loans. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, was recognized on all acquired loans.

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

	Activity in the accretable discount Covered loans ASC 310-30					
	For the quarters ended					
	September 30, 2012			September 30, 2011		
(In thousands)	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	$ 1,550,959	$ 23,891	$ 1,574,850	$ 1,546,233	$ 70,686	$ 1,616,919
Accretion	(61,540)	(4,628)	(66,168)	(66,808)	(29,610)	(96,418)
Change in expected cash flows	(29,029)	(8,771)	(37,800)	(26,964)	3,028	(23,936)
Ending balance	$ 1,460,390	$ 10,492	$ 1,470,882	$ 1,452,461	$ 44,104	$ 1,496,565

	Accretable yield For the nine months ended					
	September 30, 2012			September 30, 2011		
(In thousands)	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total

Beginning balance	$ 1,428,764	$ 41,495	$ 1,470,259	$ 1,307,927	$ 23,181	$ 1,331,108
Accretion	(191,989)	(17,504)	(209,493)	(203,683)	(65,852)	(269,535)
Change in expected cash flows	223,615	(13,499)	210,116	348,217	86,775	434,992
Ending balance	$ 1,460,390	$ 10,492	$ 1,470,882	$ 1,452,461	$ 44,104	$ 1,496,565

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	Carrying amount of covered loans accounted for pursuant to ASC 310-30 For the quarters ended					
	September 30, 2012			September 30, 2011		
(In thousands)	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	$ 3,244,957	$ 484,532	$ 3,729,489	$ 3,588,002	$ 628,806	$ 4,216,808
Accretion	61,540	4,628	66,168	66,808	29,610	96,418
Collections	(149,583)	(18,865)	(168,448)	(164,904)	(8,963)	(173,867)
Ending balance	$ 3,156,914	$ 470,295	$ 3,627,209	$ 3,489,906	$ 649,453	$ 4,139,359
Allowance for loan losses						
ASC 310-30 covered loans	(64,015)	(39,532)	(103,547)	(49,386)	(13,060)	(62,446)
	$ 3,092,899	$ 430,763	$ 3,523,662	$ 3,440,520	$ 636,393	$ 4,076,913

	Carrying amount of loans accounted for pursuant to ASC 310-30 For the nine months ended					
	September 30, 2012			September 30, 2011		
(In thousands)	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	$ 3,446,451	$ 590,020	$ 4,036,471	$ 3,894,379	$ 645,549	$ 4,539,928
Accretion	191,989	17,504	209,493	203,683	65,852	269,535
Collections	(481,526)	(137,229)	(618,755)	(608,156)	(61,948)	(670,104)
Ending balance	$ 3,156,914	$ 470,295	$ 3,627,209	$ 3,489,906	$ 649,453	$ 4,139,359
Allowance for loan losses						
ASC 310-30 covered loans	(64,015)	(39,532)	(103,547)	(49,386)	(13,060)	(62,446)
	$ 3,092,899	$ 430,763	$ 3,523,662	$ 3,440,520	$ 636,393	$ 4,076,913

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

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Note 8 Allowance for loan losses

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

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

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

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

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

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

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

Established a more granular stratification of the commercial loan portfolios to enhance the homogeneity of the loan classes. Previously, the Corporation used loan groupings for commercial loan portfolios based on business lines and collateral types (secured / unsecured loans). As part of the loan segregation, management evaluated the risk profiles of the loan portfolio, recent and historical credit and loss trends, current and expected portfolio behavior and economic indicators. The revised groupings consider product types (construction, commercial multifamily, commercial & industrial, non-owner occupied commercial real estate (CRE) and owner occupied CRE) and business lines for each of the Corporation s reportable segments, BPPR and BPNA. In addition, the Corporation established a legacy portfolio at the BPNA reportable segment, comprised of commercial loans, construction loans and commercial lease financings related to certain lending products exited by the Corporation as part of restructuring efforts carried out in prior years.

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

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

12 months.

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

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

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

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

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

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

For the quarter ended September 30, 2012						
	Puerto Rico Non-covered loans					
(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 203,846	$ 7,464	$ 120,339	$ 2,957	$ 111,951	$ 446,557
Provision (reversal of provision)	34,597	(592)	17,182	(111)	18,662	69,738
Charge-offs	(47,572)	(1,733)	(12,468)	(1,292)	(29,307)	(92,372)
Recoveries	10,553	2,260	37	1,027	7,454	21,331
Ending balance	$ 201,424	$ 7,399	$ 125,090	$ 2,581	$ 108,760	$ 445,254

For the quarter ended September 30, 2012						
	Puerto Rico Covered loans					
(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 75,592	$ 23,628	$ 11,617	$	$ 6,658	$ 117,495
Provision (reversal of provision)	11,041	11,078	2,005		(1,505)	22,619
Charge-offs	(7,013)	(7,483)	(736)		(9)	(15,241)
Recoveries						
Ending balance	$ 79,620	$ 27,223	$ 12,886	$	$ 5,144	$ 124,873

For the quarter ended September 30, 2012						
	U.S. Mainland					
(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 92,918	$ 1,678	$ 29,483	$ 44,011	$ 33,888	$ 201,978
Provision (reversal of provision)	1,311	59	3,800	(188)	8,869	13,851
Charge-offs	(15,809)		(3,757)	(8,502)	(8,642)	(36,710)
Recoveries	6,198		216	4,550	996	11,960
Net (write-down) recovery related to loans transferred to LHFS	(34)					(34)
Ending balance	$ 84,584	$ 1,737	$ 29,742	$ 39,871	$ 35,111	$ 191,045

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For the quarter ended September 30, 2012
Popular, Inc.

(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Beginning balance	$ 372,356	$ 32,770	$ 161,439	$ 44,011	$ 2,957	$ 152,497	$ 766,030
Provision (reversal of provision)	46,949	10,545	22,987	(188)	(111)	26,026	106,208
Charge-offs	(70,394)	(9,216)	(16,961)	(8,502)	(1,292)	(37,958)	(144,323)
Recoveries	16,751	2,260	253	4,550	1,027	8,450	33,291
Net (write-down) recovery related to loans transferred to LHFS	(34)						(34)
Ending balance	$ 365,628	$ 36,359	$ 167,718	$ 39,871	$ 2,581	$ 149,015	$ 761,172

For the nine months ended September 30, 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)	49,070	1,636	92,235	(1,643)	62,673	203,971
Charge-offs	(134,339)	(3,046)	(41,438)	(3,418)	(92,020)	(274,261)
Recoveries	31,240	2,959	1,971	2,991	22,981	62,142
Ending balance	$ 201,424	$ 7,399	$ 125,090	$ 2,581	$ 108,760	$ 445,254

For the nine months ended September 30, 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	30,915	29,722	12,600		5,047	78,284
Charge-offs	(45,767)	(22,934)	(5,024)		(4,631)	(78,356)
Recoveries						
Ending balance	$ 79,620	$ 27,223	$ 12,886	$	$ 5,144	$ 124,873

For the nine months ended September 30, 2012
U.S. Mainland

(In thousands)	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)	8,249	(732)	11,943	6,612	17,803	43,875
Charge-offs	(53,180)	(1,396)	(12,763)	(28,168)	(30,883)	(126,390)
Recoveries	15,570	1,234	623	15,199	4,007	36,633
Net (write-down) recovery related to loans transferred to LHFS	(34)					(34)
Ending balance	$ 84,584	$ 1,737	$ 29,742	$ 39,871	$ 35,111	$ 191,045

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For the nine months ended September 30, 2012
Popular, Inc.

(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Beginning balance	$ 463,904	$ 28,916	$ 107,571	$ 46,228	$ 4,651	$ 164,038	$ 815,308
Provision (reversal of provision)	88,234	30,626	116,778	6,612	(1,643)	85,523	326,130
Charge-offs	(233,286)	(27,376)	(59,225)	(28,168)	(3,418)	(127,534)	(479,007)
Recoveries	46,810	4,193	2,594	15,199	2,991	26,988	98,775
Net (write-down) recovery related to loans transferred to LHFS	(34)						(34)
Ending balance	$ 365,628	$ 36,359	$ 167,718	$ 39,871	$ 2,581	$ 149,015	$ 761,172

For the quarter ended September 30, 2011
Puerto Rico Non-covered loans

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 227,133	$ 7,073	$ 55,140	$ 5,045	$ 120,512	$ 414,903
Provision (reversal of provision)	89,830	(2,147)	17,850	(740)	26,267	131,060
Charge-offs	(65,800)	(1,696)	(8,557)	(1,096)	(30,378)	(107,527)
Recoveries	7,290	1,777	997	695	7,101	17,860
Net (write-down) recovery related to loans transferred to LHFS	(12,706)					(12,706)
Ending balance	$ 245,747	$ 5,007	$ 65,430	$ 3,904	$ 123,502	$ 443,590

For the quarter ended September 30, 2011
Puerto Rico Covered Loans

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 47,829	$ 9,291	$ 35	$	$ 14	$ 57,169
Provision (reversal of provision)	16,923	(865)	2,325		7,188	25,571
Charge-offs	(1,277)		(65)		(2,479)	(3,821)
Recoveries		1,500				1,500
Ending balance	$ 63,475	$ 9,926	$ 2,295	$	$ 4,723	$ 80,419

For the quarter ended September 30, 2011
U.S. Mainland

(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 116,812	$ 7,712	$ 22,832	$ 73,545	$ 53,874	$ 274,775
Provision (reversal of provision)	(920)	(984)	13,706	888	6,955	19,645
Charge-offs	(26,916)	(1,535)	(6,244)	(16,160)	(14,433)	(65,288)
Recoveries	9,801	949	158	7,280	1,592	19,780
Ending balance	$ 98,777	$ 6,142	$ 30,452	$ 65,553	$ 47,988	$ 248,912

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	For the quarter ended September 30, 2011						
	Popular, Inc.						
(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Beginning balance	$ 391,774	$ 24,076	$ 78,007	$ 73,545	$ 5,045	$ 174,400	$ 746,847
Provision (reversal of provision)	105,833	(3,996)	33,881	888	(740)	40,410	176,276
Charge-offs	(93,993)	(3,231)	(14,866)	(16,160)	(1,096)	(47,290)	(176,636)
Recoveries	17,091	4,226	1,155	7,280	695	8,693	39,140
Net (write-down) recovery related to loans transferred to LHFS	(12,706)						(12,706)
Ending balance	$ 407,999	$ 21,075	$ 98,177	$ 65,553	$ 3,904	$ 176,213	$ 772,921

	For the nine months ended September 30, 2011					
	Puerto Rico Non-covered loans					
(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 256,643	$ 16,074	$ 42,029	$ 7,154	$ 133,531	$ 455,431
Provision (reversal of provision)	148,770	(9,072)	45,789	(1,038)	69,025	253,474
Charge-offs	(168,858)	(11,732)	(23,927)	(4,552)	(99,998)	(309,067)
Recoveries	21,898	9,737	1,539	2,340	20,944	56,458
Net (write-down) recovery related to loans transferred to LHFS	(12,706)					(12,706)
Ending balance	$ 245,747	$ 5,007	$ 65,430	$ 3,904	$ 123,502	$ 443,590

	For the nine months ended September 30, 2011					
	Puerto Rico Covered Loans					
(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$	$	$	$	$	$
Provision (reversal of provision)	66,723	12,772	2,360		7,880	89,735
Charge-offs	(3,248)	(4,346)	(65)		(3,157)	(10,816)
Recoveries		1,500				1,500
Ending balance	$ 63,475	$ 9,926	$ 2,295	$	$ 4,723	$ 80,419

	For the nine months ended September 30, 2011					
	U.S. Mainland					
(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 143,281	$ 23,711	$ 28,839	$ 76,405	$ 65,558	$ 337,794
Provision (reversal of provision)	8,950	(15,727)	(1,508)	35,648	25,340	52,703
Charge-offs	(72,554)	(3,169)	(12,598)	(63,774)	(47,608)	(199,703)
Recoveries	19,100	1,327	1,912	17,274	4,698	44,311
Net (write-down) recovery related to loans transferred to LHFS			13,807			13,807
Ending balance	$ 98,777	$ 6,142	$ 30,452	$ 65,553	$ 47,988	$ 248,912

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For the nine months ended September 30, 2011
Popular, Inc.

(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Beginning balance	$ 399,924	$ 39,785	$ 70,868	$ 76,405	$ 7,154	$ 199,089	$ 793,225
Provision (reversal of provision)	224,443	(12,027)	46,641	35,648	(1,038)	102,245	395,912
Charge-offs	(244,660)	(19,247)	(36,590)	(63,774)	(4,552)	(150,763)	(519,586)
Recoveries	40,998	12,564	3,451	17,274	2,340	25,642	102,269
Net (write-down) recovery related to loans transferred to LHFS	(12,706)		13,807				1,101
Ending balance	$ 407,999	$ 21,075	$ 98,177	$ 65,553	$ 3,904	$ 176,213	$ 772,921

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

	ASC 310-30 Covered loans			
	For the quarters ended		For the nine months ended	
(In thousands)	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Balance at beginning of period	$ 93,971	$ 48,257	$ 83,477	$
Provision for loan losses	17,881	15,920	57,472	68,602
Net charge-offs	(8,305)	(1,731)	(37,402)	(6,156)
Balance at end of period	$ 103,547	$ 62,446	$ 103,547	$ 62,446

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

At September 30, 2012
Puerto Rico

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Specific ALLL non-covered loans	$ 21,246	$ 191	$ 47,523	$ 978	$ 21,070	$ 91,008
General ALLL non-covered loans	180,178	7,208	77,567	1,603	87,690	354,246
ALLL non-covered loans	201,424	7,399	125,090	2,581	108,760	445,254
Specific ALLL covered loans	15,294					15,294
General ALLL covered loans	64,326	27,223	12,886		5,144	109,579
ALLL covered loans	79,620	27,223	12,886		5,144	124,873
Total ALLL	$ 281,044	$ 34,622	$ 137,976	$ 2,581	$ 113,904	$ 570,127
Loans held-in-portfolio:						
Impaired non-covered loans	$ 404,375	$ 35,757	$ 506,723	$ 4,933	$ 132,472	$ 1,084,260
Non-covered loans held-in-portfolio excluding impaired loans	5,779,440	174,999	4,412,162	533,081	3,059,817	13,959,499
Non-covered loans held-in-portfolio	6,183,815	210,756	4,918,885	538,014	3,192,289	15,043,759

Impaired covered loans	120,510					120,510
Covered loans held-in-portfolio excluding impaired loans	2,203,852	393,101	1,106,851		79,553	3,783,357
Covered loans held-in-portfolio	2,324,362	393,101	1,106,851		79,553	3,903,867
Total loans held-in-portfolio	$ 8,508,177	$ 603,857	$ 6,025,736	$ 538,014	$ 3,271,842	$ 18,947,626

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At September 30, 2012
U.S. Mainland

(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Specific ALLL	$ 993	$	$ 15,300	$	$ 123	$ 16,416
General ALLL	83,591	1,737	14,442	39,871	34,988	174,629
Total ALLL	$ 84,584	$ 1,737	$ 29,742	$ 39,871	$ 35,111	$ 191,045
Loans held-in-portfolio:						
Impaired loans	$ 92,849	$ 12,140	$ 53,718	$ 24,276	$ 2,732	$ 185,715
Loans held-in-portfolio, excluding impaired loans	3,351,967	35,557	1,049,819	441,572	645,464	5,524,379
Total loans held-in-portfolio	$ 3,444,816	$ 47,697	$ 1,103,537	$ 465,848	$ 648,196	$ 5,710,094

At September 30, 2012
Popular, Inc.

(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Specific ALLL non-covered loans	$ 22,239	$ 191	$ 62,823	$	$ 978	$ 21,193	$ 107,424
General ALLL non-covered loans	263,769	8,945	92,009	39,871	1,603	122,678	528,875
ALLL non-covered loans	286,008	9,136	154,832	39,871	2,581	143,871	636,299
Specific ALLL covered loans	15,294						15,294
General ALLL covered loans	64,326	27,223	12,886			5,144	109,579
ALLL covered loans	79,620	27,223	12,886			5,144	124,873
Total ALLL	$ 365,628	$ 36,359	$ 167,718	$ 39,871	$ 2,581	$ 149,015	$ 761,172
Loans held-in-portfolio:							
Impaired non-covered loans	$ 497,224	$ 47,897	$ 560,441	$ 24,276	$ 4,933	$ 135,204	$ 1,269,975
Non-covered loans held-in-portfolio excluding impaired loans	9,131,407	210,556	5,461,981	441,572	533,081	3,705,281	19,483,878
Non-covered loans held-in-portfolio	9,628,631	258,453	6,022,422	465,848	538,014	3,840,485	20,753,853
Impaired covered loans	120,510						120,510
Covered loans held-in-portfolio excluding impaired loans	2,203,852	393,101	1,106,851			79,553	3,783,357
Covered loans held-in-portfolio	2,324,362	393,101	1,106,851			79,553	3,903,867
Total loans held-in-portfolio	$ 11,952,993	$ 651,554	$ 7,129,273	$ 465,848	$ 538,014	$ 3,920,038	$ 24,657,720

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At December 31, 2011
Puerto Rico

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

At December 31, 2011
U.S. Mainland

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

At December 31, 2011
Popular, Inc.

(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Specific ALLL non-covered loans	$ 11,738	$ 289	$ 29,063	$ 57	$ 793	$ 17,046	$ 58,986
General ALLL non-covered loans	357,694	8,192	73,198	46,171	3,858	142,264	631,377

ALLLnon-covered loans	369,432	8,481	102,261	46,228	4,651	159,310	690,363
Specific ALLL covered loans	27,086						27,086
General ALLL covered loans	67,386	20,435	5,310			4,728	97,859
ALLLcovered loans	94,472	20,435	5,310			4,728	124,945
Total ALLL	$ 463,904	$ 28,916	$ 107,571	$ 46,228	$ 4,651	$ 164,038	$ 815,308
Loans held-in-portfolio:							
Impaired non-covered loans	$ 556,329	$ 91,710	$ 382,880	$ 48,890	$ 6,104	$ 140,108	$ 1,226,021
Non-covered loans held-in-portfolio excluding impaired loans	9,416,998	148,229	5,135,580	599,519	542,602	3,533,647	19,376,575
Non-covered loans held-in-portfolio	9,973,327	239,939	5,518,460	648,409	548,706	3,673,755	20,602,596
Impaired covered loans	76,798						76,798
Covered loans held-in-portfolio excluding impaired loans	2,435,944	546,826	1,172,954			116,181	4,271,905
Covered loans held-in-portfolio	2,512,742	546,826	1,172,954			116,181	4,348,703
Total loans held-in-portfolio	$ 12,486,069	$ 786,765	$ 6,691,414	$ 648,409	$ 548,706	$ 3,789,936	$ 24,951,299

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Impaired loans

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

September 30, 2012 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	$	$	$	$ 20,725	$ 25,528	$ 20,725	$ 25,528	$
Commercial real estate non-owner occupied	10,058	12,477	1,122	59,469	64,736	69,527	77,213	1,122
Commercial real estate owner occupied	61,792	83,318	12,650	135,006	176,760	196,798	260,078	12,650
Commercial and industrial	34,322	43,751	7,474	83,003	112,891	117,325	156,642	7,474
Construction	1,617	2,712	191	34,140	69,048	35,757	71,760	191
Mortgage	469,786	486,509	47,523	36,937	39,418	506,723	525,927	47,523
Leasing	4,933	4,933	978			4,933	4,933	978
Consumer:								
Credit cards	39,347	39,347	1,674			39,347	39,347	1,674
Personal	92,379	92,379	19,348			92,379	92,379	19,348
Auto	333	333	34			333	333	34
Other	413	413	14			413	413	14
Covered loans	61,084	61,084	15,294	59,426	59,426	120,510	120,510	15,294
Total Puerto Rico	$ 776,064	$ 827,256	$ 106,302	$ 428,706	$ 547,807	$ 1,204,770	$ 1,375,063	$ 106,302

September 30, 2012 U.S. mainland								
	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	$	$	$	$ 5,967	$ 8,937	$ 5,967	$ 8,937	$
Commercial real estate non-owner occupied	1,916	1,916	993	54,265	80,169	56,181	82,085	993
Commercial real estate owner occupied				24,679	30,630	24,679	30,630	
Commercial and industrial				6,022	7,990	6,022	7,990	
Construction				12,140	14,080	12,140	14,080	
Mortgage	48,707	49,432	15,300	5,011	5,044	53,718	54,476	15,300
Legacy				24,276	37,968	24,276	37,968	
Consumer:								
Helocs	202	202	13			202	202	13
Auto	91	91	9			91	91	9
Other	2,439	2,439	101			2,439	2,439	101
Total U.S. mainland	$ 53,355	$ 54,080	$ 16,416	$ 132,360	$ 184,818	$ 185,715	$ 238,898	$ 16,416

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September 30, 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	$	$	$	$ 26,692	$ 34,465	$ 26,692	$ 34,465	$
Commercial real estate non-owner occupied	11,974	14,393	2,115	113,734	144,905	125,708	159,298	2,115
Commercial real estate owner occupied	61,792	83,318	12,650	159,685	207,390	221,477	290,708	12,650
Commercial and industrial	34,322	43,751	7,474	89,025	120,881	123,347	164,632	7,474
Construction	1,617	2,712	191	46,280	83,128	47,897	85,840	191
Mortgage	518,493	535,941	62,823	41,948	44,462	560,441	580,403	62,823
Legacy				24,276	37,968	24,276	37,968	
Leasing	4,933	4,933	978			4,933	4,933	978
Consumer:								
Credit cards	39,347	39,347	1,674			39,347	39,347	1,674
Helocs	202	202	13			202	202	13
Personal	92,379	92,379	19,348			92,379	92,379	19,348
Auto	424	424	43			424	424	43
Other	2,852	2,852	115			2,852	2,852	115
Covered loans	61,084	61,084	15,294	59,426	59,426	120,510	120,510	15,294
Total Popular, Inc.	$ 829,419	$ 881,336	$ 122,718	$ 561,066	$ 732,625	$ 1,390,485	$ 1,613,961	$ 122,718

December 31, 2011
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	$ 10,463	$ 10,463	$ 575	$ 12,206	$ 21,312	$ 22,669	$ 31,775	$ 575
Commercial real estate non-owner occupied	5,909	7,006	836	45,517	47,439	51,426	54,445	836
Commercial real estate owner occupied	37,534	46,806	2,757	165,745	215,288	203,279	262,094	2,757
Commercial and industrial	42,294	55,180	6,239	83,421	108,224	125,715	163,404	6,239
Construction	1,672	2,369	289	48,075	101,042	49,747	103,411	289
Mortgage	333,346	336,682	14,944			333,346	336,682	14,944
Leasing	6,104	6,104	793			6,104	6,104	793
Consumer:								
Credit cards	38,874	38,874	2,151			38,874	38,874	2,151
Personal	93,760	93,760	14,115			93,760	93,760	14,115
Other	4,948	4,948	649			4,948	4,948	649
Covered loans	75,798	75,798	27,086	1,000	1,000	76,798	76,798	27,086
Total Puerto Rico	$ 650,702	$ 677,990	$ 70,434	$ 355,964	$ 494,305	$ 1,006,666	$ 1,172,295	$ 70,434

December 31, 2011
U.S. mainland

Impaired Loans With an Allowance	Impaired Loans With No Allowance	Impaired Loans - Total

(In thousands)	Recorded investment	Allowance Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial multi-family	$	$	$	$ 8,655	$ 12,403	$ 8,655	$ 12,403	$
Commercial real estate non-owner occupied	1,306	1,306	214	61,111	83,938	62,417	85,244	214
Commercial real estate owner occupied	1,239	1,239	455	46,403	56,229	47,642	57,468	455
Commercial and industrial	7,390	7,390	662	27,136	29,870	34,526	37,260	662
Construction				41,963	44,751	41,963	44,751	
Mortgage	39,570	39,899	14,119	9,964	9,964	49,534	49,863	14,119
Legacy	6,013	6,013	57	42,877	69,221	48,890	75,234	57
Consumer:								
Auto	93	93	6			93	93	6
Other	2,433	2,433	125			2,433	2,433	125
Total U.S. mainland	$ 58,044	$ 58,373	$ 15,638	$ 238,109	$ 306,376	$ 296,153	$ 364,749	$ 15,638

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December 31, 2011 Popular, Inc.								
	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	$ 10,463	$ 10,463	$ 575	$ 20,861	$ 33,715	$ 31,324	$ 44,178	$ 575
Commercial real estate non-owner occupied	7,215	8,312	1,050	106,628	131,377	113,843	139,689	1,050
Commercial real estate owner occupied	38,773	48,045	3,212	212,148	271,517	250,921	319,562	3,212
Commercial and industrial	49,684	62,570	6,901	110,557	138,094	160,241	200,664	6,901
Construction	1,672	2,369	289	90,038	145,793	91,710	148,162	289
Mortgage	372,916	376,581	29,063	9,964	9,964	382,880	386,545	29,063
Legacy	6,013	6,013	57	42,877	69,221	48,890	75,234	57
Leasing	6,104	6,104	793			6,104	6,104	793
Consumer:								
Credit cards	38,874	38,874	2,151			38,874	38,874	2,151
Personal	93,760	93,760	14,115			93,760	93,760	14,115
Auto	93	93	6			93	93	6
Other	7,381	7,381	774			7,381	7,381	774
Covered loans	75,798	75,798	27,086	1,000	1,000	76,798	76,798	27,086
Total Popular, Inc.	$ 708,746	$ 736,363	$ 86,072	$ 594,073	$ 800,681	$ 1,302,819	$ 1,537,044	$ 86,072

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

For the quarter ended September 30, 2012						
	Puerto Rico		U.S. Mainland		Popular, Inc.	
(In thousands)	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial multi-family	$ 14,446	$	$ 8,522	$	$ 22,968	$
Commercial real estate non-owner occupied	64,968	240	59,932	151	124,900	391
Commercial real estate owner occupied	194,126	597	26,302	81	220,428	678
Commercial and industrial	117,979	499	9,855		127,834	499
Construction	42,380	98	12,072		54,452	98
Mortgage	482,041	6,911	53,509	515	535,550	7,426
Legacy			26,783	14	26,783	14
Leasing	5,231				5,231	
Consumer:						
Credit cards	38,718				38,718	
Helocs			101		101	
Personal	91,030				91,030	
Auto	252		92		344	
Other	1,984		2,355		4,339	
Covered loans	98,603	949			98,603	949
Total Popular, Inc.	$ 1,151,758	$ 9,294	$ 199,523	$ 761	$ 1,351,281	$ 10,055

For the quarter ended September 30, 2011						
	Puerto Rico		U.S. Mainland		Popular, Inc.	
	Average	Interest	Average	Interest	Average	Interest

(In thousands)	recorded investment	income recognized	recorded investment	income recognized	recorded investment	income recognized
Commercial multi-family	$ 9,399	$	$ 4,349	$	$ 13,748	$
Commercial real estate non-owner occupied	50,687	283	78,724	71	129,411	354
Commercial real estate owner occupied	193,918	694	22,490	23	216,408	717
Commercial and industrial	108,533	288	20,009	3	128,542	291
Construction	63,818		58,233		122,051	
Mortgage	239,026	2,974	20,826	391	259,852	3,365
Legacy			83,065	154	83,065	154
Leasing	3,284				3,284	
Consumer:						
Credit cards	20,622				20,622	
Helocs			947		947	
Personal	50,282				50,282	
Auto	32				32	
Other	283		1,361		1,644	
Covered loans	3,151	76			3,151	76
Total Popular, Inc.	$ 743,035	$ 4,315	$ 290,004	$ 642	$ 1,033,039	$ 4,957

	For the nine months ended September 30, 2012					
	Puerto Rico		U.S. Mainland		Popular, Inc.	
(In thousands)	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial multi-family	$ 15,083	$	$ 9,354	$ 101	$ 24,437	$ 101
Commercial real estate non-owner occupied	60,972	597	61,907	965	122,879	1,562
Commercial real estate owner occupied	197,938	1,370	35,453	81	233,391	1,451
Commercial and industrial	123,062	1,119	21,416	37	144,478	1,156
Construction	46,383	205	19,808		66,191	205
Mortgage	423,571	18,751	52,613	1,492	476,184	20,243
Legacy			37,547	79	37,547	79
Leasing	5,494				5,494	
Consumer:						
Credit cards	38,839				38,839	
Helocs			51		51	
Personal	91,966				91,966	
Auto	126		69		195	
Other	3,394		2,399		5,793	
Covered loans	89,965	2,849			89,965	2,849
Total Popular, Inc.	$ 1,096,793	$ 24,891	$ 240,617	$ 2,755	$ 1,337,410	$ 27,646

	For the nine months ended September 30, 2011					
	Puerto Rico		U.S. Mainland		Popular, Inc.	
(In thousands)	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial multi-family	$ 12,071	$	$ 5,165	$	$ 17,236	$
Commercial real estate non-owner occupied	39,115	672	85,654	406	124,769	1,078
Commercial real estate owner occupied	188,945	1,599	18,508	221	207,453	1,820
Commercial and industrial	100,052	866	15,209	214	115,261	1,080
Construction	62,485	49	87,577	124	150,062	173
Mortgage	185,270	6,980	11,715	620	196,985	7,600
Legacy			70,634	186	70,634	186
Leasing	1,642				1,642	
Consumer:						
Credit cards	10,311				10,311	
Helocs			473		473	
Personal	25,141				25,141	
Auto	16				16	
Other	142		681		823	
Covered loans	1,575	76			1,575	76
Total Popular, Inc.	$ 626,765	$ 10,242	$ 295,616	$ 1,771	$ 922,381	$ 12,013

Modifications

Troubled debt restructurings related to non-covered loan portfolios amounted to $1.0 billion at September 30, 2012 (December 31, 2011 $881 million). The amount of outstanding commitments to lend additional funds to debtors owing receivables whose terms have been modified in troubled debt restructurings amounted to $21 thousand related to the construction loan portfolio and $3 million related to the commercial loan portfolio at September 30, 2012 (December 31, 2011 $152 thousand and $3 million, respectively).

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

Commercial and industrial loans modified in a TDR often involve temporary interest-only payments, term extensions, and converting evergreen revolving credit lines to long-term loans. Commercial real estate (CRE), which includes multifamily, owner-occupied and non-owner occupied CRE, and construction loans modified in a TDR often involve reducing the interest rate for a limited period of 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 modifications are made infrequently and are not offered if the Corporation also holds the first mortgage. Home equity modifications are uniquely designed to meet the specific needs of each borrower. Automobile loans modified in a TDR are primarily comprised of loans where the Corporation has lowered monthly payments by extending the term. Credit cards modified in a TDR are primarily comprised of loans where monthly payments are lowered to accommodate the borrowers financial needs for a period of time, normally up to 24 months.

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

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

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

Commercial and construction loans that have been modified as part of loss mitigation efforts are evaluated individually for impairment. The vast majority of the Corporation s modified commercial loans are measured for impairment using the estimated fair value of the collateral, as these are normally considered as collateral dependent loans. In very few instances, the Corporation measures modified commercial loans at their estimated realizable values determined by discounting the expected future cash flows. Construction loans that have been modified are also accounted for as collateral dependent loans. The Corporation determines the fair value measurement dependent upon its exit strategy for the particular asset(s) acquired in foreclosure.

The following tables present the loan count by type of modification for those loans modified in a TDR during the quarter and nine months ended September 30, 2012 and 2011.

	Puerto Rico							
	For the quarter ended September 30, 2012				For the nine months ended September 30, 2012			
	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other	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				5	4		
Commercial real estate owner occupied	1	5			7	20		
Commercial and industrial	1	8			27	61		
Construction	7				8	1		
Mortgage	272	42	406	40	433	125	1,200	150
Leasing		16				49	28	
Consumer:								
Credit cards	311			268	1,268			942
Personal	231	4			901	25		
Auto		2	1			3	3	
Other	14				39			

Total	839	77	407	308	2,688	288	1,231	1,092

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U.S. Mainland

	For the quarter ended September 30, 2012				For the nine months ended September 30, 2012			
	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other	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			1	2		1
Commercial real estate owner occupied				1				1
Construction								1
Mortgage	1	1	16		4	1	64	
Legacy					1			2
Consumer:								
HELOCs	1		1		1		2	
Total	2	3	17	1	7	3	66	5

Popular, Inc.

	For the quarter ended September 30, 2012				For the nine months ended September 30, 2012			
	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other	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	2			6	6		1
Commercial real estate owner occupied	1	5		1	7	20		1
Commercial and industrial	1	8			27	61		
Construction	7				8	1		1
Mortgage	273	43	422	40	437	126	1,264	150
Legacy					1			2
Leasing		16				49	28	
Consumer:								
Credit cards	311			268	1,268			942
HELOCs	1		1		1		2	
Personal	231	4			901	25		
Auto		2	1			3	3	
Other	14				39			
Total	841	80	424	309	2,695	291	1,297	1,097

Puerto Rico

	For the quarter ended September 30, 2011				For the nine months ended September 30, 2011			
	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Commercial multi-family					1			
Commercial real estate non-owner occupied	1				5	2		
	16	3			48	4		

Commercial real estate owner occupied								
Commercial and industrial	21	11			83	16		
Construction	1				2			
Mortgage	9	106	366	13	35	340	1,220	36
Leasing		41	5			136	16	
Consumer:								
Credit cards	420			358	1,149			959
Personal	607	28			1,775	52		
Auto			2				7	
Other	21				50			
Total	1,096	189	373	371	3,148	550	1,243	995

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	U.S. Mainland For the quarter ended September 30, 2011				For the nine months ended September 30, 2011			
	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other	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				1
Commercial real estate owner occupied								2
Commercial and industrial						1		1
Construction				1				4
Mortgage	13	3	183	3	14	4	254	3
Legacy								4
Consumer:								
Other			1				1	
Total	13	3	184	5	14	5	255	15

	Popular, Inc. For the quarter ended September 30, 2011				For the nine months ended September 30, 2011			
	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Commercial multi-family					1			
Commercial real estate non-owner occupied	1			1	5	2		1
Commercial real estate owner occupied	16	3			48	4		2
Commercial and industrial	21	11			83	17		1
Construction	1			1	2			4
Mortgage	22	109	549	16	49	344	1,474	39
Legacy								4
Leasing		41	5			136	16	
Consumer:								
Credit cards	420			358	1,149			959
Personal	607	28			1,775	52		
Auto			2				7	
Other	21		1		50		1	
Total	1,109	192	557	376	3,162	555	1,498	1,010

The following tables present by class, quantitative information related to loans modified as TDRs during the quarter and nine months ended September 30, 2012 and 2011.

	Puerto Rico For the quarter ended September 30, 2012			
(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification

Commercial real estate non-owner occupied	2	$	4,813	$	4,813	$	368
Commercial real estate owner occupied	6		1,626		1,619		(6)
Commercial and industrial	9		13,692		3,873		(6,596)
Construction	7		5,025		4,230		(263)
Mortgage	760		98,555		116,854		5,775
Leasing	16		256		241		29
Consumer:							
Credit cards	579		5,100		6,000		20
Personal	235		4,054		4,083		663
Auto	2		20		23		2
Other	14		54		54		
Total	1,630	$	133,195	$	141,790	$	(8)

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U.S. Mainland
For the quarter ended September 30, 2012

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	2	$ 3,968	$ 3,921	$
Commercial real estate owner occupied	1	2,246	1,750	(106)
Mortgage	18	1,765	1,823	298
Consumer:				
HELOCs	2	281	275	3
Total	23	$ 8,260	$ 7,769	$ 195

Popular, Inc.
For the quarter ended September 30, 2012

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	4	$ 8,781	$ 8,734	$ 368
Commercial real estate owner occupied	7	3,872	3,369	(112)
Commercial and industrial	9	13,692	3,873	(6,596)
Construction	7	5,025	4,230	(263)
Mortgage	778	100,320	118,677	6,073
Leasing	16	256	241	29
Consumer:				
Credit cards	579	5,100	6,000	20
HELOCs	2	281	275	3
Personal	235	4,054	4,083	663
Auto	2	20	23	2
Other	14	54	54	
Total	1,653	$ 141,455	$ 149,559	$ 187

Puerto Rico
For the quarter ended September 30, 2011

(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	$ 1,180	$ 1,180	$ (43)
Commercial real estate owner occupied	19	30,256	30,256	(1,052)
Commercial and industrial	32	28,622	28,622	2,518
Construction	1	1,341	1,341	187
Mortgage	494	65,849	68,279	3,122
Leasing	46	1,092	1,059	
Consumer:				
Credit cards	778	6,820	7,622	47
Personal	635	7,525	7,522	
Auto	2	18	19	
Other	21	106	105	
Total	2,029	$ 142,809	$ 146,005	$ 4,779

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U.S. Mainland
For the quarter ended September 30, 2011

(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	$ 2,043	$ 2,032	$
Construction	1	5,715	5,740	(189)
Mortgage	202	20,390	21,606	7,707
Consumer:				
Other	1	1,079	1,135	1
Total	205	$ 29,227	$ 30,513	$ 7,519

Popular, Inc.
For the quarter ended September 30, 2011

(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	$ 3,223	$ 3,212	$ (43)
Commercial real estate owner occupied	19	30,256	30,256	(1,052)
Commercial and industrial	32	28,622	28,622	2,518
Construction	2	7,056	7,081	(2)
Mortgage	696	86,239	89,885	10,829
Leasing	46	1,092	1,059	
Consumer:				
Credit cards	778	6,820	7,622	47
Personal	635	7,525	7,522	
Auto	2	18	19	
Other	22	1,185	1,240	1
Total	2,234	$ 172,036	$ 176,518	$ 12,298

Puerto Rico
For the nine months ended September 30, 2012

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	8	$ 8,754	$ 7,810	$ (606)
Commercial real estate owner occupied	27	9,319	8,901	(42)
Commercial and industrial	87	38,549	28,306	(6,352)
Construction	9	6,122	5,327	(211)
Mortgage	1,908	251,763	274,045	17,150
Leasing	78	1,265	1,208	132
Consumer:				
Credit cards	2,210	18,621	21,347	64
Personal	926	13,132	13,162	2,165

Auto	5	68	50	1
Other	39	129	128	
Total	5,297	$ 347,722	$ 360,284	$ 12,301

U.S. mainland
For the nine months ended September 30, 2012

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	4	$ 9,765	$ 9,457	$ 184
Commercial real estate owner occupied	1	2,246	1,750	(106)
Construction	1	1,573	1,573	
Mortgage	69	7,168	7,248	1,133
Legacy	3	1,272	1,267	(3)
Consumer:				
HELOCs	3	431	409	3
Total	81	$ 22,455	$ 21,704	$ 1,211

Popular, Inc.
For the nine months ended September 30, 2012

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	12	$ 18,519	$ 17,267	$ (422)
Commercial real estate owner occupied	28	11,565	10,651	(148)
Commercial and industrial	87	38,549	28,306	(6,352)
Construction	10	7,695	6,900	(211)
Mortgage	1,977	258,931	281,293	18,283
Legacy	3	1,272	1,267	(3)
Leasing	78	1,265	1,208	132
Consumer:				
Credit cards	2,210	18,621	21,347	64
HELOCs	3	431	409	3
Personal	926	13,132	13,162	2,165
Auto	5	68	50	1
Other	39	129	128	
Total	5,378	$ 370,177	$ 381,988	$ 13,512

Puerto Rico
For the nine months ended September 30, 2011

(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 multi-family	1	$ 143	$ 143	$ (4)
Commercial real estate non-owner occupied	7	7,940	7,940	(216)
Commercial real estate owner occupied	52	36,507	36,507	(990)
Commercial and industrial	99	39,011	39,011	1,693
Construction	2	2,224	2,224	165
Mortgage	1,631	224,027	242,416	6,092
Leasing	152	3,451	3,301	(1)
Consumer:				
Credit cards	2,108	19,438	21,792	143
Personal	1,827	22,459	22,443	(1)
Auto	7	64	67	
Other	50	210	207	
Total	5,936	$ 355,474	$ 376,051	$ 6,881

U.S. mainland
For the nine months ended September 30, 2011

(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
	1	$ 2,043	$ 2,032	$

Commercial real estate non-owner occupied							
Commercial real estate owner occupied	2		10,590		7,323		(420)
Commercial and industrial	2		11,878		9,742		(421)
Construction	4		13,173		7,595		(189)
Mortgage	275		27,486		28,927		10,405
Legacy	4		3,016		3,097		(125)
Consumer:							
Other	1		1,079		1,135		1
Total	289	$	69,265	$	59,851	$	9,251

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Popular, Inc.
For the nine months ended September 30, 2011

(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 multi-family	1	$ 143	143	$ (4)
Commercial real estate non-owner occupied	8	9,983	9,972	(216)
Commercial real estate owner occupied	54	47,097	43,830	(1,410)
Commercial and industrial	101	50,889	48,753	1,272
Construction	6	15,397	9,819	(24)
Mortgage	1,906	251,513	271,343	16,497
Legacy	4	3,016	3,097	(125)
Leasing	152	3,451	3,301	(1)
Consumer:				
Credit cards	2,108	19,438	21,792	143
Personal	1,827	22,459	22,443	(1)
Auto	7	64	67	
Other	51	1,289	1,342	1
Total	6,225	$ 424,739	$ 435,902	$ 16,132

Four loans comprising a recorded investment of approximately $27 million were restructured into multiple notes (Note A / B split) during the quarter ended September 30, 2012. The Corporation recorded approximately $7.0 million in loan charge-offs as part of the loan restructurings. The renegotiations of these loans were made after analyzing the borrowers capacity to repay the debt, collateral and ability to perform under the modified terms. The recorded investment on these commercial TDRs amounted to approximately $21 million at September 30, 2012 with a related allowance for loan losses amounting to approximately $357 thousand.

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 September 30, 2012 is inclusive of all partial paydowns and charge-offs since modification date. Loans modified as a TDR that were fully paid down, charged-off or foreclosed upon by period end are not reported.

Puerto Rico

	Defaulted during the quarter ended September 30, 2012		Defaulted during the nine months ended September 30, 2012	
(Dollars In thousands)	Loan count	Recorded investment as of first default date	Loan count	Recorded investment as of first default date
Commercial real estate non-owner occupied		$	2	$ 1,897
Commercial real estate owner occupied	7	3,274	20	8,206
Commercial and industrial	5	2,310	15	7,202
Mortgage	203	26,780	542	77,707
Leasing	9	163	26	440
Consumer				
Credit cards	282	2,413	332	2,930
Personal	77	547	111	990
Auto	2	32	3	48
Other			1	1
Total	585	$ 35,519	1,052	$ 99,421

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U.S. Mainland

(Dollars In thousands)	Defaulted during the quarter ended September 30, 2012 Loan count	Defaulted during the quarter ended September 30, 2012 Recorded investment as of first default date	Defaulted during the nine months ended September 30, 2012 Loan count	Defaulted during the nine months ended September 30, 2012 Recorded investment as of first default date
Commercial real estate non-owner occupied			1	$ 1,935
Mortgage	3	$ 336	6	415
Total	3	$ 336	7	$ 2,350

Popular, Inc.

(Dollars In thousands)	Defaulted during the quarter ended September 30, 2012 Loan count	Defaulted during the quarter ended September 30, 2012 Recorded investment as of first default date	Defaulted during the nine months ended September 30, 2012 Loan count	Defaulted during the nine months ended September 30, 2012 Recorded investment as of first default date
Commercial real estate non-owner occupied		$	3	$ 3,832
Commercial real estate owner occupied	7	3,274	20	8,206
Commercial and industrial	5	2,310	15	7,202
Mortgage	206	27,116	548	78,122
Legacy	9	163	26	440
Consumer:				
Credit cards	282	2,413	332	2,930
Personal	77	547	111	990
Auto	2	32	3	48
Other			1	1
Total	588	$ 35,855	1,059	$ 101,771

Puerto Rico

(Dollars In thousands)	Defaulted during the quarter ended September 30, 2011 Loan count	Defaulted during the quarter ended September 30, 2011 Recorded investment as of first default date	Defaulted during the nine months ended September 30, 2011 Loan count	Defaulted during the nine months ended September 30, 2011 Recorded investment as of first default date
Commercial multi-family	1	$ 143	1	$ 143
Commercial real estate non-owner occupied	1	710	1	710
Commercial real estate owner occupied	4	1,736	5	4,986
Commercial and industrial	15	1,568	15	1,568
Construction			1	889
Mortgage	116	16,032	280	42,956
Leasing	17	209	32	623
Consumer				
Credit cards	137	1,117	308	3,066
Personal	150	1,094	217	986
Auto			1	5
Other	1	1	3	29

Total	442	$	22,610	864	$	55,961

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(Dollars In thousands)	U.S. Mainland Defaulted during the quarter ended September 30, 2011 Loan count	Recorded investment as of first default date	Defaulted during the nine months ended September 30, 2011 Loan count	Recorded investment as of first default date
Commercial and industrial	1	$ 6,492	2	$ 6,854
Construction	1	5,740	4	13,335
Mortgage	11	1,491	17	1,936
Legacy			6	3,817
Total	13	$ 13,723	29	$ 25,942

(Dollars In thousands)	Popular, Inc. Defaulted during the quarter ended September 30, 2011 Loan count	Recorded investment as of first default date	Defaulted during the nine months ended September 30, 2011 Loan count	Recorded investment as of first default date
Commercial multi-family	1	$ 143	1	$ 143
Commercial real estate non-owner occupied	1	710	1	710
Commercial real estate owner occupied	4	1,736	5	4,986
Commercial and industrial	16	8,060	17	8,422
Construction	1	5,740	5	14,224
Mortgage	127	17,523	297	44,892
Legacy			6	3,817
Leasing	17	209	32	623
Consumer:				
Credit cards	137	1,117	308	3,066
Personal	150	1,094	217	986
Auto			1	5
Other	1	1	3	29
Total	455	$ 36,333	893	$ 81,903

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

Credit Quality

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

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

Pass Credit Classifications:

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

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

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

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Adversely Classified Classifications:

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

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

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

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

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

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

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

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

	September 30, 2012							
(In thousands)	Watch	Special Mention	Substandard	Doubtful	Loss	Sub-total	Pass/ Unrated	Total
Puerto Rico[1]								
Commercial multi-family	$ 991	$ 263	$ 25,070	$	$	$ 26,324	$ 92,963	$ 119,287
Commercial real estate non-owner occupied	119,520	191,184	244,175	331		555,210	784,394	1,339,604
Commercial real estate owner occupied	201,360	187,835	671,808	1,245		1,062,248	1,038,391	2,100,639
Commercial and industrial	436,704	209,061	436,087	4,760	710	1,087,322	1,536,963	2,624,285

Total Commercial	758,575	588,343	1,377,140	6,336	710	2,731,104	3,452,711	6,183,815
Construction	1,793	31,581	48,494			81,868	128,888	210,756

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Mortgage			571,364			571,364	4,347,521	4,918,885
Leasing			2,991		1,846	4,837	533,177	538,014
Consumer:								
Credit cards			22,364			22,364	1,158,441	1,180,805
Home equity lines of credit			1,271		3,311	4,582	12,664	17,246
Personal			8,938		181	9,119	1,205,981	1,215,100
Auto			7,731			7,731	537,791	545,522
Other			2,379			2,379	231,237	233,616
Total Consumer			42,683		3,492	46,175	3,146,114	3,192,289
Total Puerto Rico	$ 760,368	$ 619,924	$ 2,042,672	$ 6,336	$ 6,048	$ 3,435,348	$ 11,608,411	$ 15,043,759
U.S. mainland								
Commercial multi-family	$ 74,179	$ 20,540	$ 70,770	$	$	$ 165,489	$ 647,658	$ 813,147
Commercial real estate non-owner occupied	119,215	56,784	215,576			391,575	912,354	1,303,929
Commercial real estate owner occupied	21,226	9,829	127,720			158,775	380,660	539,435
Commercial and industrial	23,235	24,446	68,510			116,191	672,114	788,305
Total Commercial	237,855	111,599	482,576			832,030	2,612,786	3,444,816
Construction	1,515		31,936			33,451	14,246	47,697
Mortgage			35,634			35,634	1,067,903	1,103,537
Legacy	23,577	15,442	129,284			168,303	297,545	465,848
Consumer								
Credit cards			478		5	483	14,125	14,608
Home equity lines of credit			5,887		4,549	10,436	478,524	488,960
Personal			1,064		599	1,663	140,678	142,341
Auto					8	8	951	959
Other			36			36	1,292	1,328
Total Consumer			7,465		5,161	12,626	635,570	648,196
Total U.S. mainland	$ 262,947	$ 127,041	$ 686,895	$	$ 5,161	$ 1,082,044	$ 4,628,050	$ 5,710,094
Popular, Inc.								
Commercial multi-family	$ 75,170	$ 20,803	$ 95,840	$	$	$ 191,813	$ 740,621	$ 932,434
Commercial real estate non-owner occupied	238,735	247,968	459,751	331		946,785	1,696,748	2,643,533
Commercial real estate owner occupied	222,586	197,664	799,528	1,245		1,221,023	1,419,051	2,640,074
Commercial and industrial	459,939	233,507	504,597	4,760	710	1,203,513	2,209,077	3,412,590
Total Commercial	996,430	699,942	1,859,716	6,336	710	3,563,134	6,065,497	9,628,631
Construction	3,308	31,581	80,430			115,319	143,134	258,453
Mortgage			606,998			606,998	5,415,424	6,022,422
Legacy	23,577	15,442	129,284			168,303	297,545	465,848
Leasing			2,991		1,846	4,837	533,177	538,014
Consumer								
Credit cards			22,842		5	22,847	1,172,566	1,195,413
Home equity lines of credit			7,158		7,860	15,018	491,188	506,206
Personal			10,002		780	10,782	1,346,659	1,357,441
Auto			7,731		8	7,739	538,742	546,481
Other			2,415			2,415	232,529	234,944

Total Consumer			50,148		8,653	58,801	3,781,684	3,840,485
Total Popular, Inc.	$ 1,023,315	$ 746,965	$ 2,729,567	$ 6,336	$ 11,209	$ 4,517,392	$ 16,236,461	$ 20,753,853

The following table presents the weighted average obligor risk rating at September 30, 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	11.96	5.61
Commercial real estate non-owner occupied	11.30	6.98
Commercial real estate owner occupied	11.55	6.94
Commercial and industrial	11.36	6.60
Total Commercial	11.45	6.78
Construction	11.84	7.86

	Substandard	Pass
U.S. mainland:		
Commercial multi-family	11.25	7.17
Commercial real estate non-owner occupied	11.41	7.02
Commercial real estate owner occupied	11.30	6.95
Commercial and industrial	11.21	6.79
Total Commercial	11.33	6.78
Construction	11.38	7.24
Legacy	11.31	7.50

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

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

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

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

Weighted average obligor risk rating

	(Scales 11 and 12) Substandard	(Scales 1 through 8) Pass
Puerto Rico:[1]		
Commercial multi-family	11.91	5.92
Commercial real estate non-owner occupied	11.23	7.16
Commercial real estate owner occupied	11.56	6.85
Commercial and industrial	11.40	6.62
Total Commercial	11.46	6.79
Construction	11.76	7.84

	Substandard	Pass
U.S. mainland:		
Commercial multi-family	11.20	7.09
Commercial real estate non-owner occupied	11.35	7.00
Commercial real estate owner occupied	11.41	7.04
Commercial and industrial	11.38	6.85
Total Commercial	11.35	6.99
Construction	11.78	7.52
Legacy	11.45	7.47

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

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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 BPPR 80% reimbursement under the loss share agreements. The loss share agreement applicable to single-family residential mortgage loans provides for FDIC loss and recoveries sharing for ten years expiring in April 2020. The loss share agreement applicable to commercial (including construction) and consumer loans provides for FDIC loss sharing for five years expiring in April 2015 and BPPR reimbursement to the FDIC for eight years expiring in April 2018, in each case, on the same terms and conditions as described above.

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

	Nine months ended September 30,	
(In thousands)	2012	2011
Balance at beginning of year	$ 1,915,128	$ 2,410,219
(Amortization) accretion of loss share indemnification asset, net	(95,972)	13,361
Credit impairment losses to be covered under loss sharing agreements	60,943	71,787
Decrease due to reciprocal accounting on the discount accretion for loans and unfunded commitments accounted for under ASC Subtopic 310-20	(744)	(32,919)
Payments received from FDIC under loss sharing agreements	(327,739)	(561,111)
Other adjustments attributable to FDIC loss sharing agreements	7,441	(6,278)
Balance at end of period	$ 1,559,057	$ 1,895,059

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 September 30, 2012 and December 31, 2011.

(In thousands)	September 30, 2012	December 31, 2011
Carrying amount (fair value)	$ 103,189	$ 98,340
Undiscounted amount[1]	$ 171,654	$ 170,973

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

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

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

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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.

Note 10 Transfers of financial assets and mortgage servicing assets

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 18 to the consolidated financial statements for a description of such arrangements.

No liabilities were incurred as a result of these securitizations during the quarters and nine months ended September 30, 2012 and 2011 because they did not contain any credit recourse arrangements. During the quarter ended September 30, 2012, the Corporation recorded a net gain $18.0 million (September 30, 2011 $1.6 million) related to the residential mortgage loans securitized. During the nine months ended September 30, 2012, the Corporation recorded a net gain $45.6 million (September 30, 2011 $12.0 million) related to the residential mortgage loans securitized.

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

	Proceeds Obtained During the Quarter Ended September 30, 2012			
(In thousands)	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Trading account securities:				
Mortgage-backed securities GNMA		$ 180,827		$ 180,827
Mortgage-backed securities FNMA		107,301		107,301
Mortgage-backed securities FHLMC		20,425		20,425

Total trading account securities		$ 308,553		$ 308,553
Mortgage servicing rights			$ 3,777	$ 3,777
Total		$ 308,553	$ 3,777	$ 312,330

	Proceeds Obtained During the Nine Months Ended September 30, 2012			
(In thousands)	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Trading account securities:				
Mortgage-backed securities GNMA		$ 575,642		$ 575,642
Mortgage-backed securities FNMA		238,285		238,285
Mortgage-backed securities - FHLMC		20,425		20,425
Total trading account securities		$ 834,352		$ 834,352
Mortgage servicing rights			$ 10,798	$ 10,798
Total		$ 834,352	$ 10,798	$ 845,150

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	Proceeds Obtained During the Quarter Ended September 30, 2011			
(In thousands)	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Trading account securities:				
Mortgage-backed securities GNMA		$ 193,731		$ 193,731
Mortgage-backed securities FNMA		42,079		42,079
Total trading account securities		$ 235,810		$ 235,810
Mortgage servicing rights			$ 4,114	$ 4,114
Total		$ 235,810	$ 4,114	$ 239,924

	Proceeds Obtained During the Nine Months Ended September 30, 2011			
(In thousands)	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Trading account securities:				
Mortgage-backed securities GNMA		$ 666,601	$	$ 666,601
Mortgage-backed securities FNMA		163,326		163,326
Total trading account securities		$ 829,927	$	$ 829,927
Mortgage servicing rights			$ 14,953	$ 14,953
Total		$ 829,927	$ 14,953	$ 844,880

During the nine months ended September 30, 2012, the Corporation retained servicing rights on whole loan sales involving approximately $196 million in principal balance outstanding (September 30, 2011 $84 million), with realized gains of approximately $8.9 million (September 30, 2011 gains of $1.7 million). All loan sales performed during the nine months ended September 30, 2012 and 2011 were without credit recourse agreements.

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

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

The Corporation uses a discounted cash flow model to estimate the fair value of MSRs. The discounted cash flow model incorporates assumptions that market participants would use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, prepayment and late fees, among other considerations. Prepayment speeds are adjusted for the Corporation s loan characteristics and portfolio behavior.

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

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Residential MSRs		
(In thousands)	September 30, 2012	September 30, 2011
Fair value at beginning of period	$ 151,323	$ 166,907
Purchases	1,620	1,251
Servicing from securitizations or asset transfers	12,842	15,651
Sale of servicing assets	(103)	
Changes due to payments on loans[1]	(14,262)	(9,770)
Reduction due to loan repurchases	(3,961)	(2,727)
Changes in fair value due to changes in valuation model inputs or assumptions	11,006	(13,876)
Other disposals	(98)	(210)
Fair value at end of period	$ 158,367	$ 157,226

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

Residential mortgage loans serviced for others were $16.8 billion at September 30, 2012 (December 31, 2011 $17.3 billion; September 30, 2011 $17.4 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 and nine months ended September 30, 2012 amounted to $12.2 million and $36.3 million, respectively (September 30, 2011 $12.2 million and $37.0 million, respectively). The banking subsidiaries receive servicing fees based on a percentage of the outstanding loan balance. At September 30, 2012, those weighted average mortgage servicing fees were 0.28% (September 30, 2011 0.27%). Under these servicing agreements, the banking subsidiaries do not generally earn significant prepayment penalty fees on the underlying loans serviced.

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

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

	Quarter ended		Nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Prepayment speed	6.4 %	6.3 %	6.2 %	5.4 %
Weighted average life	15.6 years	15.8 years	16.2 years	18.6 years
Discount rate (annual rate)	11.3 %	11.6 %	11.4 %	11.5 %

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

	Originated MSRs		
(In thousands)	September 30, 2012	December 31, 2011	September 30, 2011
Fair value of servicing rights	$ 105,836	$ 99,280	$ 99,901
Weighted average life	11.3 years	13.0 years	10.6 years
Weighted average prepayment speed (annual rate)	8.9 %	7.7 %	9.4 %
Impact on fair value of 10% adverse change	$ (3,206)	$ (2,744)	$ (3,724)
	$ (6,634)	$ (5,800)	$ (7,331)

Impact on fair value of 20% adverse change			
Weighted average discount rate (annual rate)	12.4 %	12.6 %	12.6 %
Impact on fair value of 10% adverse change	$ (4,255)	$ (3,913)	$ (4,177)
Impact on fair value of 20% adverse change	$ (8,654)	$ (7,948)	$ (8,123)

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

(In thousands)	Purchased MSRs September 30, 2012	December 31, 2011	September 30, 2011
Fair value of servicing rights	$ 52,531	$ 52,043	$ 57,325
Weighted average life	12.0 years	14.6 years	10.9 years
Weighted average prepayment speed (annual rate)	8.3 %	6.9 %	9.2 %
Impact on fair value of 10% adverse change	$ (2,027)	$ (1,887)	$ (2,458)
Impact on fair value of 20% adverse change	$ (3,624)	$ (3,303)	$ (4,401)
Weighted average discount rate (annual rate)	11.4 %	11.4 %	11.4 %
Impact on fair value of 10% adverse change	$ (2,349)	$ (2,376)	$ (2,550)
Impact on fair value of 20% adverse change	$ (4,214)	$ (4,214)	$ (4,552)

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 September 30, 2012, the Corporation serviced $3.1 billion (December 31, 2011 $3.5 billion; September 30, 2011 $3.6 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 September 30, 2012, the Corporation had recorded $70 million in mortgage loans on its consolidated statements of financial condition related to this buy-back option program (December 31, 2011 $180 million; September 30, 2011 $163 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 September 30, 2012, the Corporation repurchased approximately $184 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)	September 30, 2012	December 31, 2011
Net deferred tax assets (net of valuation allowance)	$ 545,859	$ 429,691
Investments under the equity method	218,045	313,152
Bank-owned life insurance program	232,499	238,077
Prepaid FDIC insurance assessment	30,053	58,082
Prepaid taxes	99,500	17,441
Other prepaid expenses	60,841	59,894
Derivative assets	49,879	61,886
Trades receivables from brokers and counterparties	287,322	69,535
Others	200,929	214,635
Total other assets	$ 1,724,927	$ 1,462,393

Note 12 Goodwill and other intangible assets

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

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

2011					
(In thousands)	Balance at January 1, 2011	Goodwill on acquisition	Purchase accounting adjustments	Other	Balance at September 30, 2011
Banco Popular de Puerto Rico	$ 245,309	$ 1,035	$ (69)	$	$ 246,275
Banco Popular North America	402,078				402,078
Total Popular, Inc.	$ 647,387	$ 1,035	$ (69)	$	$ 648,353

Purchase accounting adjustments consists of adjustments to the value of the assets acquired and liabilities assumed resulting from the completion of appraisals or other valuations, adjustments to initial estimates recorded for transaction costs, if any, and contingent consideration paid during a contractual contingency period.

The following table presents the gross amount of goodwill and accumulated impairment losses by reportable segments.

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

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

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

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

(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
September 30, 2012			
Core deposits	$ 77,885	$ 41,599	$ 36,286
Other customer relationships	16,835	2,542	14,293
Other intangibles	135	65	70
Total other intangible assets	$ 94,855	$ 44,206	$ 50,649
December 31, 2011			
Core deposits	$ 80,591	$ 38,199	$ 42,392
Other customer relationships	19,953	4,643	15,310
Other intangibles	242	103	139
Total other intangible assets	$ 100,786	$ 42,945	$ 57,841

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

During the quarter ended September 30, 2012, the Corporation recognized $ 2.5 million in amortization expense related to other intangible assets with definite useful lives (September 30, 2011 $ 2.5 million). During the nine months ended September 30, 2012, the Corporation recognized $ 7.6 million in amortization related to other intangible assets with definite useful lives (September 30, 2011 $ 7.0 million).

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

(In thousands)	
Remaining 2012	$ 2,468
Year 2013	9,871
Year 2014	9,227
Year 2015	7,084
Year 2016	6,799
Year 2017	4,050

Results of the Goodwill Impairment Test

The Corporation s goodwill and other identifiable intangible assets having an indefinite useful life are tested for impairment. Intangibles with indefinite lives are evaluated for impairment at least annually and on a more frequent basis if events or circumstances indicate impairment could have taken place. Such events could include, among others, a significant adverse change in the business climate, an adverse action by a regulator, an unanticipated change in the competitive environment and a decision to change the operations or dispose of a reporting unit.

Under applicable accounting standards, goodwill impairment analysis is a two-step test. The first step of the goodwill impairment test involves comparing the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, the second step must be performed. The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated possible impairment. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangibles (including any unrecognized intangible assets, such as unrecognized core deposits and trademark) as if the reporting unit was being acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The Corporation estimates the fair values of the assets and liabilities of a reporting unit, consistent with the requirements of the fair value measurements accounting standard, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of the assets and liabilities reflects market conditions, thus volatility in prices could have a material impact on the determination of the implied fair value of the reporting unit goodwill at the impairment test date. The adjustments to measure the assets, liabilities and intangibles at fair value are for the purpose of measuring the implied fair value of goodwill and such adjustments are not reflected in the consolidated statement of condition. If the implied fair value of goodwill exceeds the goodwill assigned to the reporting unit, there is no impairment. If the goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted under applicable accounting standards.

The Corporation performed the annual goodwill impairment evaluation for the entire organization during the third quarter of 2012 using July 31, 2012 as the annual evaluation date. The reporting units utilized for this evaluation were those that are one level below the business segments, which are the legal entities within the reportable segment. The Corporation follows push-down accounting, as such all goodwill is assigned to the reporting units when carrying out a business combination.

In determining the fair value of a reporting unit, the Corporation generally uses a combination of methods, including market price multiples of comparable companies and transactions, as well as discounted cash flow analysis. Management evaluates the particular circumstances of each reporting unit in order to determine the most appropriate valuation methodology. The Corporation evaluates the results obtained under each valuation methodology to identify and understand the key value drivers in order to ascertain that the results obtained are reasonable and appropriate under the circumstances. Elements considered include current market and economic conditions, developments in specific lines of business, and any particular features in the individual reporting units.

The computations require management to make estimates and assumptions. Critical assumptions that are used as part of these evaluations include:

- a selection of comparable publicly traded companies, based on nature of business, location and size;
- a selection of comparable acquisition and capital raising transactions;
- the discount rate applied to future earnings, based on an estimate of the cost of equity;
- the potential future earnings of the reporting unit; and
- the market growth and new business assumptions.

For purposes of the market comparable approach, valuations were determined by calculating average price multiples of relevant value drivers from a group of companies that are comparable to the reporting unit being analyzed and applying those price multiples to the value drivers of the reporting unit. Multiples used are minority based multiples and thus, no control premium adjustment is made to the comparable companies market multiples. While the market price multiple is not an assumption, a presumption that it provides an indicator of the value of the reporting unit is inherent in the valuation. The determination of the market comparables also involves a degree of judgment.

For purposes of the discounted cash flows (DCF) approach, the valuation is based on estimated future cash flows. The financial projections used in the DCF valuation analysis for each reporting unit are based on the most recent (as of the valuation date) financial projections presented to the Corporation s Asset / Liability Management Committee (ALCO). The growth assumptions included in these projections are based on management s expectations for each reporting unit s financial prospects considering economic and industry conditions as well as particular plans of each entity (i.e. restructuring plans, de-leveraging, etc.). The cost of equity used to discount the cash flows was calculated using the Ibbotson Build-Up Method and ranged from 11.93% to 18.38% for the 2012 analysis. The Ibbotson Build-Up Method builds up a cost of equity starting with the rate of return of a risk-free asset (20-year U.S. Treasury note) and adds to it additional risk elements such as equity risk premium, size premium and industry risk premium. The resulting discount rates were analyzed in terms of reasonability given the current market conditions and adjustments were made when necessary.

For BPNA, the only reporting unit that failed Step 1, the Corporation determined the fair value of Step 1 utilizing a DCF approach and a market value approach. The market value approach is based on a combination of price multiples from comparable companies and multiples from capital raising transactions of comparable companies. The market multiples used included price to book and price to tangible book . The Step 1 fair value for BPNA under both valuation approaches (market and DCF) was below the carrying amount of its equity book value as of the valuation date (July 31), requiring the completion of Step 2. In accordance with accounting standards, the Corporation performed a valuation of all assets and liabilities of BPNA, including any recognized and unrecognized intangible assets, to determine the fair value of BPNA s net assets. To complete Step 2, the Corporation subtracted from BPNA s Step 1 fair value the determined fair value of the net assets to arrive at the implied fair value of goodwill. The results of the Step 2 indicated that the implied fair value of goodwill exceeded the goodwill carrying value of $402 million at July 31, 2012, resulting in no goodwill impairment. The reduction in BPNA s Step 1 fair value was offset by a reduction in the fair value of its net assets, resulting in an implied fair value of goodwill that exceeds the recorded book value of goodwill.

The analysis of the results for Step 2 indicates that the reduction in the fair value of the reporting unit was mainly attributed to the deteriorated fair value of the loan portfolios and not to the fair value of the reporting unit as a going concern. The current negative performance of the reporting unit is principally related to deteriorated credit quality in its loan portfolio, which is consistent with the results of the Step 2 analysis. The fair value determined for BPNA s loan portfolio in the July 31, 2012 annual test represented a discount of 18.2%, compared with 28.0% at July 31, 2011. The discount is mainly attributed to market participant s expected rate of returns, which affected the market discount on the commercial and construction loan portfolios of BPNA.

If the Step 1 fair value of BPNA declines further in the future without a corresponding decrease in the fair value of its net assets or if loan discounts improve without a corresponding increase in the Step 1 fair value, the Corporation may be required to record a goodwill impairment charge. The Corporation engaged a third-party valuator to assist management in the annual evaluation of BPNA s goodwill (including Step 1 and

Step 2) as well as BPNA s loan portfolios as of the July 31, 2012 valuation date. Management discussed the methodologies, assumptions and results supporting the relevant values for conclusions and determined they were reasonable.

For the BPPR reporting unit, the average estimated fair value calculated in Step 1 using all valuation methodologies exceeded BPPR s equity value by approximately $222 million in the July 31, 2012 annual test as compared with approximately $472 million at July 31, 2011. This results indicates there would be no indication of impairment on the goodwill recorded in BPPR at July 31, 2012. For the BPNA reporting unit, the estimated implied fair value of goodwill calculated in Step 2 exceeded BPNA s goodwill carrying value by approximately $338 million as compared to approximately $701 million at July 31, 2011. The reduction in the excess of the implied fair value of goodwill over its carrying amount for BPNA is due to the improved credit quality of its loan portfolio. The goodwill balance of BPPR and BPNA, as legal entities, represented approximately 97% of the Corporation s total goodwill balance as of the July 31, 2012 valuation date.

Furthermore, as part of the analyses, management performed a reconciliation of the aggregate fair values determined for the reporting units to the market capitalization of Popular, Inc. concluding that the fair value results determined for the reporting units in the July 31, 2012 annual assessment were reasonable.

The goodwill impairment evaluation process requires the Corporation to make estimates and assumptions with regard to the fair value of the reporting units. Actual values may differ significantly from these estimates. Such differences could result in future impairment of goodwill that would, in turn, negatively impact the Corporation s results of operations and the reporting units where the goodwill is recorded. Declines in the Corporation s market capitalization could increase the risk of goodwill impairment in the future.

Management monitors events or changes in circumstances between annual tests to determine if these events or changes in circumstances would more likely than not reduce the fair value of a reporting unit below its carrying amount.

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Note 13 Deposits

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

(In thousands)	September 30, 2012	December 31, 2011
Savings accounts	$ 6,603,072	$ 6,473,215
NOW, money market and other interest bearing demand deposits	5,585,761	5,103,398
Total savings, NOW, money market and other interest bearing demand deposits	12,188,833	11,576,613
Certificates of deposit:		
Under $100,000	5,696,243	6,473,095
$100,000 and over	3,029,953	4,236,945
Total certificates of deposit	8,726,196	10,710,040
Total interest bearing deposits	$ 20,915,029	$ 22,286,653

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

(In thousands)	
2012	$ 2,388,162
2013	3,305,147
2014	1,130,284
2015	957,870
2016	481,365
2017 and thereafter	463,368
Total certificates of deposit	$ 8,726,196

At September 30, 2012, the Corporation had brokered deposits amounting to $ 2.6 billion (December 31, 2011 $ 3.4 billion).

The aggregate amount of overdrafts in demand deposit accounts that were reclassified to loans was $18 million at September 30, 2012 (December 31, 2011 $13 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)	September 30, 2012	December 31, 2011
Assets sold under agreements to repurchase	$ 1,944,564	$ 2,141,097

The repurchase agreements outstanding at September 30, 2012 were collateralized by $ 1.5 billion (December 31, 2011 $ 1.8 billion) in investment securities available-for-sale, $181 million (December 31, 2011 $403 million) in trading securities and $ 267 million (December 31, 2011 $ 68 million) in trading receivables from brokers and counterparties that are classified in other assets. It is the Corporation s policy to maintain effective control over assets sold under agreements to repurchase; accordingly, such securities continue to be carried on the consolidated statements of financial condition.

In addition, there were repurchase agreements outstanding collateralized by $ 251 million in securities purchased under agreements to resell to which the Corporation has the right to repledge the securities (December 31, 2011 $ 274 million). It is the Corporation s policy to take possession of securities purchased under agreements to resell. However, the counterparties to such agreements maintain effective control over such securities; accordingly, 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)	September 30, 2012	December 31, 2011
Advances with the FHLB paying interest at maturity, at fixed rates ranging from 0.34% to 0.42%	$ 1,205,000	$ 295,000
Others	1,200	1,200
Total other short-term borrowings	$ 1,206,200	$ 296,200

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

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

(In thousands)	September 30, 2012	December 31, 2011
Advances with the FHLB with maturities ranging from 2012 through 2021 paying interest at monthly fixed rates ranging from 0.63% to 4.93% (December 31, 2011- ranging from 0.66% to 4.95%)	$ 631,898	$ 642,568
Term notes with maturities ranging from 2012 to 2016 paying interest semiannually at fixed rates ranging from 5.25% to 7.86%	278,393	278,309
Term notes with maturities ranging from 2012 to 2014 paying interest monthly at a floating rate of 3.00% over the 10-year U.S. Treasury note rate	251	588
Junior subordinated deferrable interest debentures (related to trust preferred securities) with maturities ranging from 2027 to 2034 with fixed interest rates ranging from 6.125% to 8.327% (Refer to Note 15)	439,800	439,800
Junior subordinated deferrable interest debentures (related to trust preferred securities) ($936,000 less discount of $444,338 at September 30, 2012 and $465,963 at December 31, 2011), with no stated maturity and a fixed interest rate of 5.00% until, but excluding December 5, 2013 and 9.00% thereafter (Refer to Note15)[1]	491,662	470,037
Others	24,373	25,070
Total notes payable	$ 1,866,377	$ 1,856,372

Note: The 10-year U.S. Treasury note key index rate at September 30, 2012 and December 31, 2011 was 1.63% and 1.88%, respectively.

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

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

(In thousands)	Assets sold under agreements to repurchase	Short-term borrowings	Notes payable	Total
Year				
2012	$ 1,201,161	$ 1,206,200	$ 147,075	$ 2,554,436
2013	1,206		98,834	100,040
2014			189,428	189,428
2015	174,135		36,104	210,239
2016	453,062		311,492	764,554
Later years	115,000		591,782	706,782
No stated maturity			936,000	936,000
Subtotal	1,944,564	1,206,200	2,310,715	5,461,479
Less: Discount			444,338	444,338

Total borrowings	$ 1,944,564	$ 1,206,200	$ 1,866,377	$ 5,017,141

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Note 15 Trust preferred securities

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

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

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

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

(Dollars in thousands)

Issuer	BanPonce Trust I	Popular Capital Trust I	Popular North America Capital Trust I	Popular Capital Trust 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 $ 492 million at September 30, 2012 ($ 936 million aggregate liquidation amount, net of $ 444 million discount) and $ 470 million at December 31, 2011 ($ 936 million aggregate liquidation amount, net of $ 466 million discount).

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

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Note 16 Stockholders equity

Reverse stock split

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

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

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

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

BPPR statutory reserve

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

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Note 17 Accumulated other comprehensive loss

The following table presents accumulated other comprehensive loss by component at September 30, 2012 and December 31, 2011.

(In thousands)	September 30, 2012	December 31, 2011
Foreign currency translation adjustment	$ (29,895)	$ (28,829)
Underfunding of pension and postretirement benefit plans	(314,569)	(333,287)
Tax effect	112,054	117,229
Net of tax amount	(202,515)	(216,058)
Unrealized holding gains on securities available-for-sale	198,009	230,746
Tax effect	(22,240)	(27,668)
Net of tax amount	175,769	203,078
Unrealized net losses on cash flow hedges	(3,992)	(1,057)
Tax effect	1,198	318
Net of tax amount	(2,794)	(739)
Accumulated other comprehensive loss	$ (59,435)	$ (42,548)

Note 18 Guarantees

At September 30, 2012 the Corporation recorded a liability of $0.7 million (December 31, 2011 $0.5 million), which represents the unamortized balance of the obligations undertaken in issuing the guarantees under the standby letters of credit. Management does not anticipate any material losses related to these instruments.

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

At September 30, 2012 the Corporation serviced $ 3.1 billion (December 31, 2011 $ 3.5 billion) in residential mortgage loans subject to credit recourse provisions, principally loans associated with FNMA and FHLMC residential mortgage loan securitization programs. In the event of any customer default, pursuant to the credit recourse provided, the Corporation is required to repurchase the loan or reimburse the third party investor for the incurred loss. The maximum potential amount of future payments that the Corporation would be required to make under the recourse arrangements in the event of nonperformance by the borrowers is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. During the quarter and nine months ended September 30, 2012, the Corporation repurchased approximately $ 33 million and $ 115 million, respectively, of unpaid principal balance in mortgage loans subject to the credit recourse provisions (September 30, 2011 $ 53 million for the quarter and $ 168 million for nine-months period). In the event of nonperformance by the borrower, the Corporation has rights to the underlying collateral securing the mortgage loan. The Corporation suffers ultimate losses on these loans when the proceeds from a foreclosure sale of the property underlying a defaulted mortgage loan are less than the outstanding principal balance of the loan plus any uncollected interest advanced and the costs of holding and disposing the related property. At September 30, 2012 the Corporation s liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to $ 56 million (December 31, 2011 $ 59 million).

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

(In thousands)	Quarters ended September 30, 2012	Quarters ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Balance as of beginning of period	$ 55,783	$ 55,327	$ 58,659	$ 53,729
Additions for new sales				
Provision for recourse liability	5,576	10,285	15,138	30,109
Net charge-offs / terminations	(5,068)	(10,055)	(17,506)	(28,281)
Balance as of end of period	$ 56,291	$ 55,557	$ 56,291	$ 55,557

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 $ 3.1 million in unpaid principal balance with losses amounting to $ 0.5 million during the nine-month period ended September 30, 2012 (September 30, 2011 $ 21.0 million and $ 2.3 million, respectively). A substantial amount of these loans reinstate to performing status or have mortgage insurance, and thus the ultimate losses on the loans are not deemed significant.

During the quarter ended June 30, 2011, the Corporation s banking subsidiary, BPPR, reached an agreement (the June 2011 agreement) with the FDIC, as receiver for a local Puerto Rico institution, and the financial institution with respect to a loan servicing portfolio that BPPR services since 2008, related to FHLMC and GNMA pools. The loans were originated and sold by the financial institution and the servicing rights were transferred to BPPR in 2008. As part of the 2008 servicing agreement, the financial institution was required to repurchase from BPPR any loans that BPPR, as servicer, was required to repurchase from the investors under representation and warranty obligations. As part of the June 2011 agreement, the Corporation received cash to discharge the financial institution from any repurchase obligation and other claims over the serviced portfolio. At September 30, 2012, the related representation and warranty reserve amounted to $ 8.0 million, and the related serviced portfolio approximated $3 billion (December 31, 2011 $ 8.5 million and $3.5 billion, respectively).

Servicing agreements relating to the mortgage-backed securities programs of FNMA and GNMA, and to mortgage loans sold or serviced to certain other investors, including FHLMC, require the Corporation to advance funds to make scheduled payments of principal, interest, taxes and insurance, if such payments have not been received from the borrowers. At September 30, 2012, the Corporation serviced $ 16.8 billion in mortgage loans for third-parties, including the loans serviced with credit recourse (December 31, 2011 $ 17.3 billion). The Corporation generally recovers funds advanced pursuant to these arrangements from the mortgage owner, from liquidation proceeds when the mortgage loan is foreclosed or, in the case of FHA/VA loans, under the applicable FHA and VA insurance and guarantees programs. However, in the meantime, the Corporation must absorb the cost of the funds it advances during the time the advance is outstanding. The Corporation must also bear the costs of attempting to collect on

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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 September 30, 2012, the outstanding balance of funds advanced by the Corporation under such mortgage loan servicing agreements was approximately $30 million (December 31, 2011 $32 million). To the extent the mortgage loans underlying the Corporation s servicing portfolio experience increased delinquencies, the Corporation would be required to dedicate additional cash resources to comply with its obligation to advance funds as well as incur additional administrative costs related to increases in collection efforts.

At September 30, 2012, the Corporation has reserves for customary representation and warranties related to loans sold by its U.S. subsidiary E-LOAN prior to 2009. These loans were sold to investors on a servicing released basis subject to certain representation and warranties. Although the risk of loss or default was generally assumed by the investors, the Corporation made certain representations relating to borrower creditworthiness, loan documentation and collateral, which if not correct, may result in requiring the Corporation to repurchase the loans or indemnify investors for any related losses associated with these loans. At September 30, 2012, the Corporation s reserve for estimated losses from such representation and warranty arrangements amounted to $ 8 million, which was included as part of other liabilities in the consolidated statement of financial condition (December 31, 2011 $ 11 million). E-LOAN is no longer originating and selling loans since the subsidiary ceased these activities in 2008 and most of the outstanding agreements with major counterparties were settled during 2010 and 2011. On a quarterly basis, the Corporation reassesses its estimate for expected losses associated with E-LOAN s customary representation and warranty arrangements. The analysis incorporates expectations on future disbursements based on quarterly repurchases and make-whole events. The analysis also considers factors such as the average length-time between the loan s funding date and the loan repurchase date, as observed in the historical loan data. Make-whole events are typically defaulted cases in which the investor attempts to recover by collateral or guarantees, and the seller is obligated to cover any impaired or unrecovered portion of the loan. Claims have been predominantly for first mortgage agency loans and principally consist of underwriting errors related to undisclosed debt or missing documentation. The following table presents the changes in the Corporation s liability for estimated losses associated with customary representations and warranties related to loans sold by E-LOAN for the quarters and nine-month period ended September 30, 2012 and 2011.

	Quarters ended September 30,		Nine months ended September 30,	
(In thousands)	2012	2011	2012	2011
Balance as of beginning of period	$ 10,131	$ 29,016	$ 10,625	$ 30,659
Additions for new sales				
(Reversal) provision for representation and warranties	(1,841)		(1,841)	(522)
Net charge-offs / terminations	(1)	(807)	(495)	(1,928)
Balance as of end of period	$ 8,289	$ 28,209	$ 8,289	$ 28,209

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

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Note 19 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)	September 30, 2012	December 31, 2011
Commitments to extend credit:		
Credit card lines	$ 4,381,528	$ 4,297,755
Commercial lines of credit	2,585,109	2,039,629
Other unused credit commitments	361,228	358,572
Commercial letters of credit	25,448	11,632
Standby letters of credit	129,297	124,709
Commitments to originate mortgage loans	72,280	53,323

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

Other commitments

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

Business concentration

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

The Corporation s loan portfolio is diversified by loan category. However, approximately $12.8 billion, or 62% of the Corporation s loan portfolio not covered under the FDIC loss sharing agreements, excluding loans held-for-sale, at September 30, 2012, consisted of real estate related loans, including residential mortgage loans, construction loans and commercial loans secured by commercial real estate (December 31, 2011 $12.5 billion, or 61%).

Except for the Corporation s exposure to the Puerto Rico Government sector, no individual or single group of related accounts is considered material in relation to the Corporation s total assets or deposits, or in relation to the Corporation s overall business. At September 30, 2012, the Corporation had approximately $1.5 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 (December 31, 2011 $1.3 billion and $140 million, respectively). Of the total credit facilities granted, $777 million was outstanding at September 30, 2012 (December 31, 2011 $1.2 billion). Furthermore, at September 30, 2012, the Corporation had $145 million in obligations issued or guaranteed by the Puerto Rico Government, its municipalities and public corporations as part of its investment securities portfolio (December 31, 2011 $154 million).

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Other contingencies

As indicated in Note 9 to the consolidated financial statements, as part of the loss sharing agreements related to the Westernbank FDIC-assisted transaction, the Corporation agreed to make a true-up payment to the FDIC on the date that is 45 days following the last day of the final shared loss month, or upon the final disposition of all covered assets under the loss sharing agreements in the event losses on the loss sharing agreements fail to reach expected levels. The fair value of the true-up payment obligation was estimated at $103 million at September 30, 2012 (December 31, 2011 $98 million).

Legal Proceedings

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

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

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

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

Ongoing Class Action Litigation

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 approve by the Court on September 6, 2012. A final settlement hearing has been set for January 16, 2013.

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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.

Note 20 Non-consolidated variable interest entities

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

Also, the Corporation is involved with various special purpose entities mainly in guaranteed mortgage securitization transactions, including GNMA, 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 September 30, 2012.

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

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

(In thousands)	September 30, 2012	December 31, 2011
Assets		
Servicing assets:		
Mortgage servicing rights	$ 128,637	$ 101,511
Total servicing assets	$ 128,637	$ 101,511
Other assets:		
Servicing advances	$ 1,799	$ 3,027
Total other assets	$ 1,799	$ 3,027
Total	$ 130,436	$ 104,538
Maximum exposure to loss	$ 130,436	$ 104,538

The size of the non-consolidated VIEs, in which the Corporation has a variable interest in the form of servicing fees, measured as the total unpaid principal balance of the loans, amounted to $10.8 billion at September 30, 2012 (December 31, 2011 $9.4 billion).

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

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

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

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

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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.

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 September 30, 2012 and December 31, 2011.

(In thousands)	September 30, 2012	December 31, 2011
Assets		
Loans held-in-portfolio:		
Acquisition loan	$ 45,504	$ 64,711
Advances under the working capital line	538	
Advances under the advance facility	4,835	
Total loans held-in-portfolio	$ 50,877	$ 64,711
Accrued interest receivable	$ 138	$
Other assets:		
Investment in PRLP 2011 Holdings LLC	$ 38,209	$ 37,561
Total other assets	$ 38,209	$ 37,561
Total assets	$ 89,224	$ 102,272
Deposits	$ (4,781)	$ (48)
Total liabilities	$ (4,781)	$ (48)
Total net assets	$ 84,443	$ 102,224
Maximum exposure to loss	$ 84,443	$ 102,224

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

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Note 21 Related party transactions with affiliated company / joint venture

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

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

(In thousands)	September 30, 2012	December 31, 2011
Equity investment in EVERTEC	$ 61,953	$ 191,072
Intra-company eliminations (detailed in next table)	15,679	11,944
Equity investment in EVERTEC, considering intra-company eliminations	$ 77,632	$ 203,016

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

	At September 30, 2012			At December 31, 2011		
(In thousands)	100%	Popular s 48.5% interest (eliminations)	51.5% majority interest	100%	Popular s 49% interest (eliminations)	51% majority interest
Loans	$ 53,493	$ 25,933	$ 27,560	$ 53,215	$ 26,075	$ 27,140
Investment securities	35,000	16,968	18,032	35,000	17,150	17,850
Deposits	44,659	21,651	23,008	54,288	26,601	27,687
Accounts receivables (Other assets)	3,321	1,610	1,711	5,132	2,515	2,617
Accounts payable (Other liabilities)	14,813	7,181	7,632	14,684	7,195	7,489
Total	$ 32,342	$ 15,679	$ 16,663	$ 24,375	$ 11,944	$ 12,431

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

(In thousands)	Quarter ended September 30, 2012	Nine months ended September 30, 2012
Share of income from the equity investment in EVERTEC	$ 29	$ 1,714
Intra-company eliminations considered in other operating income (detailed in next table)	(12,793)	(39,067)
Share of loss from equity investment in EVERTEC, net of eliminations	$ (12,764)	$ (37,353)

(In thousands)	Quarter ended September 30, 2011	Nine months ended September 30, 2011
Share of (loss) income from the equity investment in EVERTEC	$ (1,426)	$ 11,069
Intra-company eliminations considered in other operating income (detailed in next table)	(12,288)	(38,747)
Share of loss from equity investment in EVERTEC, net of eliminations	$ (13,714)	$ (27,678)

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

	Quarter ended September 30, 2012			Nine months ended September 30, 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	Category
Interest income on loan to EVERTEC	$ 854	$ 414	$ 440	$ 2,502	$ 1,198	$ 1,304	Interest income
Interest income on investment securities issued by EVERTEC	963	467	496	2,888	1,384	1,504	Interest income
Interest expense on deposits	(45)	(22)	(23)	(219)	(104)	(115)	Interest expense
	6,240	3,026	3,214	18,513	8,854	9,659	Other service fees

ATH and credit cards interchange income from services to EVERTEC							
Processing fees on services provided by EVERTEC	(36,173)	(17,540)	(18,633)	(110,687)	(53,048)	(57,639)	Professional fees
Rental income charged to EVERTEC	1,636	794	842	4,991	2,391	2,600	Net occupancy
Transition services provided to EVERTEC	141	68	73	544	258	286	Other operating expenses
Total	$ (26,384)	$ (12,793)	$ (13,591)	$ (81,468)	$ (39,067)	$ (42,401)	

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	Quarter ended September 30, 2011			Nine months ended September 30, 2011			
(In thousands)	100%	Popular s 49% interest (eliminations)	51% majority interest	100%	Popular s 49% interest (eliminations)	51% majority interest	Category
Interest income on loan to EVERTEC	$ 850	$ 417	$ 433	$ 2,787	$ 1,366	$ 1,421	Interest income
Interest income on investment securities issued by EVERTEC	963	472	491	2,888	1,415	1,473	Interest income
Interest expense on deposits	(136)	(67)	(69)	(538)	(264)	(274)	Interest expense
ATH and credit cards interchange income from services to EVERTEC	7,294	3,574	3,720	21,366	10,469	10,897	Other service fees
Processing fees on services provided by EVERTEC	(36,185)	(17,731)	(18,454)	(111,985)	(54,872)	(57,113)	Professional fees
Rental income charged to EVERTEC	1,746	856	890	5,350	2,621	2,729	Net occupancy
Transition services provided to EVERTEC	390	191	199	1,056	518	538	Other operating expenses
Total	$ (25,078)	$ (12,288)	$ (12,790)	$ (79,076)	$ (38,747)	$ (40,329)	

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 $ 7.7 million at September 30, 2012 (December 31, 2011 $15.0 million). Also, EVERTEC has a letter of credit issued by BPPR, for an amount of $2.9 million at September 30, 2012 and December 31, 2011. As part of the merger agreement, the Corporation also agreed to maintain outstanding this letter of credit for a 5-year period. EVERTEC and the Corporation entered into a Reimbursement Agreement, in which EVERTEC will reimburse the Corporation for any losses incurred by the Corporation in connection with the performance bonds and the letter of credit. Possible losses resulting from these agreements are considered insignificant.

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

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

	Quarter ended September 30, 2012			Nine months ended September 30, 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	$ 619	$ 154	$ 465	$ 2,130	$ 530	$ 1,600	Interest income

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

	At September 30, 2012			At December 31, 2011		
(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	$ 67,746	$ 16,869	$ 50,877	$ 86,167	$ 21,456	$ 64,711
Deposits (non-interest bearing)	6,366	1,585	4,781	64	16	48
Accrued interest receivable	185	46	139			
Total	$ 61,565	$ 15,330	$ 46,235	$ 86,103	$ 21,440	$ 64,663

Note 22 Fair value measurement

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

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

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

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

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

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

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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 September 30, 2012 and December 31, 2011 and on a nonrecurring basis in periods subsequent to initial recognition for the nine months ended September 30, 2012 and 2011:

At September 30, 2012				
(In thousands)	Level 1	Level 2	Level 3	Total
RECURRING FAIR VALUE MEASUREMENTS				
Assets				
Investment securities available-for-sale:				
U.S. Treasury securities	$	$ 37,707	$	$ 37,707
Obligations of U.S. Government sponsored entities		1,064,967		1,064,967
Obligations of Puerto Rico, States and political subdivisions		50,004		50,004
Collateralized mortgage obligations federal agencies		2,217,042		2,217,042
Collateralized mortgage obligations private label		38,913		38,913
Mortgage-backed securities		1,672,117	7,143	1,679,260
Equity securities	3,941	3,589		7,530
Other		24,878		24,878
Total investment securities available-for-sale	$ 3,941	$ 5,109,217	$ 7,143	$ 5,120,301
Trading account securities, excluding derivatives:				
Obligations of Puerto Rico, States and political subdivisions	$	$ 17,584	$	$ 17,584
Collateralized mortgage obligations		708	2,634	3,342
Mortgage-backed securities federal agencies		175,522	12,569	188,091
Other		15,509	2,390	17,899
Total trading account securities	$	$ 209,323	$ 17,593	$ 226,916
Mortgage servicing rights	$	$	$ 158,367	$ 158,367
Derivatives		49,881		49,881
Total assets measured at fair value on a recurring basis	$ 3,941	$ 5,368,421	$ 183,103	$ 5,555,465
Liabilities				
Derivatives	$	$ (56,629)	$	$ (56,629)
Contingent consideration			(103,688)	(103,688)
Total liabilities measured at fair value on a recurring basis	$	$ (56,629)	$ (103,688)	$ (160,317)

At December 31, 2011				
(In thousands)	Level 1	Level 2	Level 3	Total
RECURRING FAIR VALUE MEASUREMENTS				
Assets				
Investment securities available-for-sale:				
U.S. Treasury securities	$	$ 38,668	$	$ 38,668
Obligations of U.S. Government sponsored entities		985,546		985,546
Obligations of Puerto Rico, States and political subdivisions		58,728		58,728
Collateralized mortgage obligations federal agencies		1,697,642		1,697,642

Collateralized mortgage obligations private label	57,792	57,792

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Mortgage-backed securities		2,132,134	7,435	2,139,569
Equity securities	3,465	3,451		6,916
Other		24,962		24,962
Total investment securities available-for-sale	$ 3,465	$ 4,998,923	$ 7,435	$ 5,009,823
Trading account securities, excluding derivatives:				
Obligations of Puerto Rico, States and political subdivisions	$	$ 90,332	$	$ 90,332
Collateralized mortgage obligations		737	2,808	3,545
Mortgage-backed securities federal agencies		303,428	21,777	325,205
Other		13,212	4,036	17,248
Total trading account securities	$	$ 407,709	$ 28,621	$ 436,330
Mortgage servicing rights	$	$	$ 151,323	$ 151,323
Derivatives		61,887		61,887
Total assets measured at fair value on a recurring basis	$ 3,465	$ 5,468,519	$ 187,379	$ 5,659,363
Liabilities				
Derivatives	$	$ (66,700)	$	$ (66,700)
Contingent consideration			(99,762)	(99,762)
Total liabilities measured at fair value on a recurring basis	$	$ (66,700)	$ (99,762)	$ (166,462)

	Nine months ended September 30, 2012				
(In thousands)	Level 1	Level 2	Level 3	Total	
NONRECURRING FAIR VALUE MEASUREMENTS					
Assets					Write-downs
Loans[1]	$	$	$ 11,887	$ 11,887	$ (12,206)
Loans held-for-sale[2]			102,092	102,092	(41,706)
Other real estate owned[3]			93,560	93,560	(25,795)
Other foreclosed assets[3]			120	120	(303)
Long-lived assets held-for-sale[4]					(123)
Total assets measured at fair value on a nonrecurring basis	$	$	$ 207,659	$ 207,659	$ (80,133)

[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 $6 million at September 30, 2012.

[4] Represents the fair value of long-lived assets held-for-sale that were written down to their fair value.

Nine months ended September 30, 2011

(In thousands)	Level 1	Level 2	Level 3	Total		
NONRECURRING FAIR VALUE MEASUREMENTS						
Assets					Write-downs	
Loans[1]	$	$	$ 109,694	$ 109,694	$	(17,181)
Loans held-for-sale[2]			84,368	84,368		(29,197)
Other real estate owned[3]			23,735	23,735		(12,008)
Other foreclosed assets[3]			109	109		(590)
Total assets measured at fair value on a nonrecurring basis	$	$	$ 217,906	$ 217,906	$	(58,976)

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[1] Relates mostly to certain impaired collateral dependent loans. The impairment was measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with the provisions of ASC Section 310-10-35.

[2] Relates to lower of cost or fair value adjustments on loans held-for-sale and loans transferred from loans held-in-portfolio to loans held-for-sale.

[3] Represents the fair value of foreclosed real estate and other collateral owned that were written down to their fair value. Costs to sell excluded from the reported fair value amount were $2 million at September 30, 2011.

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

Quarter ended September 30, 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 June 30, 2012	$ 7,382	$ 2,855	$ 17,705	$ 2,356	$ 155,711	$ 186,009	$ (101,013)	$ (101,013)
Gains (losses) included in earnings	(2)	(3)	(230)	(22)	(2,426)	(2,683)	(2,986)	(2,986)
Gains (losses) included in OCI	(137)					(137)		
Purchases			80	56	5,238	5,374		
Sales			(4,286)		(103)	(4,389)		
Settlements	(100)	(218)	(700)		(53)	(1,071)	311	311
Balance at September 30, 2012	$ 7,143	$ 2,634	$ 12,569	$ 2,390	$ 158,367	$ 183,103	$ (103,688)	$ (103,688)
Changes in unrealized gains (losses) included in earnings relating to assets still held at September 30, 2012	$	$ (4)	$ (81)	$ 35	$ 5,548	$ 5,498	$ (2,991)	$ (2,991)

Nine months ended September 30, 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	$ (99,762)	$ (99,762)
Gains (losses) included in earnings	(5)	54	747	27	(7,217)	(6,394)	(4,237)	(4,237)
Gains (losses) included in OCI	63					63		
Purchases		607	6,393	2,116	14,462	23,578		
Sales		(251)	(9,741)	(1,834)	(103)	(11,929)		
Settlements	(350)	(584)	(1,396)	(1,955)	(98)	(4,383)	311	311
Transfers into Level 3			2,405			2,405		
Transfers out of Level 3			(7,616)			(7,616)		
Balance at September 30, 2012	$ 7,143	$ 2,634	$ 12,569	$ 2,390	$ 158,367	$ 183,103	$ (103,688)	$ (103,688)
Changes in unrealized gains (losses) included in earnings relating to assets still held at	$	$ 47	$ (173)	$ (340)	$ 11,067	$ 10,601	$ (4,753)	$ (4,753)

September 30, 2012

	Quarter ended September 30, 2011							
(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 June 30, 2011	$ 7,634	$ 2,638	$ 27,079	$ 3,571	$ 162,619	$ 203,541	$ (95,940)	$ (95,940)
Gains (losses) included in earnings	(2)	30	(154)	(115)	(10,124)	(10,365)	(1,657)	(1,657)
Gains (losses) included in OCI	(40)					(40)		
Initial fair value on acquisition							(827)	(827)
Purchases		18	757	2,065	4,750	7,590		
Sales		(20)	(4,676)	(1,430)		(6,126)		
Settlements	(100)	(95)	(529)		(19)	(743)		
Balance at September 30, 2011	$ 7,492	$ 2,571	$ 22,477	$ 4,091	$ 157,226	$ 193,857	$ (98,424)	$ (98,424)
Changes in unrealized gains (losses) included in earnings relating to assets still held at September 30, 2011	$	$ 20	$ (47)	$ (115)	$ (6,024)	$ (6,166)	$ (1,657)	$ (1,657)

	Nine months ended September 30, 2011							
(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, 2011	$ 7,759	$ 2,746	$ 20,238	$ 2,810	$ 166,907	$ 200,460	$ (92,994)	$ (92,994)
Gains (losses) included in earnings	(5)	31	5	445	(26,373)	(25,897)	(4,741)	(4,741)
Gains (losses) included in OCI	(38)					(38)		
Initial fair value on acquisition							(689)	(689)
Purchases		414	10,977	2,989	16,902	31,282		
Sales		(336)	(7,463)	(2,106)		(9,905)		
Settlements	(224)	(284)	(1,280)	(47)	(210)	(2,045)		
Balance at September 30, 2011	$ 7,492	$ 2,571	$ 22,477	$ 4,091	$ 157,226	$ 193,857	$ (98,424)	$ (98,424)
Changes in unrealized gains (losses) included in earnings relating to assets still held at September 30, 2011	$	$ 18	$ 42	$ 710	$ (13,876)	$ (13,106)	$ (4,741)	$ (4,741)

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

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

(In thousands)	Quarter ended September 30, 2012 Total gains (losses) included in earnings	Quarter ended September 30, 2012 Changes in unrealized gains (losses) relating to assets still held at reporting date	Nine months ended September 30, 2012 Total gains (losses) included in earnings	Nine months ended September 30, 2012 Changes in unrealized gains (losses) relating to assets still held at reporting date
Interest income	$ (2)	$	$ (5)	$
FDIC loss share (expense) income	(2,991)	(2,991)	(4,849)	(4,849)
Other service fees	(2,426)	5,548	(7,217)	11,067
Trading account (loss) profit	(255)	(50)	828	(466)
Other operating income (loss)	5		612	96
Total	$ (5,669)	$ 2,507	$ (10,631)	$ 5,848

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(In thousands)	Quarter ended September 30, 2011 Total gains (losses) included in earnings	Quarter ended September 30, 2011 Changes in unrealized gains (losses) relating to assets still held at reporting date	Nine months ended September 30, 2011 Total gains (losses) included in earnings	Nine months ended September 30, 2011 Changes in unrealized gains (losses) relating to assets still held at reporting date
Interest income	$ (2)	$	$ (5)	$
FDIC loss share (expense) income	(1,640)	(1,640)	(4,684)	(4,684)
Other service fees	(10,124)	(6,024)	(26,373)	(13,876)
Trading account (loss) profit	(239)	(142)	481	770
Other operating income (loss)	(17)	(17)	(57)	(57)
Total	$ (12,022)	$ (7,823)	$ (30,638)	$ (17,847)

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 September 30, 2012	Valuation Technique	Unobservable Inputs	Weighted Average (Range)
Collateralized mortgage obligations trading	$ 2,634	Discounted cash flow model	Weighted average life	2.7 years (0.4 -6.7 years)
			Yield	3.7% (0.8% - 4.7%)
			Constant prepayment rate	23.4% (18.0% - 28.8%)
Other trading	$ 1,245	Discounted cash flow model	Weighted average life	5.7 years
			Yield	12.8%
			Constant prepayment rate	9.0%
Mortgage servicing rights	$ 158,367	Discounted cash flow model	Prepayment speed	8.7% (2.1% - 26.5%)
			Weighted average life	11.5 years (3.8 - 47.3 years)
			Discount rate	12.0% (10.0 - 15.5%)
Contingent consideration	$ (103,688)	Discounted cash flow model	Credit loss rate on covered loans	23.2% (0.0% - 100.0%)
			Risk premium component of discount rate	5.3%
Loans held-in-portfolio	$ 11,887	External Appraisal	Haircut applied on external appraisals	19.9% (5.0% - 30.0%)
Loans held-for-sale	$ 102,092	Discounted cash flow model	Weighted average life	2.0 years
			Net loss rate	49.6%
Other real estate owned	$ 93,560	External Appraisal	Haircut applied on external appraisals	22.9% (5.0% - 40.0%)

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.

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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.

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

Trading Account Securities and Investment Securities Available-for-Sale

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

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

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

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

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

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

Corporate securities, commercial paper and mutual funds (included as other in the trading account securities category): Quoted prices for these security types are obtained from broker dealers. Given that the quoted prices are for similar instruments or do not trade in highly liquid markets, these securities are classified as Level 2. The important

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variables in determining the prices of Puerto Rico tax-exempt mutual fund shares are net asset value, dividend yield and type of assets in the fund. All funds trade based on a relevant dividend yield taking into consideration the aforementioned variables. In addition, demand and supply also affect the price. Corporate securities that trade less frequently or are in distress are classified as Level 3.

Mortgage servicing rights

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

Derivatives

Interest rate swaps, interest rate caps and indexed options are traded in over-the-counter active markets. These derivatives are indexed to an observable interest rate benchmark, such as LIBOR or equity indexes, and are priced using an income approach based on present value and option pricing models using observable inputs. Other derivatives are liquid and have quoted prices, such as forward contracts or to be announced securities (TBAs). All of these derivatives are classified as Level 2. The non-performance risk is determined using internally-developed models that consider the collateral held, the remaining term, and the creditworthiness of the entity that bears the risk, and uses available public data or internally-developed data related to current spreads that denote their probability of default.

Contingent consideration liability

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

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

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

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

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

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

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

Other real estate owned and other foreclosed assets

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

Certain foreclosed assets which are measured based on binding offers are classified as Level 2.

Note 23 Fair value of financial instruments

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

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

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

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

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

Cash and due from banks

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

Money market investments

Investments in money market instruments 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, restricted cash, and excess balances held at the Federal Reserve. These money market investments are classified as Level 2, except for excess balances 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 15 for additional information on these trust preferred securities.

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

Loans held-for-sale

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

Loans held-in-portfolio

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

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.

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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.

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.

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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.

	September 30, 2012					December 31, 2011	
(In thousands)	Carrying amount	Level 1	Level 2	Level 3	Fair value	Carrying amount	Fair value
Financial Assets:							
Cash and due from banks	$ 477,342	$ 477,342	$	$	$ 477,342	$ 535,282	$ 535,282
Money market investments	925,663	611,796	313,867		925,663	1,376,174	1,376,174
Trading account securities, excluding derivatives[1]	226,916		209,323	17,593	226,916	436,330	436,330
Investment securities available-for-sale[1]	5,120,301	3,941	5,109,217	7,143	5,120,301	5,009,823	5,009,823
Investment securities held-to-maturity:							
Obligations of Puerto Rico, States and political subdivisions	95,425			97,424	97,424	98,973	98,770
Collateralized mortgage obligation-federal agency	147			153	153	160	151
Other	26,500		1,500	25,025	26,525	26,250	26,333
Total investment securities held-to-maturity	$ 122,072	$	$ 1,500	$ 122,602	$ 124,102	$ 125,383	$ 125,254
Other investment securities:							
FHLB stock	$ 117,550	$	$ 117,550	$	$ 117,550	$ 84,133	$ 84,133
FRB stock	79,718		79,718		79,718	79,648	79,648
Trust preferred securities	14,197		13,197	1,000	14,197	14,197	14,197
Other investments	1,924			3,675	3,675	1,902	3,605
Total other investment securities	$ 213,389	$	$ 210,465	$ 4,675	$ 215,140	$ 179,880	$ 181,583
Loans held-for-sale	$ 337,049	$	$ 9,387	$ 342,287	$ 351,675	$ 363,093	$ 390,783
Loans not covered under loss sharing agreement with the FDIC	20,117,554			16,926,290	16,926,290	19,912,233	16,753,889
Loans covered under loss sharing agreements with the FDIC	3,778,994			4,380,019	4,380,019	4,223,758	4,663,327
FDIC loss share asset	1,559,057			1,450,671	1,450,671	1,915,128	1,755,295
Mortgage servicing rights	158,367			158,367	158,367	151,323	151,323
Derivatives	49,881		49,881		49,881	61,887	61,887

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(In thousands)	September 30, 2012 Carrying amount	Level 1	Level 2	Level 3	Fair value	December 31, 2011 Carrying amount	Fair value
Financial Liabilities:							
Deposits:							
Demand deposits	$ 17,593,304	$	$ 17,593,304	$	$ 17,593,304	$ 17,232,087	$ 17,232,087
Time deposits	8,726,195		8,808,199		8,808,199	10,710,040	10,825,256
Total deposits	$ 26,319,499	$	$ 26,401,503	$	$ 26,401,503	$ 27,942,127	$ 28,057,343
Assets sold under agreements to repurchase:							
Securities sold under agreements to repurchase	$ 1,306,374	$	$ 1,313,558	$	$ 1,313,558	$ 1,102,907	$ 1,107,314
Structured repurchase agreements	638,190		727,844		727,844	1,038,190	1,166,488
Total assets sold under agreements to repurchase	$ 1,944,564	$	$ 2,041,401	$	$ 2,041,401	$ 2,141,097	$ 2,273,802
Other short-term borrowings[2]	$ 1,206,200	$	$ 1,206,200	$	$ 1,206,200	$ 296,200	$ 296,200
Notes payable:							
FHLB advances	$ 631,898	$	$ 664,250	$	$ 664,250	$ 642,568	$ 673,505
Medium-term notes	278,644		310,143	3,903	314,045	278,897	282,898
Junior subordinated deferrable interest debentures (related to trust preferred securities)	439,800		370,273		370,273	439,800	284,238
Junior subordinated deferrable interest debentures (Troubled Asset Relief Program)	491,662			728,096	728,096	470,037	457,120
Others	24,373			24,373	24,373	25,070	25,070
Total notes payable	$ 1,866,377	$	$ 1,344,666	$ 756,372	$ 2,101,038	$ 1,856,372	$ 1,722,831
Derivatives	$ 56,629	$	$ 56,629	$	$ 56,629	$ 66,700	$ 66,700
Contingent consideration	$ 103,688	$	$	$ 103,688	$ 103,688	$ 99,762	$ 99,762

(In thousands)	Notional amount	Level 1	Level 2	Level 3	Fair value	Notional amount	Fair value
Commitments to extend credit	$ 7,327,865	$	$	$ 1,633	$ 1,633	$ 6,695,956	$ 2,062
Letters of credit	154,745			2,285	2,285	136,341	2,339

[1] Refer to Note 22 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 24 Net income per common share

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

(In thousands, except per share information)	Quarter ended September 30, 2012	Quarter ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Net income	$ 47,188	$ 27,533	$ 161,335	$ 148,350
Preferred stock dividends	(931)	(931)	(2,792)	(2,792)
Net income applicable to common stock	$ 46,257	$ 26,602	$ 158,543	$ 145,558
Average common shares outstanding	102,451,410	102,166,004	102,363,099	102,147,450
Average potential dilutive common shares	33,550		182,375	104,270
Average common shares outstanding assuming dilution	102,484,960	102,166,004	102,545,474	102,251,720
Basic and dilutive EPS	$ 0.45	$ 0.26	$ 1.55	$ 1.42

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

For the quarter and nine months ended September 30, 2012, there were 164,195 and 166,810 weighted average antidilutive stock options outstanding, respectively (September 30, 2011 207,813 and 210,077). Additionally, the Corporation has outstanding a warrant issued to the U.S. Treasury to purchase 2,093,284 shares of common stock, which had an antidilutive effect at September 30, 2012.

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Note 25 Other service fees

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

(In thousands)	Quarter ended September 30, 2012	Quarter ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Debit card fees	$ 8,772	$ 13,075	$ 27,348	$ 39,795
Insurance fees	12,322	13,785	36,775	37,919
Credit card fees	14,576	13,738	41,403	36,106
Sale and administration of investment products	9,511	9,915	28,045	24,702
Mortgage servicing fees, net of fair value adjustments	9,857	2,120	29,123	10,649
Trust fees	3,977	4,006	12,127	11,611
Processing fees	1,406	1,684	4,819	5,121
Other fees	4,363	4,341	13,210	13,720
Total other services fees	$ 64,784	$ 62,664	$ 192,850	$ 179,623

Note 26 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:

(In thousands)	Quarters ended September 30, 2012	Quarters ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
(Amortization) accretion of loss share indemnification asset	$ (29,184)	$ (21,072)	$ (95,972)	$ 13,361
80% mirror accounting on credit impairment losses[1]	18,095	20,458	60,943	71,787
80% mirror accounting on reimbursable expenses[2]	7,378	(447)	19,846	570
80% mirror accounting on discount accretion on loans unfunded commitments accounted for under ASC 310-20	(248)	(2,916)	(744)	(32,919)
Change in true-up payment obligation	(2,991)	(1,640)	(4,849)	(4,684)
Other	243	256	1,389	1,229
Total FDIC loss share (expense) income	$ (6,707)	$ (5,361)	$ (19,387)	$ 49,344

[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.

[2] Amounts presented are net of the mirror accounting on gains on sales of foreclosed assets.

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Note 27 Pension and postretirement benefits

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

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

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

	Pension Plans		Benefit Restoration Plans	
	Nine months ended September 30,		Nine months ended September 30,	
(In thousands)	2012	2011	2012	2011
Interest Cost	$ 22,486	$ 23,354	$ 1,179	$ 1,186
Expected return on plan assets	(29,430)	(32,521)	(1,578)	(1,350)
Amortization of net loss	16,277	8,486	969	443
Total net periodic pension cost (benefit)	$ 9,333	$ (681)	$ 570	$ 279

The Corporation did not make any contributions to the pension and benefit restoration plans during the quarter and nine months ended September 30, 2012. The total contributions expected to be paid during the year 2012 for the pension and benefit restoration plans amount to approximately $58 million.

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.

	Postretirement Benefit Plan			
	Quarters ended September 30,		Nine months ended September 30,	
(In thousands)	2012	2011	2012	2011
Service cost	$ 548	$ 504	$ 1,642	$ 1,512
Interest cost	1,950	2,135	5,851	6,405
Amortization of prior service cost	(50)	(240)	(150)	(720)
Amortization of net loss	540	267	1,621	801
Total net periodic postretirement benefit cost	$ 2,988	$ 2,666	$ 8,964	$ 7,998

Contributions made to the postretirement benefit plan for the quarter and nine months ended September 30, 2012 amounted to approximately $1.8 million and $5.6 million, respectively. The total contributions expected to be paid during the year 2012 for the postretirement benefit plan amount to approximately $7.4 million.

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Note 28 Stock-based compensation

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

Stock Option Plan

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

(Not in thousands) Exercise price range per share	Options outstanding	Weighted-average exercise price of options outstanding	Weighted-average remaining life of options outstanding in years	Options exercisable (fully vested)	Weighted-average exercise price of options exercisable
$ 158.35 - $185.00	57,987	$ 167.67	0.45	57,987	$ 167.67
$ 192.50 - $272.00	106,208	$ 252.32	1.75	106,208	$ 252.32
$ 158.35 - $272.00	164,195	$ 222.43	1.29	164,195	$ 222.43

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

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

(Not in thousands)	Options Outstanding	Weighted-Average Exercise Price
Outstanding at December 31, 2010	227,518	$ 206.71
Granted		
Exercised		
Forfeited		
Expired	(20,572)	195.48
Outstanding at December 31, 2011	206,946	$ 207.83
Granted		
Exercised		
Forfeited		
Expired	(42,751)	151.74
Outstanding at September 30, 2012	164,195	$ 222.43

The stock options exercisable at September 30, 2012 totaled 164,195 (September 30, 2011 207,813). There were no stock options exercised during the quarters and nine months ended September 30, 2012 and 2011. Thus, there was no intrinsic value of options exercised during the quarters and nine months ended September 30, 2012 and 2011.

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

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

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Incentive Plan

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

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

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

(Not in thousands)	Restricted Stock	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2010	113,174	$ 36.06
Granted	155,945	32.35
Vested	(5,156)	89.97
Forfeited	(22,029)	42.03
Non-vested at December 31, 2011	241,934	$ 31.98
Granted	359,427	17.72
Vested	(95,543)	37.78
Forfeited	(9,036)	27.02
Non-vested at September 30, 2012	496,782	$ 20.64

During the quarters ended September 30, 2012 and 2011, there were no shares of restricted stock awarded to management under the Incentive Plan. For the nine -month period ended September 30, 2012, 359,427 shares of restricted stock (September 30, 2011 155,945) were awarded to management under the Incentive Plan, from which 253,170 shares (September 30, 2011 111,045) were awarded to management consistent with the requirements of the TARP Interim Final Rule.

During the quarter ended September 30, 2012, the Corporation recognized $ 1.1 million of restricted stock expense related to management incentive awards, with a tax benefit of $ 0.3 million (September 30, 2011 $ 0.3 million, with a tax benefit of $ 49 thousand). For the nine -month period ended September 30, 2012, the Corporation recognized $ 3.2 million of restricted stock expense related to management incentive awards, with a tax benefit of $ 0.8 million (September 30, 2011 $ 1.5 million, with a tax benefit of $ 0.4 million). During the quarter ended September 30, 2012, there was vesting of restricted stock. For the nine -month period ended September 30, 2012, the fair market value of the restricted stock vested was $2.7 million at grant date and $1.6 million at vesting date. This triggers a shortfall of $0.3 million that was recorded as an additional income tax expense at the applicable income tax rate. No additional income tax expense was recorded for the U.S. employees due to the valuation allowance of the deferred tax asset. The total unrecognized compensation cost related to non-vested restricted stock awards and performance shares to members of management at September 30, 2012 was $ 13 million and is expected to be recognized over a weighted-average period of 1.1 years.

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

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(Not in thousands)	Restricted Stock	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2010		
Granted	30,163	$ 26.72
Vested	(30,163)	26.72
Forfeited		
Non-vested at December 31, 2011		
Granted	37,800	$ 16.11
Vested	(37,800)	16.11
Forfeited		
Non-vested at September 30, 2012		

During the quarter ended September 30, 2012, the Corporation granted 3,322 shares of restricted stock to members of the Board of Directors of Popular, Inc., which became vested at grant date (September 30, 2011 2,792). During this period, the Corporation recognized $0.1 million of restricted stock expense related to these restricted stock grants, with a tax benefit of $32 thousand (September 30, 2011 $0.1 million, with a tax benefit of $35 thousand). For the nine -month period ended September 30, 2012, the Corporation granted 37,800 shares of restricted stock to members of the Board of Directors of Popular, Inc., which became vested at grant date (September 30, 2011 24,662). During this period, the Corporation recognized $0.3 million of restricted stock expense related to these restricted stock grants, with a tax benefit of $0.1 million (September 30, 2011 $0.3 million, with a tax benefit of $0.1 million). The fair value at vesting date of the restricted stock vested during the nine months ended September 30, 2012 for directors was $ 0.6 million.

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Note 29 Income taxes

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

	Quarters ended			
	September 30, 2012		September 30, 2011	
(In thousands)	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax at statutory rates	$ 18,772	30%	$ 9,921	30%
Net benefit of net tax exempt interest income	(7,625)	(12)	(7,779)	(23)
Deferred tax asset valuation allowance	1,611	3	1,473	4
Non-deductible expenses	5,817	9	5,475	17
Difference in tax rates due to multiple jurisdictions	(250)		(1,542)	(5)
Effect of income subject to preferential tax rate[1]	7,662	12	(79)	
Unrecognized tax benefits	(8,985)	(14)	(750)	(2)
Others	(1,618)	(3)	(1,182)	(4)
Income tax expense	$ 15,384	25%	$ 5,537	17%

[1] Includes the adjustment related to the Closing Agreement with the P.R. Treasury signed in June 2012.

	Nine months ended			
	September 30, 2012		September 30, 2011	
(In thousands)	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax at statutory rates	$ 34,505	30%	$ 78,904	30%
Net benefit of net tax exempt interest income	(18,378)	(16)	(25,392)	(10)
Deferred tax asset valuation allowance	2,730	2	113	
Non-deductible expenses	17,182	15	16,201	6
Difference in tax rates due to multiple jurisdictions	(4,606)	(4)	(5,884)	(2)
Initial adjustment in deferred tax due to change in tax rate			103,287	39
Recognition of tax benefits from previous years[1]			(53,615)	(20)
Effect of income subject to preferential tax rate[2]	(66,607)	(58)	(411)	
Unrecognized tax benefits	(8,985)	(8)	(5,160)	(2)
Others	(2,158)	(1)	6,621	3
Income tax (benefit) expense	$ (46,317)	(40)%	$ 114,664	44%

[1] Represents the impact of the Ruling and Closing Agreement with the P.R. Treasury signed in June 2011.
[2] Includes the impact of the Closing Agreement with the P.R. Treasury signed in June 2012 as adjusted as of September 30, 2012.

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

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The results for the nine months ended September 30, 2011 reflect an income tax expense of $ 103.3 million due to the effect on the net deferred tax asset of the reduction in the marginal corporate income tax rate from 39% to 30% as a result of the enactment on January 31, 2011 of a new Internal Revenue Code in Puerto Rico. The results also reflect a tax benefit of $53.6 million as a result of a private ruling and a Closing Agreement entered into with the P.R. Treasury. In June 2011, the P.R. Treasury and the Corporation signed a Closing Agreement in which both parties agreed that for tax purposes the deductions related to certain charge-offs recorded on the financial statements of the Corporation for years 2009 and 2010 will be deferred until years 2013 through 2016. The tax benefit arises from the recovery of certain tax benefits not previously recorded during 2009 (the benefit of reduced tax rates for capital gains) and 2010 (the benefit of exempt income) that were previously unavailable to the Corporation as a result of being in a loss position during such years.

The effective tax rate for the Corporation s Puerto Rico banking operations for 2012 is estimated at 15.8%.

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

(In thousands)	September 30, 2012	December 31, 2011
Deferred tax assets:		
Tax credits available for carryforward	$ 3,633	$ 3,459
Net operating loss and other carryforward available	1,195,338	1,174,488
Postretirement and pension benefits	102,796	104,663
Deferred loan origination fees	6,813	6,788
Allowance for loan losses	599,030	605,105
Deferred gains	10,836	11,763
Accelerated depreciation	5,798	5,527
Intercompany deferred gains	3,792	4,344
Other temporary differences	35,972	27,661
Total gross deferred tax assets	1,964,008	1,943,798
Deferred tax liabilities:		
Differences between the assigned values and the tax bases of assets and liabilities recognized in purchase business combinations	35,906	32,293
Difference in outside basis between financial and tax reporting on sale of a business	8,155	20,721
FDIC-assisted transaction	57,293	142,000
Unrealized net gain on trading and available-for-sale securities	55,833	73,991
Deferred loan origination costs	3,273	4,277
Other temporary differences	7,252	6,507
Total gross deferred tax liabilities	167,712	279,789
Valuation allowance	1,261,594	1,259,358
Net deferred tax asset	$ 534,702	$ 404,651

The net deferred tax asset shown in the table above at September 30, 2012 is reflected in the consolidated statements of financial condition as $546 million in net deferred tax assets (in the Other assets caption) (December 31, 2011 $430 million) and $11 million in deferred tax liabilities in the Other liabilities caption (December 31, 2011 $25 million), reflecting the aggregate deferred tax assets or liabilities of individual tax-paying subsidiaries of the Corporation.

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

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

At September 30, 2012, the Corporation s net deferred tax assets related to its Puerto Rico operations amounted to $561 million. The Corporation s Puerto Rico banking operation is in a cumulative loss position for the three-year period ended September 30, 2012 taking into account taxable income exclusive of temporary differences. This cumulative loss position was mainly due to the performance of the construction and commercial real estate loan portfolios in prior years, including the losses related to the reclassification and sale of certain loans pertaining to those portfolios. The Corporation 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; (iv) unrealized gain on appreciated assets that could be realized to increase taxable income; and (v) the financial results of the operations showed an improvement in the profitability of the business during 2011 and first three quarters of 2012. Accordingly, there is enough positive evidence to outweigh the negative evidence of the cumulative loss. Based on this evidence, the Corporation has concluded that it is more-likely-than-not that such net deferred tax asset will be realized.

The reconciliation of unrecognized tax benefits was as follows:

(In millions)	2012	2011
Balance at January 1	$ 19.5	$ 26.3
Additions for tax positions January through March	0.7	2.2
Reduction as a result of settlements January through March		(4.4)
Balance at March 31	$ 20.2	$ 24.1
Additions for tax positions April through June		0.8
Additions for tax positions taken in prior years April through June		2.1
Reduction for tax positions April through June	(0.2)	
Reduction for tax positions taken in prior years April through June	(0.7)	
Balance at June 30	$ 19.3	$ 27.0
Additions for tax positions July through September	0.2	0.3
Reduction as a result of lapse of statute of limitations July through September	(6.3)	(6.0)
Balance at September 30	$ 13.2	$ 21.3

The accrued interest related to uncertain tax positions approximated $4.1 million at September 30, 2012 (December 31, 2011 $5.5 million). Management determined that at September 30, 2012 and December 31, 2011, there was no need to accrue for the payment of penalties.

After consideration of the effect on U.S. federal tax of unrecognized U.S. state tax benefits, the total amount of unrecognized tax benefits, including U.S. and Puerto Rico, that if recognized, would affect the Corporation s effective tax rate, was approximately $16.4 million at September 30, 2012 (September 30, 2011 $25.6 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 September 30, 2012, 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 $8 million.

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Note 30 Supplemental disclosure on the consolidated statements of cash flows

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

(In thousands)	September 30, 2012	September 30, 2011
Non-cash activities:		
Loans transferred to other real estate	$ 218,798	$ 139,807
Loans transferred to other property	18,970	20,690
Total loans transferred to foreclosed assets	237,768	160,497
Transfers from loans held-in-portfolio to loans held-for-sale	55,826	53,618
Transfers from loans held-for-sale to loans held-in-portfolio	10,325	27,234
Loans securitized into investment securities[1]	834,352	829,927
Trades receivables from brokers and counterparties	287,322	855,567
Trades payables to brokers and counterparties	71,698	
Recognition of mortgage servicing rights on securitizations or asset transfers	12,842	15,651
Loans sold to a joint venture in exchange for an acquisition loan and an equity interest in the joint venture		102,353

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

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Note 31 Segment reporting

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

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

Banco Popular de Puerto Rico:

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

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

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

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:

2012

For the quarter ended September 30, 2012 (In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	$ 300,862	$ 69,598	$
Provision for loan losses	92,439	13,851	
Non-interest income	113,532	11,481	
Amortization of intangibles	1,801	680	
Depreciation expense	9,368	2,000	
Loss on early extinguishment of debt	43		
Other operating expenses	220,430	54,942	
Income tax expense	17,090	937	
Net income	$ 73,223	$ 8,669	$
Segment assets	$ 27,682,822	$ 8,572,541	$ (10,735)

For the quarter ended September 30, 2012 (In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	$ 370,460	$ (27,218)	$ 184	$ 343,426
Provision for loan losses	106,290	(82)		106,208
Non-interest income	125,013	7,514	(16,818)	115,709
Amortization of intangibles	2,481			2,481
Depreciation expense	11,368	303		11,671
Loss on early extinguishment of debt	43			43
Other operating expenses	275,372	18,197	(17,409)	276,160
Income tax expense (benefit)	18,027	(2,851)	208	15,384
Net income (loss)	$ 81,892	$ (35,271)	$ 567	$ 47,188
Segment assets	$ 36,244,628	$ 5,310,533	$ (5,051,795)	$ 36,503,366

For the nine months ended September 30, 2012 (In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	$ 889,424	$ 213,228	$
Provision for loan losses	281,986	43,877	
Non-interest income	311,863	42,187	
Amortization of intangibles	5,565	2,040	
Depreciation expense	27,992	6,017	
Loss on early extinguishment of debt	25,184		
Other operating expenses	673,747	172,127	
Income tax (benefit) expense	(39,281)	2,809	
Net income	$ 226,094	$ 28,545	$

	For the nine months ended September 30, 2012			
(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	$ 1,102,652	$ (81,035)	$ 591	$ 1,022,208
Provision for loan losses	325,863	267		326,130
Non-interest income	354,050	30,353	(51,062)	333,341
Amortization of intangibles	7,605			7,605
Depreciation expense	34,009	944		34,953
Loss on early extinguishment of debt	25,184			25,184
Other operating expenses	845,874	52,376	(51,591)	846,659
Income tax benefit	(36,472)	(10,108)	263	(46,317)
Net income (loss)	$ 254,639	$ (94,161)	$ 857	$ 161,335

2011

For the quarter ended September 30, 2011

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	$ 321,586	$ 73,487	$
Provision for loan losses	156,630	19,646	
Non-interest income	117,626	17,711	
Amortization of intangibles	1,783	680	
Depreciation expense	9,133	1,901	
Loss on early extinguishment of debt	109		
Other operating expenses	210,230	59,484	
Income tax expense	7,149	937	
Net income	$ 54,178	$ 8,550	$

For the quarter ended September 30, 2011

(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	$ 395,073	$ (25,992)	$ 230	$ 369,311
Provision for loan losses	176,276			176,276
Non-interest income	135,337	3,465	(16,412)	122,390
Amortization of intangibles	2,463			2,463
Depreciation expense	11,034	380		11,414
Loss on early extinguishment of debt	109			109
Other operating expenses	269,714	15,801	(17,146)	268,369
Income tax expense (benefit)	8,086	(2,873)	324	5,537
Net income (loss)	$ 62,728	$ (35,835)	$ 640	$ 27,533

For the nine months ended September 30, 2011

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	$ 942,198	$ 222,902	$
Provision for loan losses	343,210	52,702	
Non-interest income	352,497	54,255	
Amortization of intangibles	4,933	2,040	
Depreciation expense	27,866	5,745	
Loss on early extinguishment of debt	637		
Other operating expenses	604,626	180,419	
Income tax expense	115,817	2,809	
Net income	$ 197,606	$ 33,442	$

For the nine months ended September 30, 2011

(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	$ 1,165,100	$ (78,640)	$ 752	$ 1,087,212
Provision for loan losses	395,912			395,912
Non-interest income	406,752	55,488	(51,322)	410,918
Amortization of intangibles	6,973			6,973
Depreciation expense	33,611	1,253		34,864

Loss on early extinguishment of debt	637	8,000		8,637
Other operating expenses	785,045	55,922	(52,237)	788,730
Income tax expense (benefit)	118,626	(4,587)	625	114,664
Net income (loss)	$ 231,048	$ (83,740)	$ 1,042	$ 148,350

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

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

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$ 102,394	$ 195,952	$ 2,516	$	$ 300,862
Provision for loan losses	55,300	37,139			92,439
Non-interest income	13,650	74,111	25,809	(38)	113,532
Amortization of intangibles	2	1,708	91		1,801
Depreciation expense	4,238	4,886	244		9,368
Loss on early extinguishment of debt	43				43
Other operating expenses	69,040	135,179	16,249	(38)	220,430
Income tax (benefit) expense	(6,007)	20,119	2,978		17,090
Net (loss) income	$ (6,572)	$ 71,032	$ 8,763	$	$ 73,223
Segment assets	$ 12,916,405	$ 19,835,054	$ 603,436	$ (5,672,073)	$ 27,682,822

For the nine months ended September 30, 2012
Banco Popular de Puerto Rico

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$ 311,671	$ 568,154	$ 9,595	$ 4	$ 889,424
Provision for loan losses	111,723	170,263			281,986
Non-interest income	32,660	196,228	83,079	(104)	311,863
Amortization of intangibles	12	5,126	427		5,565
Depreciation expense	12,610	14,662	720		27,992
Loss on early extinguishment of debt	7,905	17,279			25,184
Other operating expenses	204,289	418,323	51,239	(104)	673,747
Income tax (benefit) expense	(26,397)	(23,240)	10,354	2	(39,281)
Net income	$ 34,189	$ 161,969	$ 29,934	$ 2	$ 226,094

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

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$ 128,265	$ 190,093	$ 3,216	$ 12	$ 321,586
Provision for loan losses	109,364	47,266			156,630
Non-interest income	40,653	48,201	28,818	(46)	117,626
Amortization of intangibles	26	1,599	158		1,783
Depreciation expense	4,173	4,716	244		9,133
Loss on early extinguishment of debt	109				109
Other operating expenses	62,135	131,434	16,704	(43)	210,230
Income tax (benefit) expense	(5,652)	8,644	4,153	4	7,149
Net (loss) income	$ (1,237)	$ 44,635	$ 10,775	$ 5	$ 54,178

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For the nine months ended September 30, 2011
Banco Popular de Puerto Rico

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$ 386,684	$ 547,257	$ 8,164	$ 93	$ 942,198
Provision for loan losses	241,550	101,660			343,210
Non-interest income	127,992	149,609	74,883	13	352,497
Amortization of intangibles	78	4,389	466		4,933
Depreciation expense	12,717	14,430	719		27,866
Loss on early extinguishment of debt	637				637
Other operating expenses	177,400	380,017	47,350	(141)	604,626
Income tax expense	52,338	54,007	9,375	97	115,817
Net income	$ 29,956	$ 142,363	$ 25,137	$ 150	$ 197,606

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

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

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 68,639	$ 959	$	$ 69,598
Provision for loan losses	8,294	5,557		13,851
Non-interest income	9,470	2,011		11,481
Amortization of intangibles	680			680
Depreciation expense	2,000			2,000
Other operating expenses	54,430	512		54,942
Income tax expense	937			937
Net income (loss)	$ 11,768	$ (3,099)	$	$ 8,669
Segment assets	$ 9,298,408	$ 381,463	$ (1,107,330)	$ 8,572,541

For the nine months ended September 30, 2012
Banco Popular North America

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 210,705	$ 2,523	$	$ 213,228
Provision for loan losses	31,180	12,697		43,877
Non-interest income	39,207	2,980		42,187
Amortization of intangibles	2,040			2,040
Depreciation expense	6,017			6,017
Other operating expenses	169,976	2,151		172,127
Income tax expense	2,809			2,809
Net income (loss)	$ 37,890	$ (9,345)	$	$ 28,545

2011

For the quarter ended September 30, 2011

Banco Popular North America

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 72,806	$ 681	$	$ 73,487
Provision for loan losses	15,668	3,978		19,646
Non-interest income	17,481	230		17,711
Amortization of intangibles	680			680
Depreciation expense	1,901			1,901
Other operating expenses	58,139	1,345		59,484
Income tax expense	937			937
Net income (loss)	$ 12,962	$ (4,412)	$	$ 8,550

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For the nine months ended September 30, 2011
Banco Popular North America

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 221,307	$ 1,595	$	$ 222,902
Provision for loan losses	34,579	18,123		52,702
Non-interest income	53,209	1,046		54,255
Amortization of intangibles	2,040			2,040
Depreciation expense	5,745			5,745
Other operating expenses	172,179	8,240		180,419
Income tax expense	2,809			2,809
Net income (loss)	$ 57,164	$ (23,722)	$	$ 33,442

Geographic Information

	Quarter ended		Nine months ended	
(In thousands)	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Revenues:[1]				
Puerto Rico	$ 360,354	$ 383,184	$ 1,043,677	$ 1,166,524
United States	74,248	85,269	238,490	261,482
Other	24,533	23,248	73,382	70,124
Total consolidated revenues	$ 459,135	$ 491,701	$ 1,355,549	$ 1,498,130

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

Selected Balance Sheet Information:

(In thousands)	September 30, 2012	December 31, 2011
Puerto Rico		
Total assets	$ 26,533,351	$ 27,410,644
Loans	18,315,321	18,594,751
Deposits	19,334,183	20,696,606
United States		
Total assets	$ 8,787,390	$ 8,708,709
Loans	5,837,485	5,845,359
Deposits	6,022,331	6,151,959
Other		
Total assets	$ 1,182,625	$ 1,229,079
Loans	841,963	874,282
Deposits [1]	962,985	1,093,562

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

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Note 32 Subsequent events

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

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

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

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

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

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

A potential source of income for PIHC consists of dividends from BPPR and BPNA. Under existing federal banking regulations any dividend from BPPR or BPNA to the PIHC could be made if the total of all dividends declared by each entity during the calendar year would not exceed the total of its net income for that year, as defined by the Federal Reserve Board, combined with its retained net income for the preceding two years, less any required transfers to surplus or to a fund for the retirement of any preferred stock. Under this test, at September 30, 2012, BPPR could have declared a dividend of approximately $371 million (December 31, 2011 $243 million). Currently, the prior approval of the Federal Reserve Bank of New York and the Office of the Commissioner of Financial Institutions in Puerto Rico is necessary for the payments of any dividends by BPPR to PIHC. Prior approval of the Federal Reserve Bank of New York is also necessary for the payments of any dividends by BPNA to PIHC.

Condensed Consolidating Statement of Financial Condition

(In thousands)	Popular Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
	At September 30, 2012				
Assets					
Cash and due from banks	$ 4,177	$ 626	$ 477,537	$ (4,998)	$ 477,342
Money market investments	18,337	640	907,326	(640)	925,663
Trading account securities, at fair value			226,918		226,918
Investment securities available-for-sale, at fair value	41,193		5,096,076	(16,968)	5,120,301
Investment securities held-to-maturity, at amortized cost	185,000		122,072	(185,000)	122,072
Other investment securities, at lower of cost or realizable value	10,850	4,492	198,047		213,389
Investment in subsidiaries	4,209,097	1,643,820		(5,852,917)	
Loans held-for-sale, at lower of cost or fair value			337,049		337,049
Loans held-in-portfolio:					
Loans not covered under loss sharing agreements with the FDIC	320,572		20,821,269	(290,733)	20,851,108
Loans covered under loss sharing agreements with the FDIC			3,903,867		3,903,867
Less - Unearned income			97,255		97,255
Allowance for loan losses	190		760,982		761,172
Total loans held-in-portfolio, net	320,382		23,866,899	(290,733)	23,896,548
FDIC loss share asset			1,559,057		1,559,057
Premises and equipment, net	2,661	116	522,956		525,733
Other real estate not covered under loss sharing agreements with the FDIC			252,024		252,024
Other real estate covered under loss sharing agreements with the FDIC			125,514		125,514
Accrued income receivable	2,680	31	131,588	(356)	133,943
Mortgage servicing assets, at fair value			158,367		158,367
Other assets	102,847	12,553	1,633,355	(23,828)	1,724,927
Goodwill			647,757		647,757
Other intangible assets	553		56,209		56,762
Total assets	$ 4,897,777	$ 1,662,278	$ 36,318,751	$ (6,375,440)	$ 36,503,366
Liabilities and Stockholders Equity					
Liabilities:					
Deposits:					
Non-interest bearing	$	$	$ 5,409,909	$ (5,439)	$ 5,404,470
Interest bearing			20,936,879	(21,850)	20,915,029
Total deposits			26,346,788	(27,289)	26,319,499
Assets sold under agreements to repurchase			1,944,564		1,944,564
Other short-term borrowings		1,000	1,470,000	(264,800)	1,206,200
Notes payable	782,474	427,381	656,522		1,866,377
Subordinated notes			185,000	(185,000)	
Other liabilities	46,319	44,777	1,052,530	(45,884)	1,097,742

Total liabilities	828,793	473,158	31,655,404	(522,973)	32,434,382
Stockholders equity:					
Preferred stock	50,160				50,160
Common stock	1,031	2	55,628	(55,630)	1,031
Surplus	4,123,154	4,153,208	8,799,459	(12,944,140)	4,131,681
Accumulated deficit	(45,656)	(3,019,127)	(4,129,950)	7,140,550	(54,183)
Treasury stock, at cost	(270)				(270)
Accumulated other comprehensive (loss)income, net of tax	(59,435)	55,037	(61,790)	6,753	(59,435)
Total stockholders equity	4,068,984	1,189,120	4,663,347	(5,852,467)	4,068,984
Total liabilities and stockholders equity	$ 4,897,777	$ 1,662,278	$ 36,318,751	$ (6,375,440)	$ 36,503,366

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Condensed Consolidating Statement of Financial Condition

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

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

Condensed Statement of Operations (Unaudited)

	Quarter ended September 30, 2012				
(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Interest income:					
Loans	$ 1,759	$	$ 386,922	$ (1,300)	$ 387,381
Money market investments		3	862	(3)	862
Investment securities	4,052	81	39,028	(3,216)	39,945
Trading account securities			5,815		5,815
Total interest income	5,811	84	432,627	(4,519)	434,003
Interest expense:					
Deposits			43,025	(25)	43,000
Short-term borrowings		2	10,761	(887)	9,876
Long-term debt	24,118	8,067	8,427	(2,911)	37,701
Total interest expense	24,118	8,069	62,213	(3,823)	90,577
Net interest (expense) income	(18,307)	(7,985)	370,414	(696)	343,426
Provision for loan losses- non-covered loans	(82)		83,671		83,589
Provision for loan losses- covered loans			22,619		22,619
Net interest (expense) income after provision for loan losses	(18,225)	(7,985)	264,124	(696)	237,218
Service charges on deposit accounts			45,858		45,858
Other service fees			68,385	(3,601)	64,784
Net gain on sale and valuation adjustments of investment securities			64		64
Trading account loss			(2,266)		(2,266)
Net gain on sale of loans, including valuation adjustments on loans held-for-sale			18,495		18,495
Adjustments (expense) to indemnity reserves on loans sold			(8,717)		(8,717)
FDIC loss share expense			(6,707)		(6,707)
Other operating income (loss)	103	(1,149)	18,036	(12,792)	4,198
Total non-interest income (loss)	103	(1,149)	133,148	(16,393)	115,709

Operating expenses:				
Personnel costs	6,675	104,875		111,550
Net occupancy expenses	844	22,772	793	24,409

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Equipment expenses	1,021	-	10,426	-	11,447
Other taxes	368		12,298		12,666
Professional fees	3,647	3	67,875	(18,113)	53,412
Communications	114		6,386		6,500
Business promotion	425		14,499		14,924
FDIC deposit insurance			24,173		24,173
Loss on early extinguishment of debt			43		43
Other real estate owned (OREO) expenses			5,896		5,896
Other operating expenses	(12,468)	110	35,755	(543)	22,854
Amortization of intangibles			2,481		2,481
Total operating expenses	626	113	307,479	(17,863)	290,355
(Loss) income before income tax and equity in earnings of subsidiaries	(18,748)	(9,247)	89,793	774	62,572
Income tax expense	72		15,103	209	15,384
(Loss) income before equity in earnings of subsidiaries	(18,820)	(9,247)	74,690	565	47,188
Equity in undistributed earnings of subsidiaries	66,008	5,203		(71,211)	
Net Income (Loss)	$ 47,188	$ (4,044)	$ 74,690	$ (70,646)	$ 47,188
Comprehensive income (loss), net of tax	$ 44,336	$ (4,082)	$ 71,037	$ (66,955)	$ 44,336

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Condensed Consolidating Statement of Operations

	Nine months ended September 30, 2012				
(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Interest and Dividend Income:					
Dividend income from subsidiaries	$ 5,000	$	$	$ (5,000)	$
Loans	4,966		1,163,409	(3,710)	1,164,665
Money market investments	13	25	2,773	(37)	2,774
Investment securities	12,240	242	125,978	(9,632)	128,828
Trading account securities			17,669		17,669
Total interest and dividend income	22,219	267	1,309,829	(18,379)	1,313,936
Interest Expense:					
Deposits			143,321	(128)	143,193
Short-term borrowings		144	38,883	(2,524)	36,503
Long-term debt	71,462	24,223	25,083	(8,736)	112,032
Total interest expense	71,462	24,367	207,287	(11,388)	291,728
Net interest (expense) income	(49,243)	(24,100)	1,102,542	(6,991)	1,022,208
Provision for loan losses- non-covered loans	267		247,579		247,846
Provision for loan losses- covered loans			78,284		78,284
Net interest (expense) income after provision for loan losses	(49,510)	(24,100)	776,679	(6,991)	696,078
Service charges on deposit accounts			138,577		138,577
Other service fees			203,571	(10,721)	192,850
Net loss on sale and valuation adjustments of investment securities			(285)		(285)
Trading account loss			(11,692)		(11,692)
Net gain on sale of loans, including valuation adjustments on loans held-for-sale			18,569		18,569
Adjustments (expense) to indemnity reserves on loans sold			(17,990)		(17,990)
FDIC loss share expense			(19,387)		(19,387)
Other operating income	4,540	380	66,846	(39,067)	32,699
Total non-interest income	4,540	380	378,209	(49,788)	333,341
Operating Expenses:					
Personnel costs	22,028		327,349		349,377
Net occupancy expenses	2,577	2	68,564	2,391	73,534
Equipment expenses	2,802		30,886		33,688
Other taxes	1,796		36,382		38,178
Professional fees	8,519	9	198,867	(53,751)	153,644
Communications	340		19,936		20,276
Business promotion	1,326		43,428		44,754
FDIC deposit insurance			72,006		72,006
Loss on early extinguishment of debt			25,184		25,184
Other real estate owned (OREO) expenses			22,441		22,441
Other operating expenses	(37,138)	331	112,059	(1,538)	73,714
Amortization of intangibles			7,605		7,605

Total operating expenses	2,250	342	964,707	(52,898)	914,401
(Loss) income before income tax and equity in earnings of subsidiaries	(47,220)	(24,062)	190,181	(3,881)	115,018
Income tax benefit	(1,185)		(45,395)	263	(46,317)
(Loss) income before equity in earnings of subsidiaries	(46,035)	(24,062)	235,576	(4,144)	161,335
Equity in undistributed earnings of subsidiaries	207,370	18,417		(225,787)	
Net Income (Loss)	$ 161,335	$ (5,645)	$ 235,576	$ (229,931)	$ 161,335
Comprehensive income (loss), net of tax	$ 144,448	$ (7,555)	$ 216,930	$ (209,375)	$ 144,448

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Condensed Statement of Operations (Unaudited)

	Quarter ended September 30, 2011				
(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Interest income:					
Loans	$ 1,915	$	$ 428,469	$ (1,385)	$ 428,999
Money market investments		1	886	(1)	886
Investment securities	4,031	81	50,194	(3,221)	51,085
Trading account securities			10,788		10,788
Total interest income	5,946	82	490,337	(4,607)	491,758
Interest expense:					
Deposits			65,935	(67)	65,868
Short-term borrowings		138	14,575	(969)	13,744
Long-term debt	22,983	8,054	14,711	(2,913)	42,835
Total interest expense	22,983	8,192	95,221	(3,949)	122,447
Net interest (expense) income	(17,037)	(8,110)	395,116	(658)	369,311
Provision for loan losses- non-covered loans			150,703		150,703
Provision for loan losses- covered loans			25,573		25,573
Net interest (expense) income after provision for loan losses	(17,037)	(8,110)	218,840	(658)	193,035
Service charges on deposit accounts			46,346		46,346
Other service fees			66,306	(3,642)	62,664
Net gain on sale and valuation adjustments of investment securities			8,134		8,134
Trading account profit			2,912		2,912
Net gain on sale of loans, including valuation adjustments on loans held-for-sale			20,294		20,294
Adjustments (expense) to indemnity reserves on loans sold			(10,285)		(10,285)
FDIC loss share expense			(5,361)		(5,361)
Other operating (loss) income	(1,823)	(306)	12,104	(12,289)	(2,314)
Total non-interest (loss) income	(1,823)	(306)	140,450	(15,931)	122,390
Operating expenses:					
Personnel costs	8,280		103,444		111,724
Net occupancy expenses	802	1	24,227	855	25,885
Equipment expenses	831		9,686		10,517
Other taxes	803		11,588		12,391
Professional fees	2,658	3	63,894	(17,799)	48,756
Communications	75	1	6,724		6,800
Business promotion	430		14,220		14,650
FDIC deposit insurance			23,285		23,285
Loss on early extinguishment of debt			109		109
Other real estate owned (OREO) expenses			3,234		3,234
Other operating expenses	(12,733)	111	35,771	(608)	22,541
Amortization of intangibles			2,463		2,463

Total operating expenses	1,146	116	298,645	(17,552)	282,355
(Loss) income before income tax and equity in earnings of subsidiaries	(20,006)	(8,532)	60,645	963	33,070
Income tax (benefit) expense	(642)	(23)	5,878	324	5,537
(Loss) income before equity in earnings of subsidiaries	(19,364)	(8,509)	54,767	639	27,533
Equity in undistributed earnings of subsidiaries	46,897	5,424		(52,321)	
Net Income (Loss)	$ 27,533	$ (3,085)	$ 54,767	$ (51,682)	$ 27,533
Comprehensive income, net of tax	$ 48,337	$ 13,487	$ 76,389	$ (89,876)	$ 48,337

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Condensed Consolidating Statement of Operations

	Nine months ended September 30, 2011				
(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Interest Income:					
Loans	$ 6,973	$	$ 1,293,123	$ (5,262)	$ 1,294,834
Money market investments	5	4	2,809	(59)	2,759
Investment securities	12,192	242	154,412	(9,663)	157,183
Trading account securities			29,332		29,332
Total interest income	19,170	246	1,479,676	(14,984)	1,484,108
Interest Expense:					
Deposits			213,687	(268)	213,419
Short-term borrowings	50	694	44,685	(3,951)	41,478
Long-term debt	71,315	23,341	56,079	(8,736)	141,999
Total interest expense	71,365	24,035	314,451	(12,955)	396,896
Net interest (expense) income	(52,195)	(23,789)	1,165,225	(2,029)	1,087,212
Provision for loan losses- non-covered loans			306,177		306,177
Provision for loan losses- covered loans			89,735		89,735
Net interest (expense) income after provision for loan losses	(52,195)	(23,789)	769,313	(2,029)	691,300
Service charges on deposit accounts			138,778		138,778
Other service fees			191,339	(11,716)	179,623
Net gain on sale and valuation adjustments of investment securities			8,044		8,044
Trading account profit			3,287		3,287
Net gain on sale of loans, including valuation adjustments on loans held-for-sale			14,756		14,756
Adjustments (expense) to indemnity reserves on loans sold			(29,587)		(29,587)
FDIC loss share income			49,344		49,344
Fair value change in equity appreciation instrument			8,323		8,323
Other operating income	18,531	1,082	57,039	(38,302)	38,350
Total non-interest income	18,531	1,082	441,323	(50,018)	410,918
Operating Expenses:					
Personnel costs	22,142		306,681		328,823
Net occupancy expenses	2,506	2	71,299	2,621	76,428
Equipment expenses	2,411		30,903		33,314
Other taxes	1,465		37,521		38,986
Professional fees	9,330	9	190,213	(54,629)	144,923
Communications	309	10	20,879		21,198
Business promotion	1,238		34,604		35,842
FDIC deposit insurance			68,640		68,640
Loss on early extinguishment of debt	8,000		637		8,637
Other real estate owned (OREO) expenses			11,885		11,885
Other operating expenses	(38,250)	332	103,178	(1,705)	63,555
Amortization of intangibles			6,973		6,973

Total operating expenses	9,151	353	883,413	(53,713)	839,204
(Loss) income before income tax and equity in earnings of subsidiaries	(42,815)	(23,060)	327,223	1,666	263,014
Income tax expense (benefit)	2,495	(287)	111,831	625	114,664
(Loss) income before equity in earnings of subsidiaries	(45,310)	(22,773)	215,392	1,041	148,350
Equity in undistributed earnings of subsidiaries	193,660	25,868		(219,528)	
Net Income	$ 148,350	$ 3,095	$ 215,392	$ (218,487)	$ 148,350
Comprehensive income, net of tax	$ 209,886	$ 37,499	$ 275,961	$ (313,460)	$ 209,886

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Condensed Consolidating Statement of Cash Flows (Unaudited)

	Nine months ended September 30, 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)	$ 161,335	$ (5,645)	$ 235,576	$ (229,931)	$ 161,335
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Equity in undistributed earnings of subsidiaries	(207,370)	(18,417)		225,787	
Provision for loan losses	267		325,863		326,130
Amortization of intangibles			7,605		7,605
Depreciation and amortization of premises and equipment	484	2	34,467		34,953
Net accretion of discounts and amortization of premiums and deferred fees	21,624	84	(43,339)	(487)	(22,118)
Fair value adjustments on mortgage servicing rights			7,217		7,217
FDIC loss share expense			19,387		19,387
Amortization of prepaid FDIC assessment			30,157		30,157
Adjustments (expense) to indemnity reserves on loans sold			17,990		17,990
(Earnings) losses from investments under the equity method	(3,079)	(379)	(25,821)	39,067	9,788
Deferred income tax benefit	(14,755)		(135,709)	263	(150,201)
Loss (gain) on:					
Disposition of premises and equipment	1		(8,254)		(8,253)
Early extinguishment of debt			24,950		24,950
Sale and valuation adjustments of investment securities			285		285
Sale of loans, including valuation adjustments on loans held for sale			(18,569)		(18,569)
Sale of other assets			(2,545)		(2,545)
Acquisitions of loans held-for-sale			(288,844)		(288,844)
Proceeds from sale of loans held-for-sale			242,088		242,088
Net disbursements on loans held-for-sale			(860,804)		(860,804)
Net (increase) decrease in:					
Trading securities			849,304		849,304
Accrued income receivable	(1,168)	81	(7,728)	80	(8,735)
Other assets	134,437	1,049	(23,830)	(45,712)	65,944
Net increase (decrease) in:					
Interest payable		2,527	(10,114)	34	(7,553)
Pension and other postretirement benefits obligations			24,156		24,156
Other liabilities	(1,347)	(20)	(47,787)	1,092	(48,062)
Total adjustments	(70,906)	(15,073)	110,125	220,124	244,270
Net cash provided by (used in) operating activities	90,429	(20,718)	345,701	(9,807)	405,605
Cash flows from investing activities:					
Net decrease (increase) in money market investments	24,008	(88)	450,564	(23,973)	450,511
Purchases of investment securities:					
Available-for-sale			(1,284,834)		(1,284,834)
Held-to-maturity			(250)		(250)
Other			(152,607)		(152,607)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:					
Available-for-sale			1,166,618		1,166,618

Held-to-maturity		4,398		4,398
Other		119,098		119,098
Proceeds from sale of investment securities:				
Available for sale		8,031		8,031
Net (disbursements) repayments on loans	(71,042)	687,866	70,758	687,582
Proceeds from sale of loans		51,677		51,677
Acquisition of loan portfolios		(1,051,588)		(1,051,588)

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Payments received from FDIC under loss sharing agreements			327,739		327,739
Capital contribution to subsidiary	(50,000)			50,000	
Mortgage servicing rights purchased			(1,620)		(1,620)
Acquisition of premises and equipment	(637)		(33,699)		(34,336)
Proceeds from sale of:					
Premises and equipment	24		20,588		20,612
Other productive assets			1,026		1,026
Foreclosed assets			142,019		142,019
Net cash (used in) provided by investing activities	(97,647)	(88)	455,026	96,785	454,076
Cash flows from financing activities:					
Net increase (decrease) in:					
Deposits			(1,631,309)	6,675	(1,624,634)
Federal funds purchased and assets sold under agreements to repurchase			(220,593)	24,060	(196,533)
Other short-term borrowings		(29,500)	1,010,400	(70,900)	910,000
Payments of notes payable			(72,815)		(72,815)
Proceeds from issuance of notes payable			61,331		61,331
Proceeds from issuance of common stock	7,788				7,788
Dividends paid to parent company			(5,000)	5,000	
Dividends paid	(2,482)				(2,482)
Treasury stock acquired	(276)				(276)
Capital contribution from parent		50,000		(50,000)	
Net cash provided by (used in) financing activities	5,030	20,500	(857,986)	(85,165)	(917,621)
Net decrease in cash and due from banks	(2,188)	(306)	(57,259)	1,813	(57,940)
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	$ 4,177	$ 626	$ 477,537	$ (4,998)	$ 477,342

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Condensed Consolidating Statement of Cash Flows (Unaudited)

	Nine months ended September 30, 2011				
(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	$ 148,350	$ 3,095	$ 215,392	$ (218,487)	$ 148,350
Adjustments to reconcile net income to net cash (used in) provided by operating activities:					
Equity in undistributed earnings of subsidiaries	(193,660)	(25,868)		219,528	
Provision for loan losses			395,912		395,912
Amortization of intangibles			6,973		6,973
Depreciation and amortization of premises and equipment	582	2	34,280		34,864
Net accretion of discounts and amortization of premiums and deferred fees	18,397	149	(115,727)	(487)	(97,668)
Impairment losses on net assets to be disposed of			6,085		6,085
Fair value adjustments on mortgage servicing rights			26,373		26,373
Fair value change in equity appreciation instrument			(8,323)		(8,323)
FDIC loss share income			(49,344)		(49,344)
Amortization of prepaid FDIC assessment			68,640		68,640
Adjustments (expense) to indemnity reserves on loans sold			29,587		29,587
(Earnings) losses from investments under the equity method	(11,271)	(1,082)	(14,699)	38,302	11,250
Deferred income tax expense (benefit)	3,555	(264)	40,692	625	44,608
Loss (gain) on:					
Disposition of premises and equipment	7		(2,026)		(2,019)
Sale and valuation adjustments of investment securities			(8,044)		(8,044)
Sale of loans, including valuation adjustments on loans held for sale			(14,756)		(14,756)
Sale of equity method investments	(5,493)		(11,414)		(16,907)
Acquisitions of loans held-for-sale			(253,401)		(253,401)
Proceeds from sale of loans held-for-sale			101,549		101,549
Net disbursements on loans held-for-sale			(617,591)		(617,591)
Net (increase) decrease in:					
Trading securities			492,882		492,882
Accrued income receivable	(686)	80	15,467	63	14,924
Other assets	4,134	1,406	(1,089)	(30,027)	(25,576)
Net increase (decrease) in:					
Interest payable	(3,467)	3,048	(6,969)	44	(7,344)
Pension and other postretirement benefits obligations			(128,802)		(128,802)
Other liabilities	(72,709)	(2,349)	(36,398)	2,301	(109,155)
Total adjustments	(260,611)	(24,878)	(50,143)	230,349	(105,283)
Net cash (used in) provided by operating activities	(112,261)	(21,783)	165,249	11,862	43,067
Cash flows from investing activities:					
Net increase in money market investments	(5,921)	(22)	(283,923)	22	(289,844)
Purchases of investment securities:					
Available-for-sale			(1,198,613)		(1,198,613)
Held-to-maturity	(37,093)		(28,265)		(65,358)
Other			(116,582)		(116,582)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:					

Available-for-sale		979,868	979,868
Held-to-maturity	50,613	4,004	54,617
Other		104,231	104,231
Proceeds from sale of investment securities:			
Available for sale		35,099	35,099
Other		2,294	2,294

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Net repayments on loans	211,975		1,008,880	(207,752)	1,013,103
Proceeds from sale of loans			290,119		290,119
Acquisition of loan portfolios			(985,675)		(985,675)
Payments received from FDIC under loss sharing agreements			561,111		561,111
Cash paid related to business acquisitions			(500)		(500)
Net proceeds from sale of equity method investments	(10,690)		42,193		31,503
Capital contribution to subsidiary			(37,000)	37,000	
Mortgage servicing rights purchased			(1,251)		(1,251)
Acquisition of premises and equipment	(500)		(37,368)		(37,868)
Proceeds from sale of:					
Premises and equipment	19		12,295		12,314
Foreclosed assets			133,017		133,017
Net cash provided by (used in) investing activities	208,403	(22)	483,934	(170,730)	521,585
Cash flows from financing activities:					
Net increase (decrease) in:					
Deposits			1,201,464	(8,812)	1,192,652
Federal funds purchased and assets sold under agreements to repurchase			189,056		189,056
Other short-term borrowings		(13,500)	(389,822)	205,300	(198,022)
Payments of notes payable	(100,000)	(3,000)	(1,952,254)		(2,055,254)
Proceeds from issuance of notes payable			419,500		419,500
Proceeds from issuance of common stock	5,394				5,394
Dividends paid	(2,792)				(2,792)
Treasury stock acquired	(418)				(418)
Return of capital	1,514		(1,514)		
Capital contribution from parent		37,000		(37,000)	
Net cash (used in) provided by financing activities	(96,302)	20,500	(533,570)	159,488	(449,884)
Net (decrease) increase in cash and due from banks	(160)	(1,305)	115,613	620	114,768
Cash and due from banks at beginning of period	1,638	1,576	451,723	(2,564)	452,373
Cash and due from banks at end of period	$ 1,478	$ 271	$ 567,336	$ (1,944)	$ 567,141

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

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

The Corporation is a diversified, publicly-owned financial holding company subject to the supervision and regulation of the Board of Governors of the Federal Reserve System. The Corporation has operations in Puerto Rico, the United States (U.S.) mainland, and the U.S. and British Virgin Islands. In Puerto Rico, the Corporation provides retail and commercial banking services through its principal banking subsidiary, Banco Popular de Puerto Rico (BPPR), as well as mortgage banking, investment banking, broker-dealer, auto and equipment leasing and financing, and insurance services through specialized subsidiaries. In the U.S. mainland, the Corporation operates Banco Popular North America (BPNA), including its wholly-owned subsidiary E-LOAN. BPNA focuses efforts and resources on the core community banking business. BPNA, under the name Popular Community Bank, operates branches in New York, California, Illinois, New Jersey and Florida. E-LOAN markets deposit accounts under its name for the benefit of BPNA. Note 31 to the consolidated financial statements presents information about the Corporation s business segments. The Corporation has a 48.5% interest in EVERTEC, which provides transaction processing services throughout the Caribbean and Latin America, including servicing many of the Corporation s system infrastructures and transaction processing businesses.

OVERVIEW

The third quarter of 2012, which marks the seventh consecutive profitable quarter for the Corporation. Net income amounted to $47.2 million for the quarter ended September 30, 2012, compared with net income of $27.5 million for the same quarter of the previous year. For the nine months ended September 30, 2012, net income amounted to $161.3 million, compared with net income of $148.4 million for the same period in 2011.

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Main events for the quarter ended September 30, 2012

Credit quality metrics of the non-covered loan portfolio continued to improve during the third quarter of 2012. Non-performing assets declined by $57 million or 3% to $1.9 billion from June 30, 2012, down 22% from its peak in the third quarter of 2010, and were at their lowest level since the second quarter of 2009. This decline was primarily attributable to a decline in non-performing loans held-for-sale by $70 million or 39% from June 30, 2012. In addition, net charge-offs declined for the fourth consecutive quarter.

Taxable equivalent net interest margin increased to 4.50% for the quarter ended September 30, 2012, from 4.43% for the quarter ended June 30, 2012. The improvement in margin was driven largely by reduced funding costs. During the second quarter of 2012 BPPR canceled $350 million of structured repurchase agreements and recorded $25 million in prepayment expense. The Corporation replaced high-cost structured repurchase agreements and maturing brokered deposits with short-term borrowings at lower costs.

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

Financial highlights for the quarter ended September 30, 2012

Taxable equivalent net interest income was $343.4 million for the third quarter of 2012, down $25.9 million, or 7%, from the same quarter of the prior year. The 6-basis-point decrease in the net interest margin from 4.56% to 4.50% was mainly attributable to a lower average yield in earning assets by 38 basis points primarily in covered loans due to the resolution of certain commercial loans during 2011; non-covered mortgage loans resulting mainly from purchases and originations under a lower interest rate scenario; and investment securities as a result of higher prepayment activity and reinvestments at a lower rate; partially offset by a decrease in the cost of funds by 32 basis points, mainly from deposits and other short-term borrowings as a result of the Corporation s strategy to continue to reduce its funding costs. In addition, the full repayment of the FDIC note during 2011 and the early cancellation of high-cost repurchase agreements during the second quarter contributed to the decrease in interest expense. 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 its improvement in credit quality in both the Puerto Rico and U.S. mainland operations, which was reflected in improved credit metrics, such as the level of net charge-offs and non-performing loans, during the third quarter of the current year. Net charge-offs in the third quarter were at the lowest level since the first quarter of 2008. Also, non-performing loans held-in-portfolio were 34% lower than peak levels in the third quarter of 2010.

Provision for loan losses decreased by $70.1 million or 40% for the third quarter of 2012 compared with the same quarter of the previous year, principally in the non-covered loan portfolio. The provision for loan losses for non-covered loans for the third quarter of 2012 reflected lower net charge-offs by $39.4 million in both the P.R. and U.S. mainland operations, including reductions in all non-covered loan portfolio categories except for the mortgage loan category which experienced higher reserve requirements prompted by higher loss trends and higher specific reserves for loans restructured under loss mitigation programs. During the quarter, there was also a reduction in the allowance for loan losses, mainly from the commercial and consumer loan portfolios, as a result of continued improvement in credit trends, which was partially offset by the previously mentioned increase in general and specific reserves in the mortgage loan portfolio. During the third quarter of 2012, the annualized net charge-offs to average non-covered loans held-in-portfolio ratio fell to 1.92% in Puerto Rico and to 1.74% in the U.S. mainland operations from 2.49% and 3.00%, respectively, during the quarter ended September 30, 2011.

In addition, the non-covered non-performing loan portfolio declined by $187 million to $1.6 billion, down 11% from December 31, 2011, mainly due to improvements in all loan categories. Non-performing loans held-for-sale, excluding covered loans, also declined by $153 million or 58% from December 31, 2011 driven principally by certain construction loans in the BPPR reportable segment which were resolved.

The improvements in credit quality led to a decrease in the allowance for loan losses to non-covered loans held-in-portfolio ratio from 3.35% at December 31, 2011 to 3.07% at September 30, 2012. The general and specific reserves related to non-covered loans amounted to $529 million and $107 million, respectively, at September 30, 2012, compared

with $631 million and $59 million, respectively, at December 31, 2011. The decrease in the general reserve component was mainly driven by lower loss trends in the commercial and consumer loan portfolios, partially offset by higher general reserves in the residential loan portfolio of the BPPR reportable segment. The increase in the specific reserves of the residential loan portfolio of the BPPR reportable segment was mainly the result of loans restructured under loss mitigation programs.

Non-interest income decreased by $6.7 million or 5% to $115.7 million for the quarter ended September 30, 2012, compared with $122.4 million for the same quarter in the previous year. This decrease was the result of the $8.5 million gain on sale of available-for-sale FHLB notes during the third quarter of 2011 and higher trading account losses by $5.2 million on mortgage-backed securities, partially offset by higher other operating income by $6.5 million mostly resulting from lower net losses on equity-method investments, net of intra-entity eliminations. 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 $8.0 million or 3% for the third quarter of 2012, when compared with the same quarter of the previous year, principally due to higher professional fees by $4.7 million due to loan collection efforts and higher OREO expenses by $2.7 million related to higher subsequent fair value adjustments on commercial and construction properties. 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 expense amounted to $15.4 million for the quarter ended September 30, 2012, compared with an income tax expense of $5.5 million for the same period of the previous year, primarily due to higher income recognized by the Puerto Rico operations. Refer to the Income Taxes section of this MD&A for additional factors that affected this variance.

Total assets amounted to $36.5 billion at September 30, 2012, compared with $37.3 billion at December 31, 2011. Money market investments declined by $451 million mainly as a result of a decrease in excess balances held at the Federal Reserve. In addition, total loans held-in-portfolio declined by $294 million from the end of 2011, principally due to a decline of $445 million in the covered loan portfolio. The non-covered portfolio reflected an increase of $151 million mainly in the mortgage and consumer loan portfolios driven by acquisitions, originations, and loans repurchased from the recourse portfolio during the second and third quarter of the current year, partially offset by decreases in non-covered commercial and legacy loans due to charge-offs and resolutions of non-performing loans.

Deposits amounted to $26.3 billion at September 30, 2012, compared with $27.9 billion at December 31, 2011. The decrease in time deposits of $2.0 billion was principally in brokered and non-brokered certificates of deposit of the BPPR operations. The decrease in brokered and non-brokered deposits resulted from the Corporation s substitution of maturing brokered and non-brokered deposits with short-term borrowings at lower costs. These decreases were partially offset by increases in savings, NOW, and money market deposits by $0.5 billion.

The Corporation s borrowings amounted to $5.0 billion at September 30, 2012, compared with $4.3 billion at December 31, 2011. The increase in borrowings was mainly driven by an increase in other short-term borrowings by $0.9 billion, since the Corporation replaced maturing brokered deposits and time deposits with short term FHLB NY advances at a lower cost.

Stockholders equity amounted to $4.1 billion at September 30, 2012, compared to $3.9 billion at December 31, 2011. Capital ratios continued to be strong. Tier I common risk-based capital ratio increased to 16.81% at September 30, 2012, from 15.97% at December 31, 2011. Tangible common equity ratio at September 30, 2012 was 9.26%, up from 8.62% at December 31, 2011. 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 and nine months ended September 30, 2012 and 2011.

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

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

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

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

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

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Table 1 Financial Highlights

Financial Condition Highlights				**Average for the nine months**		
(In thousands)	September 30, 2012	December 31, 2011	Variance	2012	2011	Variance
Money market investments	$ 925,663	$ 1,376,174	$ (450,511)	$ 1,053,633	$ 1,186,962	$ (133,329)
Investment and trading securities	5,682,680	5,751,417	(68,737)	5,681,022	6,355,238	(674,216)
Loans	24,994,769	25,314,392	(319,623)	24,806,342	25,756,879	(950,537)
Earning assets	31,603,112	32,441,983	(838,871)	31,540,978	33,299,079	(1,758,101)
Total assets	36,503,366	37,348,432	(845,066)	36,251,754	38,511,996	(2,260,242)
Deposits*	26,319,499	27,942,127	(1,622,628)	27,008,008	27,496,340	(488,332)
Borrowings	5,017,141	4,293,669	723,472	4,318,718	6,298,514	(1,979,796)
Stockholders equity	4,068,984	3,918,753	150,231	3,812,486	3,704,105	108,381

* Average deposits exclude average derivatives.

Operating Highlights	**Third Quarter**			**Nine months ended September 30,**		
(In thousands, except per share information)	2012	2011	Variance	2012	2011	Variance
Net interest income	$ 343,426	$ 369,311	$ (25,885)	$ 1,022,208	$ 1,087,212	$ (65,004)
Provision for loan losses non-covered loans	83,589	150,703	(67,114)	247,846	306,177	(58,331)
Provision for loan losses covered loans	22,619	25,573	(2,954)	78,284	89,735	(11,451)
Non-interest income	115,709	122,390	(6,681)	333,341	410,918	(77,577)
Operating expenses	290,355	282,355	8,000	914,401	839,204	75,197
(Loss) income before income tax	62,572	33,070	29,502	115,018	263,014	(147,996)
Income tax (benefit) expense	15,384	5,537	9,847	(46,317)	114,664	(160,981)
Net income	$ 47,188	$ 27,533	$ 19,655	$ 161,335	$ 148,350	$ 12,985
Net income applicable to common stock	$ 46,257	$ 26,602	$ 19,655	$ 158,543	$ 145,558	$ 12,985
Net income per common share basic and diluted	$ 0.45	$ 0.26	$ 0.19	$ 1.55	$ 1.42	$ 0.13

	Third Quarter		**Nine months ended September 30,**	
Selected Statistical Information	2012	2011	2012	2011
Common Stock Data				
Market price				
High	$ 18.74	$ 28.30	$ 23.00	$ 35.33
Low	13.55	13.70	13.55	13.70
End	17.45	15.00	17.45	15.00
Book value per common share at period end	38.98	38.68	38.98	38.68
Profitability Ratios				
Return on assets	0.52%	0.29%	0.59%	0.52%

Return on common equity	4.81	2.81	5.63	5.33
Net interest spread (taxable equivalent)	4.25	4.30	4.18	4.24
Net interest margin (taxable equivalent)	4.50	4.56	4.45	4.49
Capitalization Ratios				
Average equity to average assets	10.77%	10.00%	10.52%	9.62%
Tier I capital to risk-weighted assets	16.81	15.79	16.81	15.79
Total capital to risk-weighted assets	18.09	17.07	18.09	17.07
Leverage ratio	11.40	10.56	11.40	10.56

CRITICAL ACCOUNTING POLICIES / ESTIMATES

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

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

Allowance for Loan Losses

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

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

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

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

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

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

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

Established a more granular stratification of the commercial loan portfolios to enhance the homogeneity of the loan classes. Previously, the Corporation used loan groupings for commercial loan portfolios based on business lines and collateral types (secured / unsecured loans). As part of the loan segregation, management evaluated the risk profiles

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

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

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

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

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

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

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

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

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

Goodwill

The Corporation s goodwill and other identifiable intangible assets having an indefinite useful life are tested for impairment. Intangibles with indefinite lives are evaluated for impairment at least annually and on a more frequent basis if events or circumstances indicate impairment could have taken place. Such events could include, among others, a significant adverse change in the business climate, an adverse action by a regulator, an unanticipated change in the competitive environment and a decision to change the operations or dispose of a reporting unit.

Under applicable accounting standards, goodwill impairment analysis is a two-step test. The first step of the goodwill impairment test involves comparing the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, the second step must be performed. The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated possible impairment. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangibles (including any unrecognized intangible assets, such as unrecognized core deposits and trademark) as if the reporting unit was being acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The Corporation estimates the fair values of the assets and liabilities of a reporting unit, consistent with the requirements of the fair value measurements accounting standard, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair

value of the assets and liabilities reflects market conditions, thus volatility in prices could have a material impact on the determination of the implied fair value of the reporting unit goodwill at the impairment test date. The adjustments to measure the assets, liabilities and intangibles at fair value are for the purpose of measuring the implied fair value of goodwill and such adjustments are not reflected in the consolidated statement of condition. If the implied fair value of goodwill exceeds the goodwill assigned to the reporting unit, there is no impairment. If the goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted under applicable accounting standards.

The Corporation performed the annual goodwill impairment evaluation for the entire organization during the third quarter of 2012 using July 31, 2012 as the annual evaluation date. The reporting units utilized for this evaluation were those that are one level below the business segments, which are the legal entities within the reportable segment. The Corporation follows push-down accounting, as such all goodwill is assigned to the reporting units when carrying out a business combination.

In determining the fair value of a reporting unit, the Corporation generally uses a combination of methods, including market price multiples of comparable companies and transactions, as well as discounted cash flow analysis. Management evaluates the particular circumstances of each reporting unit in order to determine the most appropriate valuation methodology. The Corporation evaluates the results obtained under each valuation methodology to identify and understand the key value drivers in order to ascertain that the results obtained are reasonable and appropriate under the circumstances. Elements considered include current market and economic conditions, developments in specific lines of business, and any particular features in the individual reporting units.

The computations require management to make estimates and assumptions. Critical assumptions that are used as part of these evaluations include:

- a selection of comparable publicly traded companies, based on nature of business, location and size;
- a selection of comparable acquisition and capital raising transactions;
- the discount rate applied to future earnings, based on an estimate of the cost of equity;
- the potential future earnings of the reporting unit; and
- the market growth and new business assumptions.

For purposes of the market comparable approach, valuations were determined by calculating average price multiples of relevant value drivers from a group of companies that are comparable to the reporting unit being analyzed and applying those price multiples to the value drivers of the reporting unit. Multiples used are minority based multiples and thus, no control premium adjustment is made to the comparable companies market multiples. While the market price multiple is not an assumption, a presumption that it provides an indicator of the value of the reporting unit is inherent in the valuation. The determination of the market comparables also involves a degree of judgment.

For purposes of the discounted cash flows (DCF) approach, the valuation is based on estimated future cash flows. The financial projections used in the DCF valuation analysis for each reporting unit are based on the most recent (as of the valuation date) financial projections presented to the Corporation s Asset / Liability Management Committee (ALCO). The growth assumptions included in these projections are based on management s expectations for each reporting unit s financial prospects considering economic and industry conditions as well as particular plans of each entity (i.e. restructuring plans, de-leveraging, etc.). The cost of equity used to discount the cash flows was calculated using the Ibbotson Build-Up Method and ranged from 11.93% to 18.38% for the 2012 analysis. The Ibbotson Build-Up Method builds up a cost of equity starting with the rate of return of a risk-free asset (20-year U.S. Treasury note) and adds to it additional risk elements such as equity risk premium, size premium and industry risk premium. The resulting discount rates were analyzed in terms of reasonability given the current market conditions and adjustments were made when necessary.

For BPNA, the only reporting unit that failed Step 1, the Corporation determined the fair value of Step 1 utilizing a DCF approach and a market value approach. The market value approach is based on a combination of price multiples from comparable companies and multiples from capital raising transactions of comparable companies. The market multiples used included price to book and price to tangible book . The Step 1 fair value for BPNA under both valuation approaches (market and DCF) was below the carrying amount of its equity book value as of the valuation date (July 31), requiring the completion of Step 2. In accordance with accounting standards, the Corporation performed a valuation of all assets and liabilities of BPNA, including any recognized and unrecognized intangible assets, to determine the fair value of BPNA s net assets. To complete Step 2, the Corporation subtracted from BPNA s

Step 1 fair value the determined fair value of the net assets to arrive at the implied fair value of goodwill. The results of the Step 2 indicated that the implied fair value of goodwill exceeded the goodwill carrying value of $402 million at July 31, 2012, resulting in no goodwill impairment. The reduction in BPNA s Step 1 fair value was offset by a reduction in the fair value of its net assets, resulting in an implied fair value of goodwill that exceeds the recorded book value of goodwill.

The analysis of the results for Step 2 indicates that the reduction in the fair value of the reporting unit was mainly attributed to the deteriorated fair value of the loan portfolios and not to the fair value of the reporting unit as a going concern. The current negative performance of the reporting unit is principally related to deteriorated credit quality in its loan portfolio, which is consistent with the results of the Step 2 analysis. The fair value determined for BPNA s loan portfolio in the July 31, 2012 annual test represented a discount of 18.2%, compared with 28.0% at July 31, 2011. The discount is mainly attributed to market participant s expected rate of returns, which affected the market discount on the commercial and construction loan portfolios of BPNA.

If the Step 1 fair value of BPNA declines further in the future without a corresponding decrease in the fair value of its net assets or if loan discounts improve without a corresponding increase in the Step 1 fair value, the Corporation may be required to record a goodwill impairment charge. The Corporation engaged a third-party valuator to assist management in the annual evaluation of BPNA s goodwill (including Step 1 and Step 2) as well as BPNA s loan portfolios as of the July 31, 2012 valuation date. Management discussed the methodologies, assumptions and results supporting the relevant values for conclusions and determined they were reasonable.

For the BPPR reporting unit, the average estimated fair value calculated in Step 1 using all valuation methodologies exceeded BPPR s equity value by approximately $222 million in the July 31, 2012 annual test as compared with approximately $472 million at July 31, 2011. This results indicates there would be no indication of impairment on the goodwill recorded in BPPR at July 31, 2012. For the BPNA reporting unit, the estimated implied fair value of goodwill calculated in Step 2 exceeded BPNA s goodwill carrying value by approximately $338 million as compared to approximately $701 million at July 31, 2011. The reduction in the excess of the implied fair value of goodwill over its carrying amount for BPNA is due to the improved credit quality of its loan portfolio. The goodwill balance of BPPR and BPNA, as legal entities, represented approximately 97% of the Corporation s total goodwill balance as of the July 31, 2012 valuation date.

Furthermore, as part of the analyses, management performed a reconciliation of the aggregate fair values determined for the reporting units to the market capitalization of Popular, Inc. concluding that the fair value results determined for the reporting units in the July 31, 2012 annual assessment were reasonable.

The goodwill impairment evaluation process requires the Corporation to make estimates and assumptions with regard to the fair value of the reporting units. Actual values may differ significantly from these estimates. Such differences could result in future impairment of goodwill that would, in turn, negatively impact the Corporation s results of operations and the reporting units where the goodwill is recorded. Declines in the Corporation s market capitalization could increase the risk of goodwill impairment in the future.

Management monitors events or changes in circumstances between annual tests to determine if these events or changes in circumstances would more likely than not reduce the fair value of a reporting unit below its carrying amount.

STATEMENT OF OPERATIONS ANALYSIS

NET INTEREST INCOME

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

The interest earning assets include the investment securities and loans that are exempt from income tax, principally in Puerto Rico. The main sources of tax-exempt interest income are certain investments in obligations of the U.S. Government, its agencies and sponsored entities, certain obligations of the Commonwealth of Puerto Rico and its agencies, and certain consumer loans purchased during the second quarter. 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 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. Prepayment penalties, late fees collected and amortization of premium / discounts recorded as interest income amounted to $4.3 million and $14.9 million, for the quarter and nine months ended September 30, 2012 compared to $5.3 million and $15.8 million for the same period in 2011. Interest income on covered loans for the quarter and nine months ended September 30, 2011 included the discount accretion on covered loans accounted for under ASC 310-20 (revolving lines of credit), which amounted to $3.5 million and $37.1 million, respectively. This discount was fully accreted during the third quarter of 2011.

The decrease in the net interest margin, on a taxable equivalent basis, for the quarter ended September 30, 2012, when compared to the same period in 2011, was mostly related to a reduction in the yield on earning assets, mainly in the loan portfolio. Major variances are detailed as follows:

- Lower yield in the covered loan portfolio mainly as a result of a temporary benefit recorded during the quarter ended September 30, 2011. This benefit resulted from the resolution of certain commercial loans in pools with a relatively short average life. As a result, the unamortized discount was recognized into income based on the pools average life. In addition, the net interest margin for the quarter ended September 20, 2011 benefited from the amortization into income of approximately $3.5 million related to covered loans accounted for under ASC 310-20, as mentioned above.

- Lower yield for the mortgage loan portfolio. This reduction was impacted by various factors including: acquisitions made, principally in the U.S. mainland, of high quality loans that carry a lower yield than the portfolio; originations in a lower rate environment; the run-off of higher-coupon loans from the portfolio; reversals of interest for delinquent loans; and non-performing loans repurchased under credit recourse agreements. These loans, which are delinquent at the time of repurchase, are put through loss mitigation programs for potential restructuring.

- Lower yield of investment securities as a result of an increase in the premium amortized for mortgage-backed securities due to higher prepayment activity. In addition, cash flows from mortgage-backed securities were reinvested in lower yielding collateralized mortgage obligations.

Items that partially offset the reductions in net interest margin included:

- Lower cost of interest bearing deposits reflecting the Corporation s strategy to reprice this funding base.

- Higher yield in the non-covered construction loan portfolio as a result of a lower proportion of non-performing assets.

- Lower cost of borrowings resulting from the cancellation, during the quarter ended June 30, 2012, of $350 million in repurchase agreements which had an average cost of 4.36%, and replacing them with lower cost Federal Home Loan Bank advances.

The reduction in the average balance of investment securities reflects maturities and prepayment activity within the mortgage related investments. In addition, the average loan balance continues to exhibit a reduction when compared to the same quarter of the previous year. Loan demand in the commercial sector has been weak, and resolutions of non-performing loans and charge-offs continue to impact the portfolio balance. The reduction in the average balance of the covered loan portfolio was impacted by charge-offs, resolutions and collections. On the other hand, the mortgage loans category was directly impacted by acquisitions made during the second and third quarter of 2012, both in the U.S. and P.R. The increase in the consumer loan portfolio reflects the acquisition of $225 million in P.R. consumer loans at the end of the second quarter of 2012.

On the funding side, interest bearing deposits reflected a reduction mostly associated to a decrease in brokered deposits and retail time deposits, partially offset by higher average balances of NOW, money market, savings and demand deposits. The borrowings category reflects a reduction of $1.1 billion in the average balance of the note issued to the FDIC related to the acquisition of the Westernbank assets in 2010. This note was fully repaid at the end of 2011.

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

Quarters ended September 30,

Average Volume			Average Yields/Costs				Interest			Variance Attributable to	
012	2011	Variance	2012	2011	Variance		2012	2011	Variance	Rate	Volume
	($ in millions)								(In thousands)		
954	$ 1,241	$ (287)	0.36 %	0.28 %	0.08 %	Money market investments	$ 862	$ 886	$ (24)	$ 119	$ (143)
5,205	5,461	(256)	3.36	4.00	(0.64)	Investment securities	43,742	54,674	(10,932)	(7,359)	(3,573)
466	838	(372)	5.62	5.50	0.12	Trading securities	6,582	11,603	(5,021)	221	(5,242)
6,625	7,540	(915)	3.09	3.56	(0.47)	Total money market, investment and trading securities	51,186	67,163	(15,977)	(7,019)	(8,958)
						Loans:					
10,024	10,690	(666)	4.96	5.04	(0.08)	Commercial	124,861	135,709	(10,848)	(2,510)	(8,338)
435	698	(263)	3.02	1.45	1.57	Construction	3,300	2,554	746	1,977	(1,231)
540	572	(32)	8.67	8.93	(0.26)	Leasing	11,696	12,770	(1,074)	(366)	(708)
5,915	5,326	589	5.60	6.16	(0.56)	Mortgage	82,773	81,999	774	(7,845)	8,619
3,855	3,656	199	10.32	10.32		Consumer	100,055	95,059	4,996	378	4,618
20,769	20,942	(173)	6.19	6.23	(0.04)	Sub-total loans	322,685	328,091	(5,406)	(8,366)	2,960
3,952	4,557	(605)	7.12	9.23	(2.11)	Covered loans	70,584	105,809	(35,225)	(22,567)	(12,658)
24,721	25,499	(778)	6.34	6.77	(0.43)	Total loans	393,269	433,900	(40,631)	(30,933)	(9,698)
31,346	$ 33,039	$ (1,693)	5.65 %	6.03 %	(0.38)%	Total earning assets	$ 444,455	$ 501,063	$ (56,608)	$ (37,952)	$ (18,656)
						Interest bearing deposits:					
5,709	$ 5,284	$ 425	0.43 %	0.55 %	(0.12)%	NOW and money market*	$ 6,198	$ 7,352	$ (1,154)	$ (1,769)	$ 615
6,561	6,307	254	0.27	0.54	(0.27)	Savings	4,458	8,556	(4,098)	(4,448)	350
9,003	10,876	(1,873)	1.43	1.82	(0.39)	Time deposits	32,344	49,960	(17,616)	(10,355)	(7,261)
21,273	22,467	(1,194)	0.80	1.16	(0.36)	Total deposits	43,000	65,868	(22,868)	(16,572)	(6,296)
2,529	2,715	(186)	1.55	2.01	(0.46)	Short-term borrowings	9,876	13,744	(3,868)	517	(4,385)
	1,057	(1,057)		2.07	(2.07)	FDIC note		5,481	(5,481)		(5,481)
487	459	28	15.93	15.89	0.04	TARP funds**	19,390	18,250	1,140	47	1,093
1,410	1,444	(34)	5.19	5.28	(0.09)	Other medium and long-term debt	18,311	19,104	(793)	(524)	(269)
25,699	28,142	(2,443)	1.40	1.73	(0.33)	Total interest bearing liabilities	90,577	122,447	(31,870)	(16,532)	(15,338)
5,319	5,095	224				Non-interest bearing demand deposits					
328	(198)	526				Other sources of funds					
31,346	$ 33,039	$ (1,693)	1.15 %	1.47 %	(0.32)%	Total source of funds	90,577	122,447	(31,870)	(16,532)	(15,338)
			4.50 %	4.56 %	(0.06)%	Net interest margin					
						Net interest income on a taxable equivalent basis	353,878	378,616	(24,738)	$ (21,420)	$ (3,318)
			4.25 %	4.30 %	(0.05)%	Net interest spread					
						Taxable equivalent adjustment	10,452	9,305	1,147		
						Net interest income	$ 343,426	$ 369,311	$ (25,885)		

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

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

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

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The results for the nine-month period ended September 30, 2012 were impacted by the same factors described in the quarterly results. A lower yield in the loan portfolio, mainly covered loans and non-covered mortgage loans, along with a reduction in the yield of investment securities, contributed to a lower net interest margin. However, collections made during the first quarter of 2012 related to a large loan relationship in the U.S. mainland operations, which had been placed in non-accrual status, contributed to a higher positive effect in the yield of the non-covered construction loan portfolio. In addition, a reduction in the cost of interest bearing deposits assisted in mitigating the yield reduction experienced within the loans and investment securities categories.

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

Nine months ended September 30, 2012

Average Volume			Average Yields / Costs				Interest			Variance Attributable to	
2012	2011	Variance	2012	2011	Variance		2012	2011	Variance	Rate	Volume
		($ in millions)							(In thousands)		
$ 1,054	$ 1,187	$ (133)	0.35 %	0.31 %	0.04 %	Money market investments	$ 2,774	$ 2,759	$ 15	$ 138	$ (123)
5,217	5,594	(377)	3.56	4.02	(0.46)	Investment securities	139,304	168,549	(29,245)	(15,464)	(13,781)
464	761	(297)	5.75	5.58	0.17	Trading securities	19,959	31,784	(11,825)	976	(12,801)
6,735	7,542	(807)	3.21	3.59	(0.38)	Total money market, investment and trading securities	162,037	203,092	(41,055)	(14,350)	(26,705)
						Loans:					
10,234	10,987	(753)	4.98	5.08	(0.10)	Commercial	381,678	417,454	(35,776)	(7,578)	(28,198)
484	788	(304)	3.66	1.45	2.21	Construction	13,256	8,542	4,714	9,025	(4,311)
547	582	(35)	8.66	8.93	(0.27)	Leasing	35,519	38,998	(3,479)	(1,158)	(2,321)
5,698	5,070	628	5.64	6.35	(0.71)	Mortgage	241,238	241,277	(39)	(28,210)	28,171
3,719	3,645	74	10.19	10.31	(0.12)	Consumer	283,780	281,108	2,672	(4,808)	7,480
20,682	21,072	(390)	6.17	6.26	(0.09)	Sub-total loans	955,471	987,379	(31,908)	(32,729)	821
4,124	4,685	(561)	7.27	9.25	(1.98)	Covered loans	224,442	324,254	(99,812)	(63,768)	(36,044)
24,806	25,757	(951)	6.35	6.80	(0.45)	Total loans	1,179,913	1,311,633	(131,720)	(96,497)	(35,223)
$ 31,541	$ 33,299	$ (1,758)	5.68 %	6.08 %	(0.40)%	Total earning assets	$ 1,341,950	$ 1,514,725	$ (172,775)	$ (110,847)	$ (61,928)
						Interest bearing deposits:					
$ 5,504	$ 5,206	$ 298	0.45 %	0.63 %	(0.18)%	NOW and money market*	$ 18,476	$ 24,637	$ (6,161)	$ (7,511)	$ 1,350
6,543	6,269	274	0.35	0.66	(0.31)	Savings	16,913	31,125	(14,212)	(15,692)	1,480
9,680	10,999	(1,319)	1.49	1.92	(0.43)	Time deposits	107,804	157,657	(49,853)	(32,357)	(17,496)
21,727	22,474	(747)	0.88	1.27	(0.39)	Total deposits	143,193	213,419	(70,226)	(55,560)	(14,666)
2,447	2,734	(287)	1.99	2.03	(0.04)	Short-term borrowings	36,503	41,478	(4,975)	6,553	(11,528)
	1,732	(1,732)		2.32	(2.32)	FDIC note		30,197	(30,197)		(30,197)
480	453	27	15.91	15.88	0.03	TARP funds**	57,273	54,003	3,270	105	3,165
1,392	1,379	13	5.24	5.59	(0.35)	Other medium and long-term debt	54,759	57,799	(3,040)	(1,232)	(1,808)
26,046	28,772	(2,726)	1.50	1.84	(0.34)	Total interest bearing liabilities	291,728	396,896	(105,168)	(50,134)	(55,034)
5,281	5,022	259				Non-interest bearing demand deposits					
214	(495)	709				Other sources of funds					

$ 31,541	$ 33,299	$ (1,758)	1.23 %	1.59 %	(0.36)%	Total source of funds	291,728	396,896	(105,168)	(50,134)	(55,034)
			4.45 %	4.49 %	(0.04)%	Net interest margin					
						Net interest income on a taxable equivalent basis	1,050,222	1,117,829	(67,607)	$ (60,713)	$ (6,894)
			4.18 %	4.24 %	(0.06)%	Net interest spread					
						Taxable equivalent adjustment	28,014	30,617	(2,603)		
						Net interest income	$ 1,022,208	$ 1,087,212	$ (65,004)		

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

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

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

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PROVISION FOR LOAN LOSSES

The Corporation s provision for loan losses totaled $106.2 million for the quarter ended September 30, 2012 compared with $176.3 million for the same period in 2011. The provision for loan losses for the nine months ended September 30, 2012 amounted to $326.1 million, compared with $395.9 million. The provision for loan losses for the nine months ended September 30, 2012 included the net benefit of $24.8 million, recorded in the first quarter of 2012, related to revisions in the allowance for loan losses methodology of $40.5 million net of $15.7 million related to environmental factor reserves for the BPPR commercial loan portfolio, as described in the Critical Accounting Policies / Estimates section. Refer to the Overview, Reportable Segments and Credit Risk Management and Loan Quality sections of this MD&A for an explanation of the main factors 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.

NON-INTEREST INCOME

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

Table 4 Non-Interest Income

	Quarter ended September 30,			Nine months ended September 30,		
(In thousands)	2012	2011	Variance	2012	2011	Variance
Service charges on deposit accounts	$ 45,858	$ 46,346	$ (488)	$ 138,577	$ 138,778	$ (201)
Other service fees:						
Debit card fees	8,772	13,075	(4,303)	27,348	39,795	(12,447)
Insurance fees	12,322	13,785	(1,463)	36,775	37,919	(1,144)
Credit card fees	14,576	13,738	838	41,403	36,106	5,297
Sale and administration of investment products	9,511	9,915	(404)	28,045	24,702	3,343
Mortgage servicing fees, net of fair value adjustments	9,857	2,120	7,737	29,123	10,649	18,474
Trust fees	3,977	4,006	(29)	12,127	11,611	516
Processing fees	1,406	1,684	(278)	4,819	5,121	(302)
Other fees	4,363	4,341	22	13,210	13,720	(510)
Total other service fees	64,784	62,664	2,120	192,850	179,623	13,227
Net gain (loss) on sale and valuation adjustments of investment securities	64	8,134	(8,070)	(285)	8,044	(8,329)
Trading account (loss) profit	(2,266)	2,912	(5,178)	(11,692)	3,287	(14,979)
Net gain on sale of loans, including valuation adjustment on loans held-for-sale	18,495	20,294	(1,799)	18,569	14,756	3,813
Adjustment (expense) to indemnity reserves on loans sold	(8,717)	(10,285)	1,568	(17,990)	(29,587)	11,597
FDIC loss share (expense) income	(6,707)	(5,361)	(1,346)	(19,387)	49,344	(68,731)
Fair value change in equity appreciation instrument					8,323	(8,323)
Other operating income (loss)	4,198	(2,314)	6,512	32,699	38,350	(5,651)
Total non-interest income	$ 115,709	$ 122,390	$ (6,681)	$ 333,341	$ 410,918	$ (77,577)

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The decrease in non-interest income for the quarter ended September 30, 2012, compared with the same period of the previous year, was mainly attributed to a lower net gain on sale and valuation adjustments on investment securities by $8.1 million principally due to the $8.5 million gain on the sale of $234 million in FHLB notes during the third quarter of 2011 and to an unfavorable variance in trading account (loss) profit of $5.2 million due to lower realized and unrealized gains on mortgage-backed securities in the P.R. mortgage banking business, partially offset by lower hedging costs. These negative variances were partially offset by a favorable variance in other operating income of $6.5 million mostly resulting from $5.5 million in lower net losses on investments accounted for under the equity method, net of intra-entity eliminations.

The decrease in non-interest income for the nine months ended September 30, 2012, when compared with the same period of the previous year, was mainly attributed to the following factors:

- Unfavorable variance in FDIC loss share (expense) income of $68.7 million. This unfavorable variance was mainly the result of the negative accretion of the FDIC loss share asset due to a decrease in expected losses on covered loans and a reduction in the provision for loan losses on covered loans, partially offset by a favorable impact from the mirror accounting on the 80% FDIC coverage for reimbursable loan-related expenses on covered loans and a favorable impact on the mirror accounting for the discount accretion on loans and unfunded commitments accounted for under ASC Subtopic 310-20 since the discount on these loans had been fully accreted by the end of the third quarter of 2011. Refer to Table 5 for a breakdown of FDIC loss share (expense) income by major categories.

- Unfavorable variance in trading account (loss) profit of $15.0 million, which corresponded principally to the P.R. mortgage banking business, was mainly influenced by lower unrealized gains due to a lower volume in outstanding mortgage-backed securities and lower gains realized on sales of mortgage-backed securities, partially offset by lower hedging costs.

- Unfavorable variance in net gain (loss) on sale and valuation adjustments of investment securities available-for-sale of $8.3 million principally due to the aforementioned sale of FHLB notes during the third quarter of 2011.

- Unfavorable variance on the fair value of the equity appreciation instrument issued to the FDIC as part of the Westernbank FDIC-assisted transaction of $8.3 million since the results for 2011 included the positive impact of valuing the instrument which expired in May 2011.

These unfavorable variances for the nine-month period were partially offset by the following positive variances:

- Higher other service fees by $13.2 million due to favorable fair value adjustments on mortgage servicing rights, higher credit card fees mainly due to higher interchange fees from the credit card portfolio acquired in August 2011 and higher commission income on sales of investment products by the retail division of Popular Securities, partially offset by lower debit card fees mostly from lower interchange income due to the effects of the Durbin Amendment of the Dodd-Frank Act that began to take effect on October 1, 2011.

- Lower unfavorable adjustments recorded to indemnity reserves on loans sold by $11.6 million mainly as a result of improvements in credit quality trends of mortgage loans serviced subject to credit recourse as well as a declining portfolio since the Corporation is no longer selling loans subject to credit recourse.

- Higher net gain on sale of loans, net of valuation adjustments on loans held-for-sale, by $3.8 million as detailed in the table below. There were higher net gains on sales of loans by $15.9 million principally in the BPPR reportable segment. Offsetting this favorable variance were higher unfavorable valuation adjustments on loans held-for-sale by $18.4 million principally due to $27.3 million in valuation adjustments recorded during the second quarter of 2012 on commercial and construction loans held-for-sale in the BPPR reportable segment as a result of the impact of revised appraisals and market indicators.

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Table 5 Breakdown of Net Gain on Sale of Loans, including Valuation Adjustments

(In thousands)	Quarter ended September 30, 2012	2011	Variance	Nine months ended September 30, 2012	2011	Variance
Net gain on sale of loans	$ 20,580	$ 23,052	$ (2,472)	$ 54,005	$ 38,093	$ 15,912
Valuation adjustment on loans held-for-sale, including write-downs for loans held-for-sale recharacterized to other real estate (repossessed collateral)	(3,462)	(2,758)	(704)	(41,706)	(23,337)	(18,369)
Recoveries on loans held-for-sale due to collections in excess of carrying value	1,377		1,377	6,270		6,270
Total	$ 18,495	$ 20,294	$ (1,799)	$ 18,569	$ 14,756	$ 3,813

Table 6 Financial Information Westernbank FDIC-Assisted Transaction

(In thousands)	Quarters ended September 30, 2012	2011	Variance	Nine months ended September 30, 2012	2011	Variance
Interest income:						
Interest income on covered loans, except for discount accretion on ASC 310-20 covered loans	$ 70,584	$ 102,308	$ (31,724)	$ 224,443	$ 287,171	$ (62,728)
Discount accretion on ASC 310-20 covered loans		3,501	(3,501)		37,083	(37,083)
Total interest income on covered loans	70,584	105,809	(35,225)	224,443	324,254	(99,811)
FDIC loss share (expense) income:						
(Amortization) accretion of loss share indemnification asset	(29,184)	(21,072)	(8,112)	(95,972)	13,361	(109,333)
80% mirror accounting on credit impairment losses[1]	18,095	20,458	(2,363)	60,943	71,787	(10,844)
80% mirror accounting on reimbursable expenses[2]	7,378	(447)	7,825	19,846	570	19,276
80% mirror accounting on discount accretion on loans and unfunded commitments accounted for under ASC 310-20	(248)	(2,916)	2,668	(744)	(32,919)	32,175
Change in true-up payment obligation	(2,991)	(1,640)	(1,351)	(4,849)	(4,684)	(165)
Other	243	256	(13)	1,389	1,229	160
Total FDIC loss share (expense) income	(6,707)	(5,361)	(1,346)	(19,387)	49,344	(68,731)
Fair value change in equity appreciation instrument					8,323	(8,323)
Amortization of contingent liability on unfunded commitments (included in other operating income)	310		310	930	3,395	(2,465)
Total revenues	64,187	100,448	(36,261)	205,986	385,316	(179,330)
Provision for loan losses	22,619	25,573	(2,954)	78,284	89,735	(11,451)
Total revenues less provision for loan losses	$ 41,568	$ 74,875	$ (33,307)	$ 127,702	$ 295,581	$ (167,879)

[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.

[2] Amounts presented are net of the mirror accounting on gains on sales of foreclosed assets.

Average balances

	Quarters ended September 30,			Nine months ended September 30,		
(In millions)	2012	2011	Variance	2012	2011	Variance
Covered loans	$ 3,952	$ 4,557	$ (605)	$ 4,124	$ 4,685	$ (561)
FDIC loss share asset	1,578	1,991	(413)	1,726	2,273	(547)
Note issued to the FDIC		1,057	(1,057)		1,732	(1,732)

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Operating Expenses

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

Table 7 Operating Expenses

	Quarters ended September 30,			Nine months ended September 30,		
(In thousands)	2012	2011	Variance	2012	2011	Variance
Personnel costs:						
Salaries	$ 74,339	$ 77,455	$ (3,116)	$ 227,119	$ 227,944	$ (825)
Commissions, incentives and other bonuses	12,800	11,630	1,170	39,885	33,548	6,337
Pension, postretirement and medical insurance	15,984	11,385	4,599	50,523	36,181	14,342
Other personnel costs, including payroll taxes	8,427	11,254	(2,827)	31,850	31,150	700
Total personnel costs	111,550	111,724	(174)	349,377	328,823	20,554
Net occupancy expenses	24,409	25,885	(1,476)	73,534	76,428	(2,894)
Equipment expenses	11,447	10,517	930	33,688	33,314	374
Other taxes	12,666	12,391	275	38,178	38,986	(808)
Professional fees:						
Collections, appraisals and other credit related fees	12,197	7,966	4,231	33,596	23,702	9,894
Programming, processing and other technology services	24,707	24,063	644	75,627	72,672	2,955
Other professional fees	16,508	16,727	(219)	44,421	48,549	(4,128)
Total professional fees	53,412	48,756	4,656	153,644	144,923	8,721
Communications	6,500	6,800	(300)	20,276	21,198	(922)
Business promotion	14,924	14,650	274	44,754	35,842	8,912
FDIC deposit insurance	24,173	23,285	888	72,006	68,640	3,366
Loss on early extinguishment of debt	43	109	(66)	25,184	8,637	16,547
Other real estate owned (OREO) expenses	5,896	3,234	2,662	22,441	11,885	10,556
Other operating expenses:						
Credit and debit card processing, volume and interchange expenses	5,442	5,416	26	15,083	13,565	1,518
Transportation and travel	1,641	1,689	(48)	5,002	5,074	(72)
Printing and supplies	1,017	1,445	(428)	3,507	3,933	(426)
All other	14,754	13,991	763	50,122	40,983	9,139
Total other operating expenses	22,854	22,541	313	73,714	63,555	10,159
Amortization of intangibles	2,481	2,463	18	7,605	6,973	632
Total operating expenses	$ 290,355	$ 282,355	$ 8,000	$ 914,401	$ 839,204	$ 75,197

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

As shown in Table 7, personnel costs increased by $20.6 million for the nine months ended September 30, 2012, when compared to the same period in 2011, and consisted of the following principal variances:

higher pension, postretirement and medical insurance expenses increased by $14.3 million for the nine months ended September 30, 2012, when compared with the same period of the previous year. This included an increase in the net periodic pension cost of $10.3 million, mainly due to the impact of higher amortization of net losses for the period driven by a decrease in the assumed discount rate of the pension benefit obligation and lower expected return on plan assets. Refer to Note 27 to the consolidated financial statements for a breakdown of the net periodic pension cost. Medical insurance costs also contributed to the increase for the nine months ended September 30, 2012 vis-à-vis the same period in the previous year by $4.0 million, resulting from higher claims activity and revised premiums; and

higher incentives, commission and other bonuses by $6.3 million, for the nine months ended September 30, 2012, when compared with the same period in 2011, mainly due to higher sales incentives and retail commissions and other performance incentives.

professional fees increased by $4.7 million and $8.7 million, respectively, for the quarter and nine months ended September 30, 2012, when compared to the same periods in 2011, mainly related to higher collection, appraisals and other credit related expenses in the Puerto Rico operations;

business promotion expense increased by $8.9 million for the nine months ended September 30, 2012, when compared to the same period in 2011, mainly driven by higher costs from credit card reward programs and higher expenses related to institutional advertising campaigns, the expenses related to mobile banking applications and BPNA s rebranding efforts in 2012;

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higher loss on extinguishment of debt by $16.5 million for the nine months ended September 30, 2012, when compared to the same period in 2011, mainly due to the prepayment expense of $25.0 million recorded during the second quarter of 2012 related to the early termination of $350 million in outstanding repurchase agreements with contractual maturities between March 2014 and May 2014, partially offset by $8.0 million in prepayment penalties recorded during the first quarter of 2011 on the repayment of $100 million in medium-term notes;

increase in OREO expenses of $2.7 million and $10.6 million for the quarter and nine months ended September 30, 2012, when compared to the same periods in 2011, mainly as a result of higher write-downs in residential mortgage and commercial properties due to downward adjustments to the collateral values of residential and commercial properties in the BPPR reportable segment, partially offset by higher gains on the sale of construction and commercial real estate properties in the U.S. mainland; and

the category of all other operating expenses increased by $9.1 million for the nine months ended September 30, 2012, when compared to the same period in 2011, mainly due to higher tax and insurance advances, property maintenance and repair expenses, and to other costs associated with the collection efforts of the Westernbank covered loan portfolio by $9.9 million. Under the loss share agreements, 80% of certain expenses are reimbursable by the FDIC and although the related expenses are reflected in this category, the 80% reimbursement to these expenses is recorded in the income statement category of FDIC loss share income (expense) in non-interest income.

INCOME TAXES

Income tax expense amounted to $15.4 million for the quarter ended September 30, 2012, compared with an income tax expense of $5.5 million for the same quarter of 2011. The increase in income tax expense was primarily due to higher income recognized by the Puerto Rico operations during the third quarter of 2012, compared with the same period of 2011. The increase in income tax expense was partially offset by the recognition of $9 million of unrecognized tax benefit due to the expiration of the statute of limitation.

The components of income tax for the quarter ended September 30, 2012 and 2011 were as follows:

Table 8 Components of Income Tax Expense Quarter

	Quarters ended			
	September 30, 2012		September 30, 2011	
(In thousands)	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax at statutory rates	$ 18,772	30 %	$ 9,921	30 %
Net benefit of net tax exempt interest income	(7,625)	(12)	(7,779)	(23)
Deferred tax asset valuation allowance	1,611	3	1,473	4
Non-deductible expenses	5,817	9	5,475	17
Difference in tax rates due to multiple jurisdictions	(250)		(1,542)	(5)
Effect of income subject to preferential tax rate[1]	7,662	12	(79)	
Unrecognized tax benefits	(8,985)	(14)	(750)	(2)
Others	(1,618)	(3)	(1,182)	(4)
Income tax expense	$ 15,384	25 %	$ 5,537	17 %

[1] Includes the adjustment related to the Closing Agreement with the P.R. Treasury signed in June 2012.

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Income tax benefit amounted to $46.3 million for the nine months ended September 30, 2012, compared with an income tax expense of $114.7 million for the same period of 2011. The decrease in income tax expense was due to lower income recognized by the P.R. operations for the nine months ended September 30, 2012 compared to the same period of 2011.

Additionally, an income tax benefit of $72.9 million was recorded during the second quarter of 2012 related to the reduction of the deferred tax liability on the estimated gains for tax purposes related to the loans acquired from Westernbank (the Acquired Loans) as a result of a Closing Agreement signed by the Corporation and P.R. Department of the Treasury. Under this agreement, both parties agreed that the Acquired Loans are a capital asset and any gain resulting from such loans will be taxed at the capital gain rate of 15% instead of the ordinary income tax rate of 30%, thus reducing the deferred tax liability on the estimated gain and recognizing an income tax benefit for accounting purposes.

During the nine months ended September 30, 2011, a tax benefit of $53.6 million was recorded for the recovery of certain tax benefits not previously recorded during years 2009 (the benefit of reduced tax rates for capital gains) and 2010 (the benefit of the exempt income) as a result of a Closing Agreement signed by the Corporation and the P.R. Treasury in June 2011. Under this agreement, both parties agreed that for tax purposes the deductions related to certain charge-offs recorded on the financial statements of Popular for the years 2009 and 2010 could be deferred until 2013, 2014, 2015 and 2016. In addition, as a result of the 2011 Closing Agreement, the Corporation recorded a tax benefit of $11.9 million related to the tax benefits of the exempt income for the first six months of 2011.

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

The components of income tax for the nine months ended September 30, 2012 and 2011 were as follows:

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

	Nine months ended			
	September 30, 2012		September 30, 2011	
(In thousands)	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax at statutory rates	$ 34,505	30 %	$ 78,904	30 %
Net benefit of net tax exempt interest income	(18,378)	(16)	(25,392)	(10)
Deferred tax asset valuation allowance	2,730	2	113	
Non-deductible expenses	17,182	15	16,201	6
Difference in tax rates due to multiple jurisdictions	(4,606)	(4)	(5,884)	(2)
Initial adjustment in deferred tax due to change in tax rate			103,287	39
Recognition of tax benefits from previous years[1]			(53,615)	(20)
Effect of income subject to preferential tax rate[2]	(66,607)	(58)	(411)	
Unrecognized tax benefits	(8,985)	(8)	(5,160)	(2)
Others	(2,158)	(1)	6,621	3
Income tax (benefit) expense	$ (46,317)	(40)%	$ 114,664	44 %

[1] Represents the impact of the Ruling and Closing Agreement with the P.R. Treasury signed in June 2011.
[2] Includes the impact of the Closing Agreement with the P.R. Treasury signed in June 2012 as adjusted as of September 30, 2012.
Refer to Note 29 to the consolidated financial statements for a breakdown of the Corporation s deferred tax assets as of September 30, 2012.

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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 31 to the consolidated financial statements.

The Corporate group reported a net loss of $35.3 million for the third quarter and $94.2 million for the nine months ended September 30, 2012, compared with net loss of $35.8 million for the third quarter and $83.7 million for the nine months ended September 30, 2011. The unfavorable variance in the year-to-date results for the Corporate group was the net effect of (i) gain recognized during the nine-month period ended September 30, 2011 from the sale of its equity investment in CONTADO; and (ii) lower income, net of intra-entity eliminations, from the equity interest in EVERTEC, partially offset by (iii) prepayment expenses incurred in 2011 on the early cancellation of medium-term notes.

Banco Popular de Puerto Rico

The Banco Popular de Puerto Rico reportable segment s net income amounted to $73.2 million for the quarter ended September 30, 2012, compared with $54.2 million for the same quarter of the previous year. The principal factors that contributed to the variance in the financial results included the following:

- lower net interest income by $20.7 million, or 6%, mostly due to a reduction in interest income from the covered loan portfolio by $35.2 million mainly from the resolution of certain commercial loans during the third quarter of the previous year that had the effect of recognizing into income their related unamortized discount. In addition, contributing to the reduction in interest income was a lower average balance of covered loans by $605 million, as compared with the same quarter in 2011. Also, a reduction of approximately $989 million in the average volume of money market, investment and trading securities resulted in a reduction in interest income of $9.9 million mainly due to higher prepayment activity. The reduction in interest income due to yields of $4.7 million was attributed to the reinvestment of mortgage-backed securities in lower yielding collateralized mortgage obligations. The unfavorable impact resulting from these reductions in interest income was partially offset by a $17.4 million reduction in deposit costs, resulting in a decrease in the cost of interest bearing deposits of 37 basis points mainly in certificates of deposit. The interest expense on borrowings declined by $10.3 million principally associated with the full prepayment by the end of 2011 of the note issued to the FDIC as part of the Westernbank FDIC-assisted transaction and the early cancelation of high-cost repos during the second quarter. The BPPR reportable segment had a net interest margin of 5.11% for the quarter ended September 30, 2012, compared with 5.15% for the same period in 2011;

- lower provision for loan losses by $64.2 million, or 41%, due to the decrease in the provision for loan losses on the non-covered loan portfolio of $61.2 million or 47%, and $3.0 million in the provision for loan losses on the covered loan portfolio. The decrease in the provision for loan losses on the non-covered loan portfolio reflected lower net charge-offs by $18.6 million, a decrease of $12.7 million associated with write-downs in commercial loans transferred to loans-held-for-sale during third quarter 2011, and reductions in the allowance for loan losses mostly for the commercial and consumer loan portfolio. These favorable variances were partially offset by higher reserve requirements for the mortgage portfolio prompted by higher loss trends and higher specific reserves for loans restructured under the Corporation s loss mitigation program. The increase in the residential mortgage loan loss trends was principally related to the implementation of a revised charge-off policy during the first quarter of 2012. This revised policy is described in the Credit Risk Management and Loan Quality section of this MD&A. The decrease in the provision for loan losses on covered loans was mainly driven by a lower provision on loans accounted for under ASC Subtopic 310-30 as certain pools, principally commercial and construction loan pools, reflected higher increases in expected loss estimates for the quarter ended September 30, 2011, when compared with the revisions in expected loss estimates for the same period in 2012;

lower non-interest income by $4.1 million, or 3%, mainly due to lower gain on sale and valuation adjustments on investment securities by $8.2 million principally due to the $8.5 million gain on the sale of $234 million in FHLB notes during the third quarter of 2011. The decrease in non-interest income was also due to an unfavorable variance of $5.2 million in trading account (loss) profit mostly due to lower realized and unrealized gains on mortgage-backed securities. These unfavorable variances were partially offset by lower adjustments by $4.1 million to increase the indemnity reserve on loans sold and higher other service fees by $3.4 million, mainly from favorable valuation adjustments to the value of mortgage servicing rights, partially offset by lower interchange income due to the effects of the Durbin Amendment of the Dodd-Frank Act. The results for the quarter ended September 30, 2012 also included $1.9 million income from the equity investment in PRLP 2011 Holdings, LLC;

higher operating expenses by $10.4 million, or 5%, mainly due to an increase in OREO expenses by $4.2 million related to higher subsequent fair value adjustments on commercial and construction properties and to higher professional fees by $4.0 million mostly due to loan collection efforts. Also, there was an unfavorable variance of $1.7 million in personnel costs mainly due to higher net periodic pension costs and medical insurance costs, partially offset by lower salaries mainly due to lower headcount. These unfavorable variances were partially offset by a decrease of $2.0 million in net occupancy expenses mostly due to lower real property tax expenses; and

higher income tax expense by $9.9 million, mainly due to higher income in the Corporation s Puerto Rico operations, compared to the same period of 2011.

Net income for the nine months ended September 30, 2012 totaled $226.1 million, compared with $197.6 million for the same period in the previous year. These results reflected:

lower net interest income by $52.8 million, or 6%, mostly due to a reduction in interest income from the covered loan portfolio by $99.8 million resulting from $37.1 million discount accretion recognized during the nine months ended September 30, 2011 on revolving lines of credit accounted for pursuant to ASC 310-20, and from a lower average balance of covered loans by $561 million. Also, a reduction of approximately $1.1 billion in the average volume of money market, investment and trading securities resulted in a lower interest income of $40.8 million. The unfavorable impact resulting from these reductions was partially offset by a $53.2 million reduction in deposit costs or 41 basis points and $37.1 million in the cost of borrowings mostly associated with the prepayment during 2011 of the note issued to the FDIC. The net interest margin remained almost flat at 5.03% for the nine months ended September 30, 2012, compared to 5.04% for the same period in 2011;

lower provision for loan losses by $61.2 million, or 18%, due to the decrease in the provision for loan losses on the non-covered loan portfolio of $49.7 million, or 20% and $11.5 million in the provision for loan losses on the covered loan portfolio. The provision for loan losses for the non-covered portfolio reflected lower net charge-offs by $40.4 million, a decrease of $12.7 million associated with write-downs in commercial loans transferred to loans-held- for sale during third quarter 2011, and reductions in the allowance for loan losses, mainly driven by the commercial and consumer portfolios, as a result of continued improvement in credit trends. As explained above, these reductions were offset by higher allowance levels for the mortgage loan portfolio prompted by higher loss trends and higher specific reserves for loans restructured under the Corporation s loss mitigation program. The decrease in the provision for loan losses on covered loans was mainly driven by a lower provision on loans accounted for under ASC Subtopic 310-30 as certain pools, principally commercial and construction loan pools, reflected higher increases in expected loss estimates for the nine months ended September 30, 2011 when compared with the revisions in expected loss estimates for the same period in 2012;

lower non-interest income by $40.6 million, or 12%, mainly due to FDIC loss share expense of $19.4 million recognized for the nine months ended September 30, 2012, compared with FDIC loss share income of $49.3 million for the same period previous year. Refer to Table 5 for components of that latter variance. The decrease in non-interest income was also due to an unfavorable variance of $19.5 million in valuation adjustments on loans held-for-sale, the $8.5 million in gain on sale of investment securities available for sale due to the aforementioned sale of FHLB notes during the third quarter of 2011, and an unfavorable variance in trading account (loss) profit resulting from lower unrealized gains due to a lower volume in outstanding mortgage-backed securities and lower gains realized on sales of mortgage-backed securities. These unfavorable variances were partially offset by an increase in other service fees by $16.4 million mainly due to favorable fair value adjustments on mortgage servicing rights, higher credit card fees mainly due to higher interchange

fees from the credit card portfolio acquired in August 2011 and higher commission income on sales of investment products by the retail division of Popular Securities. In addition, there were lower adjustments by $13.9 million to increase the indemnity reserve on loans sold and higher gains on sales of loans. Also, there was a favorable variances in other operating income by $12.1 million mainly due to $7.6 million income from the equity investment in PRLP 2011 Holdings, LLC during 2012 and higher gains on sales of real estate by $4.9 million;

higher operating expenses by $94.4 million, or 15%, mainly due to an increase of $24.5 million in loss on early extinguishment of debt, primarily related to the cancellation of $350 million in outstanding repurchase agreements during the second quarter of 2012; an increase in OREO expenses of $17.6 million mainly related to higher subsequent fair value adjustments on commercial, construction and mortgage properties; an increase in personnel costs of $16.5 million due to higher net periodic pension costs, medical insurance costs, post retirement health benefits, among other factors; and an increase of $13.6 million in other operating expenses mostly due to costs associated with the collection efforts of the covered loan portfolio. Also there were unfavorable variances of $9.1 million in professional fees mostly due to loan collection efforts; $8.5 million in FDIC deposit insurance assessment; and $6.9 million in business promotion expense mostly from credit card reward programs and other retail product promotional campaigns; and

lower income tax expense by $155.1 million, mainly due to $103.3 million in income tax expense recognized during the first quarter of 2011 with a corresponding reduction in the Puerto Rico Corporation s net deferred tax asset as a result of the reduction in the marginal corporate income tax rate due to the Puerto Rico tax reform. The favorable variance was also attributable to a tax benefit of $65.2 million recognized in 2012 resulting from a Closing Agreement with the P.R. Treasury Department related to the tax treatment of the loans acquired in the Westernbank FDIC-assisted transaction, compared with a tax benefit of $53.6 million recognized in 2011 resulting from a Closing Agreement with the P.R. Treasury Department for the recognition of certain tax benefits not previously recorded during years 2009 (the benefit of reduced tax rates for capital gains) and 2010 (the benefit of the exempt income). The decrease in income tax expense was also due to lower income in the Corporation s Puerto Rico operations compared to the same period of 2011.

Banco Popular North America

For the quarter ended September 30, 2012, the reportable segment of Banco Popular North America reported net income of $8.7 million, compared with $8.6 million for the same quarter of the previous year. Net income for the nine months ended September 30, 2012 totaled $28.5 million, compared with $33.4 million for the same period in the previous year. These year-to-date results reflected:

lower net interest income by $9.7 million, or 4%, which was primarily the effect of lower average volume by $660 million in the loan portfolio, partially offset by higher volume of investment securities and lower deposit balances. The net interest margin increased from 3.62% for the nine months ended September 30, 2011 to 3.64% for the same period in 2012, mostly due to lower cost of deposits by 33 basis points and collection of interest on construction loans that were previously non-accruing and which were paid-off during the first quarter of 2012;

lower provision for loan losses by $8.8 million, or 17%, principally as a result of lower net charge-offs by $65.6 million mainly from improved credit performance on nearly all portfolios. These favorable variances were partly offset by a lower release of excess reserves, as in 2011 there were higher reductions due to lower portfolio balances and overall improvements in portfolio behavior. In addition, the first quarter of 2011 included a $13.8 million benefit due to improved pricing from the sale of the non-conventional mortgage loan portfolio;

lower non-interest income by $12.1 million, or 22%, mostly due to lower gains on sales of mortgage loans by $3.9 million, lower other service fees by $3.7 million mainly related to debit card fees due to the effects of the Durbin Amendment of the Dodd-Frank Act and higher adjustments to indemnity reserves by $2.3 million; and lower operating expenses by $8.0 million, or 4%, mainly due to a decrease in OREO expenses of $7.0 million related to higher gains on the sale of commercial real estate properties and lower FDIC insurance assessment by $5.1 million. These favorable variances were partially offset by an increase of $4.1 million in personnel costs mainly due to higher headcount and benefit accruals.

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FINANCIAL CONDITION ANALYSIS

Assets

The Corporation s total assets were $36.5 billion at September 30, 2012 and $37.3 billion at December 31, 2011. Refer to the consolidated financial statements included in this report for the Corporation s consolidated statements of financial condition as of such dates. The reduction in total assets was principally in the categories of money market investments, trading account securities, loans covered under FDIC loss sharing agreements and the FDIC loss share asset.

Money market investments, trading and investment securities

Money market investments amounted to $0.9 billion at September 30, 2012, compared with $1.4 billion as of December 31, 2011. The reduction was principally in time deposits by $317 million, mainly in excess balances held at the Federal Reserve Bank.

Trading account securities amounted to $227 million at September 30, 2012, compared to $436 million at December 31, 2011. The reduction was mainly due to the sale of $141 million in mortgage backed securities during the third quarter of 2012, to take advantage of favorable market conditions.

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

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

(In millions)	September 30, 2012	December 31, 2011	Variance
U.S. Treasury securities	$ 37.7	$ 38.7	$ (1.0)
Obligations of U.S. Government sponsored entities	1,065.0	985.5	79.5
Obligations of Puerto Rico, States and political subdivisions	145.4	157.7	(12.3)
Collateralized mortgage obligations	2,256.1	1,755.6	500.5
Mortgage-backed securities	1,679.3	2,139.6	(460.3)
Equity securities	7.5	6.9	0.6
Others	51.4	51.2	0.2
Total investment securities AFS and HTM	$ 5,242.4	$ 5,135.2	$ 107.2

Loans

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

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

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Table 11 - Loans Ending Balances

(In thousands)	September 30, 2012	December 31, 2011	Variance
Loans not covered under FDIC loss sharing agreements:			
Commercial	$ 9,628,631	$ 9,973,327	$ (344,696)
Construction	258,453	239,939	18,514
Legacy[1]	465,848	648,409	(182,561)
Lease financing	538,014	548,706	(10,692)
Mortgage	6,022,422	5,518,460	503,962
Consumer	3,840,485	3,673,755	166,730
Total non-covered loans held-in-portfolio	20,753,853	20,602,596	151,257
Loans covered under FDIC loss sharing agreements:			
Commercial	2,324,362	2,512,742	(188,380)
Construction	393,101	546,826	(153,725)
Mortgage	1,106,851	1,172,954	(66,103)
Consumer	79,553	116,181	(36,628)
Total covered loans held-in-portfolio[2]	3,903,867	4,348,703	(444,836)
Total loans held-in-portfolio	24,657,720	24,951,299	(293,579)
Loans held-for-sale:			
Commercial	17,696	25,730	(8,034)
Construction	88,030	236,045	(148,015)
Legacy[1]	3,107	468	2,639
Mortgage	228,216	100,850	127,366
Total loans held-for-sale	337,049	363,093	(26,044)
Total loans	$ 24,994,769	$ 25,314,392	$ (319,623)

[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.

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

The decrease in commercial loans held-in-portfolio from December 31, 2011 to September 30, 2012 was reflected in the BPPR and BPNA reportable segments by $287 million and $58 million, respectively. The decline in the Puerto Rico operations was experienced in the categories of commercial loans secured by real estate and in commercial and industrial loans and was mostly associated with the cancellation and repayment of certain commercial lines of credit in Puerto Rico and charge-offs of $103 million during the nine-month period ended September 30, 2012. The decrease in the U.S. operations was principally the result of portfolio runoff and charge-offs of $53 million.

The BPNA legacy portfolio (refer to footnote 1 in Table 11) reflected declines in commercial loans of $150 million, construction loans of $25 million and lease financings of $7 million from December 31, 2011 to September 30, 2012. These declines were principally related to portfolio run-off and charge-offs of $28 million for the nine months ended September 30, 2012.

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

Mortgage loans held-in-portfolio increased by $275 million and $229 million from December 31, 2011 to September 30, 2012 in the BPNA and BPPR reportable segments, respectively. The increase in the BPPR reportable segment was principally associated with loan repurchases under credit recourse agreements, many of which are put under the Corporation s loss mitigation programs, which approximated $115 million for the nine-month period ended September 30, 2012, and to loans originated and purchased, offset by collections and charge-offs. The Corporation has been successful in maintaining suitable origination volumes as clients continue benefiting from government programs that incentivize housing demand and the continuous low interest rate environment. Most new production is securitized into mortgage-backed securities in the secondary markets. The increase in the BPNA reportable segment was mainly due to residential loan purchases which amounted to $372 million (unpaid principal balance at acquisition date) during the nine months ended September 31, 2012, partially offset by loan repayments. Refer to the Guarantees associated with loans sold / serviced section in this MD&A, for information on the mortgage loan repurchases under credit recourse arrangements.

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The increase in consumer loans from December 31, 2011 to September 30, 2012 was derived from the BPPR reportable segment by $222 million mainly due to the previously mentioned acquisition of $225 million in consumer loans and an increase of $29 million in auto loans, partially offset by a reduction of $35 million in credit cards. The BPNA reportable segment s consumer loan portfolio reflected a reduction of $55 million when compared with December 31, 2011. This decrease was mainly due to loan portfolio run-off of the exited lines of business, including E-LOAN, and charge-offs.

The increase in mortgage loans held-for-sale from December 31, 2011 to September 30, 2012 was mostly due to loans originated and purchased which were held for the purpose of executing agency securitizations in the secondary markets.

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

Covered loans were initially recorded at fair value. Their carrying value was approximately $3.9 billion at September 30, 2012. Refer to Table 11 for a breakdown of the covered loans by major loan type categories. A substantial amount of the covered loans, or approximately $3.6 billion of their carrying value at September 30, 2012, was accounted for under ASC Subtopic 310-30. The decline in covered loans from December 31, 2011 to September 30, 2012 was principally due to collections and to charge-offs amounting to $78 million for the nine-month period ended September 30, 2012, partially offset by discount accretion. Tables 12 and 13 provide the activity in the carrying amount and outstanding discount on the covered loans accounted for under ASC 310-30. The outstanding accretable discount is impacted by increases in cash flow expectations on the loan pools based on quarterly revisions of the portfolio. The increase in the accretable discount is recognized as interest income using the effective yield method over the estimated life of each applicable loan pool.

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

	Quarter ended September 30,		Nine months ended September 30,	
(In thousands)	2012	2011	2012	2011
Beginning balance	$ 3,729,489	$ 4,216,808	$ 4,036,471	$ 4,539,928
Accretion	66,168	96,418	209,493	269,535
Collections / charge-offs	(168,448)	(173,867)	(618,755)	(670,104)
Ending balance	$ 3,627,209	$ 4,139,359	$ 3,627,209	$ 4,139,359
Allowance for loan losses (ALLL)	(103,547)	(62,446)	(103,547)	(62,446)
Ending balance, net of ALLL	$ 3,523,662	$ 4,076,913	$ 3,523,662	$ 4,076,913

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

	Quarter ended September 30,		Nine months ended September 30,	
(In thousands)	2012	2011	2012	2011
Beginning balance	$ 1,574,850	$ 1,616,919	$ 1,470,259	$ 1,331,108
Accretion [1]	(66,168)	(96,418)	(209,493)	(269,535)
Change in expected cash flows	(37,800)	(23,936)	210,116	434,992
Ending balance	$ 1,470,882	$ 1,496,565	$ 1,470,882	$ 1,496,565

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

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

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

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FDIC loss share asset

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

Table 14 Activity of Loss Share Asset

	Nine months ended September 30,	
(In thousands)	2012	2011
Balance at beginning of year	$ 1,915,128	$ 2,410,219
(Amortization) accretion of loss share indemnification asset, net	(95,972)	13,361
Credit impairment losses to be covered under loss sharing agreements	60,943	71,787
Decrease due to reciprocal accounting on the discount accretion for loans and unfunded commitments accounted for under ASC Subtopic 310-20	(744)	(32,919)
Payments received from FDIC under loss sharing agreements	(327,739)	(561,111)
Other adjustments attributable to FDIC loss sharing agreements	7,441	(6,278)
Balance at end of period	$ 1,559,057	$ 1,895,059

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

Table 15 - Activity in the Remaining FDIC Loss Share Asset Discount

	Quarter ended September 30,		Nine months ended September 30,	
(In thousands)	2012	2011	2012	2011
Balance at beginning of period [1]	$ 121,308	$ 82,696	$ 117,916	$ (139,283)
(Amortization of negative discount) accretion of discount [2]	(29,184)	(21,072)	(95,972)	13,361
Impact of lower projected losses	4,300	10,884	74,480	198,430
Balance at end of period	$ 96,424	$ 72,508	$ 96,424	$ 72,508

[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 in mid-2011 required the Corporation to amortize the loss share asset to its currently lower expected collectible balance, thus resulting in negative accretion. Due to the shorter life of the indemnity asset compared with the expected life of the covered loans, this negative accretion temporarily offsets the benefit of higher cash flows accounted through the accretable yield on the loans.

Other real estate owned

Other real estate represents real estate property received in satisfaction of debt. Collection efforts and a slowdown in OREO sales have led to an increase in the amount of other real estate owned, which increased in total from $282 million at December 31, 2011 to $378 million at September 30, 2012. Table 16 provides the activity in other real estate for the nine months ended September 30, 2012. The amounts included as covered other real estate are partially sheltered by the FDIC loss sharing agreements.

Table 16 - Other Real Estate (OREO) Activity

	For the nine months ended September 30, 2012						
(In thousands)	Non-covered OREO Commercial	Non-covered OREO Construction	Non-covered OREO Mortgage	Covered OREO Commercial	Covered OREO Construction	Covered OREO Mortgage	Total
Balance at beginning of period	$ 37,715	$ 53,389	$ 81,393	$ 55,549	$ 22,228	$ 31,358	$ 281,632
Write-downs in value	(3,930)	(7,750)	(10,181)	(1,940)	(1,529)	(465)	(25,795)
Additions	58,944	23,089	85,031	32,699	12,834	13,516	226,113
Sales	(14,988)	(17,987)	(30,442)	(18,157)	(10,154)	(9,732)	(101,460)
Other adjustments	(165)		(2,094)	165		(858)	(2,952)
Ending balance	$ 77,576	$ 50,741	$ 123,707	$ 68,316	$ 23,379	$ 33,819	$ 377,538

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Other assets

Table 17 provides a breakdown of the principal categories that comprise the caption of Other assets in the consolidated statements of condition at September 30, 2012 and December 31, 2011.

Table 17 - Breakdown of Other Assets

(In thousands)	September 30, 2012	December 31, 2011	Variance
Net deferred tax assets (net of valuation allowance)	$ 545,859	$ 429,691	$ 116,168
Investments under the equity method	218,045	313,152	(95,107)
Bank-owned life insurance program	232,499	238,077	(5,578)
Prepaid FDIC insurance assessment	30,053	58,082	(28,029)
Prepaid taxes	99,500	17,441	82,059
Other prepaid expenses	60,841	59,894	947
Derivative assets	49,879	61,886	(12,007)
Trades receivables from brokers and counterparties	287,322	69,535	217,787
Others	200,929	214,635	(13,706)
Total other assets	$ 1,724,927	$ 1,462,393	$ 262,534

The increase in other assets from December 31, 2011 to September 30, 2012 reflects an increase in trade receivables from brokers and counterparties as a result of mortgage-backed securities sold in September 2012 (trade date) that settled in October 2012. Also, net deferred tax assets increased mainly due to the reduction in the deferred tax liability of $72.9 million associated with the tax treatment of the loans acquired in the Westernbank FDIC-assisted transaction since the gains resulting from such loans will be taxed at the capital gain tax rate of 15% instead of the ordinary income tax rate of 30%. Also, as part of the Closing Agreement, the P.R. Treasury and the Corporation agreed that for tax purposes the deductions related to previously recognized charge-offs originated from the Westernbank FDIC-assisted transaction for years 2010 through May 2012 will be deferred until years 2017 to 2020. As a result of this aspect of the Closing Agreement, the Corporation made a payment of $45.5 million to the P.R. Treasury and recorded an increase in the deferred tax asset in June 2012. The increase in prepaid taxes was principally associated with the tax prepayment on the estimated capital gains of the Westernbank acquired loans which is further described in Note 29 to the consolidated financial statements. These increases were partially offset by lower investments accounted for under the equity method, mainly due to a cash dividend received from EVERTEC s parent company of $131 million which reduced the Corporation s equity investment in the entity.

Deposits and Borrowings

The composition of the Corporation s financing sources to total assets at September 30, 2012 and December 31, 2011 is included in Table 18.

Table 18 - Financing to Total Assets

(In millions)	September 30, 2012	December 31, 2011	% increase (decrease) from 2011 to 2012	% of total assets 2012	% of total assets 2011
Non-interest bearing deposits	$ 5,404	$ 5,655	(4.4)%	14.8%	15.1%
Interest-bearing core deposits	15,991	15,690	1.9	43.8	42.0
Other interest-bearing deposits	4,924	6,597	(25.4)	13.5	17.7
Repurchase agreements	1,945	2,141	(9.2)	5.3	5.7
Other short-term borrowings	1,206	296	307.4	3.3	0.8
Notes payable	1,866	1,856	0.5	5.1	5.0
Others	1,098	1,194	(8.0)	3.0	3.2
Stockholders equity	4,069	3,919	3.8	11.2	10.5

Deposits

A breakdown of the Corporation s deposits at period-end is included in Table 19.

Table 19 - Deposits Ending Balances

(In thousands)	September 30, 2012	December 31, 2011	Variance
Demand deposits [1]	$ 6,091,400	$ 6,256,530	$ (165,130)
Savings, NOW and money market deposits (non-brokered)	11,046,595	10,762,869	283,726
Savings, NOW and money market deposits (brokered)	455,309	212,688	242,621
Time deposits (non-brokered)	6,614,153	7,552,434	(938,281)
Time deposits (brokered CDs)	2,112,042	3,157,606	(1,045,564)
Total deposits	$ 26,319,499	$ 27,942,127	$ (1,622,628)

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

The decrease in demand deposits from December 31, 2011 to September 30, 2012 was mainly related to lower balance of deposits in trust that were short-term and were mostly associated with certain Puerto Rico government bond issuances. The net decrease in brokered deposits was primarily at BPPR. The Corporation raised brokered deposits in the latter months of 2011 to fund the repayment of the outstanding balance of the note that was issued to the FDIC as part of the Westernbank FDIC-assisted transaction. Following the repayment of the FDIC note, the use of brokered deposits was anticipated to fall and the funds were replaced with lower-cost FHLB advances. The decrease in non-brokered time deposits was principally at BPPR due to efforts to continue to lower cost of funds. Despite the decrease, the Corporation has successfully maintained the Corporation s main relationships and has been able to substitute funds with other deposit types at lower rates. Also, lower deposit costs have contributed favorably to maintain the Corporation s net interest margin above 4%. These decreases were partially offset by an increase of savings, NOW and money market deposits, both from the retail and commercial sectors.

Borrowings

The Corporation s borrowings amounted to $5.0 billion at September 30, 2012, compared with $4.3 billion at December 31, 2011. The increase from December 31, 2011 to September 30, 2012 was related to new advances with the FHLB of NY of $1.2 billion (principally to replace brokered deposits, as discussed above), partially offset by the early extinguishment of $350 million in repurchase agreements during the second quarter of 2012. Refer to Note 14 to the consolidated financial statements for detailed information on the Corporation s borrowings at September 30, 2012 and December 31, 2011. Also, refer to the Liquidity section in this MD&A for additional information on the Corporation s funding sources.

Other liabilities

The decrease in other liabilities of $96 million from December 31, 2011 to September 30, 2012 is driven largely by loan repurchases of $184 million during this quarter under the GNMA loan repurchase option. During the quarter ended September 30, 2012, the Corporation repurchased approximately $184 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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Stockholders Equity

Stockholders equity totaled $4.1 billion at September 30, 2012, compared with $3.9 billion at December 31, 2011. The increase was principally due to internal capital generation. Refer to the consolidated statements of financial condition and of stockholders equity for information on the composition of stockholders equity. Also, the disclosures of accumulated other comprehensive income, an integral component of stockholders equity, are included in the consolidated statements of comprehensive income.

REGULATORY CAPITAL

The Corporation continues to exceed the well-capitalized guidelines under the federal banking regulations. The regulatory capital ratios and amounts of total risk-based capital, Tier 1 risk-based capital and Tier 1 leverage at September 30, 2012 and December 31, 2011 are presented on Table 20. As of such dates, BPPR and BPNA were well-capitalized.

Table 20 - Capital Adequacy Data

(Dollars in thousands)	September 30, 2012	December 31, 2011
Risk-based capital:		
Tier I capital	$ 3,982,514	$ 3,899,593
Supplementary (Tier II) capital	303,128	312,477
Total capital	$ 4,285,642	$ 4,212,070
Risk-weighted assets:		
Balance sheet items	$ 21,361,749	$ 21,775,369
Off-balance sheet items	2,334,264	2,638,954
Total risk-weighted assets	$ 23,696,013	$ 24,414,323
Average assets	$ 34,925,108	$ 35,783,749
Ratios:		
Tier I capital (minimum required 4.00%)	16.81%	15.97%
Total capital (minimum required 8.00%)	18.09	17.25
Leverage ratio *	11.40	10.90

* All banks are required to have minimum a Tier I Leverage ratio of 3% or 4% of adjusted quarterly average assets, depending on the bank s classification. At September 30, 2012, the capital adequacy minimum requirement for Popular, Inc. was (in thousands): Total Capital of $1,895,681, Tier I Capital of $947,841, and Tier I Leverage of $1,047,753, based on a 3% ratio, or $1,397,004, based on a 4% ratio, according to the entity s classification.

The improvement in the Corporation s regulatory capital ratios from December 31, 2011 to September 30, 2012 was principally due to a reduction in assets, changes in balance sheet composition including the increase in assets with lower risk-weightings such as mortgage loans, and internal capital generation from earnings.

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

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The tangible common equity ratio and tangible book value per common share, which are presented in the table that follows, are non-GAAP measures. Management and many stock analysts use the tangible common equity ratio and tangible book value per common share in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations with significant amounts of goodwill or other intangible assets, typically stemming from the use of the purchase accounting method of accounting for mergers and acquisitions. Neither tangible common equity nor tangible assets or related measures should be considered in isolation or as a substitute for stockholders equity, total assets or any other measure calculated in accordance with generally accepted accounting principles in the United States of America (GAAP). Moreover, the manner in which the Corporation calculates its tangible common equity, tangible assets and any other related measures may differ from that of other companies reporting measures with similar names.

Table 21 provides a reconciliation of total stockholders equity to tangible common equity and total assets to tangible assets at September 30, 2012 and December 31, 2011.

Table 21 - Reconciliation of Tangible Common Equity and Tangible Assets

(In thousands, except share or per share information)	September 30, 2012	December 31, 2011
Total stockholders equity	$ 4,068,984	$ 3,918,753
Less: Preferred stock	(50,160)	(50,160)
Less: Goodwill	(647,757)	(648,350)
Less: Other intangibles	(56,762)	(63,954)
Total tangible common equity	$ 3,314,305	$ 3,156,289
Total assets	$ 36,503,366	$ 37,348,432
Less: Goodwill	(647,757)	(648,350)
Less: Other intangibles	(56,762)	(63,954)
Total tangible assets	$ 35,798,847	$ 36,636,128
Tangible common equity to tangible assets	9.26%	8.62%
Common shares outstanding at end of period	103,097,143	102,590,457
Tangible book value per common share	$ 32.15	$ 30.77

The Tier 1 common equity to risk-weighted assets ratio is another non-GAAP measure. Ratios calculated based upon Tier 1 common equity have become a focus of regulators and investors, and management believes ratios based on Tier 1 common equity assist investors in analyzing the Corporation s capital position. In connection with the Supervisory Capital Assessment Program (SCAP), the Federal Reserve Board began supplementing its assessment of the capital adequacy of a bank holding company based on a variation of Tier 1 capital, known as Tier 1 common equity.

Because Tier 1 common equity is not formally defined by GAAP or, unlike Tier 1 capital, codified in the federal banking regulations, this measure is considered to be a non-GAAP financial measure. Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. To mitigate these limitations, the Corporation has procedures in place to calculate these measures using the appropriate GAAP or regulatory components. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP.

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Table 22 provides a reconciliation of the Corporation s total common stockholders equity (GAAP) to Tier 1 common equity at September 30, 2012 and December 31, 2011, as defined by the Federal Reserve Board, FDIC and other bank regulatory agencies (non-GAAP).

Table 22 - Reconciliation Tier 1 Common Equity

(In thousands)	September 30, 2012	December 31, 2011
Common stockholders equity	$ 4,018,824	$ 3,868,593
Less: Unrealized gains on available-for-sale securities, net of tax[1]	(175,769)	(203,078)
Less: Disallowed deferred tax assets[2]	(365,954)	(249,325)
Less: Intangible assets:		
Goodwill	(647,757)	(648,350)
Other disallowed intangibles	(18,409)	(29,655)
Less: Aggregate adjusted carrying value of all non-financial equity investments	(1,154)	(1,189)
Add: Pension liability adjustment, net of tax and accumulated net gains (losses) on cash flow hedges[3]	205,309	216,798
Total Tier 1 common equity	$ 3,015,090	$ 2,953,794
Tier 1 common equity to risk-weighted assets	12.72%	12.10%

[1] In accordance with regulatory risk-based capital guidelines, Tier 1 capital excludes net unrealized gains (losses) on available-for-sale debt securities and net unrealized gains on available-for-sale equity securities with readily determinable fair values. In arriving at Tier 1 capital, institutions are required to deduct net unrealized losses on available-for-sale equity securities with readily determinable fair values, net of tax.

[2] Approximately $153 million of the Corporation s $546 million of net deferred tax assets at September 30, 2012 ($150 million and $430 million, respectively, at December 31, 2011), were included without limitation in regulatory capital pursuant to the risk-based capital guidelines, while approximately $366 million of such assets at September 30, 2012 ($249 million at December 31, 2011) exceeded the limitation imposed by these guidelines and, as disallowed deferred tax assets , were deducted in arriving at Tier 1 capital. The remaining $27 million of the Corporation s other net deferred tax assets at September 30, 2012 ($31 million at December 31, 2011) represented primarily the following items (a) the deferred tax effects of unrealized gains and losses on available-for-sale debt securities, which are permitted to be excluded prior to deriving the amount of net deferred tax assets subject to limitation under the guidelines; (b) the deferred tax asset corresponding to the pension liability adjustment recorded as part of accumulated other comprehensive income; and (c) the deferred tax liability associated with goodwill and other intangibles.

[3] The Federal Reserve Board has granted interim capital relief for the impact of pension liability adjustment.

BASEL III and the Dodd-Frank Act

In June 2012, the FRB, OCC, and FDIC (collectively, the Agencies) each issued Notices of Proposed Rulemaking (NPRs) that would revise and replace the Agencies current capital rules to align 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 provided for a comment period through October 22, 2012 and the proposals are subject to further modification by the Agencies. The revised capital rules are expected to be implemented between 2013 and 2019.

The proposed revisions would include implementation of a new common equity Tier 1 minimum capital requirement and apply limits on a banking organization s capital distributions and certain discretionary bonus payments if the banking organization does not hold a specified amount of common equity Tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. The NPRs also would establish more conservative standards for including an instrument in regulatory capital. The revisions set forth in these NPRs are consistent with section 171 of the Dodd-Frank Act, which requires the Agencies to establish minimum risk-based and leverage capital requirements.

The Agencies are also proposing to revise their rules for calculating risk-weighted assets to enhance risk sensitivity and address weaknesses identified over recent years, including by incorporating aspects of the Basel II standardized framework in the International Convergence of Capital Measurement and Capital Standards: A Revised Framework, including subsequent amendments to that standard, and recent consultative papers from the Basel Committee on Banking Supervision. The Standardized Approach NPR also includes alternatives to credit ratings, consistent with section 939A of the Dodd-Frank Act. The revisions include methodologies for determining risk-weighted assets for residential mortgages, securitization exposures, and counterparty credit risk.

We continue to evaluate the impact of the proposed NPRs on our regulatory capital ratios. We anticipate that based on our current level of assets, non-performing assets and the composition of these, 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, we expect to continue to exceed the minimum requirements for well capitalized status after the implementation of the NPR s.

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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 September 30, 2012, primarily for services, equipment and real estate construction projects. Services include software licensing and maintenance, facilities maintenance, supplies purchasing, and other goods or services used in the operation of the business. Generally, these contracts are renewable or cancelable at least annually, although in some cases the Corporation has committed to contracts that may extend for several years to secure favorable pricing concessions. Purchase obligations amounted to $173 million at September 30, 2012 of which approximately 37% matures in 2012, 26% in 2013, 16% in 2014 and 21% thereafter.

The Corporation also enters into derivative contracts under which it is required either to receive or pay cash, depending on changes in interest rates. These contracts are carried at fair value on the consolidated statement of financial condition with the fair value representing the net present value of the expected future cash receipts and payments based on market rates of interest as of the statement of condition date. The fair value of the contract changes daily as interest rates change. The Corporation may also be required to post additional collateral on margin calls on the derivatives and repurchase transactions.

Refer to Note 14 for a breakdown of long-term borrowings by maturity.

The Corporation utilizes lending-related financial instruments in the normal course of business to accommodate the financial needs of its customers. The Corporation s exposure to credit losses in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit and commercial letters of credit is represented by the contractual notional amount of these instruments. The Corporation uses credit procedures and policies in making those commitments and conditional obligations as it does in extending loans to customers. Since many of the commitments may expire without being drawn upon, the total contractual amounts are not representative of the Corporation s actual future credit exposure or liquidity requirements for these commitments.

Table 23 presents the contractual amounts related to the Corporation s off-balance sheet lending and other activities at September 30, 2012.

Table 23 - Off-Balance Sheet Lending and Other Activities

	Amount of commitment - Expiration Period				
(In millions)	Remaining 2012	Years 2013 - 2015	Years 2016 - 2018	Years 2019 - thereafter	Total
Commitments to extend credit	$ 5,650	$ 1,215	$ 388	$ 75	$ 7,328
Commercial letters of credit	12	14			26
Standby letters of credit	77	44	8		129
Commitments to originate mortgage loans	61	11			72
Unfunded investment obligations	1	9			10
Total	$ 5,801	$ 1,293	$ 396	$ 75	$ 7,565

At September 30, 2012, the Corporation maintained a reserve of approximately $7 million for potential losses associated with unfunded loan commitments related to commercial and consumer lines of credit. The estimated reserve is principally based on the

expected draws on these facilities using historical trends and the application of the corresponding reserve factors determined under the Corporation s allowance for loan losses methodology. This reserve for unfunded loan commitments remains separate and distinct from the allowance for loan losses and is reported as part of other liabilities in the consolidated statement of financial condition.

Refer to Note 19 to the consolidated financial statements for additional information on credit commitments and contingencies.

Guarantees associated with loans sold / serviced

At September 30, 2012, the Corporation serviced $3.1 billion in residential mortgage loans subject to lifetime credit recourse provisions, principally loans associated with FNMA and FHLMC residential mortgage loan securitization programs, compared with $3.5 billion at December 31, 2011. The Corporation s last sale of mortgage loans subject to credit recourse was in 2009.

In the event of any customer default, pursuant to the credit recourse provided, the Corporation is required to repurchase the loan or reimburse the third party investor for the incurred loss. The maximum potential amount of future payments that the Corporation would be required to make under the recourse arrangements in the event of nonperformance by the borrowers is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. In the event of nonperformance by the borrower, the Corporation has rights to the underlying collateral securing the mortgage loan. The Corporation suffers losses on these loans when the proceeds from a foreclosure sale of the property underlying a defaulted mortgage loan are less than the outstanding principal balance of the loan plus any uncollected interest advanced and the costs of holding and disposing the related property.

In the case of Puerto Rico, most claims are settled by repurchases of delinquent loans, the majority of which are greater than 90 days past due. The average time period to prepare an initial response to a repurchase request is from 30 to 120 days from the initial written notice depending on the type of the repurchase request. Failure by the Corporation to respond to a request for repurchase on a timely basis could result in a deterioration of the seller/servicer relationship and the seller/servicer s overall standing. In certain instances, investors could require additional collateral to ensure compliance with the servicer s repurchase obligation or cancel the seller/servicer license and exercise their rights to transfer the servicing to an eligible seller/servicer.

Table 24 below presents the delinquency status of the residential mortgage loans serviced by the Corporation that are subject to lifetime credit recourse provisions.

Table 24 - Delinquency of Residential Mortgage Loans Subject to Lifetime Credit Recourse

(In thousands)	September 30, 2012	December 31, 2011
Total portfolio	$ 3,061,762	$ 3,456,933
Days past due:		
30 days and over	$ 449,150	$ 500,524
90 days and over	$ 173,224	$ 215,597
As a percentage of total portfolio:		
30 days past due or more	14.67%	14.48%
90 days past due or more	5.66%	6.24%

During the quarter and nine-month period ended September 30, 2012, the Corporation repurchased approximately $33 million and $115 million, respectively, of unpaid principal balance in mortgage loans subject to the credit recourse provisions, compared with $53 million and $168 million, respectively, for the same quarter and nine-month period of 2011. There are no particular loan characteristics, such as loan vintages, loan type, loan-to-value ratio, or other criteria, that denote any specific trend or a concentration of repurchases in any particular segment. Based on historical repurchase experience, the loan delinquency status is the main factor which causes the repurchase request. In 2010 and 2011, the Corporation experienced an increase in mortgage loan repurchases from recourse portfolios that led to increases in non-performing mortgage loans. The deteriorating economic conditions in those years provoked a closer monitoring by investors of loan performance and recourse triggers, thus causing an increase in loan repurchases. Based on the volume of repurchases from recourse portfolios during 2012, when compared to 2011, the trend has improved. Once the loans are repurchased, they are put through the Corporation s loss mitigation programs.

At September 30, 2012, there were 44 outstanding unresolved claims related to the credit recourse portfolio with a principal balance outstanding of $6.8 million, compared with 19 and $2.1 million, respectively, at December 31, 2011. The outstanding unresolved claims at September 30, 2012 pertained to FNMA (December 31, 2011 pertained to FNMA and FHLMC).

At September 30, 2012, the Corporation s liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to $56 million, compared with $59 million at December 31, 2011.

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Table 25 presents the changes in the Corporation s liability for estimated losses related to loans serviced with credit recourse provisions for the quarters and nine-month period ended September 30, 2012 and 2011.

Table 25 Activity in Credit Recourse Liability

	Quarters ended September 30,		Nine months ended September 30,	
(In thousands)	2012	2011	2012	2011
Balance as of beginning of period	$ 55,783	$ 55,327	$ 58,659	$ 53,729
Additions for new sales				
Provision for recourse liability	5,576	10,285	15,138	30,109
Net charge-offs / terminations	(5,068)	(10,055)	(17,506)	(28,281)
Balance as of end of period	$ 56,291	$ 55,557	$ 56,291	$ 55,557

The decrease of $4.7 million in the provision for credit recourse liability experienced for the quarter ended September 30, 2012, when compared with the same quarter in 2011 was mainly driven by a decrease in the losses prompted by an improvement in the credit quality 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.

When the Corporation sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. The Corporation s mortgage operations in Puerto Rico group conforming mortgage loans into pools which are exchanged for FNMA and GNMA mortgage-backed securities, which are generally sold to private investors, or are sold directly to FNMA for cash. As required under the government agency programs, quality review procedures are performed by the Corporation to ensure that asset guideline qualifications are met. To the extent the loans do not meet specified characteristics, the Corporation may be required to repurchase such loans or indemnify for losses and bear any subsequent loss related to the loans. Repurchases under representation and warranty arrangements in which the Corporation s Puerto Rico banking subsidiaries were required to repurchase the loans amounted to $3.1 million in unpaid principal balance with losses amounting to $0.5 million for the nine-month period ended September 30, 2012. A substantial amount of these loans reinstate to performing status or have mortgage insurance, and thus the ultimate losses on the loans are not deemed significant.

During the quarter ended June 30, 2011, the Corporation s banking subsidiary, BPPR, reached an agreement (the June 2011 agreement) with the FDIC, as receiver for a local Puerto Rico institution, and the financial institution with respect to a loan servicing portfolio that BPPR services since 2008, related to FHLMC and GNMA pools. The loans were originated and sold by the financial institution and the servicing rights were transferred to BPPR in 2008. As part of the 2008 servicing agreement, the financial institution was required to repurchase from BPPR any loans that BPPR, as servicer, was required to repurchase from the investors under representation and warranty obligations. As part of the June 2011 agreement, the Corporation received cash to discharge the financial institution from any repurchase obligation and other claims over the serviced portfolio. At September 30, 2012, the related representation and warranty reserve amounted to $8.0 million and the related serviced portfolio approximated $3.0 billion, compared with $8.5 million and $3.5 billion, respectively, at December 31, 2011.

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 September 30, 2012, the Corporation serviced $16.8 billion in mortgage loans for third-parties, including the loans serviced with credit recourse, compared with $17.3 billion at December 31, 2011. The Corporation generally recovers funds advanced pursuant to these arrangements from the mortgage owner, from liquidation proceeds when the mortgage loan is foreclosed or, in the case of FHA/VA loans, under the applicable FHA and VA insurance and guarantees programs. However, in the meantime, the Corporation must absorb the cost of the funds it advances during the time the advance is outstanding. The Corporation must also bear the costs of attempting to collect on delinquent and defaulted mortgage loans. In addition, if a defaulted loan is not cured, the mortgage loan would be canceled as part of the foreclosure proceedings and the Corporation would not receive any future servicing income with respect to that loan. At September 30, 2012, the outstanding balance of funds advanced by the Corporation under such mortgage loan servicing agreements was approximately $30 million, compared with $32 million at December 31, 2011. To the extent the mortgage loans underlying the Corporation s servicing portfolio experience increased delinquencies, the Corporation would be required to dedicate additional cash resources to comply with its obligation to advance funds as well as incur additional administrative costs related to increases in collection efforts.

At September 30, 2012, the Corporation has reserves for customary representations and warranties related to loans sold by its U.S. subsidiary E-LOAN prior to 2009. Loans were sold to investors on a servicing released basis subject to certain representations and warranties. Although the risk of loss or default was generally assumed by the investors, the Corporation made certain representations relating to borrower creditworthiness, loan documentation and collateral, which if not correct, may result in requiring the Corporation to repurchase the loans or indemnify investors for any related losses associated with these loans. At September 30, 2012 and December 31, 2011, the Corporation s reserve for estimated losses from such representation and warranty arrangements amounted to $8 million and $11 million, respectively. E-LOAN is no longer originating and selling loans since the subsidiary ceased these activities in 2008 and most of the outstanding agreements with major counterparties were settled during 2010 and 2011.

On a quarterly basis, the Corporation reassesses its estimate for expected losses associated with E-LOAN s customary representation and warranty arrangements. The analysis incorporates expectations on future disbursements based on quarterly repurchases and make-whole events. The analysis also considers factors such as the average length of time between the loan s funding date and the loan repurchase date, as observed in the historical loan data. The liability is estimated as follows: (1) three year average of disbursement amounts (two year historical and one year projected) are used to calculate an average quarterly amount; (2) the quarterly average is annualized and multiplied by the repurchase distance, which currently averages approximately three years, to determine a liability amount; and (3) the calculated reserve is compared to current claims and disbursements to evaluate adequacy. The Corporation s success rate in clearing the claims in full or negotiating lesser payouts has been fairly consistent. On average, the Corporation avoided paying on 46% of claimed amounts during the 24-month period ended September 30, 2012 (51% during the 24-month period ended December 31, 2011). On the remaining 54% of claimed amounts, the Corporation either repurchased the balance in full or negotiated settlements. For the accounts where the Corporation settled, it averaged paying 56% of claimed amounts during the 24-month period ended September 30, 2012 (59% during the 24-month period ended December 31, 2011). In total, during the 24-month period ended September 30, 2012, the Corporation paid an average of 34% of claimed amounts (24-month period ended December 31, 2011 33%).

E-LOAN s outstanding unresolved claims related to representation and warranty obligations from mortgage loan sales prior to 2009 are presented in Table 26.

Table 26 - E-LOAN s Outstanding Unresolved Claims from Loans Sold

(In thousands)	September 30, 2012		December 31, 2011	
By Counterparty:				
GSEs	$	1,270	$	432
Whole loan and private-label securitization investors		1,772		360
Total outstanding claims by counterparty	$	3,042	$	792
By Product Type:				
1st lien (Prime loans)	$	3,042	$	792
Total outstanding claims by product type	$	3,042	$	792

The outstanding claims balance from private-label investors are comprised by three counterparties at September 30, 2012 and one counterparty at December 31, 2011.

In the case of E-LOAN, the Corporation indemnifies the lender, repurchases the loan, or settles the claim, generally for less than the full amount. Each repurchase case is different and each lender / servicer has different requirements. The large majority of the loans repurchased have been greater than 90 days past due at the time of repurchase and are included in the Corporation s non-performing loans. Historically, claims have been predominantly for first mortgage agency loans and principally consist of underwriting errors related to undisclosed debt or missing documentation. Table 27 presents the changes in the Corporation s liability for estimated losses associated with customary representations and warranties related to loans sold by E-LOAN for the quarters and nine-month periods ended September 30, 2012 and 2011.

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Table 27 Changes in Liability for Estimated Losses Related to Loans Sold by E-LOAN

(In thousands)	Quarters ended September 30, 2012	Quarters ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Balance as of beginning of period	$ 10,131	$ 29,016	$ 10,625	$ 30,659
Additions for new sales				
(Reversal) provision for representation and warranties	(1,841)		(1,841)	(522)
Net charge-offs / terminations	(1)	(807)	(495)	(1,928)
Balance as of end of period	$ 8,289	$ 28,209	$ 8,289	$ 28,209

MARKET RISK

The financial results and capital levels of Popular, Inc. are constantly exposed to market risk. Market risk represents the risk of loss due to adverse movements in market rates or financial asset prices, which include interest rates, foreign exchange rates, and bond and equity security prices; the failure to meet financial obligations coming due because of the inability to liquidate assets or obtain adequate funding; and the inability to easily unwind or offset specific exposures without significantly lowering prices because of inadequate market depth or market disruptions.

While the Corporation is exposed to various business risks, the risks relating to interest rate risk and liquidity are major risks that can materially impact future results of operations and financial condition due to their complexity and dynamic nature.

The Asset Liability Management Committee (ALCO) and the Corporate Finance Group are responsible for planning and executing the Corporation s market, interest rate risk, funding activities and strategy, and for implementing the policies and procedures approved by the Corporation s Risk Management Committee. In addition, the Risk Management Group independently monitors and reports adherence with established market and liquidity policies and recommends actions to enhance and strengthen controls surrounding interest, liquidity, and market risks. The ALCO meets on a weekly basis and reviews the Corporation s current and forecasted asset and liability position as well as desired pricing strategies and other relevant topics. Also, on a monthly basis the ALCO reviews various interest rate risk metrics, ratios and portfolio information, including but not limited to, the Corporation s liquidity positions, projected sources and uses of funds, interest rate risk positions and economic conditions.

Interest rate risk (IRR), a component of market risk, is considered by management as a predominant market risk in terms of its potential impact on profitability or market value. For a detailed description of the techniques used to measure the potential impact from changing interest rate on the Corporation s market risk, refer to the 2011 Annual Report.

Net interest income simulation analysis performed by legal entity and on a consolidated basis is a tool used by the Corporation in estimating the potential change in 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.

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 basis points parallel shocks. Management also performs analyses to isolate and measure basis and prepayment risk exposures. The asset and liability management group also evaluates the reasonableness of assumptions used and results obtained in the monthly sensitivity analyses. Due to the importance of critical assumptions in measuring market risk, the risk models incorporate third-party developed data for critical assumptions such as prepayment speeds on mortgage loans and mortgage-backed securities, estimates on the duration of the Corporation s deposits and interest rate scenarios.

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The Corporation runs net interest income simulations under interest rate scenarios in which the yield curve is assumed to rise and decline gradually by the same amount. The rising rate scenarios considered in these market risk disclosures reflect gradual parallel changes of 200 and 400 basis points during the twelve-month period ending September 30, 2013. Under a 200 basis points rising rate scenario, projected net interest income increases by $22.5 million, while under a 400 basis points rising rate scenario, projected net interest income increases by $41.5 million, when compared against the Corporation s flat or unchanged interest rates forecast scenario. Given the fact that at September 30, 2012 some market interest rates continued to be close to zero, management has focused on measuring the risk on net interest income of rising rate scenarios. These interest rate simulations exclude the impact on loans accounted pursuant to ASC Subtopic 310-30, whose yields are based on management s current expectation of future cash flows.

Simulation analyses are based on many assumptions, including relative levels of market interest rates, interest rate spreads, loan prepayments and deposit decay. They should not be relied upon as indicative of actual results. Further, the estimates do not contemplate actions that management could take to respond to changes in interest rates. By their nature, these forward-looking computations are only estimates and may be different from what may actually occur in the future.

The Corporation estimates the sensitivity of economic value of equity (EVE) to changes in interest rates. EVE is equal to the estimated present value of the Corporation s assets minus the estimated present value of the liabilities. This sensitivity analysis is a useful tool to measure long-term IRR because it captures the impact of rate changes in expected cash flows 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 a rising 200 basis point parallel shock. Management has a defined limit for the increase in EVE sensitivity resulting from the shock scenario.

The Corporation maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in net interest income or market value that are caused by interest rate volatility. The market value of these derivatives is subject to interest rate fluctuations and counterparty credit risk adjustments which could have a positive or negative effect in the Corporation s earnings.

Trading

The Corporation engages in trading activities in the ordinary course of business at its subsidiaries, Popular Securities and Popular Mortgage. Popular Securities trading activities consist primarily of market-making activities to meet expected customers needs related to its retail brokerage business and purchases and sales of U.S. Government and government sponsored securities with the objective of realizing gains from expected short-term price movements. Popular Mortgage s trading activities consist primarily of holding U.S. Government sponsored mortgage-backed securities classified as trading and hedging the related market risk with TBA (to-be-announced) market transactions. The objective is to derive spread income from the portfolio and not to benefit from short-term market movements. In addition, Popular Mortgage uses forward contracts or TBAs to hedge its securitization pipeline. Risks related to variations in interest rates and market volatility are hedged with TBAs that have characteristics similar to that of the forecasted security and its conversion timeline.

At September 30, 2012, the Corporation held trading securities with a fair value of $227 million, representing approximately 0.6% of the Corporation s total assets, compared with $436 million and 1% at December 31, 2011. As shown in Table 28, the trading portfolio consists principally of mortgage-backed securities, which at September 30, 2012 were investment grade securities. Trading instruments are recognized at fair value, with changes resulting from fluctuations in market prices, interest rates or exchange rates reported in current period earnings. The Corporation recognized a net trading account loss of $2.3 million and $11.7 million for the quarter and nine-month period ended September 30, 2012, respectively. Table 28 provides the composition of the trading portfolio at September 30, 2012 and December 31, 2011.

Table 28 - Trading Portfolio

	September 30, 2012		December 31, 2011	
(Dollars in thousands)	Amount	Weighted Average Yield [1]	Amount	Weighted Average Yield [1]
Mortgage-backed securities (includes related trading derivatives)	$ 188,093	4.87%	$ 325,205	4.56%
Collateralized mortgage obligations	3,342	4.45	3,545	4.69
Puerto Rico and U.S. Government obligations	17,584	4.42	90,648	4.87
Interest-only strips	1,245	12.86	1,378	12.80

Other	16,654	3.85	15,555	4.32
Total	$ 226,918	4.80%	$ 436,331	4.64%

[1] Not on a taxable equivalent basis.

The Corporation s trading activities are limited by internal policies. For each of the two subsidiaries, the market risk assumed under trading activities is measured by the 5-day net value-at-risk (VAR), with a confidence level of 99%. The VAR measures the maximum estimated loss that may occur over a 5-day holding period, given a 99% probability. Under the Corporation s current policies, trading exposures cannot exceed 2% of the trading portfolio market value of each subsidiary, subject to a cap.

The Corporation s trading portfolio had a 5-day VAR of approximately $0.9 million, assuming a confidence level of 99%, for the last week in September 2012. There are numerous assumptions and estimates associated with VAR modeling, and actual results could differ from these assumptions and estimates. Backtesting is performed to compare actual results against maximum estimated losses, in order to evaluate model and assumptions accuracy.

In the opinion of management, the size and composition of the trading portfolio does not represent a significant source of market risk for the Corporation.

FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The Corporation currently measures at fair value on a recurring basis its trading assets, available-for-sale securities, derivatives, and mortgage servicing rights. Occasionally, the Corporation may be required to record at fair value other assets on a nonrecurring basis, such as loans held-for-sale, impaired loans held-in-portfolio that are collateral dependent and certain other assets. These nonrecurring fair value adjustments typically result from the application of lower of cost or fair value accounting or write-downs of individual assets.

The Corporation categorizes its assets and liabilities measured at fair value under the three-level hierarchy. The level within the hierarchy is based on whether the inputs to the valuation methodology used for fair value measurement are observable.

Refer to Note 22 to the consolidated financial statements for information on the Corporation s fair value measurement disclosures required by the applicable accounting standard. At September 30, 2012, approximately $ 5.4 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 September 30, 2012, the remaining 3% of assets measured at fair value on a recurring basis were classified as Level 3 since their valuation methodology considered significant unobservable inputs. The financial assets measured as Level 3 included mostly tax-exempt GNMA mortgage-backed securities and mortgage servicing rights (MSRs). Additionally, the Corporation reported $ 114 million of financial assets that were measured at fair value on a nonrecurring basis at September 30, 2012, all of which were classified as Level 3 in the hierarchy.

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 $ 37 million at September 30, 2012, of which $ 21 million were Level 3 assets and $ 16 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.

During the quarter ended September 30, 2012, there were no transfers in and/or out of Level 2 and Level 3 for financial instruments measured at fair value on a recurring basis. There were $ 2 million in transfers from Level 2 to Level 3 and $ 7 million in transfers from Level 3 to Level 2 for financial instruments measured at fair value on a recurring basis during the nine months ended September 30, 2012. The transfers from Level 2 to Level 3 of trading mortgage-backed securities were the result of a change in valuation technique to a matrix pricing model, based on indicative prices provided by brokers. The transfers from Level 3 to Level 2 of trading mortgage-backed securities resulted from observable market data becoming available for these securities. There were no transfers in and / or out of Level 1 during the quarter and nine months ended September 30, 2012. Refer to Note 22 to the consolidated financial statements for a description of the Corporation s valuation methodologies used for the assets and liabilities measured at fair value at September 30, 2012. Also, refer to the Critical Accounting Policies / Estimates in the 2011 Annual Report for additional information on the accounting guidance and the Corporation s policies or procedures related to fair value measurements.

Trading Account Securities and Investment Securities Available-for-Sale

The majority of the values for trading account securities and investment securities available-for-sale are obtained from third-party pricing services and are validated with alternate pricing sources when available. Securities not priced by a secondary pricing source are documented and validated internally according to their significance to the Corporation s financial statements. Management has established materiality thresholds according to the investment class to monitor and investigate material deviations in prices obtained from the primary pricing service provider and the secondary pricing source used as support for the valuation results. During the quarter and nine months ended September 30, 2012, the Corporation did not adjust any prices obtained from pricing service providers or broker dealers.

Inputs are evaluated to ascertain that they consider current market conditions, including the relative liquidity of the market. When a market quote for a specific security is not available, the pricing service provider generally uses observable data to derive an exit price for the instrument, such as benchmark yield curves and trade data for similar products. To the extent trading data is not available, the pricing service provider relies on specific information including dialogue with brokers, buy side clients, credit ratings, spreads to established benchmarks and transactions on similar securities, to draw correlations based on the characteristics of the evaluated instrument. If for any reason the pricing service provider cannot observe data required to feed its model, it discontinues pricing the instrument. During the quarter and nine months ended September 30, 2012, none of the Corporation s investment securities were subject to pricing discontinuance by the pricing service providers. The pricing methodology and approach of our primary pricing service providers is concluded to be consistent with the fair value measurement guidance.

Furthermore, management assesses the fair value of its portfolio of investment securities at least on a quarterly basis, which includes analyzing changes in fair value that have resulted in losses that may be considered other-than-temporary. Factors considered include, for example, the nature of the investment, severity and duration of possible impairments, industry reports, sector credit ratings, economic environment, creditworthiness of the issuers and any guarantees.

Securities are classified in the fair value hierarchy according to product type, characteristics and market liquidity. At the end of each period, management assesses the valuation hierarchy for each asset or liability measured. The fair value measurement analysis performed by the Corporation includes validation procedures and review of market changes, pricing methodology, assumption and level hierarchy changes, and evaluation of distressed transactions.

At September 30, 2012, the Corporation s portfolio of trading and investment securities available-for-sale amounted to $ 5.3 billion and represented 96% of the Corporation s assets measured at fair value on a recurring basis. At September 30, 2012, net unrealized gains on the trading and available-for-sale investment securities portfolios approximated $18 million and $ 198 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 $ 158 million at September 30, 2012, and are primarily related to residential mortgage loans originated in Puerto Rico, 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 September 30, 2012, inclusion of credit risk in the fair value of the derivatives resulted in a net gain of $0.9 million recorded in the other operating income and interest expense captions of the consolidated statement of operations, which consisted of a gain of $0.9 million from the assessment of the counterparties credit risk. During the nine months ended September 30, 2012, inclusion of credit risk in the fair value of the derivatives resulted in a net gain of $0.8 million recorded in the other operating income and interest expense captions of the consolidated statement of operations, which consisted of a gain of $0.9 million resulting from assessment of the counterparties credit risk and a loss $0.1 million resulting from the Corporation s own credit standing adjustment.

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

The impairment is based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, size and supply and demand. Continued deterioration of the housing markets and the economy in general have adversely impacted and continue to affect the market activity related to real estate properties. These collateral dependent impaired loans are classified as Level 3 and are reported as a nonrecurring fair value measurement.

LIQUIDITY

The objective of effective liquidity management is to ensure that the Corporation has sufficient liquidity to meet all of its financial obligations, finance expected future growth and maintain a reasonable safety margin for cash commitments under both normal and stressed market conditions. An institution s liquidity may be pressured if, for example, its credit rating is downgraded, it experiences a sudden and unexpected substantial cash outflow, or some other event causes counterparties to avoid exposure to the institution. An institution is also exposed to liquidity risk if the markets on which it depends are subject to occasional disruptions.

Factors that the Corporation does not control, such as the economic outlook of its principal markets and regulatory changes, could affect its ability to obtain funding. In order to prepare for the possibility of such scenario, management has adopted contingency plans for raising financing under stress scenarios when important sources of funds that are usually fully available are temporarily unavailable. These plans call for using alternate funding mechanisms such as the pledging of certain asset classes and accessing secured credit lines and loan facilities put in place with the Federal Home Loan Bank (FHLB) and the Federal Reserve Bank of New York (the Fed), in addition to maintaining securities available for pledging in the repo markets.

Liquidity is managed by the Corporation at the level of the holding companies that own the banking and non-banking subsidiaries. Also, it is managed at the level of the banking and non-banking subsidiaries. The Corporation has adopted policies and limits to monitor more effectively the Corporation s liquidity position and that of the banking subsidiaries. Additionally, contingency funding plans are used to model various stress events of different magnitudes and affecting different time horizons that assist management in evaluating the size of the liquidity buffers needed if those stress events occur. However, such models may not predict accurately how the market and customers might react to every event, and are dependent on many assumptions.

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Deposits, including customer deposits, brokered deposits, and public funds deposits, continue to be the most significant source of funds for the Corporation, funding 72% of the Corporation s total assets at September 30, 2012 and 75% at December 31, 2011. Refer to the Financial Condition Analysis section of this MD&A for explanations on the variances in the main deposit categories.

In addition to traditional deposits, the Corporation maintains borrowing arrangements. At September 30, 2012, these borrowings consisted primarily of assets sold under agreement to repurchase of $1.9 billion, advances with the FHLB of $1.8 million, junior subordinated deferrable interest debentures of $931 million (net of discount) and term notes of $279 million. A detailed description of the Corporation s borrowings, including their terms, is included in Note 14 to the consolidated financial statements. Also, the consolidated statements of cash flows in the accompanying consolidated financial statements provide information on the Corporation s cash inflows and outflows.

During 2011 and 2012, the Corporation did not issue new registered debt in the capital markets.

Banking Subsidiaries

Primary sources of funding for the Corporation s banking subsidiaries (BPPR and BPNA), or the banking subsidiaries, include retail and commercial deposits, brokered deposits, collateralized borrowings, unpledged investment securities, and, to a lesser extent, loan sales. In addition, the Corporation maintains borrowing facilities with the FHLB and at the Discount Window of the Fed, and has a considerable amount of collateral pledged that can be used to quickly raise funds under these facilities.

The principal uses of funds for the banking subsidiaries include loan originations, investment portfolio purchases, loan purchases and repurchases, repayment of outstanding obligations (including deposits), and operational expenses. Also, the banking subsidiaries assume liquidity risk related to collateral posting requirements for certain activities mainly in connection with contractual commitments, recourse provisions, servicing advances, derivatives, credit card licensing agreements and support to several mutual funds administered by BPPR.

Note 33 to the consolidated financial statements provides a consolidating statement of cash flows which includes the Corporation s banking subsidiaries as part of the All other subsidiaries and eliminations column.

The banking subsidiaries maintain sufficient funding capacity to address large increases in funding requirements such as deposit outflows. This capacity is comprised mainly of available liquidity derived from secured funding sources, as well as on-balance sheet liquidity in the form of cash balances maintained at the Fed and unused secured lines held at the Fed and FHLB, in addition to liquid unpledged securities. The Corporation has established liquidity guidelines that require the banking subsidiaries to have sufficient liquidity to cover all short-term borrowings and a portion of deposits.

The Corporation s ability to compete successfully in the marketplace for deposits depends on various factors, including pricing, service, convenience and financial stability as reflected by 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.

Deposits are a key source of funding as they tend to be less volatile than institutional borrowings and their cost is less sensitive to changes in market rates. Refer to Table 19 for a breakdown of deposits by major types. Core deposits are generated from a large base of consumer, corporate and institutional customers. For purposes of defining core deposits, the Corporation excludes brokered deposits with denominations under $100,000. Core deposits have historically provided the Corporation with a sizable source of relatively stable and low-cost funds. Core deposits totaled $21.4 billion, or 81% of total deposits, at September 30, 2012, compared with $21.3 billion, or 76% of total deposits, at December 31, 2011. Core deposits financed 68% of the Corporation s earning assets at September 30, 2012 and 66% at December 31, 2011.

Certificates of deposit with denominations of $100,000 and over at September 30, 2012 totaled $3.0 billion, or 12% of total deposits, compared with $4.2 billion, or 15%, at December 31, 2011. Their distribution by maturity at September 30, 2012 was as follows:

Table 29 - Distribution by Maturity of Certificate of Deposits of $100,000 and Over

(In thousands)

3 months or less	$ 1,157,981
3 to 6 months	414,610
6 to 12 months	611,186
Over 12 months	846,176
	$ 3,029,953

At September 30, 2012, approximately 7% of the Corporation s assets were financed by brokered deposits, compared with 9% at December 31, 2011. The Corporation had $2.6 billion in brokered deposits at September 30, 2012, compared with $3.4 billion at December 31, 2011. Brokered deposits, which are typically sold through an intermediary to retail investors, provide the ability to raise additional funds without pressuring retail deposit pricing in the Corporation s local markets. An unforeseen disruption in the brokered deposits market, stemming from factors such as legal, regulatory or financial risks, could adversely affect the Corporation s ability to fund a portion of the Corporation s operations and/or meet its obligations.

In the event that any of the Corporation s banking subsidiaries regulatory capital ratios fall below those required by a well-capitalized institution or are subject to capital restrictions by the regulators, that banking subsidiary faces the risk of not being able to raise or maintain brokered deposits and faces limitations on the rate paid on deposits, which may hinder the Corporation s ability to effectively compete in its retail markets and could affect its deposit raising efforts.

To the extent that the banking subsidiaries are unable to obtain sufficient liquidity through core deposits, the Corporation may meet its liquidity needs through short-term borrowings by pledging securities for borrowings under repurchase agreements, by pledging additional loans and securities through the available secured lending facilities, or by selling liquid assets. These measures are subject to availability of collateral.

The Corporation s banking subsidiaries have the ability to borrow funds from the FHLB. At September 30, 2012 and December 31, 2011, the banking subsidiaries had credit facilities authorized with the FHLB aggregating $2.8 billion and $2.0 billion, respectively, based on assets pledged with the FHLB at those dates. Outstanding borrowings under these credit facilities totaled $1.8 billion at September 30, 2012 and $0.9 billion at December 31, 2011. Such advances are collateralized by loans held-in-portfolio, do not have restrictive covenants and do not have any callable features. Refer to Note 14 to the consolidated financial statements for additional information on the terms of FHLB advances outstanding.

The banking subsidiaries have borrowing facilities at the Fed s discount window. The borrowing capacity approximated $4.4 billion at September 30, 2012, compared with $2.6 billion at December 31, 2011, and remained unused as of both dates. These borrowing facilities are a collateralized source of credit that is highly reliable even under difficult market conditions. The amount available under these borrowing facilities is dependent upon the balance of performing loans and securities pledged as collateral and the haircuts assigned to such collateral.

During the quarter and nine months ended September 30, 2012, the Corporation s bank holding companies did not make any capital contributions to BPNA or BPPR.

Total borrowings amounted to $5.0 billion at September 30, 2012, an increase of approximately $723 million when compared to December 31, 2011. The increase was driven by the replacement of maturing brokered deposits with lower cost short term borrowings. Short-term advances with the FHLB increased by $910 million to $1.2 billion, while repurchase agreements decreased by $197 million. As indicated in the Overview section of this MD&A, in late June 2012, BPPR terminated $350 million in outstanding repurchase agreements with contractual maturities between March 2014 and May 2014. The Corporation replaced these repurchase agreements with short-term borrowings at current market rates.

At September 30, 2012, management believes that the banking subsidiaries had sufficient current and projected liquidity sources to meet their anticipated cash flow obligations, as well as special needs and off-balance sheet commitments, in the ordinary course of business and have sufficient liquidity resources to address a stress event. Although the banking subsidiaries have historically been able to replace maturing deposits and advances if desired, no assurance can be given that they would be able to replace those 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 most probably 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 financing needs revenues may not increase proportionately to cover costs.

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Bank Holding Companies

The Corporation s bank holding companies (BHCs) include Popular, Inc. (PIHC) and Popular North America, Inc. (PNA). The principal sources of funding for the holding companies include cash on hand, investment securities, dividends received from banking and non-banking subsidiaries (subject to regulatory limits and authorizations) and from equity method investees, asset sales, credit facilities available from affiliate banking subsidiaries and proceeds from new borrowings or stock issuances. The Corporation s banking subsidiaries are required to obtain approval from the Federal Reserve System and their respective applicable state banking regulator prior to declaring or paying dividends to the Corporation.

The principal use of these funds include capitalizing its banking subsidiaries, the repayment of debt, and interest payments to holders of senior debt and junior subordinated deferrable interest debentures (related to trust preferred securities), including those issued to the U.S. Treasury as part of the Troubled Asset Relief Program (TARP).

Note 33 to the consolidated financial statements provides a consolidating statement of cash flows which includes the Corporation s bank holding companies.

Cash inflows and outflows from financing activities at the BHCs during the nine month period ended September 30, 2012 have not been significant, except for the cash dividend of $131 million received in May 2012 from the Corporation s equity investment in EVERTEC s parent company. This cash inflow was principally used to fund short-term advances to Popular Mortgage, the Corporation s mortgage banking subsidiary.

During the nine months ended September 30, 2012, there was a $50 million capital contribution from PIHC to PNA as part of an internal reorganization. Refer to Note 33 to the consolidated financial statements for a description of the internal reorganization.

Another use of liquidity at PIHC is the payment of dividends on preferred stock. The preferred stock dividends paid amounted to $2.5 million for the nine months ended September 30, 2012. The preferred stock dividends paid were funded by issuing new shares of common stock to the participants of the Corporation s qualified employee savings plans. The Corporation is required to obtain approval from the Federal Reserve System prior to declaring or paying dividends, incurring, increasing or guaranteeing debt or making any distributions on its trust preferred securities or subordinated debt. The Corporation anticipates that any future preferred stock dividend payments would continue to be financed with the issuance of new common stock in connection with its qualified employee savings plans. The Corporation is not paying dividends to holders of its common stock.

The BHCs have in the past borrowed in the money markets and in the corporate debt market primarily to finance their non-banking subsidiaries. These sources of funding have become more costly due to the reductions in the Corporation s credit ratings together with higher credit spreads in general. The Corporation s principal credit ratings are below investment grade which affects the Corporation s ability to raise funds in the capital markets. However, the cash needs of the Corporation s non-banking subsidiaries other than to repay indebtedness and interest are now minimal. The Corporation has an open-ended, shelf registration statement filed and effective with the Securities and Exchange Commission, which permits the Corporation to issue an unspecified amount of debt or equity securities.

A principal use of liquidity at the BHCs is to ensure its banking subsidiaries are adequately capitalized. During the year 2011 and the nine months ended September 30, 2012, the BHCs were not required to make any capital contributions to its banking subsidiaries. Management does not expect either of the banking subsidiaries to require capitalizations for the foreseeable future.

Note 33 to the consolidated financial statements provides a statement of condition, of operations and of cash flows for the three BHCs. The loans held-in-portfolio in such financial statements are principally associated with intercompany transactions. The investment securities held-to-maturity at the parent holding company, amounting to $185 million at September 30, 2012, consisted of subordinated notes from BPPR.

The outstanding balance of notes payable at the BHCs amounted to $1.2 billion at September 30, 2012 and December 31, 2011. These borrowings are principally junior subordinated debentures (related to trust preferred securities), including those issued to the U.S. Treasury as part of the TARP, and unsecured senior debt (term notes). The repayment of the BHCs obligations represents a potential cash need which is expected to be met with internal liquidity resources and new borrowings. Increasing or guaranteeing new debt would be subject to the prior approval from the Fed.

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The contractual maturities of the BHC s notes payable at September 30, 2012 is presented in Table 30.

Table 30 - Distribution of BHC s Notes Payable by Contractual Maturity

Year	(In thousands)
2012	$ 41,791
2013	3,000
2014	78,594
2015	35,159
2016	119,849
Later years	439,800
No stated maturity	936,000
Sub-total	1,654,193
Less: Discount	444,338
Total	$ 1,209,855

As indicated previously, the BHC did not issue new registered debt in the capital markets during the nine months ended September 30, 2012.

The BHCs liquidity position continues to be adequate with sufficient cash on hand, investments and other sources of liquidity which are expected to be enough to meet all BHCs obligations during the foreseeable future.

Obligations Subject to Rating Triggers or Collateral Requirements

The Corporation s banking subsidiaries currently do not use borrowings that are rated by the major rating agencies, as these banking subsidiaries are funded primarily with deposits and secured borrowings. The banking subsidiaries had $21 million in deposits at September 30, 2012 that are subject to rating triggers.

Some of the Corporation s derivative instruments include financial covenants tied to the bank s well-capitalized status and certain formal regulatory actions. These agreements could require exposure collateralization, early termination or both. The fair value of derivative instruments in a liability position subject to financial covenants approximated $41 million at September 30, 2012, with the Corporation providing collateral totaling $51 million to cover the net liability position with counterparties on these derivative instruments.

In addition, certain mortgage servicing and custodial agreements that BPPR has with third parties include rating covenants. Based on BPPR s failure to maintain the required credit ratings, the third parties have the right to require the institution to engage a substitute cash custodian for escrow deposits and/or increase collateral levels securing the recourse obligations. Also, as discussed in the Guarantees section of this MD&A, the Corporation services residential mortgage loans subject to credit recourse provisions. Certain contractual agreements require the Corporation to post collateral to secure such recourse obligations if the institution s required credit ratings are not maintained. Collateral pledged by the Corporation to secure recourse obligations approximated $119 million at September 30, 2012. The Corporation could be required to post additional collateral under the agreements. Management expects that it would be able to meet additional collateral requirements if and when needed. The requirements to post collateral under certain agreements or the loss of escrow deposits could reduce the Corporation s liquidity resources and impact its operating results.

CREDIT RISK MANAGEMENT AND LOAN QUALITY

Non-Performing Assets

Non-performing assets include primarily past-due loans that are no longer accruing interest, renegotiated loans, and real estate property acquired through foreclosure. A summary, including certain credit quality metrics, is presented in Table 31.

The Corporation s non-accruing and charge-off policies by major categories of loan portfolios are as follows:

Commercial and construction loans recognition of interest income on commercial and construction loans is discontinued when the loans are 90 days or more in arrears on payments of principal or interest or when other factors indicate that the 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.

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Lease financing recognition of interest income for lease financing is ceased when loans are 90 days or more in arrears. Leases are charged-off when they are 120 days in arrears.

Mortgage loans recognition of interest income on mortgage loans is generally discontinued when loans are 90 days or more in arrears on payments of principal or interest. The impaired portion of a mortgage loan is charged-off when the loan is 180 days past due. The Corporation discontinues the recognition of interest income on residential mortgage loans insured by the Federal Housing Administration (FHA) or guaranteed by the U.S. Department of Veterans Affairs (VA) when 18 months delinquent as to principal or interest. The principal repayment on these loans is insured.

Consumer loans recognition of interest income on closed-end consumer loans and home-equity lines of credit is discontinued when the loans are 90 days or more in arrears on payments of principal or interest. Income is generally recognized on open-end consumer loans, except for home equity lines of credit, until the loans are charged-off. Closed-end consumer loans are charged-off when they are 120 days in arrears. Open-end consumer loans are charged-off when they are 180 days in arrears. Overdrafts in excess of 60 days are generally charged-off no later than 60 days past their due date.

Troubled debt restructurings (TDRs) loans classified as TDRs are typically in non-accrual status at the time of the modification. The TDR loan continues in non-accrual status until the borrower has demonstrated a willingness and ability to make the restructured loan payments (generally at least six months of sustained performance after the modification (or one year for loans providing for quarterly or semi-annual payments)) and management has concluded that it is probable that the borrower would not be in payment default in the foreseeable future.

Covered loans acquired in the Westernbank FDIC-assisted transaction, except for revolving lines of credit, are accounted for by the Corporation in accordance with ASC Subtopic 310-30. Under ASC Subtopic 310-30, the acquired loans were aggregated into pools based on similar characteristics. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. The covered loans, which are accounted for under ASC Subtopic 310-30 by the Corporation, are not considered non-performing and will continue to have an accretable yield as long as there is a reasonable expectation about the timing and amount of cash flows expected to be collected. Also, loans charged-off against the non-accretable difference established in purchase accounting are not reported as charge-offs. Charge-offs will be recorded only to the extent that losses exceed the purchase accounting estimates.

Because of the application of ASC Subtopic 310-30 to the Westernbank acquired loans and the loss protection provided by the FDIC which limits the risks on the covered loans, the Corporation has determined to provide certain quality metrics in this MD&A that exclude such covered loans to facilitate the comparison between loan portfolios and across periods. Given the significant amount of covered loans that are past due but still accruing due to the accounting under ASC Subtopic 310-30, the Corporation believes the inclusion of these loans in certain asset quality ratios in the numerator or denominator (or both) would result in a significant distortion to these ratios. In addition, because charge-offs related to the acquired loans are recorded against the non-accretable balance, the net charge-off ratio including the acquired loans is lower for portfolios that have significant amounts of covered loans. The inclusion of these loans in the asset quality ratios could result in a lack of comparability across periods, and could negatively impact comparability with other portfolios that were not impacted by acquisition accounting. The Corporation believes that the presentation of asset quality measures, excluding covered loans and related amounts from both the numerator and denominator, provides a better perspective into underlying trends related to the quality of its loan portfolio.

Total non-performing non-covered assets were $1.9 billion at September 30, 2012, declining by $261 million compared with December 31, 2011, as part of the Corporation s strategic efforts to resolve non-performing loans. At September 30, 2012, non-performing loans held-in-portfolio secured by real estate, excluding covered loans, amounted to $1.2 billion in the Puerto Rico operations and $243 million in the U.S. mainland operations. These figures compare to $1.3 billion in the Puerto Rico operations and $324 million in the U.S. mainland operations at December 31, 2011.

In addition to the non-performing loans included in Table 31, there were $46 million of non-covered performing loans at September 30, 2012, mostly related to the commercial loan portfolio, which based on management s opinion, are currently subject to potential future classification to non-performing and are considered impaired, compared with $27 million at December 31, 2011.

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Table 31 - Non-Performing Assets

(Dollars in thousands)	September 30, 2012	As a percentage of loans HIP by category [4]	December 31, 2011	As a percentage of loans HIP by category [4]
Commercial	$ 772,217	8.0%	$ 830,092	8.3%
Construction	49,933	19.3	96,286	40.1
Legacy [1]	48,735	10.5	75,660	11.7
Lease financing	4,837	0.9	5,642	1.0
Mortgage	632,052	10.5	686,502	12.4
Consumer	42,726	1.1	43,668	1.2
Total non-performing loans held-in-portfolio, excluding covered loans	1,550,500	7.5%	1,737,850	8.4%
Non-performing loans held-for-sale [2]	108,886		262,302	
Other real estate owned (OREO), excluding covered OREO	252,024		172,497	
Total non-performing assets, excluding covered assets	$ 1,911,410		$ 2,172,649	
Covered loans and OREO [3]	208,235		192,771	
Total non-performing assets	$ 2,119,645		$ 2,365,420	
Accruing loans past due 90 days or more[5]	$ 379,051		$ 316,614	
Ratios excluding covered loans:[6]				
Non-performing loans held-in-portfolio to loans held-in-portfolio	7.47%		8.44%	
Allowance for loan losses to loans held-in-portfolio	3.07		3.35	
Allowance for loan losses to non-performing loans, excluding held-for-sale	41.04		39.73	
Ratios including covered loans:				
Non-performing loans held-in-portfolio to loans held-in-portfolio	6.63%		7.30%	
Allowance for loan losses to loans held-in-portfolio	3.09		3.27	
Allowance for loan losses to non-performing loans, excluding held-for-sale	46.61		44.76	

HIP = held-in-portfolio

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

[2] Non-performing loans held-for-sale consist of $88 million in construction loans, $18 million in commercial loans, $3 million in legacy loans and $53 thousand in mortgage loans as of September 30, 2012 (December 31, 2011 $236 million, $26 million, $468 thousand and $59 thousand, respectively).

[3] The amount consists of $83 million in non-performing covered loans accounted for under ASC Subtopic 310-20 and $126 million in covered OREO as of September 30, 2012 (December 31, 2011 $84 million and $109 million, respectively). It excludes covered loans accounted for under ASC Subtopic 310-30 as they are considered to be performing due to the application of the accretion method, in which

these 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 $3.9 billion in covered loans at September 30, 2012 (December 31, 2011 $4.3 billion).

[5] The carrying value of covered loans accounted for under ASC Sub-topic 310-30 that are contractually 90 days or more past due was $1.0 billion at September 30, 2012 (December 31, 2011 $1.2 billion). This amount is excluded from the above table as the covered loans accretable yield interest recognition is independent from the underlying contractual loan delinquency status.

[6] These asset quality ratios have been adjusted to remove the impact of covered loans and covered foreclosed property. Appropriate adjustments to the numerator and denominator have been reflected in the calculation of these ratios. Management believes the inclusion of acquired loans in certain asset quality ratios that include non-performing assets, past due loans or net charge-offs in the numerator and denominator results in distortions of these ratios and they may not be comparable to other periods presented or to other portfolios that were not impacted by purchase accounting.

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Tables 32 and 33 summarize the activity in the allowance for loan losses and selected loan loss statistics for the quarters and nine months ended September 30, 2012 and 2011.

Table 32 - Allowance for Loan Losses and Selected Loan Losses Statistics - Quarterly Activity

	Quarters ended September 30,					
	2012	2012	2012	2011	2011	2011
(Dollars in thousands)	Non-covered loans	Covered loans	Total	Non-covered loans	Covered loans	Total
Balance at beginning of period	$ 648,535	$ 117,495	$ 766,030	$ 689,678	$ 57,169	$ 746,847
Provision for loan losses	83,589	22,619	106,208	150,703	25,573	176,276
	732,124	140,114	872,238	840,381	82,742	923,123
Losses:						
Commercial	63,381	7,013	70,394	92,715	1,278	93,993
Construction	1,733	7,483	9,216	3,231		3,231
Lease financing	1,292		1,292	1,096		1,096
Legacy	8,502		8,502	16,160		16,160
Mortgage	16,225	736	16,961	14,801	65	14,866
Consumer	37,949	9	37,958	44,812	2,478	47,290
	129,082	15,241	144,323	172,815	3,821	176,636
Recoveries:						
Commercial	16,751		16,751	17,092		17,092
Construction	2,260		2,260	2,726	1,500	4,226
Lease financing	1,027		1,027	695		695
Legacy	4,550		4,550	7,279		7,279
Mortgage	253		253	1,155		1,155
Consumer	8,450		8,450	8,693		8,693
	33,291		33,291	37,640	1,500	39,140
Net loans charged-off:						
Commercial	46,630	7,013	53,643	75,623	1,278	76,901
Construction	(527)	7,483	6,956	505	(1,500)	(995)
Lease financing	265		265	401		401
Legacy	3,952		3,952	8,881		8,881
Mortgage	15,972	736	16,708	13,646	65	13,711
Consumer	29,499	9	29,508	36,119	2,478	38,597
	95,791	15,241	111,032	135,175	2,321	137,496
Net (write-down) recovery related to loans transferred to loans held-for-sale	(34)		(34)	(12,706)		(12,706)
Balance at end of period	$ 636,299	$ 124,873	$ 761,172	$ 692,500	$ 80,421	$ 772,921
Ratios:						
Annualized net charge-offs to average loans held-in-portfolio	1.87%		1.82%	2.64%		2.20%
Provision for loan losses to net charge-offs	0.87x		0.96x	1.11x		1.28x

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Table 33 - Allowance for Loan Losses and Selected Loan Losses Statistics - Year-to-date Activity

	Nine months ended September 30,					
	2012	2012	2012	2011	2011	2011
(Dollars in thousands)	Non-covered loans	Covered loans	Total	Non-covered loans	Covered loans	Total
Balance at beginning of period	$ 690,363	$ 124,945	$ 815,308	$ 793,225	$	$ 793,225
Provision for loan losses	247,846	78,284	326,130	306,177	89,735	395,912
	938,209	203,229	1,141,438	1,099,402	89,735	1,189,137
Losses:						
Commercial	187,519	45,767	233,286	241,409	3,248	244,657
Construction	4,442	22,934	27,376	14,901	4,345	19,246
Lease financing	3,418		3,418	4,553		4,553
Legacy	28,168		28,168	63,777		63,777
Mortgage	54,201	5,024	59,225	36,525	65	36,590
Consumer	122,903	4,631	127,534	147,607	3,156	150,763
	400,651	78,356	479,007	508,772	10,814	519,586
Recoveries:						
Commercial	46,810		46,810	40,997		40,997
Construction	4,193		4,193	11,064	1,500	12,564
Lease financing	2,991		2,991	2,341		2,341
Legacy	15,199		15,199	17,274		17,274
Mortgage	2,594		2,594	3,451		3,451
Consumer	26,988		26,988	25,642		25,642
	98,775		98,775	100,769	1,500	102,269
Net loans charged-off:						
Commercial	140,709	45,767	186,476	200,412	3,248	203,660
Construction	249	22,934	23,183	3,837	2,845	6,682
Lease financing	427		427	2,212		2,212
Legacy	12,969		12,969	46,503		46,503
Mortgage	51,607	5,024	56,631	33,074	65	33,139
Consumer	95,915	4,631	100,546	121,965	3,156	125,121
	301,876	78,356	380,232	408,003	9,314	417,317
Net (write-down) recovery related to loans transferred to loans held-for-sale	(34)		(34)	1,101		1,101
Balance at end of period	$ 636,299	$ 124,873	$ 761,172	$ 692,500	$ 80,421	$ 772,921
Ratios:						
Annualized net charge-offs to average loans held-in-portfolio	1.98%		2.07%	2.65%		2.21%
Provision for loan losses to net charge-offs	0.82x		0.86x	0.75x		0.95x

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.

Table 34 presents annualized net charge-offs to average loans held-in-portfolio (HIP) for the non-covered portfolio by loan category for the quarters and nine months ended September 30, 2012 and 2011.

Table 34 - Annualized Net Charge-offs to Average Loans Held-in-Portfolio (Non-Covered loans)

	Quarters ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Commercial	1.95%	3.03%	1.93%	2.62%
Construction	(0.84)	0.79	0.14	1.82
Lease financing	0.20	0.28	0.11	0.51
Legacy	3.23	4.62	3.11	7.22
Mortgage	1.11	1.04	1.23	0.89
Consumer	3.06	3.95	3.44	4.46
Total annualized net charge-offs to average loans held-in-portfolio	1.87%	2.64%	1.98%	2.65%

Note: Average loans held-in-portfolio excludes covered loans acquired in the Westernbank FDIC-assisted transaction which were recorded at fair value on date of acquisition, and thus, considered a credit discount component.

The Corporation s annualized net charge-offs to average non-covered loans held-in-portfolio ratio decreased 77 and 67 basis points, from 2.64% and 2.65% for the quarter and nine months ended September 30, 2011 to 1.87% and 1.98% for the same periods in 2012. Net charge-offs, excluding covered loans, for the quarter ended September 30, 2012 decreased by $39.4 million, compared with the quarter ended September 30, 2011. Net charge-offs, excluding covered loans, for the nine months ended September 30, 2012 decreased by $106.1 million, when compared with the same period in 2011. Net charge-offs reduction is prompted by continued improvements in credit performance in the BPPR and BPNA reportable segments.

Credit quality continues to improve as the Corporation addresses its non-performing loan balances and manages asset exposures, as well as stabilization in the general economic conditions. These actions include (i) the loan portfolio reclassifications to held-for-sale that took place in the fourth quarter of 2010, (ii) a lower volume of commercial and construction loans, mainly related to certain lending products exited by the Corporation at the BPNA reportable segment, and (iii) intensification of loss mitigation efforts.

Commercial loans

Non-covered non-performing commercial loans held-in-portfolio at September 30, 2012 decreased on a consolidated basis by $58 million, compared with December 31, 2011. The percentage of non-performing commercial non-covered loans held-in-portfolio to commercial non-covered loans held-in-portfolio decreased from 8.3% at December 31, 2011 to 8.0% at September 30, 2012.

Table 35 provides information on commercial non-performing loans and net charge-offs for the BPPR (excluding the Westernbank covered loan portfolio) and BPNA reportable segments.

Table 35 - Non-Performing Commercial Loans and Net Charge-offs (Excluding Covered Loans)

	BPPR		BPNA		Popular, Inc.	
(Dollars in thousands)	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
Non-performing commercial loans	$ 612,781	$ 631,171	$ 159,436	$ 198,921	$ 772,217	$ 830,092
Non-performing commercial loans to commercial loans HIP	9.91%	9.75%	4.63%	5.68%	8.02%	8.32%

	BPPR For the quarters ended		BPNA For the quarters ended		Popular, Inc. For the quarters ended	
(Dollars in thousands)	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Commercial loan net charge-offs	$ 37,019	$ 58,508	$ 9,611	$ 17,115	$ 46,630	$ 75,623
Commercial loan net charge-offs (annualized)to average commercial loans HIP	2.41%	3.67%	1.12%	1.89%	1.95%	3.03%

	BPPR For the nine months ended		BPNA For the nine months ended		Popular, Inc. For the nine months ended	
(Dollars in thousands)	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Commercial loan net charge-offs	$ 103,101	$ 146,960	37,608	$ 53,452	$ 140,709	$ 200,412
Commercial loan net charge-offs (annualized)to average commercial loans HIP	2.19%	3.00%	1.46%	1.93%	1.93%	2.61%

Commercial non-covered non-performing loans held-in-portfolio in the BPPR reportable segment decreased by $18 million from December 31, 2011 to September 30, 2012. This decline reflected problem loan resolutions and net charge-off activity, partially offset by an increase of $28 million, largely related to four commercial real estate relationships placed on nonaccrual status during the current quarter. Although there was some quarter-to-quarter volatility, overall improving trends in the commercial non-performing levels continued.

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The commercial non-performing loans held-in-portfolio in the BPNA reportable segment decreased by $39 million from December 31, 2011 to September 30, 2012, as a result of problem loan resolutions, loan sales, and a reduction in the inflows of non-performing loans. This reduction at the BPNA reportable segment represents the continuation of an improving trend evident over the past several quarters.

For the quarter ended September 30, 2012, inflows of commercial non-performing loans held-in-portfolio at the BPPR reportable segment amounted to $96 million, a decrease of $112 million, when compared to the additions for the third quarter of 2011. Additions to the commercial non-performing loans held-in-portfolio at the BPNA reportable segment amounted to $33 million, a decrease of $14 million, compared to the inflows for the third quarter of 2011.

Tables 36 and 37 present the changes in non-performing commercial non-covered loans held in-portfolio for the quarter and nine months ended September 30, 2012 and 2011 for the BPPR and BPNA reportable segments.

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

	For the quarter ended September 30, 2012		For the nine months ended September 30, 2012	
(Dollars in thousands)	BPPR	BPNA	BPPR	BPNA
Beginning Balance	$ 591,792	$ 176,148	$ 631,171	$ 198,921
Plus:				
New non-performing loans	95,836	32,395	246,245	94,320
Advances on existing non-performing loans		525		897
Loans transferred from held-for-sale				4,933
Other	1,139		1,139	
Less:				
Non-performing loans transferred to OREO	(4,217)	(10,558)	(19,741)	(37,625)
Non-performing loans charged-off	(43,711)	(9,261)	(118,333)	(39,767)
Loans returned to accrual status / loan collections	(28,058)	(25,561)	(127,700)	(57,224)
Loans transferred to held-for-sale		(4,252)		(5,019)
Ending balance NPLs	$ 612,781	$ 159,436	$ 612,781	$ 159,436

Table 37 - Activity in Non-Performing Commercial Loans Held-in-Portfolio (Excluding Covered Loans)

	For the quarter ended September 30, 2011		For the nine months ended September 30, 2011	
(Dollars in thousands)	BPPR	BPNA	BPPR	BPNA
Beginning Balance	$ 557,421	$ 182,351	$ 485,469	$ 179,993
Plus:				
New non-performing loans	197,365	46,495	430,957	130,193
Advances on existing non-performing loans	10,037	226	10,037	244
Less:				
Non-performing loans transferred to OREO	(2,171)	(3,024)	(7,680)	(12,682)
Non-performing loans charged-off	(58,510)	(24,383)	(131,921)	(66,306)
Loans returned to accrual status / loan collections	(51,205)	(21,036)	(133,925)	(50,813)
Ending balance NPLs	$ 652,937	$ 180,629	$ 652,937	$ 180,629

In the non-covered loans held-in-portfolio, there were 3 commercial loan relationships greater than $10 million in non-accrual status with an aggregate outstanding balance of approximately $34 million at September 30, 2012, compared with 6 commercial loan relationships with an outstanding balance of approximately $113 million at December 31, 2011.

The Corporation s commercial loan net charge-offs, excluding net charge-offs for covered loans, for the quarter ended September 30, 2012, decreased by $29.0 million, when compared with the quarter ended September 30, 2011. Commercial loans annualized net charge-offs to average non-covered loans held-in-portfolio decreased from 3.03% for the quarter ended September 30, 2011 to 1.95% for the quarter ended

September

30, 2012. The decrease was primarily driven by reductions in the BPPR and BPNA reportable segments of $21.5 million and $7.5 million, respectively. Commercial net charge-offs continued to show favorable trends mostly attributed to improvements in credit quality and stabilization in the economic conditions. For the quarter ended September 30, 2012, the charge-offs associated with collateral dependent commercial loans amounted to approximately $14.7 million in the BPPR reportable segment and $3.3 million in the BPNA reportable segment. Management identified commercial loans considered impaired and charged-off specific reserves based on the value of the collateral.

The allowance for loan losses corresponding to commercial loans held-in-portfolio, excluding covered loans, amounted to $286 million or 2.97% of that portfolio at September 30, 2012, compared with $369 million or 3.70% at December 31, 2011. The ratio of allowance to non-performing loans held-in portfolio in the commercial loan category was 37.04% at September 30, 2012, compared with 44.50% at December 31, 2011.

The allowance for loan losses of the commercial loan portfolio in the BPPR reportable segment, excluding the allowance for covered loans, totaled $201 million or 3.26% of non-covered commercial loans held-in-portfolio at September 30, 2012, compared with $255 million or 3.95% at December 31, 2011. At the BPNA reportable segment, the allowance for loan losses of the commercial loan portfolio totaled $85 million or 2.46% of commercial loans held-in-portfolio at September 30, 2012, compared with $114 million or 3.25% at December 31, 2011. The allowance for loan losses for the commercial loans held-in-portfolio decreased, as 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 September 30, 2012, of which $2.9 billion was secured with owner occupied properties, compared with $6.7 billion and $3.1 billion, respectively, at December 31, 2011. CRE non-performing loans, excluding covered loans amounted to $611 million at September 30, 2012, compared with $636 million at December 31, 2011. The CRE non-performing loans ratios for the Corporation s Puerto Rico and U.S. mainland operations were 12.82% and 5.45%, respectively, at September 30, 2012, compared with 12.58% and 5.91%, respectively, at December 31, 2011.

Commercial and industrial loans held-in-portfolio modified in a TDR often involve temporary interest-only payments, term extensions, and converting evergreen revolving lines of credit to long term loans. Commercial real estate loans held-in-portfolio modified in a TDR often involve reducing the interest rate for a limited period of time or the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or reductions in the payment plan. At September 30, 2012, the Corporation s commercial loans held-in-portfolio, excluding covered loans, included a total of $203 million of loan modifications for the BPPR reportable segment and $15 million for the BPNA reportable segment, which were considered TDRs since they involved granting a concession to borrowers under financial difficulties. The outstanding commitments to lend additional funds to debtors owing loans whose terms have been modified in troubled debt restructurings amounted to $3 million in the BPPR reportable segment and no commitments outstanding in the BPNA reportable segment at September 30, 2012. Of these commercial loans in the BPPR and BPNA reportable segments, $147 million and $15 million, respectively, were in non-performing status at September 30, 2012, compared with $161 million and $11 million at December 31, 2011. Commercial loans in the BPPR and BPNA reportable segments that have been modified as part of loss mitigation efforts were evaluated for impairment, resulting in a specific reserve of $3 million and $1 million, respectively, at September 30, 2012.

Construction loans

As shown in Table 31, non-performing construction loans held-in-portfolio, excluding covered loans, decreased by $46 million from December 31, 2011 to September 30, 2012, with declines of $16 million and $30 million in the BPPR and BPNA reportable segments, respectively. This decrease was principally driven by loan resolutions, including payments and payoffs, and minimal inflows of new construction non-performing loans, reflecting improvements in the level of problem loans. The ratio of non-performing construction loans to construction loans held-in-portfolio, excluding covered loans, decreased from 40.1% at December 31, 2011 to 19.3% at September 30, 2012.

For the quarter ended September 30, 2012, additions to the construction non-performing loans held in portfolio at the BPPR reportable segment amounted to $4 million, a decrease of $10.4 million, when compared with the additions for the quarter ended September 30, 2011. There were minimal additions to construction loans held-in-portfolio to non-performing status at the BPNA reportable segment during the nine months ended September 30, 2012. The decline in non-performing loans inflow is attributable to a lower level of problem loans remaining in the portfolio, principally prompted by a significant portion of the BPPR reportable segment construction non-covered loans being classified as held-for-sale and the downsizing of the construction loan portfolio at the BPNA reportable segment.

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Tables 38 and 39 present the changes in non-performing construction loans held in-portfolio for the quarter and nine months ended September 30, 2012 and 2011 for the BPPR, excluding covered loans, and BPNA reportable segments.

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

	For the quarter ended September 30, 2012		For the nine months ended September 30, 2012	
(Dollars in thousands)	BPPR	BPNA	BPPR	BPNA
Beginning Balance	$ 55,534	$ 12,004	$ 53,859	$ 42,427
Plus:				
New non-performing loans	3,917		11,122	
Advances on existing non-performing loans		136	145	465
Less:				
Non-performing loans transferred to OREO	(280)		(280)	
Non-performing loans charged-off	(1,366)		(2,737)	(1,380)
Loans returned to accrual status / loan collections	(18,873)		(23,177)	(19,040)
Loans transferred to held-for-sale				(10,332)
Other	(1,139)		(1,139)	
Ending balance NPLs	$ 37,793	$ 12,140	$ 37,793	$ 12,140

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

	For the quarter ended September 30, 2011		For the nine months ended September 30, 2011	
(Dollars in thousands)	BPPR	BPNA	BPPR	BPNA
Beginning Balance	$ 58,691	$ 60,131	$ 64,678	$ 68,218
Plus:				
New non-performing loans	14,324	5,715	31,262	13,173
Advances on existing non-performing loans	48	25	205	162
Less:				
Non-performing loans transferred to OREO			(4,924)	(990)
Non-performing loans charged-off	(563)	(1,535)	(10,256)	(3,169)
Loans returned to accrual status / loan collections	(7,529)	(6,463)	(15,994)	(19,521)
Ending balance NPLs	$ 64,971	$ 57,873	$ 64,971	$ 57,873

In the non-covered loans held-in-portfolio, there was one construction loan relationship greater than $10 million in non-performing status with an aggregate outstanding balance of approximately $11 million at September 30, 2012, compared with 3 construction loan relationships with an aggregate outstanding principal balance of $38 million at December 31, 2011. Although the portfolio balance of construction loans held-in-portfolio has decreased considerably, the construction loan portfolio is considered one of the high-risk portfolios of the Corporation as it continues to be impacted by current economic and real estate market conditions, particularly in Puerto Rico.

Construction loan net charge-offs, excluding covered loans, for the quarter ended September 30, 2012, decreased by $1.0 million when compared with the quarter ended September 30, 2011. Construction loan net charge-offs continue at low levels driven by lower balance of problem loans as a result of the steps taken by the Corporation to mitigate the overall credit risk. For the quarter ended September 30, 2012, the charge-offs associated with collateral dependent construction loans amounted to $2.7 million in the BPPR reportable segment and none in the BPNA reportable segments. Management identified construction loans considered impaired and charged-off specific reserves based on the value of the collateral.

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Table 40 provides information on construction non-performing loans and net charge-offs for the BPPR, excluding the Westernbank covered loan portfolio, and BPNA reportable segments.

Table 40 - Non-Performing Construction Loans and Net Charge-offs (Excluding Covered Loans)

	BPPR		BPNA		Popular, Inc.	
(Dollars in thousands)	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
Non-performing construction loans	$ 37,793	$ 53,859	$ 12,140	$ 42,427	$ 49,933	$ 96,286
Non-performing construction loans to construction loans HIP	17.93%	33.47%	25.45%	53.71%	19.32%	40.13%

	BPPR For the quarters ended		BPNA For the quarters ended		Popular, Inc. For the quarters ended	
(Dollars in thousands)	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Construction loan net (recoveries) charge-offs	$ (527)	$ (81)	$	$ 586	$ (527)	$ 505
Construction loan net (recoveries) charge-offs (annualized) to average construction loans HIP	(1.05)%	(0.21)%	%	2.42%	(0.84)%	0.79%

	BPPR For the nine months ended		BPNA For the nine months ended		Popular, Inc. For the nine months ended	
(Dollars in thousands)	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Construction loan net charge-offs	$ 87	$ 1,996	$ 162	$ 1,841	$ 249	$ 3,837
Construction loan net charge-offs (annualized) to average construction loans HIP	0.06%	1.77%	0.39%	1.89%	0.14%	1.82%

The allowance for loan losses for construction loans held-in-portfolio, excluding covered loans, represented 3.53% of that portfolio at both September 30, 2012 and December 31, 2011. The ratio of allowance to non-performing loans held-in-portfolio in the construction loans category was 18.30% at September 30, 2012, compared with 8.81% at December 31, 2011. The increase in the ratio was mostly driven by a lower level of non-performing loans due to the resolution of certain large impaired construction loans for which no allowance for loan losses was required at December 31, 2011.

The allowance for loan losses corresponding to the construction loan portfolio for the BPPR reportable segment, excluding the allowance for covered loans, totaled $7 million or 3.51% of non covered construction loans held-in-portfolio at September 30, 2012, compared with $6 million or 3.63% at December 31, 2011. At the BPNA reportable segment, the allowance for loan losses corresponding to the construction loan portfolio totaled $2 million or 3.64% of construction loans held-in-portfolio at September 30, 2012, compared with $3 million or 3.33% at December 31, 2011.

The construction loans held-in-portfolio, excluding covered loans, included $7 million in TDRs for the BPPR reportable segment and $12 million for the BPNA reportable segment at September 30, 2012. Of these construction TDRs in the BPPR and BPNA reportable segments, $4 million and $12 million, respectively, were in non-performing status at September 30, 2012, compared with $5 million and $23 million at December 31, 2011. The outstanding commitments to lend additional funds to debtors owing loans whose terms have been modified in troubled debt restructurings amounted to $21 thousand in the BPPR reportable segment and none in the BPNA reportable segment at September 30, 2012. These construction TDR loans from the BPPR and BPNA reportable segments were evaluated for impairment, resulting in a specific reserve of $191 thousand for the BPPR reportable segment and none for the BPNA reportable segment at September 30, 2012.

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 reportable segment.

Legacy non-performing loans held-in-portfolio decreased by $27 million from December 31, 2011 to September 30, 2012, driven by the sale of certain construction legacy loans, problem loan resolutions, charge-off activity, and a reduction in the inflows to non-performing status. The percentage of non-performing legacy loans held-in-portfolio to legacy loans held-in-portfolio decreased from 11.67% at December 31, 2011 to 10.46% at September 30, 2012.

For the quarter ended September 30, 2012, additions to legacy loans in non-performing status amounted to $9 million, a decrease of $15 million compared with the quarter ended September 30, 2011. The decrease in the inflows of non-performing legacy loans was principally driven by lower loan portfolio balance and problem loan resolutions, coupled with credit stabilization.

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Tables 41 and 42 present the changes in non-performing legacy loans held in-portfolio for the quarter and nine months ended September 30, 2012.

Table 41 - Activity in Non-Performing Legacy Loans Held-in-Portfolio

(In thousands)	For the quarter ended September 30, 2012 BPNA	For the nine months ended September 30, 2012 BPNA
Beginning Balance	$ 54,730	$ 75,660
Plus:		
New non-performing loans	9,011	34,739
Advances on existing non-performing loans		17
Less:		
Non-performing loans transferred to OREO		(3,435)
Non-performing loans charged-off	(7,900)	(24,660)
Loans returned to accrual status / loan collections	(4,405)	(15,643)
Loans transferred to held-for-sale	(2,701)	(17,943)
Ending balance NPLs	$ 48,735	$ 48,735

Table 42 - Activity in Non-Performing Legacy Loans Held-in-Portfolio

(Dollars in thousands)	For the quarter ended September 30, 2011 BPNA	For the nine months ended September 30, 2011 BPNA
Beginning Balance	$ 124,480	$ 165,484
Plus:		
New non-performing loans	24,429	68,376
Advances on existing non-performing loans	76	1,671
Less:		
Non-performing loans transferred to OREO	(4,404)	(7,623)
Non-performing loans charged-off	(15,524)	(61,661)
Loans returned to accrual status / loan collections	(24,743)	(61,933)
Ending balance NPLs	$ 104,314	$ 104,314

In the loans held-in-portfolio, there were no legacy loan relationship greater than $10 million in non-accrual status at September 30, 2012, compared with one loan relationship with an aggregate outstanding balance of $16 million at December 31, 2011.

For the quarter ended September 30, 2012, legacy net charge-offs decreased by $4.9 million when compared with the quarter ended September 30, 2011, which consisted of lower commercial net charge-offs of $4.6 million. Legacy loans annualized net charge-offs to average non-covered loans held-in-portfolio decreased from 4.62% for the quarter ended September 30, 2011 to 3.23% for the quarter ended September 30, 2012. The improvement in net charge-offs was mainly driven by the lower levels of problem loans remaining in the portfolio and by the stabilization of the U.S. economic environment. For the quarter ended September 30, 2012, the charge-offs associated with collateral dependent legacy loans amounted to approximately $0.5 million.

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Table 43 provides information on legacy non-performing loans and net charge-offs.

Table 43 - Non-Performing Legacy Loans and Net Charge-offs

	BPNA	
(Dollars in thousands)	September 30, 2012	December 31, 2011
Non-performing legacy loans	$ 48,735	$ 75,660
Non-performing legacy loans to legacy loans HIP	10.46%	11.67%

	BPNA For the quarters ended	
(Dollars in thousands)	September 30, 2012	September 30, 2011
Legacy loan net charge-offs	$ 3,952	$ 8,881
Legacy loan net charge-offs (annualized) to average legacy loans HIP	3.23%	4.62%

	BPNA For the nine months ended	
(Dollars in thousands)	September 30, 2012	September 30, 2011
Legacy loan net charge-offs	$ 12,969	46,503
Legacy loan net charge-offs (annualized) to average legacy loans HIP	3.11%	7.22%

The legacy loan portfolio totaled $466 million at September 30, 2012, compared with $648 million at December 31, 2011. The allowance for loan losses for the legacy loans held-in-portfolio amounted to $40 million or 8.56% of that portfolio at September 30, 2012, compared with $46 million or 7.13% at December 31, 2011. The ratio of allowance to non-performing loans held-in portfolio in the legacy loan category was 81.81% at September 30, 2012, compared with 61.10% at December 31, 2011. The increase in the ratio was mostly driven by the resolution of certain impaired construction loans for which no allowance for loan losses was required at December 31, 2011.

At September 30, 2012, the Corporation s legacy loans held-in-portfolio included a total of $9 million of loan modifications, compared with $27 million at December 31, 2011. These loans were in non-performing status at such dates. There were no commitments outstanding for these legacy loan TDRs at September 30, 2012. The legacy loan TDRs were evaluated for impairment requiring no specific reserves at September 30, 2012.

Mortgage loans

Non-performing mortgage loans held-in-portfolio decreased by $55 million from December 31, 2011 to September 30, 2012, primarily as a result of reductions in the BPPR and BPNA reportable segments of $51 million and $4 million, respectively. The decrease in the BPPR reportable segment was principally due to a higher level of residential mortgage TDRs returning to accrual status after complying with six months of satisfactory payment history, a slowdown in the inflows of non-performing loans, and charge-offs.

For the quarter ended September 30, 2012, additions to mortgage non-performing loans at the BPPR and BPNA reportable segments amounted to $157 million and $10 million. The BPPR reportable segment reflected a decrease of $18 million in the inflows to non-performing status, when compared with the third quarter of 2011. Although the state of the economy in Puerto Rico appears to be gradually improving and certain improving credit trends have been noted, the residential mortgage portfolio at the BPPR reportable segment continues to be impacted by the economic conditions, evidenced by high levels of non-performing mortgage loans.

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Tables 44 and 45 present the activity in non-performing mortgage loans held-in-portfolio for the BPPR and BPNA segments for the quarter and nine months ended September 30, 2012.

Table 44 - Activity in Non-Performing Mortgage Loans Held-in-Portfolio (Excluding Covered Loans)

	For the quarter ended September 30, 2012		For the nine months ended September 30, 2012	
(Dollars in thousands)	BPPR	BPNA	BPPR	BPNA
Beginning Balance	$ 600,082	$ 32,817	$ 649,279	$ 37,223
Plus:				
New non-performing loans	157,114	9,457	509,107	22,189
Less:				
Non-performing loans transferred to OREO	(19,522)	(1,858)	(60,518)	(6,029)
Non-performing loans charged-off	(12,811)	(2,541)	(53,813)	(8,165)
Loans returned to accrual status / loan collections	(126,340)	(4,346)	(445,532)	(11,689)
Ending balance NPLs	$ 598,523	$ 33,529	$ 598,523	$ 33,529

Table 45 - Activity in Non-Performing Mortgage loans Held-in-Portfolio (Excluding Covered Loans)

	For the quarter ended September 30, 2011		For the nine months ended September 30, 2011	
(Dollars in thousands)	BPPR	BPNA	BPPR	BPNA
Beginning Balance	$ 555,456	$ 32,531	$ 518,446	$ 23,586
Plus:				
New non-performing loans	174,958	10,139	468,261	31,749
Less:				
Non-performing loans transferred to OREO	(20,337)	(85)	(49,762)	(162)
Non-performing loans charged-off	(12,844)	(3,190)	(24,881)	(5,199)
Loans returned to accrual status / loan collections	(116,670)	(2,235)	(331,501)	(12,814)
Ending balance NPLs	$ 580,563	$ 37,160	$ 580,563	$ 37,160

Mortgage loan net charge-offs, excluding covered loans, for the quarter ended September 30, 2012, increased by $2.3 million, when compared with the quarter ended September 30, 2011. Mortgage loans annualized net charge-offs to average non-covered loans held-in-portfolio increased from 1.04% for the quarter ended September 30, 2011 to 1.11% for the quarter ended September 30, 2012. The increase in the mortgage loans net charge-off ratio was due to higher losses in the BPPR segment, principally related to the implementation of a revised charge-off policy during the first quarter of 2012.

Mortgage loan net charge-offs, excluding covered loans, at the BPPR reportable segment amounted to $12.4 million for the quarter ended September 30, 2012, an increase of $4.9 million, when compared with same period in 2011. As mentioned above, this increase in the mortgage loan net charge-offs was principally related to the implementation of a revised charge-off policy during the first quarter of 2012. The Corporation enhanced its charge-off policy for the residential mortgage loan portfolio by including historical losses on recent other real estate owned (OREO) sales to determine the net realizable value to assess charge-offs once a loan becomes 180 days past due; previously, this was only done once the loan was foreclosed.

The net charge-offs for BPNA s mortgage loan portfolio amounted to approximately $3.5 million for the quarter ended September 30, 2012, decreasing by $2.5 million when compared with the same quarter in 2011. The mortgage loan portfolio in the BPNA reportable segment maintains low levels of net charge-offs, since most of the non-conventional mortgage loans in non-performing status were classified as held-for-sale and adjusted to fair value in December 2010, and subsequently sold during the first quarter of 2011. The net charge-offs for BPNA s non-conventional mortgage loan portfolio amounted to approximately $2.5 million, or 2.11% of net charge-offs to average non-conventional mortgage loans held-in-portfolio for the quarter ended September 30, 2012, compared with $3.1 million, or 2.52% of average loans for the third quarter of 2011. Mortgage loan net charge-offs were due to the normal flow of loans into late stage delinquency.

The allowance for loan losses for mortgage loans held-in-portfolio, excluding covered loans, amounted to $155 million or 2.57% of that portfolio at September 30, 2012, compared with $102 million or 1.85% at December 31, 2011. The allowance for loan losses corresponding to the mortgage loan portfolio for the BPPR reportable segment totaled $125 million or 2.54% of mortgage loans held-in-portfolio, excluding covered loans, at September 30, 2012 compared with $72 million or 1.54%, respectively, at December 31, 2011. This increase in reserve requirements is principally driven by a higher loss trend and higher specific reserves for loans restructured under loss mitigation programs. At the BPNA reportable segment, the allowance for loan losses corresponding to the mortgage loan portfolio totaled $30 million or 2.70% of mortgage loans held-in-portfolio at September 30, 2012, compared with $30 million or 3.61% at December 31, 2011. The allowance for loan losses for BPNA s non-conventional mortgage loan portfolio amounted to $23 million, or 5.09%, of that particular loan portfolio, compared with $24 million or 4.81% at December 31, 2011. The Corporation is no longer originating non-conventional mortgage loans at BPNA.

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Table 46 provides information on non-performing mortgage loans and net charge-offs for the BPPR, excluding covered loans, and BPNA reportable segments.

Table 46 - Non-Performing Mortgage Loans and Net Charge-offs (Excluding Covered Loans)

	BPPR		BPNA		Popular, Inc.	
(Dollars in thousands)	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
Non-performing mortgage loans	$ 598,523	$ 649,279	$ 33,529	$ 37,223	$ 632,052	$ 686,502
Non-performing mortgage loans to mortgage loans HIP	12.17%	13.85%	3.04%	4.49%	10.49%	12.44%

	BPPR For the quarters ended		BPNA For the quarters ended		Popular, Inc. For the quarters ended	
(Dollars in thousands)	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Mortgage loan net charge-offs	$ 12,431	$ 7,560	$ 3,541	$ 6,086	$ 15,972	$ 13,646
Mortgage loan net charge-offs (annualized) to average mortgage loans HIP	1.06%	0.68%	1.33%	2.90%	1.11%	1.04%

	BPPR For the nine months ended		BPNA For the nine months ended		Popular, Inc. For the nine months ended	
(Dollars in thousands)	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Mortgage loan net charge-offs	$ 39,467	$ 22,388	12,140	$ 10,686	$ 51,607	$ 33,074
Mortgage loan net charge-offs (annualized) to average mortgage loans HIP	1.14%	0.73%	1.69%	1.67%	1.23%	0.89%

Residential mortgage loans modified in a TDR are primarily comprised of loans where monthly payments are lowered to accommodate the borrowers financial needs for a period of time, normally five to ten years, depending on the borrower s payment capacity. After this period ends, the borrower reverts back to paying principal and interest per the original terms with the maturity date adjusted accordingly. At September 30, 2012, the mortgage loan TDRs for the BPPR and BPNA reportable segments amounted to $559 million (including $132 million guaranteed by U.S. sponsored entities) and $54 million, respectively, compared with $421 million and $50 million at December 31, 2011. Mortgage non-performing TDR s in the BPPR reportable segment amounted to $253 million, or 45.3% of total mortgage TDR s, compared with $210 million, or 49.9% at December 31, 2011. In the BPNA reportable segment, mortgage non-performing TDR s amounted to $9 million, or 17.0% of that portfolio, compared with $9 million, or 18.6% at December 31, 2011. These mortgage loan TDRs were evaluated for impairment resulting in a specific allowance for loan losses of $48 million and $15 million for the BPPR and BPNA reportable segments, respectively, at September 30, 2012, compared with $15 million and $14 million, respectively, at December 31, 2011.

Consumer loans

Non-performing consumer loans, excluding covered loans, amounted to $43 million at September 30, 2012, decreasing by $1 million from December 31, 2011. Additions to consumer non-performing loans for the quarter ended September 30, 2012 amounted to $29 million in the BPPR reportable segment, increasing by $2 million, compared to the additions of the third quarter of 2011. The additions to consumer non-performing loans in the BPNA reportable segment amounted to $10 million, same level of inflows as in the third quarter of 2011.

The Corporation s annualized consumer loan net charge-offs as a percentage of average consumer loans held-in-portfolio decreased to 3.06% for the quarter ended September 30, 2012 from 3.95% for the same quarter of the prior year, as delinquency metrics improved across all consumer loan types in the BPPR and BPNA reportable segments.

The allowance for loan losses for the consumer portfolio, excluding covered loans, amounted to $144 million, or 3.75%, of that portfolio at September 30, 2012, compared to $159 million, or 4.34%, at December 31, 2011. The allowance for loan losses of the non-covered consumer loan portfolio in the BPPR reportable segment totaled $109 million, or 3.41%, of that portfolio at September

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30, 2012, compared with $115 million, or 3.88%, at December 31, 2011. At the BPNA reportable segment, the allowance for loan losses of the consumer loan portfolio totaled $35 million, or 5.42%, of consumer loans at September 30, 2012, compared with $44 million, or 6.28%, at December 31, 2011. The decrease in the allowance for loan losses for the consumer loan portfolio was principally driven by lower loss trends, reflective of continued improvements in credit quality.

The consumer loans held-in-portfolio, excluding covered loans, included $136 million in TDRs for the BPPR reportable segment and $3 million for the BPNA reportable segment, which were considered TDRs at September 30, 2012. There were $4 million in consumer TDR loans in non-performing status for the BPPR reportable segment and $1 million at the BPNA reportable segment at September 30, 2012.

Table 47 provides information on consumer non-performing loans held-in-portfolio and net charge-offs for the BPPR, excluding covered loans, and BPNA reportable segments.

Table 47 - Non-Performing Consumer Loans and Net Charge-offs (Excluding Covered Loans)

	BPPR		BPNA		Popular, Inc.	
(Dollars in thousands)	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
Non-performing consumer loans	$ 30,092	$ 31,291	$ 12,634	$ 12,377	$ 42,726	$ 43,668
Non-performing consumer loans to commercial loans HIP	0.94%	1.05%	(1.95)%	1.76%	1.11%	1.19%

	BPPR For the quarters ended		BPNA For the quarters ended		Popular, Inc. For the quarters ended	
(Dollars in thousands)	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Consumer loan net charge-offs	$ 21,853	$ 23,278	$ 7,646	$ 12,841	$ 29,499	$ 36,119
Consumer loan net charge-offs (annualized) to average commercial loans HIP	2.74%	3.19%	4.64%	6.96%	3.06%	3.95%

	BPPR For the nine months ended		BPNA For the nine months ended		Popular, Inc. For the nine months ended	
(Dollars in thousands)	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Consumer loan net charge-offs	$ 69,040	$ 79,055	$ 26,875	$ 42,910	$ 95,915	$ 121,965
Consumer loan net charge-offs (annualized) to average commercial loans HIP, excluding loans	3.03%	3.66%	5.29%	7.48%	3.44%	4.46%

Combined net charge-offs for E-LOAN s home equity lines of credit and closed-end second mortgages amounted to approximately $4.6 million, or 5.56%, of those particular average loan portfolios for the quarter ended September 30, 2012, compared with $8.1 million, or 8.28%, respectively, for the quarter ended September 30, 2011. With the downsizing of E-LOAN, this subsidiary ceased originating these types of loans in 2008. Home equity lending includes both home equity loans and lines of credit. This type of lending, which is secured by a first or second mortgage on the borrower s residence, allows customers to borrow against the equity in their home. Real estate market values at the time the loan or line is granted directly affect the amount of credit extended and, in addition, changes in these values impact the severity of losses. E-LOAN s portfolio of home equity lines of credit and closed-end second mortgages outstanding at September 30, 2012 totaled $325 million with a related allowance for loan losses of $20 million, or 6.30%, of that particular portfolio. E-LOAN s portfolio of home equity lines of credit and closed-end second mortgages outstanding at December 31, 2011 totaled $365 million with a related allowance for loan losses of $24 million, representing 6.56% of that particular portfolio. At September 30, 2012, home equity lines of credit and closed-end second mortgages in which E-LOAN holds both the first and second lien amounted to $270 thousand and $395 thousand, respectively, representing 0.04% and 0.06%, respectively, of the consumer loan portfolio of the BPNA reportable segment. At September 30, 2012, 47% are paying the minimum amount due on the home equity lines of credit. At September 30, 2012, all closed-end second mortgages in which E-LOAN holds the first lien mortgage were in performing status.

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Troubled debt restructurings

Tables 48 and 49 present the non-covered loans classified as TDRs according to their accruing status at September 30, 2012 and December 31, 2011.

Table 48 - TDRs Non-Covered Loans

	September 30, 2012		
(In thousands)	Accruing	Non-Accruing	Total
Commercial	$ 55,651	$ 161,688	$ 217,339
Construction	2,992	16,289	19,281
Legacy		9,127	9,127
Mortgage	350,846	262,307	613,153
Leases	4,933		4,933
Consumer	133,879	4,594	138,473
	$ 548,301	$ 454,005	$ 1,002,306

Table 49 - TDRs - Non-Covered Loans

	December 31, 2011		
(In thousands)	Accruing	Non-Accruing	Total
Commercial	$ 36,848	$ 171,520	$ 208,368
Construction		28,024	28,024
Legacy		26,906	26,906
Mortgage	252,277	218,715	470,992
Leases	3,085	3,118	6,203
Consumer	134,409	5,848	140,257
	$ 426,619	$ 454,131	$ 880,750

Table 50 presents the covered loans classified as TDRs according to their accruing status at September 30, 2012.

Table 50 -TDRs - Covered Loans

	September 30, 2012		
(In thousands)	Accruing	Non-Accruing	Total
Commercial	$ 46,304	$ 11,746	$ 58,050
Construction	803	478	1,281
Mortgage	150	220	370
Consumer	604	146	750
	$ 47,861	$ 12,590	$ 60,451

The Corporation s non-covered TDR loans totaled $1.0 billion at September 30, 2012, an increase of $122 million, or 14%, from December 31, 2011, mainly due to the intensification of loss mitigation efforts on the mortgage loan portfolio in the BPPR reportable segment. Mortgage TDRs in the BPPR reportable segment increased by $140 million, or 33% at September 30, 2012 from December 31, 2011, of which $95 million are 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 performed in the past twelve months.

Other real estate

Other real estate represents real estate property acquired through foreclosure. Other real estate not covered under loss sharing agreements with the FDIC increased by $80 million from December 31, 2011 to September 30, 2012, driven by an increase in the BPPR and BPNA reportable segment of $61 million and $19 million, respectively. The increase is due to the economic conditions which have impacted both residential and commercial real estate properties. Defaulted loans have increased, and these loans move through the foreclosure process to the other real estate classification. The combination of increased flow of defaulted loans from the loan portfolio to other real estate owned and the slowdown of sales of these properties has resulted in an increase in the number of other real estate units on hand. Refer to Table 16 of this MD&A for the activity of the other real estate assets of the Corporation.

Other real estate covered under loss sharing agreements with the FDIC, comprised principally of repossessed commercial real estate properties, amounted to $125 million at September 30, 2012, compared with $109 million at December 31, 2011. The increase was principally from repossessed commercial real estate properties. Generally, 80% of the write-downs taken on these properties based on appraisals or losses on the sale are covered under the loss sharing agreements.

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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 marked conditions. The adjustments applied are based upon internal information like other appraisals for the type of properties and loss severity information that can provide historical trends in the real estate market, and may change from time to time based on market conditions.

For commercial and construction other real estate properties at the BPPR reportable segment, depending on the type of property and/or the age of the appraisal, downward adjustments currently may range between 10% to 45%, including estimated cost to sell. For commercial and construction properties at the BPNA reportable segment, the most typically applied collateral discount rate currently ranges from 30% 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 bank relative to the most recent appraised value of the properties. However, additional haircuts can be applied depending upon the age of appraisal, the region and the condition of the property or project.

In the case of the BPPR reportable segment, appraisals and BPOs of the subject residential properties are currently subject to downward adjustments of up to approximately 22%, including cost to sell of 5%. In the case of the U.S. mainland residential properties, the downward adjustment approximated up to 30%, including cost to sell of 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. As explained in the Critical Accounting Policies / Estimates section of this MD&A, during the first quarter of 2012, the Corporation revised the estimation process for evaluating the adequacy of its allowance for loan losses for the Corporation s commercial and construction loan portfolios by (i) establishing a more granular stratification of the commercial and construction loan portfolios to enhance the homogeneity of the loan classes and (ii) increasing the look-back period for assessing the recent trends applicable to the determination of commercial and construction loan net charge-offs from 6 months to 12 months.

Tables 51 and 52 set forth information concerning the composition of the Corporation s allowance for loan losses (ALLL) at September 30, 2012 and December 31, 2011 by loan category and by whether the allowance and related provisions were calculated individually pursuant to the requirements for specific impairment or through a general valuation allowance.

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Table 51 Composition of ALLL

	September 30, 2012						
(Dollars in thousands)	Commercial	Construction	Legacy [3]	Leasing	Mortgage	Consumer	Total[2]
Specific ALLL	$ 22,239	$ 191	$	$ 978	$ 62,823	$ 21,193	$ 107,424
Impaired loans [1]	$ 497,224	$ 47,897	$ 24,276	$ 4,933	$ 560,441	$ 135,204	$ 1,269,975
Specific ALLL to impaired loans [1]	4.47%	0.40%	%	19.83%	11.21%	15.67%	8.46%
General ALLL	$ 263,769	$ 8,945	$ 39,871	$ 1,603	$ 92,009	$ 122,678	$ 528,875
Loans held-in-portfolio, excluding impaired loans [1]	$ 9,131,407	$ 210,556	$ 441,572	$ 533,081	$ 5,461,981	$ 3,705,281	$ 19,483,878
General ALLL to loans held-in-portfolio, excluding impaired loans [1]	2.89%	4.25%	9.03%	0.30%	1.68%	3.31%	2.71%
Total ALLL	$ 286,008	$ 9,136	$ 39,871	$ 2,581	$ 154,832	$ 143,871	$ 636,299
Total non-covered loans held-in-portfolio [1]	$ 9,628,631	$ 258,453	$ 465,848	$ 538,014	$ 6,022,422	$ 3,840,485	$ 20,753,853
ALLL to loans held-in-portfolio [1]	2.97%	3.53%	8.56%	0.48%	2.57%	3.75%	3.07%

[1] Excludes covered loans acquired on the Westernbank FDIC-assisted transaction.
[2] Excludes covered loans acquired on the Westernbank FDIC-assisted transaction. At September 30, 2012, the general allowance on the covered loans amounted to $110 million while the specific reserve amounted to $15 million.
[3] The legacy portfolio is comprised of commercial loans, construction loans and lease financings related to certain lending products exited by the Corporation as part of restructuring efforts carried out in prior years at the BPNA reportable segment.

Table 52 Composition of ALLL

	December 31, 2011						
(Dollars in thousands)	Commercial	Construction	Legacy [3]	Leasing	Mortgage	Consumer	Total[2]
Specific ALLL	$ 11,738	$ 289	$ 57	$ 793	$ 29,063	$ 17,046	$ 58,986
Impaired loans [1]	$ 556,329	$ 91,710	$ 48,890	$ 6,104	$ 382,880	$ 140,108	$ 1,226,021
Specific ALLL to impaired loans [1]	2.11%	0.32%	0.12%	12.99%	7.59%	12.17%	4.81%
General ALLL	$ 357,694	$ 8,192	$ 46,171	$ 3,858	$ 73,198	$ 142,264	$ 631,377
Loans held-in-portfolio, excluding impaired loans [1]	$ 9,416,998	$ 148,229	$ 599,519	$ 542,602	$ 5,135,580	$ 3,533,647	$ 19,376,575
General ALLL to loans held-in-portfolio, excluding impaired loans [1]	3.80%	5.53%	7.70%	0.71%	1.43%	4.03%	3.26%
Total ALLL	$ 369,432	$ 8,481	$ 46,228	$ 4,651	$ 102,261	$ 159,310	$ 690,363
Total non-covered loans held-in-portfolio [1]	$ 9,973,327	$ 239,939	$ 648,409	$ 548,706	$ 5,518,460	$ 3,673,755	$ 20,602,596
ALLL to loans held-in-portfolio [1]	3.70%	3.53%	7.13%	0.85%	1.85%	4.34%	3.35%

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

[2] Excludes covered loans acquired on the Westernbank FDIC-assisted transaction. At December 31, 2011, the general allowance on the covered loans amounted to $98 million while the specific reserve amounted to $27 million.

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

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The ratio of allowance for loan losses to loans held-in-portfolio, excluding covered loans, stood at 3.07% as of September 30, 2012 compared with 3.35% as of December 31, 2011, as a result of improved credit trends. This decrease in the allowance for loan losses considers reductions in the Corporation s general reserves of approximately $103 million, offset by an increase of $48 million in the specific reserves. The increase from December 31, 2011 to September 30, 2012 in the Corporation s recorded investment in loans that were individually evaluated for impairment and their specific allowance for loan losses was mainly related to mortgage loans TDRs, in the BPPR reportable segment due to the intensification of loss mitigation efforts.

At September 30, 2012, the allowance for loan losses for non-covered loans at the BPPR reportable segment totaled $445 million or 2.96% of non-covered loans held-in-portfolio, compared with $453 million or 3.06% of non-covered loans held-in-portfolio at December 31, 2011. The decrease was mainly driven by a reduction of $56 million in the general reserve component, when compared with December 31, 2011, mainly due to a lower loss trends in the commercial and consumer loan portfolios. These improvements were partially offset by an increase of $48 million in specific reserves mainly due to higher volume of residential mortgage troubled debt restructured loans.

The allowance for loan losses at the BPNA reportable segment totaled $191 million or 3.46% of loans held-in-portfolio, compared with $237 million or 4.11% of loans held-in-portfolio at December 31, 2011. The decrease was mainly driven by a reduction of $47 million in the general reserve component, when compared with December 31, 2011 due to lower loss trends in most portfolios.

Table 53 presents the Corporation s recorded investment in loans, excluding covered loans, that were considered impaired and the related valuation allowance at September 30, 2012 and December 31, 2011.

Table 53 Impaired Loans (Non-Covered Loans)

	September 30, 2012		December 31, 2011	
(In millions)	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
Impaired loans:				
Valuation allowance	$ 768.3	$ 107.4	$ 632.9	$ 59.0
No valuation allowance required	501.6		593.1	
Total impaired loans	$ 1,269.9	$ 107.4	$ 1,226.0	$ 59.0

With respect to the $502 million portfolio of impaired loans for which no allowance for loan losses was required at September 30, 2012, management followed the guidance for specific impairment of a loan. When a loan is impaired, the measurement of the impairment may be based on: (1) the present value of the expected future cash flows of the impaired loan discounted at the loan s original effective interest rate; (2) the observable market price of the impaired loan; or (3) the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral. Impaired loans with no valuation allowance were mostly collateral dependent loans for which management charged-off specific reserves based on the fair value of the collateral less estimated costs to sell.

Average impaired loans during the quarters ended September 30, 2012 and September 30, 2011 were $1.4 billion and $1.0 billion, respectively. The Corporation recognized interest income on impaired loans of $10.1 million and $5.0 million for the quarters ended September 30, 2012 and 2011, respectively. This increase was mainly driven by interest income from residential mortgage TDRs of the BPPR reportable segment.

Tables 54 and 55 set forth the activity in the specific reserves for impaired loans, excluding covered loans, for the quarters ended September 30, 2012 and 2011.

Table 54 Activity in Specific ALLL for the Quarter Ended September 30, 2012

(In thousands)	Commercial Loans	Construction Loans	Mortgage Loans	Legacy Loans	Consumer Loans	Leasing	Total

Specific allowance for loan losses at July 1, 2012	$ 6,830	$ 434	$ 59,723	$ 99	$ 19,656	$ 766	$ 87,508
Provision for impaired loans	33,386	2,409	4,259	370	1,537	212	42,173
Less: Net charge-offs	(17,977)	(2,652)	(1,159)	(469)			(22,257)
Specific allowance for loan losses at September 30, 2012	$ 22,239	$ 191	$ 62,823	$	$ 21,193	$ 978	$ 107,424

Table 55 Activity in Specific ALLL for the Quarter Ended September 30, 2011

(In thousands)	Commercial Loans	Construction Loans	Mortgage Loans	Legacy Loans	Consumer Loans	Leasing	Total
Specific allowance for loan losses at July 1, 2011	$ 7,755	$ 116	$ 11,665	$ 270	$	$	$ 19,806
Provision for impaired loans	58,120	4,015	16,689	6,395	7,665	46	92,930
Less: Net charge-offs	(44,934)	(2,796)	(162)	(6,366)			(54,258)
Specific allowance for loan losses at September 30, 2011	$ 20,941	$ 1,335	$ 28,192	$ 299	$ 7,665	$ 46	$ 58,478

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For the quarter ended September 30, 2012, total net charge-offs for individually evaluated impaired loans amounted to approximately $22.3 million, of which $18.4 million pertained to the BPPR reportable segment and $3.9 million to the BPNA reportable segment, mostly related to the commercial loan portfolios.

The Corporation requests updated appraisal reports from pre-approved appraisers for loans that are considered impaired, and individually analyzes them following the Corporation s reappraisal policy. This policy requires updated appraisals for loans secured by real estate (including construction loans) either annually or every two years depending on the total exposure of the borrower. As a general procedure, the Corporation internally reviews appraisals as part of the underwriting and approval process and also for credits considered impaired. Generally, the specialized appraisal review unit of the Corporation s Credit Risk Management Division internally reviews appraisals following certain materiality benchmarks. In addition to evaluating the reasonability of the appraisal reports, these reviews monitor that appraisals are performed following the Uniform Standards of Professional Appraisal Practice (USPAP).

Appraisals may be adjusted due to age or general market conditions. The adjustments applied are based upon internal information, like other appraisals and/or loss severity information that can provide historical trends in the real estate market. Specifically, in commercial and construction impaired loans for the BPPR reportable segment, and depending on the type of property and/or the age of the appraisal, downward adjustments currently range from 10% to 45% (including costs to sell). At September 30, 2012, the weighted average downward adjustment rate for the BPPR reportable segment was 24%.

For commercial and construction loans at the BPNA reportable segment, most 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 September 30, 2012, the weighted average discount rate for the BPNA reportable segment was 31%.

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 reportable segment, BPOs of the subject collateral properties are currently subject to downward adjustments of up to approximately 22%, including cost to sell of 5%. 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.

Table 56 presents the approximate amount and percentage of non-covered impaired loans for which the Corporation relied on appraisals dated more than one year old for purposes of impairment requirements at September 30, 2012.

Table 56 Non-Covered Impaired Loans with Appraisals Dated 1 year or Older

	September 30, 2012			
	Total Impaired Loans	Held-in-portfolio (HIP)		
(In thousands)	# of Loans	Outstanding Principal Balance		Impaired Loans with Appraisals Over One-Year Old [1]
Total commercial	314	$	437,031	34%
Total construction	20	$	46,280	17%
Total legacy	20	$	24,276	2%

[1] Based on outstanding balance of total impaired loans.

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The percentage of the Corporation s impaired construction loans that were relied upon as developed and as is for the period ended September 30, 2012 is presented in Table 57.

Table 57 Impaired Construction Loans Relied Upon As is or As Developed

	September 30, 2012						
	As is			As developed			
(In thousands)	Count	Amount in $	As a % of total construction impaired loans HIP	Count	Amount in $	As a % of total construction impaired loans HIP	Average % of completion
Loans held-in-portfolio [1]	18	$ 26,637	46%	7	$ 31,204	54%	88%

[1] Includes $9.9 million of construction loans from the BPNA legacy portfolio.

At September 30, 2012, the Corporation accounted for $31 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 $125 million at September 30, 2012, at same level of December 31, 2011. This allowance covers the estimated credit loss exposure related to: (i) acquired loans accounted for under ASC Subtopic 310-30, which required an allowance for loan losses of $104 million at September 30, 2012, compared with $83 million at December 31, 2011; and (ii) acquired loans accounted for under ASC Subtopic 310-20, which required an allowance for loan losses of $21 million at September 30, 2012, compared with $42 million at December 31, 2011.

Decreases in expected cash flows after the acquisition date for loans (pools) accounted for under ASC Subtopic 310-30 are recognized by recording an allowance for loan losses in the current period. For purposes of loans accounted for under ASC Subtopic 310-20 and new loans originated as a result of loan commitments assumed, the Corporation s assessment of the allowance for loan losses is determined in accordance with the accounting guidance of loss contingencies in ASC Subtopic 450-20 (general reserve for inherent losses) and loan impairment guidance in ASC Section 310-10-35 for loans individually evaluated for impairment. Concurrently, the Corporation records an increase in the FDIC loss share asset for the expected reimbursement from the FDIC under the loss sharing agreements.

Geographic and government risk

The Corporation is exposed to geographical and government risk. The Corporation s assets and revenue composition by geographical area and by business segment reporting are presented in Note 31 to the consolidated financial statements. A significant portion of the Corporation s financial activities and credit exposure is concentrated in Puerto Rico, and its economy has been through a prolonged recession. Based on information published by the Puerto Rico Planning Board, Puerto Rico s real gross national product (GNP) decreased an estimated 3.4% during fiscal year ended June 30, 2010 and 1.5% during the fiscal year ended June 30, 2011. However, the economy appears to have reached stability for fiscal year 2012, which ended on June 30, 2012.

Total non-farm payroll employment (seasonally adjusted) amounted to 911,800 jobs in September 2012, a decline of 1.3% versus the previous year, and a decline of 0.7% when compared with the previous month. The unemployment rate in Puerto Rico (seasonally adjusted) was 13.6% in

September 2012, when compared with 15.5% the previous year and 13.5% in August 2012.

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Economic growth is still challenged by a lack of job growth and a housing sector that remains under pressure, but the government has made progress in addressing the budget deficit while the banking sector has been substantially recapitalized and consolidated through FDIC-assisted and private transactions.

The Puerto Rico Planning Board recently revised its projection for real GNP growth in fiscal 2012 and 2013. It now expects fiscal 2012 growth to have been 0.9%, which would be the first year of real growth since 2006. For fiscal 2013, it projected growth of 1.1%.

General fund net revenues of the government during the first eleven months of fiscal year 2012 (July 2011 to June 2012) amounted to $8.7 billion, a 6% year-over-year increase.

A housing-incentive law that put into effect temporary measures that seek to stimulate demand for housing and reduce the significant excess supply of new homes was extended until December 2012 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 five years on new housing, among others. The incentives, together with the current environment of low interest rates, continue to attract home buyers into the market.

Tourism from non-residents is on a record pace in 2012. Hotel registrations of non-residents averaged 140,801 per month up until July, the highest average in more than a decade.

Despite the improved outlook, Puerto Rico continues to be susceptible to fluctuations in the price of crude oil due to its high dependence on fuel oil for energy production. An unexpected rise in the price of oil could have a negative impact on the overall economy, as it is dependent on oil for most of its electricity and transportation. Also, loan demand in the Puerto Rico market continues to be sluggish even as the economy appears to be transitioning from recession to stability. Lower loan demand could impact our level of earning assets and profitability. The recessionary cycle has increased the level of non-performing assets and deterioration in the economy of Puerto Rico, although not expected, could increase significantly the Corporation s our credit costs and adversely affect its profitability.

On August 8, 2011, Moody s Investors Service downgraded the rating of the outstanding general obligation (GO) bonds of the Commonwealth of Puerto Rico from A3 to Baa1 , with negative outlook. Moody s new Baa1 rating is at par with Fitch s BBB+ and one notch above the BBB rating Puerto Rico received from S&P last March, which currently has a negative outlook.

At September 30, 2012, the Corporation had $1.5 billion of credit facilities granted to or guaranteed by the Puerto Rico Government and its political subdivisions, of which $215 million were uncommitted lines of credit. Of these total credit facilities granted, $777 million were outstanding at September 30, 2012. A substantial portion of the Corporation s credit exposure to the Government of Puerto Rico is either in the form of collateralized loans or obligations that have a specific source of income or revenues identified for their repayment. Some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services or products, such as water and electric power utilities. Public corporations have varying degrees of independence from the central Government and many receive appropriations or other payments from it. The Corporation also has loans to various municipalities in Puerto Rico for which, in most cases, the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment. These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all of its general obligation bonds and loans. Another portion of these loans consists of special obligations of various municipalities that are payable from the basic real and personal property taxes collected within such municipalities.

Furthermore, at September 30, 2012, the Corporation had outstanding $145 million in obligations of Puerto Rico, States and political subdivisions as part of its investment securities portfolio. Of that total, $142 million was exposed to the creditworthiness of the Puerto Rico Government and its municipalities.

As further detailed in Notes 5 and 6 to the consolidated financial statements, a substantial portion of the Corporation s investment securities represented exposure to the U.S. Government in the form of U.S. Government sponsored entities, as well as agency mortgage-backed and U.S. Treasury securities. In addition, $764 million of residential mortgages and $178 million in commercial loans were insured or guaranteed by the U.S. Government or its agencies at September 30, 2012. On August 5, 2011, Standard & Poor s lowered its long-term sovereign credit rating on the United States of America from AAA to AA+ and on August 8, 2011, Standard & Poor s lowered its credit ratings of the obligations of certain U.S. Government sponsored entities, including FNMA, FHLB and FHLMC, and other agencies with securities linked to long-term U.S. government debt. These downgrades could have a material adverse impact on global financial markets and economic conditions, and its ultimate impact is unpredictable and may not be immediately apparent. The Corporation does not have any exposure to European sovereign debt.

ADOPTION OF NEW ACCOUNTING STANDARDS AND ISSUED BUT NOT YET EFFECTIVE ACCOUNTING STANDARDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures for the current period can be found in the Market Risk section of this report, which includes changes in market risk exposures from disclosures presented in the Corporation s 2011 Annual Report.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Corporation s management, with the participation of the Corporation s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Corporation s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, the Corporation s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Corporation s disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Corporation in the reports that it files or submits under the Exchange Act and such information is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosures.

Internal Control Over Financial Reporting

There have been no changes in the Corporation s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended on September 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Corporation s internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

For a discussion of Legal Proceedings, see Note 19, Commitments and Contingencies , to the Consolidated Financial Statements.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under Part I Item 1A Risk Factors in our 2011 Annual Report. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report. Also refer to the discussion in Part I Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations in this report for additional information that may supplement or update the discussion of risk factors in our 2011 Annual Report.

There have been no material changes to the risk factors previously disclosed under Item 1A. of the Corporation s 2011 Annual Report, except for the risk described below.

The risks described in our 2011 Annual Report and in this report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

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Implementation of BASEL III could reduce our regulatory capital ratios

In June 2012, the FRB, OCC, and FDIC (collectively, the Agencies) each issued Notices of Proposed Rulemaking (NPRs) that would revise and replace the Agencies current capital rules to align 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 provided for a comment period through October 22, 2012 and the proposals are subject to further modification by the Agencies. The revised capital rules are expected to be implemented between 2013 and 2019.

The proposed revisions would include implementation of a new common equity Tier 1 minimum capital requirement and apply limits on a banking organization s capital distributions and certain discretionary bonus payments if the banking organization does not hold a specified amount of common equity Tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. The NPRs also would establish more conservative standards for including an instrument in regulatory capital. The revisions set forth in these NPRs are consistent with section 171 of the Dodd-Frank Act, which requires the Agencies to establish minimum risk-based and leverage capital requirements.

The Agencies are also proposing to revise their rules for calculating risk-weighted assets to enhance risk sensitivity and address weaknesses identified over recent years, including by incorporating aspects of the Basel II standardized framework in the International Convergence of Capital Measurement and Capital Standards: A Revised Framework, including subsequent amendments to that standard, and recent consultative papers from the Basel Committee on Banking Supervision. The Standardized Approach NPR also includes alternatives to credit ratings, consistent with section 939A of the Dodd-Frank Act. The revisions include methodologies for determining risk-weighted assets for residential mortgages, securitization exposures, and counterparty credit risk.

We continue to evaluate the impact of the proposed NPRs on our regulatory capital ratios. We anticipate that, based on our current level of assets, non-performing assets and the composition of these, the implementation of the NPR s as currently proposed would lower our regulatory capital ratios. Although we expect to continue to exceed the minimum requirements for well capitalized status following the implementation of the NPR s as proposed, there can be no assurance that we will remain well capitalized.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

In April 2004, the Corporation s shareholders adopted the Popular, Inc. 2004 Omnibus Incentive Plan. The Corporation has to date used shares purchased in the market to make grants under the Plan. The maximum number of shares of common stock that may be granted under this plan is 1,000,000.

In connection with the Corporation s participation in the Capital Purchase Program under the Troubled Asset Relief Program, the consent of the U.S. Department of the Treasury will be required for the Corporation to repurchase its common stock other than in connection with benefit plans consistent with past practice and certain other specified circumstances.

The following table sets forth the details of purchases of Common Stock during the quarter ended September 30, 2012 under the 2004 Omnibus Incentive Plan.

Issuer Purchases of Equity Securities

Not in thousands

Period	Total Number of Shares Purchased	Average Price Paid per Share	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
July 1 July 31				
August 1 August 31	3,322	$ 14.45		
September 1 September 30				

Total September 30, 2012	3,322	$	14.45

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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
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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: November 8, 2012	By: /s/ Jorge A. Junquera Jorge A. Junquera Senior Executive Vice President & Chief Financial Officer
Date: November 8, 2012	By: /s/ Jorge J. García Jorge J. García Senior Vice President & Corporate Comptroller

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