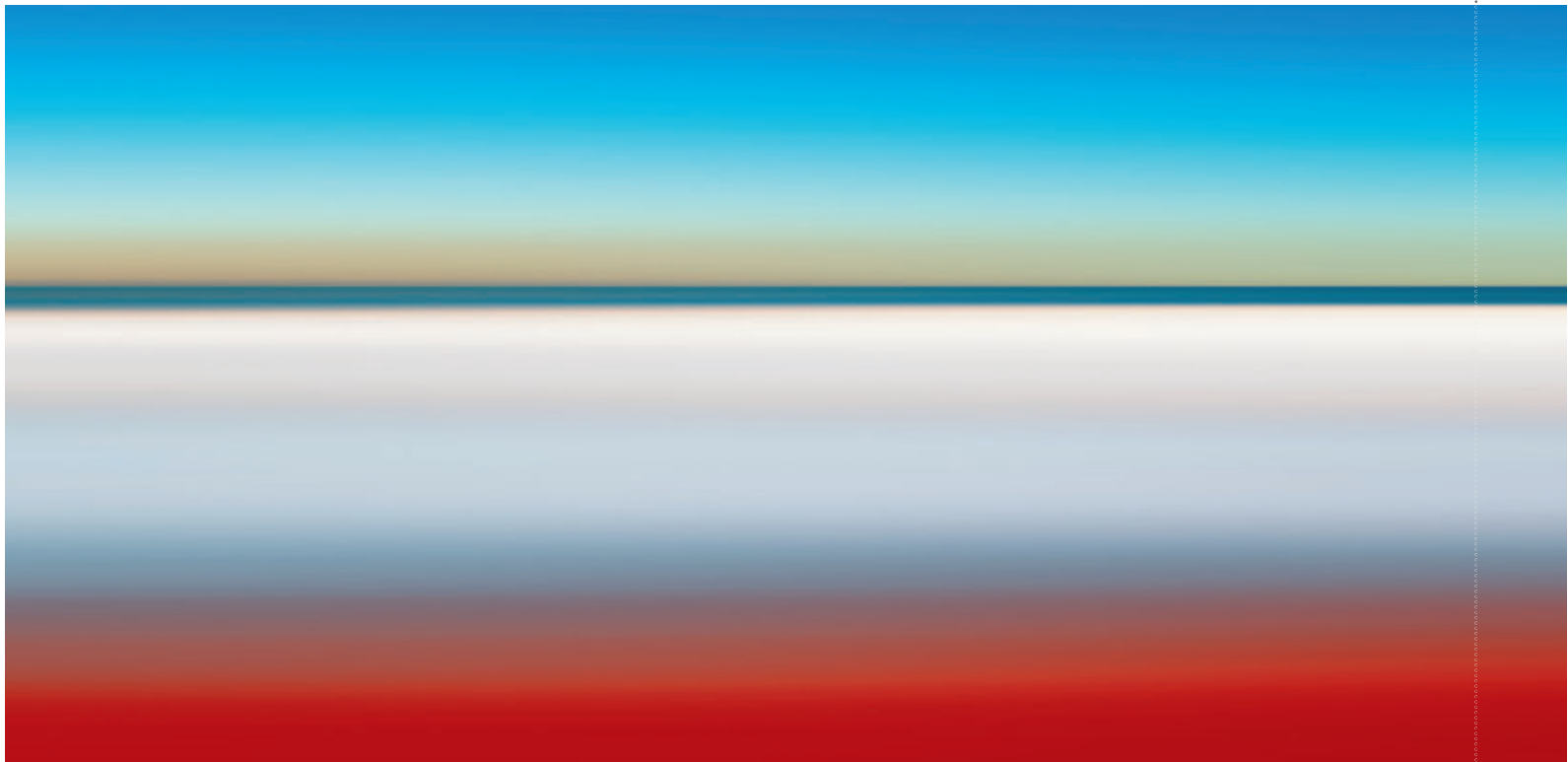


2012

Annual Report | Informe Anual





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Popular, Inc. (NASDAQ:BPOP) is a full-service financial provider based in Puerto Rico, with operations in Puerto Rico, the Virgin Islands and the United States. In Puerto Rico it is the leading banking institution in both assets and deposits, and ranks 36th in assets among U.S. banks. With 184 branches in Puerto Rico and the Virgin Islands, Popular offers retail and commercial banking services, as well as auto and equipment leasing and financing, mortgage loans, investment banking and broker-dealer services. In the United States, Popular has established a community-banking franchise that does business as Popular Community Bank, providing a broad range of financial services and products with 92 branches in New York, New Jersey, Illinois, Florida and California.

Popular, Inc. (NASDAQ: BPOP) es un proveedor de servicios financieros con sede en Puerto Rico y operaciones en Puerto Rico, las Islas Vírgenes y los Estados Unidos. En Puerto Rico es la institución bancaria líder tanto en activos como en depósitos, y ocupa la posición 36 entre los bancos en los Estados Unidos en términos de activos. Con 184 sucursales en Puerto Rico y las Islas Vírgenes, Popular ofrece servicios bancarios a individuos y comercios, así como arrendamiento y financiamiento de autos y equipo, préstamos hipotecarios, banca de inversión y transacciones de corredores de valores. En los Estados Unidos, Popular ha establecido una franquicia bancaria de base comunitaria que opera como Popular Community Bank, ofreciendo una amplia gama de servicios y productos financieros, con 92 sucursales en Nueva York, Nueva Jersey, Illinois, Florida y California.

Letter to Shareholders



Richard L. Carrión
Chairman, President and
Chief Executive Officer

We have been intensely focused on four key areas that we identified as critical to return Popular to the path of profitability and growth—credit quality, asset growth in our core businesses, efficiency and improving the performance of our U.S. operations—and we made significant headway in all of these areas.

I am pleased to report that 2012 was a good year that positioned us for continued progress in 2013. As I shared with you last year, we have been intensely focused on four key areas that we identified as critical to return Popular to the path of profitability and growth—credit quality, asset growth in our core businesses, efficiency and improving the performance of our U.S. operations—and we made significant headway in all of these areas.

CREDIT QUALITY

In 2012, we solidified the positive trends that we began seeing in late 2011. We continued to reduce net charge-offs and the provision for loan losses, which were 25% and 22% lower than in 2011, respectively.

But the most important achievement in 2012 was the substantial reduction of our non-performing assets as we intensified our efforts and added resources to the credit management area. This reduction was driven by a decline of \$313 million or 18% in non-performing loans (NPLs) held-in-portfolio, both in Puerto Rico and our U.S. operations and across all portfolios. Through a combination of aggressive loss mitigation efforts, resolutions and restructurings, individual sales and stabilizing economic conditions, at year-end NPLs reached their lowest level since December 2009. One of the most encouraging signs was a 27% reduction in NPL inflows from the previous year.

A significant reduction was also achieved in NPLs in our held-for-sale portfolio. Other real estate owned (OREO) increased by \$94 million when compared to the previous year as a result of higher foreclosures in our mortgage and commercial portfolios in Puerto Rico. While we are aware that this is a normal by-product of our efforts to resolve NPLs, we restructured our OREO-management area and implemented various strategies to ensure that we resolve these assets in the most efficient way and are able to realize the highest possible value.

Looking ahead, we are confident we will keep making progress on the credit quality front, as we continue to work intensively with the non-performing assets in our books. As we have in the past, we will pursue all opportunities to reduce non-performing assets, including bulk sales, provided that they make economic sense and create value for our shareholders.

Credit quality is the greatest lever we have to keep improving Popular's financial performance, given the impact it has both on income as well as expenses. We have identified a considerable amount of expenses associated with our credit management efforts, including legal fees, appraisals and OREO expenses, and we are confident we can reduce a substantial portion of them as the credit situation normalizes.

BUSINESS GROWTH

Amid signs of economic stability we have heightened our focus on growing our core businesses.

In Puerto Rico, we are beginning to see a pickup in activity in some sectors and we are leveraging our leading position to capture these opportunities. Our mortgage business had a great year. Originations reached \$1.5 billion, up 21% when compared to 2011, benefitting from lower interest rates, federal refinance programs and local housing incentives.

We were able to maintain our core deposit base, despite additional rate cuts that helped us reduce our cost of funds. These efforts and the better than expected performance of our covered portfolio helped maintain our net interest margin well above our peers'.

At Popular Community Bank, our U.S. operation, loan balances had been declining due to our exit from certain businesses. While low loan demand proved a challenge, toward the end of the year the non-legacy loan book began to grow again and we are encouraged by increased loan activity from our commercial clients.

Letter to Shareholders

During 2012, our stock regained part of the ground it lost during 2011. BPOP closed 2012 at \$20.79, a 50% increase from the previous year, after adjusting for the 1 for 10 reverse stock split executed in May. We are confident that as we continue reducing our non-performing loans, the Puerto Rico economy stabilizes further and we are able to provide more clarity on issues such as TARP, the price of our stock will better reflect the true value of our franchise.

We also continued our search for high-quality assets we could acquire and manage within our existing infrastructure at a minimal marginal cost. We added approximately \$800 million in strategic loan acquisitions during the year, mainly mortgage loans in the United States and consumer and mortgage loans in Puerto Rico.

EFFICIENCY AND ORGANIZATIONAL EXCELLENCE

During 2012, we broadened the efforts launched in 2011 to identify cost saving opportunities and redesign key processes in our organization to increase our efficiency.

We completed the implementation of the voluntary retirement window announced in late 2011. Despite the greater need for personnel in credit and risk management functions, salary expenses in the fourth quarter were down \$9 million annualized when compared to the fourth quarter of the previous year. We also executed our branch consolidation plan, which started in 2011 and resulted in a net reduction of eight branches in 2012.

Fully aware that certain expenses, particularly credit-related ones, remain elevated, we created a cross-area team to identify savings opportunities that could help offset a portion of these expenses in the short term and significantly lower our expense base in the medium to long term. Several initiatives were launched and will begin to materialize in 2013.

On the process redesign front, we completed the rollout of the revised commercial and mortgage loan origination processes started in 2011, with appreciable results in productivity, customer satisfaction and employee morale. The commercial appraisal process was reviewed and adjusted to comply with new regulations and reduce the time it takes from an appraisal request to a final review, which clearly impacts the commercial origination process. Finally, we launched four new projects that will continue in 2013 in the following areas: commercial middle market business, delivery channels, mortgage servicing and purchasing. To ensure the

successful execution of these projects and sustainability of these changes, we have provided training on the LEAN methodology to close to 600 employees. We are extremely pleased with the progress we have achieved thus far, particularly the receptiveness of our employees to the LEAN methodology and the positive results in customer satisfaction, and will continue to expand these efforts in the coming years.

POPULAR COMMUNITY BANK

Popular Community Bank (PCB) had its second consecutive profitable year, reporting net income of \$46 million compared with \$30 million in 2011, driven by a lower provision for loan losses resulting from improved credit quality.

Net charge-offs and non-performing loans were 45% and 36% lower, respectively, than in 2011. While this is a significant reduction, PCB's progress on the credit quality front is better appreciated if one considers that net charge-offs for 2012 and non-performing loans at year-end are down 78% and 71%, respectively, from their peak levels in this credit cycle.

In 2010, we launched a process to rebrand Banco Popular North America as Popular Community Bank to broaden its appeal to non-Hispanics while maintaining the recognition attained among Hispanics and its connection to the Popular name. In the first two years, the rebranding was executed in Illinois, California and Florida. In 2012, we completed the process, rebranding our operations in New York and New Jersey. The new brand has been very well received and led to an increase in the average balance of low-cost deposits in all of our U.S. regions. We are confident it better positions us as we continue our efforts to grow as a relationship-based community bank.

FINANCIAL RESULTS, CAPITAL POSITION AND STOCK PERFORMANCE

As a result of all the efforts discussed above, Popular, Inc. reported net income of \$245 million, compared to \$151 million

Institutional Values

SOCIAL COMMITMENT

We work hand-in-hand with our communities. We are committed to actively promote the social and economic well-being of our communities.

CUSTOMER

We develop life-long relationships. Our relationship with the customer takes precedence over any particular transaction. We add value to each interaction by offering high-quality personalized service, and efficient and innovative solutions.

INTEGRITY

We live up to the trust placed in us. We adhere to the strictest ethical and moral standards through our daily decisions and actions.

EXCELLENCE

We strive to excel each day. We believe there is only one way to do things: the right way from the first time while exceeding expectations.

INNOVATION

We are a driving force for progress. We foster a constant search for innovative ideas and solutions in everything we do, thus enhancing our competitive advantage.

OUR PEOPLE

We have the best talent. We are leaders and work together as a team in a caring and disciplined environment.

PERFORMANCE

We are fully committed to our shareholders. We aim to attain a high level of efficiency, both individually and as a team, to achieve superior and consistent financial results based on a long-term vision.

in 2011. Net income at Banco Popular de Puerto Rico totaled \$291 million, 26% higher than the previous year. As I detailed earlier, Popular Community Bank increased net income by \$16 million when compared with 2011.

Popular, Inc. and its subsidiary banks have maintained strong capital levels, even in the most difficult years of the recent financial crisis, and 2012 was no exception. We closed the year with solid capital levels that exceeded the current regulatory threshold for well-capitalized status. We anticipate maintaining a strong capital position in the coming years as the Basel III rules are implemented. This should give us the flexibility to structure an exit from the Troubled Asset Relief Program (TARP) at the appropriate time. While we are eager to exit TARP as soon as possible, we will do it at a time and in a manner that is most aligned with our shareholders' interests.

During 2012, our stock regained part of the ground it lost during 2011. BPOP closed 2012 at \$20.79, a 50% increase from the previous year, after adjusting for the 1 for 10 reverse stock split executed in May. We are confident that as we continue reducing our non-performing loans, the Puerto Rico economy stabilizes further and we are able to provide more clarity on issues such as TARP, the price of our stock will better reflect the true value of our franchise.

OUR ORGANIZATION

At Popular, we recently announced various management changes that will be effective in March 2013. Jorge A. Junquera, who has been with Popular for more than 40 years, the last 16 as Chief Financial Officer (CFO), will assume the role of Vice Chairman and Special Assistant to the CEO. In his new position, Jorge will assist in business development activities and oversee the Company's portfolio investments. Throughout his career, and in his role as CFO, Jorge has undoubtedly left his mark on Popular. One of his most important contributions was to provide strong leadership during the recent financial crisis and ensure that the Corporation and its banking subsidiaries always maintained adequate

levels of capital and liquidity during those challenging times. I am sure that, in his new role, Jorge will continue to make important contributions to the future success of Popular.

Carlos J. Vázquez will succeed Jorge as CFO of Popular. Carlos has been with Popular in senior management positions for more than 15 years after working at JP Morgan in various investment banking and capital market positions. At Popular, he has successfully led groups such as Consumer Credit in Puerto Rico and Risk Management for the Corporation. More recently, in his role as President of Popular Community Bank, he returned our U.S. operations to profitability after a difficult period. I am confident that, given his extensive financial background and deep knowledge of Popular, Carlos will prove invaluable and help shape Popular's future in the years to come.

Manuel Chinaea will assume the role of Chief Operating Officer of Popular Community Bank. With more than 23 years at Popular, Manuel has led various units at Popular Community Bank, such as Retail Banking Operations, Marketing, Product Development, Popular Investments and Consumer Lending. Manuel's extensive knowledge of PCB will be an important asset as we continue the repositioning of our operations in the United States.

These changes reflect the depth of talent we have at Popular and are the result of our robust talent management processes. We strive to offer meaningful career paths for our people, which in turn provides us with a strong pool of candidates to fill the current and future needs of our organization.

Another source of strength for Popular is our Board of Directors, which consists of highly talented, experienced and committed individuals who have guided us through the challenges of recent years. Two directors, Manuel Morales Jr. and José R. Vizcarrondo, recently announced that they would not stand for re-election as directors when their terms expire in 2013. Mano served as a director of Popular, Inc. for 23 years and as a director of Banco Popular de Puerto Rico for 35 years.

Letter to Shareholders

His service was distinguished by his thorough and incisive analysis and the passion he brought to critical issues. Joe served as a director of Popular, Inc. for nine years, offering valuable perspective and insightful advice during a very difficult period. We are grateful for their service and unwavering commitment throughout the years and their active participation will be missed by all.

STRONG FUNDAMENTALS

Today, we feel confident that the strategies in place will continue to bear fruit and that the fundamental elements of our business remain strong.

In Puerto Rico, we hold an enviable market position, having the largest market share in seven out of nine product categories. While the local economy still faces many challenges, we are seeing additional signs of stabilization. As the largest financial institution on the island, we continue to promote economic development and capital formation to help spur growth.

We have made considerable progress in the United States. While we are aware that our operations have not reached acceptable profitability levels, the continued improvement of our results will give us greater flexibility to address this issue going forward.

We also have other assets, such as our participation in EVERTEC, our holding at Centro Financiero BHD and the covered portfolio acquired in the 2010 FDIC-assisted

transaction, whose potential value exceeds the value at which they are carried in our books. In the case of EVERTEC, Apollo Global Management recently announced their intention to sell a portion of the company in a public offering, which will give us the option of monetizing this valuable asset.

But, undoubtedly, our greatest asset lies in our people, who faced and responded to trying times with a remarkable level of commitment and tenacity. I thank them for their efforts and you for your patience and support. The intrinsic value of this organization remains strong and I am confident that we will continue to grow and prosper in the years to come.

Sincerely,



RICHARD L. CARRIÓN
CHAIRMAN, PRESIDENT
AND CHIEF EXECUTIVE OFFICER

KEY FACTS & FIGURES

2012 HIGHLIGHTS

Founded in 1893, Popular, Inc. is the leading banking institution in both assets and deposits in Puerto Rico and ranks 36th in assets among U.S. banks. In the United States, Popular has established a community-banking franchise, doing business as Popular Community Bank, providing a broad range of financial services and products with branches in New York, New Jersey, Illinois, Florida and California.



POPULAR, INC.

\$245 million

in net income

\$1.8 billion

in gross revenues

\$2 billion

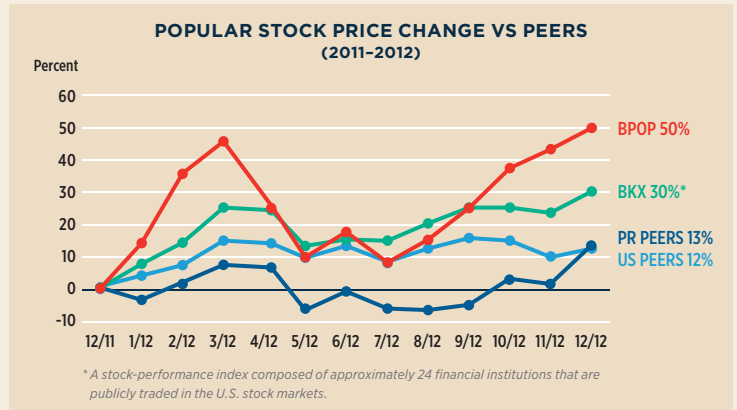
amount by which our total capital exceeded the current well-capitalized threshold

\$364 million

decrease of non-performing assets
(lowest level since 2010)

\$313 million

decrease in held-in-portfolio non-performing loans
(lowest level since 2009)



BANCO POPULAR DE PUERTO RICO

(Throughout Puerto Rico and the Virgin Islands)



More than
1.5 million
clients

184 Branches
58 Offices



6,671 FTEs¹

\$27.6 billion

in assets

\$19.3 billion

in loans

\$21.0 billion

in total deposits

#1 market share in
total deposits (38%)
and total loans (35%)²

¹ Includes corporate group

² As of September 30, 2012



POPULAR COMMUNITY BANK

(Throughout five states in the United States³)



Approximately
382,000
clients
92 Branches

Access to more than
38,000
surcharge-free ATMs
in leading national and local
merchant locations

1,401 FTEs

E-LOAN deposits
\$311 million
and approximately 19,000
clients



◀ The rebranding of Popular's U.S. operations into Popular Community Bank was completed in May with the rebranding of New York and New Jersey branches.

\$8.7 billion

in assets

\$5.8 billion

in loans

\$6.1 billion

in total deposits

³ New York, New Jersey, Illinois, Florida and California

Social Commitment

A Legacy of Caring

We believe that education is the foundation of any successful society. That is why our philanthropic arms, **Fundación Banco Popular** and **Popular Community Bank Foundation**, invested 80% of their resources in non-profit organizations that promote school innovation, after-school programs and alternative schools. **A roadmap of our community work in 2012 follows.**

We supported six organizations promoting **INNOVATION IN EDUCATION** to approximately 7,150 public school students. Among this group is Puerto Rico Science (Ciencia Puerto Rico), which developed a pilot program that promotes scientific literacy and interest in research careers among elementary and middle school students through the use of podcasts, lectures and lessons from Puerto Rican scientists. More than 70% of participating students in this program demonstrated an increased interest in learning science.



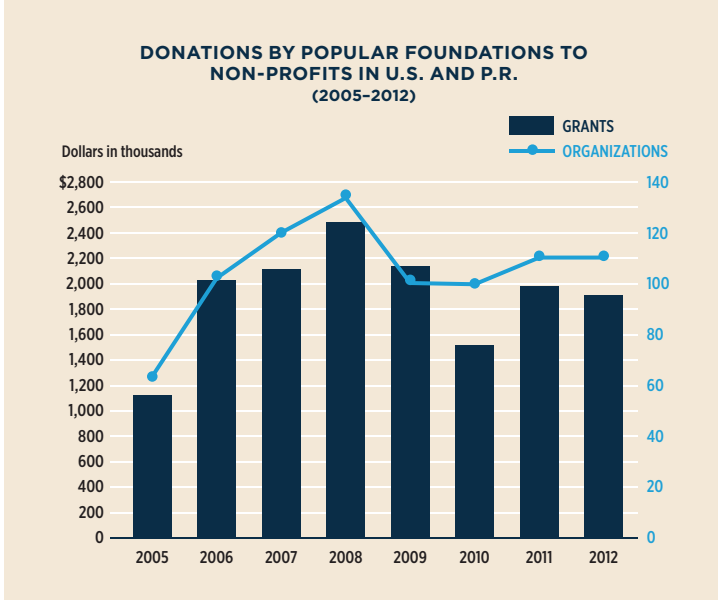
Identifying a need for a formal network among non-profit organizations to promote and share knowledge, best practices and resources, we organized our first **FOSTERING ALLIANCES** workshop. Attended by 83 non-profits, the workshop led to continuing collaborations that are advancing the independent missions of these organizations.

Popular Community Bank (PCB) helped raise \$32,945 for the Food Bank for New York City and \$17,724 for the New Jersey Division of the Salvation Army, including \$33,862 in direct donations from PCB to fund the **DISASTER EMERGENCY SERVICES** of these two non-profit organizations providing assistance to those in need after the impact of Hurricane Sandy. The PCB Foundation also contributed financially to 28 other non-profits across our U.S. regions (California, Florida, Illinois, New York and New Jersey). We continued our partnerships with Junior Achievement USA and Operation Hope to provide **ECONOMIC OPPORTUNITY** in underserved communities through financial education and empowerment.

Banco Popular's financial education program, **FINANCES IN YOUR HANDS**, helped enhance the financial skills of 20,726 individuals through 409 workshops.



Foundation donations and corporate community programs: \$3.3 million. **Volunteerism:** 3,556 Popular employee volunteers, 16,400 hours and 211 community events.



We supported six organizations providing **ALTERNATIVE EDUCATION** to 772 students who left the traditional school system, 289 of whom received a high-school degree in 2012. With our support, four of these organizations led a drive to enact in 2012 the Enabling Act for the Development of Alternative Education in Puerto Rico, which officially incorporates alternative education into the educational system and guarantees recurrent public funds for alternative education programs.

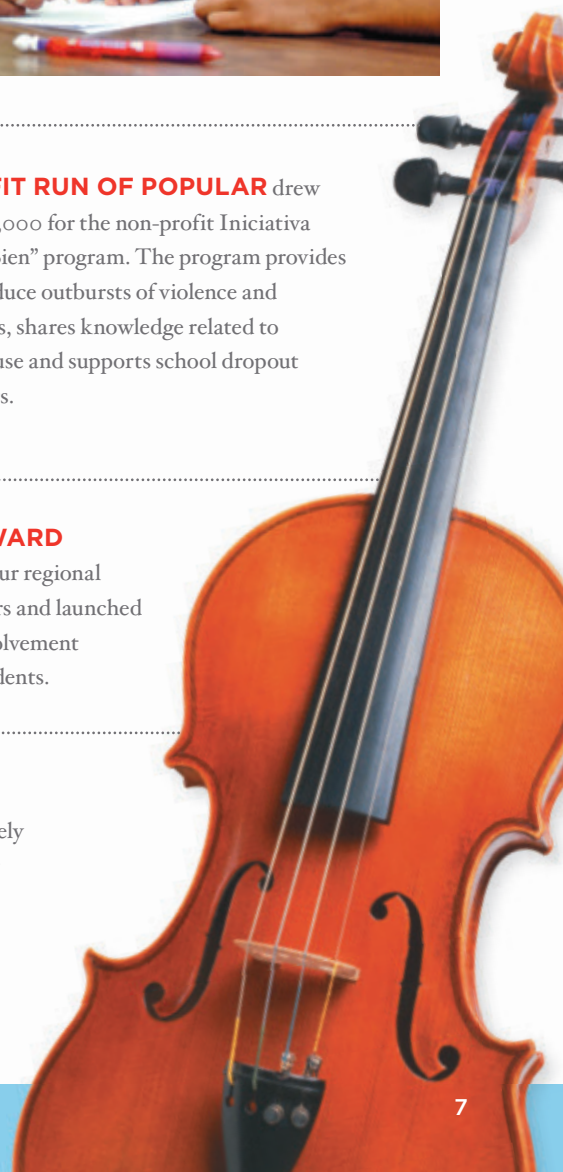


The 8th annual **5K BENEFIT RUN OF POPULAR** drew 4,500 runners and raised \$50,000 for the non-profit Iniciativa Comunitaria and its “Brega Bien” program. The program provides at-risk youth with tools to reduce outbursts of violence and aggression among adolescents, shares knowledge related to HIV/AIDS, STDs and drug use and supports school dropout prevention and reentry efforts.

Our institutional campaign program **MOVING FORWARD** (Echar Pa’ Lante) promoted entrepreneurship through four regional workshops attended by approximately 1,500 entrepreneurs and launched an educational project that helped foster community involvement at five schools with a total enrollment of 1,700 at-risk students.



We donated \$290,000 for **MUSIC-EDUCATION** programs that enhanced the musical skills of approximately 2,700 children and youth. Since its inception in 2006, our Revive the Music program — a collaboration with the Luis A. Ferré Foundation — has donated 1,089 musical instruments to 83 public schools and non-profit organizations in Puerto Rico.



25-Year Historical Financial Summary

(Dollars in millions, except per share data)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Selected Financial Information											
Net Income (Loss)	\$ 47.4	\$ 56.3	\$ 63.4	\$ 64.6	\$ 85.1	\$ 109.4	\$ 124.7	\$ 146.4	\$ 185.2	\$ 209.6	\$ 232.3
Assets	5,706.5	5,972.7	8,983.6	8,780.3	10,002.3	11,513.4	12,778.4	15,675.5	16,764.1	19,300.5	23,160.4
Gross Loans	3,096.3	3,320.6	5,373.3	5,195.6	5,252.1	6,346.9	7,781.3	8,677.5	9,779.0	11,376.6	13,078.8
Deposits	4,715.8	4,926.3	7,422.7	7,207.1	8,038.7	8,522.7	9,012.4	9,876.7	10,763.3	11,749.6	13,672.2
Stockholders' Equity	334.9	375.8	588.9	631.8	752.1	834.2	1,002.4	1,141.7	1,262.5	1,503.1	1,709.1
Market Capitalization	\$ 355.0	\$ 430.1	\$ 479.1	\$ 579.0	\$ 987.8	\$ 1,014.7	\$ 923.7	\$ 1,276.8	\$ 2,230.5	\$ 3,350.3	\$ 4,611.7
Return on Assets (ROA)	0.85%	0.99%	1.09%	0.72%	0.89%	1.02%	1.02%	1.04%	1.14%	1.14%	1.14%
Return on Equity (ROE)	14.87%	15.87%	15.55%	10.57%	12.72%	13.80%	13.80%	14.22%	16.17%	15.83%	15.41%
Per Common Share¹											
Net Income (Loss) - Basic	\$ 2.95	\$ 3.51	\$ 3.94	\$ 2.69	\$ 3.49	\$ 4.18	\$ 4.59	\$ 5.24	\$ 6.69	\$ 7.51	\$ 8.26
Net Income (Loss) - Diluted	2.95	3.51	3.94	2.69	3.49	4.18	4.59	5.24	6.69	7.51	8.26
Dividends (Declared)	0.86	1.00	1.00	1.00	1.00	1.20	1.25	1.54	1.83	2.00	2.50
Book Value	20.93	23.44	24.58	26.24	28.79	31.86	34.35	39.52	43.98	51.83	59.32
Market Price	22.19	26.88	20.00	24.06	37.81	39.38	35.16	48.44	84.38	123.75	170.00
Assets by Geographical Area											
Puerto Rico	93%	92%	89%	87%	87%	79%	76%	75%	74%	74%	71%
United States	6%	6%	9%	11%	10%	16%	20%	21%	22%	23%	25%
Caribbean and Latin America	1%	2%	2%	2%	3%	5%	4%	4%	4%	3%	4%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Traditional Delivery System											
Banking Branches											
Puerto Rico	126	128	173	161	162	165	166	166	178	201	198
Virgin Islands	3	3	3	3	3	8	8	8	8	8	8
United States	10	10	24	24	30	32	34	40	44	63	89
Subtotal	139	141	200	188	195	205	208	214	230	272	295
Non-Banking Offices											
Popular Financial Holdings				27	41	58	73	91	102	117	128
Popular Cash Express											51
Popular Finance	17	18	26	26	26	26	28	31	39	44	48
Popular Auto		4	9	9	9	8	10	9	8	10	10
Popular Leasing, U.S.A.										7	8
Popular Mortgage								3	3	3	11
Popular Securities									1	2	2
Popular One											
Popular Insurance											
Popular Insurance Agency U.S.A.											
Popular Insurance, V.I.											
E-LOAN											
EVERTEC											
Subtotal	17	22	35	62	76	92	111	134	153	183	258
Total	156	163	235	250	271	297	319	348	383	455	553
Electronic Delivery System											
ATMs Owned											
Puerto Rico	153	151	211	206	211	234	262	281	327	391	421
Virgin Islands	3	3	3	3	3	8	8	8	9	17	59
United States					6	11	26	38	53	71	94
Total	156	154	214	209	220	253	296	327	389	479	574
Transactions (in millions)											
Electronic Transactions ²	14.9	16.1	18.0	23.9	28.6	33.2	43.0	56.6	78.0	111.2	130.5
Items Processed ³	159.8	161.9	164.0	166.1	170.4	171.8	174.5	175.0	173.7	171.9	170.9
Employees (full-time equivalent)	5,131	5,213	7,023	7,006	7,024	7,533	7,606	7,815	7,996	8,854	10,549

¹ Per common share data adjusted for stock splits and reverse stock split executed in May 2012.

² From 1981 to 2003, electronic transactions include ACH, Direct Payment, TelePago Popular, Internet Banking and ATH Network transactions in Puerto Rico. From 2004 to 2009, these numbers were adjusted to include ATH Network transactions in the Dominican Republic, Costa Rica, El Salvador and the United States, health-care transactions, wire transfers, and other electronic payment transactions in addition to those previously stated. After 2010, electronic transactions only include transactions made by Popular, Inc.'s clients and exclude electronic transactions processed by EVERTEC for other clients.

³ After the sale in 2010 of a majority interest in EVERTEC, Popular's information technology subsidiary, the Corporation does not process items.

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
\$ 257.6	\$ 276.1	\$ 304.5	\$ 351.9	\$ 470.9	\$ 489.9	\$ 540.7	\$ 357.7	\$ (64.5)	\$(1,243.9)	\$(573.9)	\$ 137.4	\$ 151.3	\$ 245.3
25,460.5	28,057.1	30,744.7	33,660.4	36,434.7	44,401.6	48,623.7	47,404.0	44,411.4	38,882.8	34,736.3	38,815.0	37,348.4	36,507.5
14,907.8	16,057.1	18,168.6	19,582.1	22,602.2	28,742.3	31,710.2	32,736.9	29,911.0	26,268.9	23,803.9	26,458.9	25,314.4	25,093.6
14,173.7	14,804.9	16,370.0	17,614.7	18,097.8	20,593.2	22,638.0	24,438.3	28,334.4	27,550.2	25,924.9	26,762.2	27,942.1	27,000.6
1,661.0	1,993.6	2,272.8	2,410.9	2,754.4	3,104.6	3,449.2	3,620.3	3,581.9	3,268.4	2,538.8	3,800.5	3,918.8	4,110.0
\$3,790.2	\$3,578.1	\$3,965.4	\$4,476.4	\$5,960.2	\$7,685.6	\$5,836.5	\$5,003.4	\$2,968.3	\$1,455.1	\$1,445.4	\$3,211.4	\$1,426.0	\$2,144.9
1.08%	1.04%	1.09%	1.11%	1.36%	1.23%	1.17%	0.74%	-0.14%	-3.04%	-1.57%	0.36%	0.40%	0.68%
15.45%	15.00%	14.84%	16.29%	19.30%	17.60%	17.12%	9.73%	-2.08%	-44.47%	-32.95%	4.37%	4.01%	6.37%
\$ 9.19	\$ 9.85	\$ 10.87	\$ 13.05	\$ 17.36	\$ 17.95	\$ 19.78	\$ 12.41	\$ (2.73)	\$ (45.51)	\$ 2.39	\$ (0.62)	\$ 1.44	\$ 2.35
9.19	9.85	10.87	13.05	17.36	17.92	19.74	12.41	(2.73)	(45.51)	2.39	(0.62)	1.44	2.35
3.00	3.20	3.80	4.00	5.05	6.20	6.40	6.40	6.40	4.80	0.20	-	-	-
57.54	69.62	79.67	91.02	96.60	109.45	118.22	123.18	121.24	63.29	38.91	36.67	37.71	39.35
139.69	131.56	145.40	169.00	224.25	288.30	211.50	179.50	106.00	51.60	22.60	31.40	13.90	20.79
71%	72%	68%	66%	62%	55%	53%	52%	59%	64%	65%	74%	74%	73%
25%	26%	30%	32%	36%	43%	45%	45%	38%	33%	32%	23%	23%	24%
4%	2%	2%	2%	2%	2%	2%	3%	3%	3%	3%	3%	3%	3%
100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
199	199	196	195	193	192	194	191	196	179	173	185	183	175
8	8	8	8	8	8	8	8	8	8	8	8	9	9
91	95	96	96	97	128	136	142	147	139	101	96	94	92
298	302	300	299	298	328	338	341	351	326	282	289	286	276
137	136	149	153	181	183	212	158	134	2				
102	132	154	195	129	114	4							
47	61	55	36	43	43	49	52	51	9				
12	12	20	18	18	18	17	15	12	12	10	10	10	10
10	11	13	13	11	15	14	11	24	22				
13	21	25	29	32	30	33	32	32	32	33	36	37	37
2	3	4	7	8	9	12	12	13	7	6	6	4	4
												4	5
	2	2	2	2	2	2	2	2	1	1	1	1	1
		1	1	1	1	1	1	1	1	1	1	1	1
			1	1	1	1	1	1	1	1	1	1	1
						1	1	1	1				
4	4	4	5	5	5	5	7	9	9	9			
327	382	427	460	431	421	351	292	280	97	61	55	58	59
625	684	727	759	729	749	689	633	631	423	343	344	344	335
442	478	524	539	557	568	583	605	615	605	571	624	613	597
68	37	39	53	57	59	61	65	69	74	77	17	20	20
99	109	118	131	129	163	181	192	187	176	136	138	135	134
609	624	681	723	743	790	825	862	871	855	784	779	768	751
159.4	199.5	206.0	236.6	255.7	568.5	625.9	690.2	772.7	849.4	804.1	381.6	410.4	420.4
171.0	160.2	149.9	145.3	138.5	133.9	140.3	150.0	175.2	202.2	191.7			
11,501	10,651	11,334	11,037	11,474	12,139	13,210	12,508	12,303	10,587	9,407	8,277	8,329	8,072

Our Creed

Banco Popular is a local institution dedicating its efforts exclusively to the enhancement of the social and economic conditions in Puerto Rico and inspired by the most sound principles and fundamental practices of good banking.

Popular pledges its efforts and resources to the development of a banking service for Puerto Rico within strict commercial practices and so efficient that it could meet the requirements of the most progressive community in the world.

► *These words, written in 1928 by Rafael Carrión Pacheco, Executive Vice President and President (1927–1956), embody the philosophy of Popular, Inc. in all its markets.*

Our People

The men and women who work for our institution, from the highest executive to the employees who handle the most routine tasks, feel a special pride in serving our customers with care and dedication.

All of them feel the personal satisfaction of belonging to the “Banco Popular Family,” which fosters affection and understanding among its members, and which at the same time firmly complies with the highest ethical and moral standards of behavior.

► *These words by Rafael Carrión Jr., President and Chairman of the Board (1956–1991), were written in 1988 to commemorate the 95th anniversary of Banco Popular, and reflect our commitment to human resources.*

CORPORATE INFORMATION

Independent Registered Public Accounting Firm: PricewaterhouseCoopers LLP

Annual Meeting:

The 2013 Annual Stockholders’ Meeting of Popular, Inc. will be held on Tuesday, April 30, at 9:00 a.m. at Centro Europa Building in San Juan, Puerto Rico.

Additional Information:

The Annual Report to the Securities and Exchange Commission on Form 10-K and any other financial information may also be viewed by visiting our website: www.popular.com

SENIOR MANAGEMENT TEAM



From left to right, Eduardo J. Negrón, Juan Guerrero, Gilberto Monzón, Jorge A. Junquera, Ignacio Álvarez, Richard L. Carrión, Ileana González, Lidio Soriano, Carlos J. Vázquez, Eli Sepúlveda and Néstor O. Rivera.

BOARD OF DIRECTORS

RICHARD L. CARRIÓN
Chairman, President and Chief Executive Officer
Popular, Inc.

ALEJANDRO M. BALLESTER
President
Ballester Hermanos, Inc.

MARÍA LUISA FERRÉ
President and Chief Executive Officer
Grupo Ferré Rangel

DAVID E. GOEL
Managing General Partner
Matrix Capital Management Company, LLC

C. KIM GOODWIN
Private Investor

MANUEL MORALES JR.
President
Parkview Realty, Inc.

WILLIAM J. TEUBER JR.
Vice Chairman
EMC Corporation

CARLOS A. UNANUE
President
Goya de Puerto Rico

JOSÉ R. VIZCARRONDO
President and Chief Executive Officer
Desarrollos Metropolitanos, S.E.

EXECUTIVE OFFICERS

RICHARD L. CARRIÓN
Chairman, President and Chief Executive Officer
Popular, Inc.

JORGE A. JUNQUERA
Senior Executive Vice President
Chief Financial Officer
Popular, Inc.

CARLOS J. VÁZQUEZ
Executive Vice President
Popular, Inc.
President
Popular Community Bank

IGNACIO ÁLVAREZ
Executive Vice President
Chief Legal Officer
General Counsel & Corporate Matters Group
Popular, Inc.

ILEANA GONZÁLEZ
Executive Vice President
Commercial Credit Administration Group
Banco Popular de Puerto Rico

JUAN GUERRERO
Executive Vice President
Financial & Insurance Services Group
Banco Popular de Puerto Rico

GILBERTO MONZÓN
Executive Vice President
Individual Credit Group
Banco Popular de Puerto Rico

EDUARDO J. NEGRÓN
Executive Vice President
Administration Group
Popular, Inc.

NÉSTOR O. RIVERA
Executive Vice President
Retail Banking and Operations Group
Banco Popular de Puerto Rico

ELI SEPÚLVEDA
Executive Vice President
Popular, Inc.
Commercial Credit Group
Banco Popular de Puerto Rico

LIDIO SORIANO
Executive Vice President
Chief Risk Officer
Corporate Risk Management Group
Popular, Inc.

Carta a los Accionistas



Richard L. Carrión

Presidente de la Junta de Directores,
Presidente y Principal Oficial Ejecutivo

Nos hemos enfocado intensamente en cuatro áreas claves que identificamos como críticas para lograr que Popular vuelva a alcanzar niveles más altos de rentabilidad y de crecimiento—calidad de crédito, crecimiento de activos en nuestros negocios principales, eficiencia y el desempeño de nuestras operaciones en los Estados Unidos—y en todas estas áreas hemos avanzado de forma significativa.

Me place informar que el 2012 fue un buen año que nos posicionó para continuar progresando en 2013. Tal como compartí con ustedes el año pasado, nos hemos enfocado intensamente en cuatro áreas claves que identificamos como críticas para lograr que Popular vuelva a alcanzar niveles más altos de rentabilidad y de crecimiento—calidad de crédito, crecimiento de activos en nuestros negocios principales, eficiencia y el desempeño de nuestras operaciones en los Estados Unidos—y en todas estas áreas hemos avanzado de forma significativa.

CALIDAD DE CRÉDITO

En 2012 solidificamos las tendencias positivas que comenzaron a manifestarse a fines de 2011. Continuamos reduciendo las pérdidas netas en préstamos y la provisión para pérdidas en préstamos, resultando en 25% y 22% menos que en 2011, respectivamente.

Pero el logro más sobresaliente en 2012 fue la reducción sustancial de nuestros activos no productivos como resultado de la intensificación de nuestros esfuerzos y mayores recursos en el área de manejo de crédito. Esta reducción fue impulsada por una disminución de \$313 millones o 18% en préstamos no acumulativos en cartera, tanto en Puerto Rico como en nuestras operaciones en los Estados Unidos y a través de todas las carteras. Mediante una combinación de mayores esfuerzos de mitigación de pérdidas, resoluciones y reestructuraciones, ventas individuales y condiciones económicas más estables, al final del año los préstamos no acumulativos alcanzaron su nivel más bajo desde diciembre de 2009. Una de las señales más alentadoras fue una reducción de 27% en el volumen de préstamos entrando en la categoría de no acumulativos respecto al año anterior.

También se logró una reducción significativa en préstamos no acumulativos en la cartera de préstamos para la venta. Las propiedades repositadas aumentaron por \$94 millones, comparado con el año anterior, como resultado de mayores ejecuciones en nuestras carteras hipotecaria y comercial en Puerto Rico. Aunque

estamos conscientes de que esto es un resultado normal de nuestros esfuerzos para solucionar los préstamos no acumulativos, reestructuramos nuestra área de manejo de propiedades repositadas y pusimos en práctica varias estrategias para asegurar que solucionemos estos activos de la forma más eficiente y que podamos lograr el valor más alto posible.

Mirando hacia el futuro, estamos confiados en que continuaremos progresando en el área de calidad de crédito, mientras continuamos trabajando intensamente con los activos no productivos en nuestros libros. Como en el pasado, buscaremos todas las oportunidades para reducir los activos no productivos, incluyendo las ventas colectivas, siempre y cuando tengan sentido económico y podamos crear valor para nuestros accionistas.

La calidad de crédito es la palanca más grande que tenemos para continuar mejorando el desempeño financiero de Popular, dado el impacto que tiene tanto en el ingreso como en los gastos. Hemos identificado una cantidad considerable de gastos asociados con nuestros esfuerzos de manejo de crédito, incluyendo honorarios legales, tasaciones y gastos de propiedades repositadas, y confiamos que podremos reducir una porción sustancial de ellos mientras se vaya normalizando la situación del crédito.

CRECIMIENTO DEL NEGOCIO

Hemos incrementado nuestro enfoque en el crecimiento de nuestros negocios principales a medida que hemos observado señales de estabilización en el área de calidad de crédito. En Puerto Rico, estamos comenzando a ver un alza en la actividad económica de algunos sectores y estamos capitalizando nuestra posición de liderazgo para aprovechar estas oportunidades. Nuestro negocio hipotecario tuvo un gran año. Las originaciones alcanzaron \$1,500 millones, un aumento de 21% comparado con 2011, beneficiándonos de tasas de interés más bajas, programas federales de refinanciamiento y de incentivos locales de vivienda.

Carta a los Accionistas

Durante 2012, nuestra acción recuperó parte del terreno perdido durante 2011. BPOP cerró en 2011 en \$20.79, un 50% de aumento sobre el año anterior, luego de ajustar por la división de acciones a la inversa de 1 por 10 ejecutada en mayo. Estamos confiados en que mientras continuemos reduciendo nuestros préstamos no acumulativos, la economía de Puerto Rico se establezca más y podamos proveer mayor claridad respecto a asuntos tales como TARP, el precio de nuestra acción reflejará mejor el verdadero valor de nuestra franquicia.

Pudimos mantener nuestra base de depósitos básicos, a pesar de recortes adicionales a las tasas de interés que nos ayudaron a reducir nuestro costo de fondos. Estos esfuerzos y el desempeño mejor de lo anticipado de nuestra cartera garantizada por el FDIC nos ayudaron a mantener un margen neto por intereses muy por encima del de nuestros pares.

En Popular Community Bank, nuestra operación en los Estados Unidos, los balances de préstamos habían estado disminuyendo como resultado de nuestra salida de ciertos negocios. Aunque la baja demanda en préstamos mostró ser un reto, hacia fines del año nuestra cartera de préstamos (excluyendo la cartera descontinuada) comenzó a crecer nuevamente y nos sentimos alentados por un alza en el volumen de préstamos de nuestros clientes comerciales.

También continuamos buscando activos de alta calidad que pudiéramos adquirir y manejar dentro de nuestra infraestructura existente a un costo marginal mínimo. Completamos aproximadamente \$800 millones en adquisiciones estratégicas de préstamos durante el año, mayormente préstamos hipotecarios en los Estados Unidos y préstamos hipotecarios y de consumo en Puerto Rico.

EFICIENCIA Y EXCELENCIA ORGANIZACIONAL

Durante 2012, ampliamos los esfuerzos lanzados en 2011 para identificar oportunidades de ahorro en costos, y rediseñamos procesos claves en nuestra organización para aumentar nuestra eficiencia. Concluimos la implantación de la ventana de retiro voluntario anunciada a finales de 2011. A pesar de una mayor necesidad de personal en las funciones de crédito y manejo de riesgo, los gastos relacionados con salarios durante el cuarto trimestre descendieron \$9 millones anualizados, comparados con el cuarto trimestre del año anterior. Asimismo, implantamos nuestro plan de consolidación de sucursales, que comenzó en 2011 y resultó en una reducción neta de ocho sucursales en 2012.

Totalmente conscientes de que ciertos gastos, particularmente los relacionados con el crédito, continúan elevados, creamos un equipo de empleados de diversas áreas para identificar

oportunidades de ahorro que pudieran ayudar a contrarrestar una porción de estos gastos a corto plazo y disminuir significativamente nuestra base de gastos a mediano y largo plazo. Se lanzaron varias iniciativas y en 2013 comenzaremos a ver algunos de los beneficios.

En el área de rediseño de procesos, completamos la implantación de los nuevos procesos de originación de préstamos comerciales e hipotecarios comenzados en 2011, con resultados positivos en productividad, satisfacción de clientes y en la moral de los empleados. El proceso de tasación comercial fue revisado y ajustado para cumplir con nuevas regulaciones y reducir el tiempo en que toma desde la solicitud de tasación hasta una revisión final, que claramente impacta el proceso de originación comercial. Finalmente, lanzamos cuatro proyectos nuevos que continuarán durante 2013 en las siguientes áreas: el negocio comercial de empresas de tamaño mediano, nuestros canales de distribución, el negocio de servicios de préstamos hipotecarios y el área de compras. Para asegurar una ejecución exitosa de estos proyectos y la sustentabilidad de estos cambios, hemos provisto adiestramiento en la metodología LEAN a cerca de 600 empleados. Estamos extremadamente complacidos con el progreso que hemos logrado hasta el momento y continuaremos expandiendo estos esfuerzos en los próximos años.

POPULAR COMMUNITY BANK

Popular Community Bank (PCB) logró su segundo año consecutivo de ganancias, reportando un ingreso neto de \$46 millones, comparado con \$30 millones en 2011, impulsado por una menor provisión para pérdidas en préstamos como resultado de una mejor calidad de crédito.

Las pérdidas netas en préstamos y los préstamos no acumulativos fueron 45% y 36% más bajos, respectivamente, que en 2011. Aunque esto es una reducción significativa, el progreso de PCB en el área de calidad de crédito se aprecia mejor al considerar que las pérdidas netas en préstamos en 2012 y los préstamos no acumulativos al final del año habían descendido 78% y 71%, respectivamente, de sus niveles más altos en este ciclo crediticio.

En 2010, lanzamos un proceso para cambiar la marca de Banco Popular North America a Popular Community Bank para así ampliar su atractivo al sector no hispano a la vez que se mantenía el reconocimiento logrado entre los hispanos y su conexión con el nombre Popular. En los primeros dos años, el cambio de marca se efectuó en Illinois, California y Florida. En 2012, completamos el proceso, con nuestras operaciones en Nueva York y Nueva Jersey. El cambio ha sido bien recibido y ha resultado en un incremento en el balance promedio de depósitos de bajo costo en todas nuestras regiones en los Estados Unidos. Estamos confiados en que la nueva marca nos coloca en mejor posición mientras continuamos nuestros esfuerzos de crecer como un banco de la comunidad.

RESULTADOS FINANCIEROS, POSICIÓN DE CAPITAL Y DESEMPEÑO DE LA ACCIÓN

Como resultado de todos nuestros esfuerzos discutidos anteriormente, Popular, Inc. reportó un ingreso neto de \$245 millones, comparado con \$151 millones en 2011. El ingreso neto de Banco Popular de Puerto Rico totalizó \$291 millones, 26% más alto que el año anterior. Según detallado anteriormente, Popular Community Bank aumentó su ingreso neto por \$16 millones, comparado con 2011.

Popular, Inc. y sus subsidiarias bancarias han mantenido niveles fuertes de capital, aun en los años más difíciles de la reciente crisis financiera, y 2012 no fue excepción. Concluimos el año con niveles sólidos de capital que exceden por mucho las exigencias regulatorias actuales de capitalización bancaria. Anticipamos que mantendremos una posición de capital fuerte en los años venideros mientras se van implantando las reglas de Basel III. Esto nos debe proveer la flexibilidad de estructurar una salida del Programa de Alivio para Activos Problemáticos (TARP, por sus siglas en inglés) en el momento apropiado. Aunque queremos repagar TARP tan pronto sea posible, lo haremos en un momento y en la forma más alineada posible con los intereses de nuestros accionistas.

Durante 2012, nuestra acción recuperó parte del terreno perdido durante 2011. BPOP cerró

el 2012 en \$20.79, un 50% de aumento sobre el año anterior, luego de ajustar por la división de acciones a la inversa de 1 por 10 ejecutada en mayo. Estamos confiados en que mientras continuemos reduciendo nuestros préstamos no acumulativos, la economía de Puerto Rico se estabilice más y podamos proveer mayor claridad respecto a asuntos tales como TARP, el precio de nuestra acción reflejará mejor el verdadero valor de nuestra franquicia.

NUESTRA ORGANIZACIÓN

En Popular, recientemente anunciamos varios cambios gerenciales que serán efectivos en marzo de 2013. Jorge A. Junquera, quien ha trabajado para Popular durante más de 40 años, los últimos 16 como Principal Oficial Financiero (CFO), asumirá la posición de Vicepresidente y Ayudante Especial del Principal Oficial Ejecutivo (CEO). En su nuevo puesto, Jorge contribuirá en actividades de desarrollo de negocios y supervisará la cartera de inversiones de la Compañía. A través de su carrera, y en su función como CFO, Jorge indudablemente ha dejado su huella en Popular. Una de las aportaciones más importantes fue proveer un fuerte liderazgo durante la reciente crisis financiera y asegurar que la Corporación y sus subsidiarias bancarias siempre mantuvieran niveles adecuados de capital y liquidez durante ese período tan retante. Estoy seguro que, en sus nuevas responsabilidades, Jorge continuará haciendo aportaciones importantes para el futuro éxito de Popular.

Carlos J. Vázquez sustituirá a Jorge como CFO de Popular. Carlos se ha desempeñado en Popular en cargos de alta gerencia durante más de 15 años luego de trabajar en JP Morgan en diversos puestos de banca de inversión y mercado de capital. En Popular, dirigió con éxito grupos tales como Crédito a Individuos en Puerto Rico y Manejo de Riesgo para la Corporación. Más recientemente, en su función como Presidente de Popular Community Bank, logró que nuestras operaciones en los Estados Unidos volvieran a tener ganancias operacionales luego de un período difícil. Estoy confiado en que, dado su amplio trasfondo financiero y su profundo conocimiento de Popular, Carlos ayudará a darle forma al futuro de Popular en los años venideros.

Valores Institucionales

COMPROMISO SOCIAL

Trabajamos mano a mano con nuestras comunidades. Estamos comprometidos a trabajar activamente para promover el desarrollo social y económico de nuestras comunidades.

CLIENTE

Desarrollamos relaciones para toda la vida. La relación con el cliente está por encima de una transacción particular. Añadimos valor a cada interacción ofreciendo servicio personalizado de alta calidad, y soluciones adecuadas, eficientes e innovadoras.

INTEGRIDAD

Honramos la confianza depositada en nosotros. Nos desempeñamos bajo las normas más estrictas de ética y moral, manifestadas diariamente a través de todas nuestras decisiones y acciones.

EXCELENCIA

Aspiramos a ser mejores cada día. Creemos que sólo hay una forma de hacer las cosas: bien hechas desde el principio y excediendo expectativas.

INNOVACIÓN

Somos propulsores de futuro. Fomentamos la búsqueda incesante de ideas y soluciones innovadoras en todo lo que hacemos para realizar nuestra ventaja competitiva.

NUESTRA GENTE

Contamos con el mejor talento. Somos líderes y trabajamos en equipo para el éxito dentro de un ambiente de trabajo que se caracteriza por el cariño y la disciplina.

RENDIMIENTO

Tenemos un compromiso total con nuestros accionistas. Nos exigimos un alto nivel de eficiencia, individual y en equipo, para obtener resultados financieros altos y consistentes, fundamentados en una visión a largo plazo.

Carta a los Accionistas

Manuel Chinaea asumirá las funciones de Principal Oficial de Operaciones de Popular Community Bank. Manuel, con más de 23 años en Popular, ha dirigido diversas unidades de Popular Community Bank, tales como las Operaciones de Banca Individual, Mercadeo, Desarrollo de Productos, *Popular Investments* y Crédito a Individuos. El amplio conocimiento que tiene Manuel de PCB será un activo importante mientras continuamos reposicionando nuestras operaciones en los Estados Unidos.

Estos cambios reflejan la profundidad de talento que tenemos en Popular y son el resultado de nuestros procesos de manejo de talento. Nos esforzamos por ofrecer oportunidades de desarrollo a nuestros empleados, lo que a su vez nos provee una fuente poderosa de candidatos para suplir las necesidades actuales y futuras de nuestra organización.

Otra fuente de fortaleza para Popular es nuestra Junta de Directores, compuesta por individuos de alto talento, comprometidos y con mucha experiencia, que nos han guiado a través de los desafíos de los años recientes. Dos directores, Manuel Morales, Jr. y José R. Vizcarrondo, recientemente anunciaron que no buscarán su reelección como directores al concluir sus términos en 2013. Mano se desempeñó como director de Popular, Inc. durante 23 años y como director de Banco Popular de Puerto Rico durante 35 años. Su servicio se distinguió por su análisis meticuloso e incisivo y la pasión con la que atendió los asuntos críticos. Joe sirvió como director de Popular, Inc. durante nueve años, ofreciendo valiosa perspectiva y asesoramiento muy acertado durante un período difícil. Estamos agradecidos a ambos por sus servicios y compromiso inquebrantable a través de los años y todos echaremos de menos su participación activa en la Junta.

FUNDAMENTOS SÓLIDOS

Hoy nos sentimos confiados de que las estrategias que hemos adoptado continuarán dando fruto y que los elementos fundamentales de nuestro negocio continúan sólidos.

En Puerto Rico, disfrutamos de una posición de mercado envidiable contando con la participación de mercado más alta en siete de nueve categorías. Aunque la economía local todavía enfrenta numerosos desafíos, vemos señales adicionales de estabilización. Como la institución financiera más grande en Puerto Rico, continuamos promoviendo el desarrollo económico y la formación de capital para ayudar a impulsar el crecimiento.

Hemos logrado un progreso considerable en los Estados Unidos. Aunque reconocemos que nuestras operaciones no han alcanzado niveles aceptables de rentabilidad, el mejoramiento continuo de nuestros resultados nos proveerá mayor flexibilidad para atender este asunto en el futuro.

También contamos con otros activos, tales como nuestra participación en EVERTEC, nuestra tenencia de acciones en Centro Financiero BHD y la cartera garantizada adquirida en la transacción asistida por el FDIC en 2010, cuyo valor potencial excede el valor que se registra en nuestros libros. En el caso de EVERTEC, Apollo Global Management recientemente anunció su intención de vender una porción de la compañía en una oferta pública que nos dará la opción de monetizar este valioso activo.

Pero, sin lugar a dudas, nuestro activo más valioso se encuentra en nuestra gente, que enfrentó y respondió a estos tiempos de retos con un nivel admirable de compromiso y tenacidad. Les doy las gracias por sus esfuerzos y a ustedes por su paciencia y respaldo. El valor de esta organización continúa siendo fuerte y estoy confiado que seguiremos creciendo y prosperando en los próximos años.

Sinceramente,



RICHARD L. CARRIÓN
PRESIDENTE DE LA JUNTA DE DIRECTORES,
PRESIDENTE Y PRINCIPAL OFICIAL
EJECUTIVO

DATOS y CIFRAS CLAVES

PUNTOS PRINCIPALES DE 2012

Popular, Inc., fundada en 1893, es la institución bancaria líder en Puerto Rico tanto en activos como en depósitos, y ocupa la posición número 36 en activos entre los bancos estadounidenses. En los Estados Unidos, Popular ha establecido una franquicia de banco de la comunidad, operando como Popular Community Bank, y ofreciendo una amplia gama de servicios y productos financieros con sucursales en Nueva York, Nueva Jersey, Illinois, Florida y California.



POPULAR, INC.

\$245 millones
en ingreso neto

\$1,800 millones
en ingreso bruto

\$2,000 millones

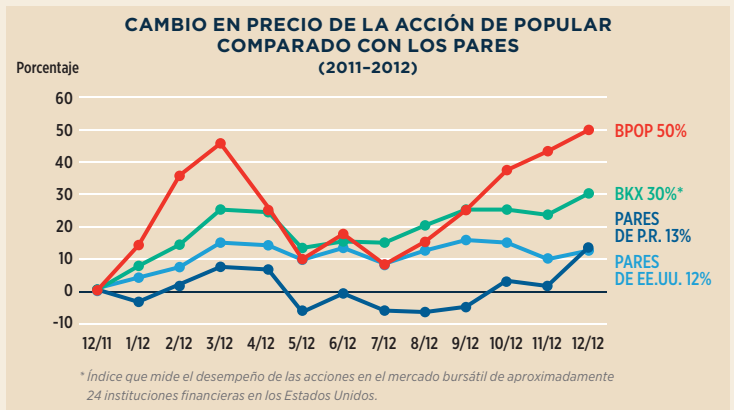
cantidad por la cual el capital total excedió el mínimo requerido para ser considerado bien capitalizado

\$364 millones

disminución de activos no productivos
(nivel más bajo desde 2010)

\$313 millones

reducción en préstamos no acumulativos en cartera
(nivel más bajo desde 2009)



BANCO POPULAR DE PUERTO RICO

(A través de Puerto Rico e Islas Vírgenes)



Más de
1.5 millones
de clientes

184 sucursales
58 oficinas



6,671 empleados a tiempo completo¹

\$27,600 millones
en activos

\$19,300 millones
en préstamos

\$21,000 millones
en depósitos

#1 en participación de mercado en total de depósitos (38%) y total de préstamos (35%)²

¹ Incluye grupo corporativo
² Al 30 de septiembre de 2012



POPULAR COMMUNITY BANK

(A través de cinco estados en los Estados Unidos³)



Aproximadamente
382,000
clientes
92 sucursales

Acceso a más de
38,000
ATMs sin recargos
en los principales comercios nacionales y locales

1,401 empleados a tiempo completo

Depósitos E-LOAN
\$311 millones
y aproximadamente 19,000 clientes



◀ El cambio de marca de las operaciones de Popular en EE.UU. a Popular Community Bank se completó en mayo con las sucursales de Nueva York y Nueva Jersey.

\$8,700 millones
en activos

\$5,800 millones
en préstamos

\$6,100 millones
en depósitos

³ Nueva York, Nueva Jersey, Illinois, Florida y California

Compromiso Social

Un legado de solidaridad

Creemos que la educación es la base de cualquier sociedad exitosa. Por eso, nuestros brazos filantrópicos, **Fundación Banco Popular** y **Popular Community Bank Foundation**, invirtieron 80% de sus recursos en organizaciones sin fines de lucro que promueven la innovación escolar, programas después de clases y escuelas alternativas. **A continuación, un recorrido de nuestra labor comunitaria en 2012.**

Respaldamos seis organizaciones que promueven la **INNOVACIÓN EN LA EDUCACIÓN** a aproximadamente 7,150 estudiantes de escuelas públicas. Entre este grupo se encuentra Ciencia Puerto Rico, que desarrolló un programa piloto que promueve el conocimiento científico y el interés en carreras de investigación entre los estudiantes de escuela elemental e intermedia mediante el uso de *podcasts*, conferencias y lecciones ofrecidas por científicos puertorriqueños. Más de 70% de los estudiantes participantes en este programa han mostrado un interés marcado en aprender sobre las ciencias.



Identificando la necesidad de una red formal entre las organizaciones sin fines de lucro para promover y compartir el conocimiento, las mejores prácticas y recursos, organizamos nuestro primer taller **FOMENTANDO ALIANZAS**. Con la representación de 83 organizaciones sin fines de lucro, el taller abrió el camino para colaboraciones que adelantan las misiones independientes de estas instituciones.

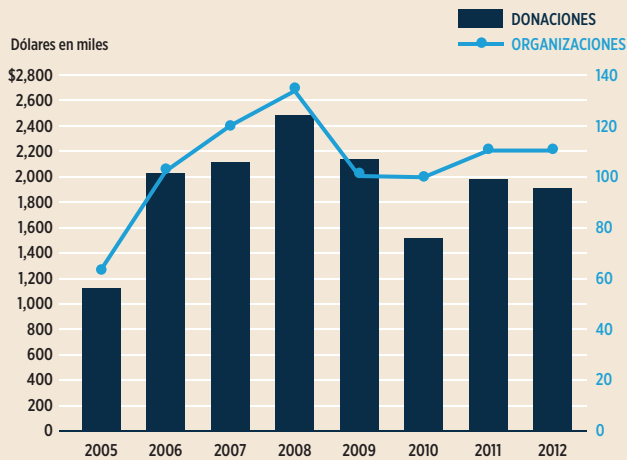
Popular Community Bank (PCB) ayudó a recaudar \$32,945 para el Banco de Alimentos de la Ciudad de Nueva York y \$17,724 para la División de Nueva Jersey del Ejército de Salvación, incluyendo \$33,862 en donativos directamente de PCB para financiar los **SERVICIOS DE EMERGENCIA POR DESASTRES** de estas dos organizaciones sin fines de lucro que proveyeron ayuda a personas necesitadas tras el impacto del huracán Sandy. La PCB Foundation también contribuyó económicamente a otras 28 organizaciones sin fines de lucro a través de nuestras regiones en los Estados Unidos (California, Florida, Illinois, Nueva York y Nueva Jersey). Continuamos nuestra asociación con Junior Achievement USA y Operation Hope para proveer **OPORTUNIDAD ECONÓMICA** a comunidades desatendidas, mediante la educación financiera y el apoderamiento.

El programa de educación financiera de Banco Popular, **FINANZAS EN TUS MANOS**, contribuyó a realzar las destrezas financieras de 20,726 individuos mediante 409 talleres.

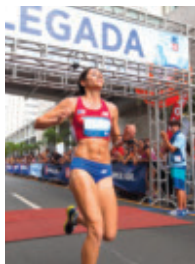


Donativos de las fundaciones y programas comunitarios corporativos: \$3.3 millones. Voluntariado: 3,556 empleados voluntarios de Popular, 16,400 horas y 211 eventos comunitarios.

DONATIVOS DE LAS FUNDACIONES POPULAR A ORGANIZACIONES SIN FINES DE LUCRO EN EE.UU. Y P.R. (2005-2012)



Respaldamos seis organizaciones que proveen **EDUCACIÓN ALTERNATIVA** a 772 estudiantes que abandonaron el sistema escolar tradicional, 289 de los cuales recibieron un grado de escuela superior en 2012. Con nuestro respaldo, cuatro de estas organizaciones dirigieron una campaña para poner en práctica la Ley Habilitadora para el Desarrollo de la Educación Alternativa en Puerto Rico que incorpora oficialmente la educación alternativa en el sistema educativo y garantiza fondos públicos recurrentes para estos programas.

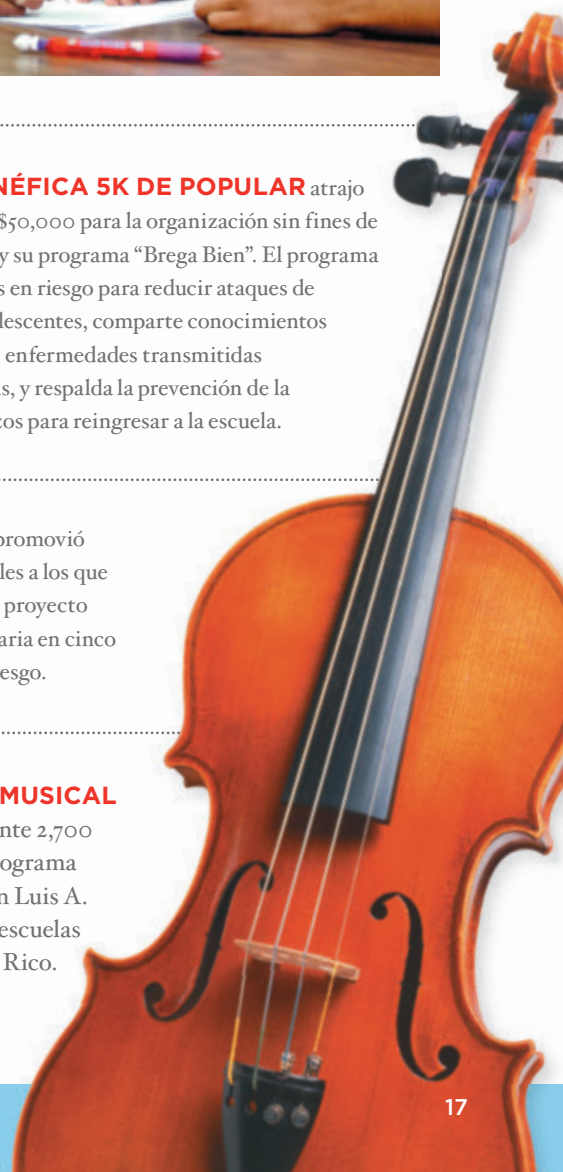


La octava **CARRERA BENÉFICA 5K DE POPULAR** atrajo a 4,500 corredores y recaudó \$50,000 para la organización sin fines de lucro Iniciativa Comunitaria y su programa “Brega Bien”. El programa provee herramientas a jóvenes en riesgo para reducir ataques de violencia y agresión entre adolescentes, comparte conocimientos relacionados con VIH/SIDA, enfermedades transmitidas sexualmente y el uso de drogas, y respalda la prevención de la deserción escolar y los esfuerzos para reingresar a la escuela.

Nuestro programa institucional **ECHAR PA'LANTE** promovió iniciativas empresariales mediante cuatro talleres regionales a los que asistieron aproximadamente 1,500 empresarios y lanzó un proyecto educativo que ayudó a promover la participación comunitaria en cinco escuelas con una matrícula total de 1,700 estudiantes en riesgo.



Donamos \$290,000 para programas de **EDUCACIÓN MUSICAL** que realzan las destrezas musicales de aproximadamente 2,700 niños y jóvenes. Desde sus inicios en 2006, nuestro programa Revive la Música — una colaboración con la Fundación Luis A. Ferré — ha donado 1,089 instrumentos musicales a 83 escuelas públicas y organizaciones sin fines de lucro en Puerto Rico.



25 Años

Resumen Financiero Histórico

(Dólares en millones, excepto información por acción) 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998

Información Financiera Seleccionada											
Ingreso neto (Pérdida Neta)	\$ 47.4	\$ 56.3	\$ 63.4	\$ 64.6	\$ 85.1	\$ 109.4	\$ 124.7	\$ 146.4	\$ 185.2	\$ 209.6	\$ 232.3
Activos	5,706.5	5,972.7	8,983.6	8,780.3	10,002.3	11,513.4	12,778.4	15,675.5	16,764.1	19,300.5	23,160.4
Préstamos Brutos	3,096.3	3,320.6	5,373.3	5,195.6	5,252.1	6,346.9	7,781.3	8,677.5	9,779.0	11,376.6	13,078.8
Depósitos	4,715.8	4,926.3	7,422.7	7,207.1	8,038.7	8,522.7	9,012.4	9,876.7	10,763.3	11,749.6	13,672.2
Capital de Accionistas	334.9	375.8	588.9	631.8	752.1	834.2	1,002.4	1,141.7	1,262.5	1,503.1	1,709.1
Valor agregado en el mercado	\$ 355.0	\$ 430.1	\$ 479.1	\$ 579.0	\$ 987.8	\$ 1,014.7	\$ 923.7	\$ 1,276.8	\$ 2,230.5	\$ 3,350.3	\$ 4,611.7
Rendimiento de Activos (ROA)	0.85%	0.99%	1.09%	0.72%	0.89%	1.02%	1.02%	1.04%	1.14%	1.14%	1.14%
Rendimiento de Capital (ROE)	14.87%	15.87%	15.55%	10.57%	12.72%	13.80%	13.80%	14.22%	16.17%	15.83%	15.41%
Por Acción Común¹											
Ingreso neto (Pérdida Neta) – Básico	\$ 2.95	\$ 3.51	\$ 3.94	\$ 2.69	\$ 3.49	\$ 4.18	\$ 4.59	\$ 5.24	\$ 6.69	\$ 7.51	\$ 8.26
Ingreso neto (Pérdida Neta) – Diluido	2.95	3.51	3.94	2.69	3.49	4.18	4.59	5.24	6.69	7.51	8.26
Dividendos (Declarados)	0.86	1.00	1.00	1.00	1.00	1.20	1.25	1.54	1.83	2.00	2.50
Valor en los Libros	20.93	23.44	24.58	26.24	28.79	31.86	34.35	39.52	43.98	51.83	59.32
Precio en el Mercado	22.19	26.88	20.00	24.06	37.81	39.38	35.16	48.44	84.38	123.75	170.00
Activos por Área Geográfica											
Puerto Rico	93%	92%	89%	87%	87%	79%	76%	75%	74%	74%	71%
Estados Unidos	6%	6%	9%	11%	10%	16%	20%	21%	22%	23%	25%
Caribe y Latinoamérica	1%	2%	2%	2%	3%	5%	4%	4%	4%	3%	4%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Sistema de Distribución Tradicional											
Sucursales Bancarias											
Puerto Rico	126	128	173	161	162	165	166	166	178	201	198
Islas Virgenes	3	3	3	3	3	8	8	8	8	8	8
Estados Unidos	10	10	24	24	30	32	34	40	44	63	89
Subtotal	139	141	200	188	195	205	208	214	230	272	295
Oficinas No Bancarias											
Popular Financial Holdings				27	41	58	73	91	102	117	128
Popular Cash Express											51
Popular Finance	17	18	26	26	26	26	28	31	39	44	48
Popular Auto		4	9	9	9	8	10	9	8	10	10
Popular Leasing, U.S.A.										7	8
Popular Mortgage								3	3	3	11
Popular Securities									1	2	2
Popular One											
Popular Insurance											
Popular Insurance Agency U.S.A.											
Popular Insurance, V.I.											
E-LOAN											
EVERTEC											
Subtotal	17	22	35	62	76	92	111	134	153	183	258
Total	156	163	235	250	271	297	319	348	383	455	553
Sistema Electrónico de Distribución											
Cajeros Automáticos Propios y Administrados											
Puerto Rico	153	151	211	206	211	234	262	281	327	391	421
Islas Virgenes	3	3	3	3	3	8	8	8	9	17	59
Estados Unidos					6	11	26	38	53	71	94
Total	156	154	214	209	220	253	296	327	389	479	574
Transacciones (en millones)											
Transacciones Electrónicas ²	14.9	16.1	18.0	23.9	28.6	33.2	43.0	56.6	78.0	111.2	130.5
Efectos Procesados ³	159.8	161.9	164.0	166.1	170.4	171.8	174.5	175.0	173.7	171.9	170.9
Empleados (equivalente a tiempo completo) 5,131	5,213	7,023	7,006	7,024	7,533	7,606	7,815	7,996	8,854	10,549	

¹ Los datos de las acciones comunes han sido ajustados por las divisiones en acciones y la división de acciones a la inversa realizada en mayo de 2012.

² Desde el 1981 al 2003, las transacciones electrónicas incluyen transacciones ACH, Pago Directo, TelePago Popular, Banca por Internet y transacciones por la Red ATH en Puerto Rico. Desde el 2004 hasta el 2009, estos números incluyen el total de transacciones por la Red ATH en República Dominicana, Costa Rica, El Salvador y Estados Unidos, transacciones de facturación médica, transferencias cablegráficas y otros pagos electrónicos además de lo previamente señalado. A partir del 2010, esta cifra incluye solamente las transacciones realizadas por los clientes de Popular, Inc. y excluye las transacciones procesadas por EVERTEC para otros clientes.

³ Luego de la venta en 2010 de una participación mayoritaria en EVERTEC, la subsidiaria de tecnología de Popular, Inc., no se procesan efectos electrónicos.

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
\$ 257.6	\$ 276.1	\$ 304.5	\$ 351.9	\$ 470.9	\$ 489.9	\$ 540.7	\$ 357.7	\$ (64.5)	\$(1,243.9)	\$(573.9)	\$ 137.4	\$ 151.3	\$ 245.3
25,460.5	28,057.1	30,744.7	33,660.4	36,434.7	44,401.6	48,623.7	47,404.0	44,411.4	38,882.8	34,736.3	38,815.0	37,348.4	36,507.5
14,907.8	16,057.1	18,168.6	19,582.1	22,602.2	28,742.3	31,710.2	32,736.9	29,911.0	26,268.9	23,803.9	26,458.9	25,314.4	25,093.6
14,173.7	14,804.9	16,370.0	17,614.7	18,097.8	20,593.2	22,638.0	24,438.3	28,334.4	27,550.2	25,924.9	26,762.2	27,942.1	27,000.6
1,661.0	1,993.6	2,272.8	2,410.9	2,754.4	3,104.6	3,449.2	3,620.3	3,581.9	3,268.4	2,538.8	3,800.5	3,918.8	4,110.0
\$3,790.2	\$3,578.1	\$3,965.4	\$4,476.4	\$5,960.2	\$7,685.6	\$5,836.5	\$5,003.4	\$2,968.3	\$1,455.1	\$1,445.4	\$3,211.4	\$1,426.0	\$2,144.9
1.08%	1.04%	1.09%	1.11%	1.36%	1.23%	1.17%	0.74%	-0.14%	-3.04%	-1.57%	0.36%	0.40%	0.68%
15.45%	15.00%	14.84%	16.29%	19.30%	17.60%	17.12%	9.73%	-2.08%	-44.47%	-32.95%	4.37%	4.01%	6.37%
\$ 9.19	\$ 9.85	\$ 10.87	\$ 13.05	\$ 17.36	\$ 17.95	\$ 19.78	\$ 12.41	\$ (2.73)	\$(45.51)	\$ 2.39	\$(0.62)	\$ 1.44	\$ 2.35
9.19	9.85	10.87	13.05	17.36	17.92	19.74	12.41	(2.73)	(45.51)	2.39	(0.62)	1.44	2.35
3.00	3.20	3.80	4.00	5.05	6.20	6.40	6.40	6.40	4.80	0.20	-	-	-
57.54	69.62	79.67	91.02	96.60	109.45	118.22	123.18	121.24	63.29	38.91	36.67	37.71	39.35
139.69	131.56	145.40	169.00	224.25	288.30	211.50	179.50	106.00	51.60	22.60	31.40	13.90	20.79
71%	72%	68%	66%	62%	55%	53%	52%	59%	64%	65%	74%	74%	73%
25%	26%	30%	32%	36%	43%	45%	45%	38%	33%	32%	23%	23%	24%
4%	2%	2%	2%	2%	2%	2%	3%	3%	3%	3%	3%	3%	3%
100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
199	199	196	195	193	192	194	191	196	179	173	185	183	175
8	8	8	8	8	8	8	8	8	8	8	8	9	9
91	95	96	96	97	128	136	142	147	139	101	96	94	92
298	302	300	299	298	328	338	341	351	326	282	289	286	276
137	136	149	153	181	183	212	158	134	2				
102	132	154	195	129	114	4							
47	61	55	36	43	43	49	52	51	9				
12	12	20	18	18	18	17	15	12	12	10	10	10	10
10	11	13	13	11	15	14	11	24	22				
13	21	25	29	32	30	33	32	32	32	33	36	37	37
2	3	4	7	8	9	12	12	13	7	6	6	4	4
												4	5
	2	2	2	2	2	2	2	2	1	1	1	1	1
		1	1	1	1	1	1	1	1	1	1	1	1
			1	1	1	1	1	1	1	1	1	1	1
						1	1	1	1				
4	4	4	5	5	5	5	7	9	9	9			
327	382	427	460	431	421	351	292	280	97	61	55	58	59
625	684	727	759	729	749	689	633	631	423	343	344	344	335
442	478	524	539	557	568	583	605	615	605	571	624	613	597
68	37	39	53	57	59	61	65	69	74	77	17	20	20
99	109	118	131	129	163	181	192	187	176	136	138	135	134
609	624	681	723	743	790	825	862	871	855	784	779	768	751
159.4	199.5	206.0	236.6	255.7	568.5	625.9	690.2	772.7	849.4	804.1	381.6	410.4	420.4
171.0	160.2	149.9	145.3	138.5	133.9	140.3	150.0	175.2	202.2	191.7			
11,501	10,651	11,334	11,037	11,474	12,139	13,210	12,508	12,303	10,587	9,407	8,277	8,329	8,072

Nuestra Credo

El Banco Popular es una institución genuinamente nativa dedicada exclusivamente a trabajar por el bienestar social y económico de Puerto Rico e inspirada en los principios más sanos y fundamentales de una buena práctica bancaria.

El Popular tiene empeñados sus esfuerzos y voluntad al desarrollo de un servicio bancario para Puerto Rico dentro de normas estrictamente comerciales y tan eficiente como pueda requerir la comunidad más progresista del mundo.

► *Estas palabras, escritas en 1928 por don Rafael Carrión Pacheco, Vicepresidente Ejecutivo y Presidente (1927-1956), representan el pensamiento que rige a Popular, Inc. en todos sus mercados.*

Nuestra Gente

Los hombres y mujeres que laboran para nuestra institución, desde los más altos ejecutivos hasta los empleados que llevan a cabo las tareas más rutinarias, sienten un orgullo especial al servir a nuestra clientela con esmero y dedicación.

Todos sienten la íntima satisfacción de pertenecer a la Gran Familia del Banco Popular, en la que se fomenta el cariño y la comprensión entre todos sus miembros, y en la que a la vez se cumple firmemente con las más estrictas reglas de conducta y de moral.

► *Estas palabras fueron escritas en 1988 por don Rafael Carrión, Jr., Presidente y Presidente de la Junta de Directores (1956-1991), con motivo del 50to aniversario de Banco Popular Puerto Rico y son muestra del compromiso con nuestros empleados.*

INFORMACIÓN CORPORATIVA

Firma Registrada de Contabilidad Pública
Independiente: PricewaterhouseCoopers LLP

Reunión Anual:

La reunión anual de 2013 de accionistas de Popular, Inc. se celebrará el martes, 30 de abril, a las 9:00 a.m. en el Edificio Centro Europa en San Juan, Puerto Rico.

Información Adicional:

El Informe Anual en el Formulario 10-K radicado con la Comisión de Valores e Intercambio e información financiera adicional están disponibles accediendo nuestra página de Internet: www.popular.com

EQUIPO GERENCIAL EJECUTIVO



Desde la izquierda, Eduardo J. Negrón, Juan Guerrero, Gilberto Monzón, Jorge A. Junquera, Ignacio Álvarez, Richard L. Carrión, Ileana González, Lidio Soriano, Carlos J. Vázquez, Eli Sepúlveda y Néstor O. Rivera.

JUNTA DE DIRECTORES

RICHARD L. CARRIÓN

Presidente de la Junta de Directores, Presidente y Principal Oficial Ejecutivo Popular, Inc.

ALEJANDRO M. BALLESTER

Presidente
Ballester Hermanos, Inc.

MARÍA LUISA FERRÉ

Presidenta y Principal Oficial Ejecutiva
Grupo Ferré Rangel

DAVID E. GOEL

Socio Gerente General
Matrix Capital Management
Company, LLC

C. KIM GOODWIN

Inversionista Privada

MANUEL MORALES, JR.

Presidente
Parkview Realty, Inc.

WILLIAM J. TEUBER, JR.

Vicepresidente Ejecutivo
EMC Corporation

CARLOS A. UNANUE

Presidente
Goya de Puerto Rico

JOSÉ R. VIZCARRONDO

Presidente y Principal Oficial Ejecutivo
Desarrollos Metropolitanos, S.E.

OFICIALES EJECUTIVOS

RICHARD L. CARRIÓN

Presidente de la Junta de Directores, Presidente y Principal Oficial Ejecutivo Popular, Inc.

JORGE A. JUNQUERA

Primer Vicepresidente Ejecutivo
Principal Oficial Financiero
Popular, Inc.

CARLOS J. VÁZQUEZ

Vicepresidente Ejecutivo
Popular, Inc.
Presidente
Popular Community Bank

IGNACIO ÁLVAREZ

Vicepresidente Ejecutivo
Principal Oficial Legal
Grupo de Consejería General y
Asuntos Corporativos
Popular, Inc.

ILEANA GONZÁLEZ

Vicepresidenta Ejecutiva
Grupo de Administración de
Crédito Comercial
Banco Popular de Puerto Rico

JUAN GUERRERO

Vicepresidente Ejecutivo
Grupo de Servicios Financieros y
Seguros
Banco Popular de Puerto Rico

GILBERTO MONZÓN

Vicepresidente Ejecutivo
Grupo de Crédito a Individuos
Banco Popular de Puerto Rico

EDUARDO J. NEGRÓN

Vicepresidente Ejecutivo
Grupo de Administración
Popular, Inc.

NÉSTOR O. RIVERA

Vicepresidente Ejecutivo
Grupo de Banca Individual y
Operaciones
Banco Popular de Puerto Rico

ELI SEPÚLVEDA

Vicepresidente Ejecutivo
Popular, Inc.
Grupo de Crédito Comercial
Banco Popular de Puerto Rico

LIDIO SORIANO

Vicepresidente Ejecutivo
Principal Oficial de Riesgo
Grupo Corporativo de Manejo de Riesgo
Popular, Inc.

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The following Management's Discussion and Analysis ("MD&A") provides information which management believes is necessary for understanding the financial performance of Popular, Inc. and its subsidiaries (the "Corporation" or "Popular"). All accompanying tables, consolidated financial statements, and corresponding notes included in this "Financial Review and Supplementary Information - 2012 Annual Report" ("the report") should be considered an integral part of this MD&A.

FORWARD-LOOKING STATEMENTS

The information included in this report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may relate to the Corporation's financial condition, results of operations, plans, objectives, future performance and business, including, but not limited to, statements with respect to expected earnings levels, the adequacy of the allowance for loan losses, delinquency trends, market risk and the impact of interest rate changes, capital market conditions, capital adequacy and liquidity, and the effect of legal proceedings and new accounting standards on the Corporation's financial condition and results of operations. All statements contained herein that are not clearly historical in nature are forward-looking, and the words "anticipate," "believe," "continues," "expect," "estimate," "intend," "project" and similar expressions and future or conditional verbs such as "will," "would," "should," "could," "might," "can," "may," or similar expressions are generally intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance, are based on management's current expectations and, by their nature, involve certain risks, uncertainties, estimates and assumptions by management that are difficult to predict. Various factors, some of which are beyond the Corporation'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; the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Financial Reform Act) on the Corporation's businesses, business practices and costs of operations; 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 such 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 the 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; the Corporation's ability to grow its core businesses; decisions to downsize, sell or close units or otherwise change the business mix of the Corporation; and management's ability to identify and manage these and other risks. Moreover, the outcome of legal proceedings is inherently uncertain and depends on judicial interpretations of law and the findings of regulators, judges and juries.

All forward-looking statements included in this report are based upon information available to the Corporation as of the date of this report, and other than as required by law, including the requirements of applicable securities laws, management assumes 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.

The description of the Corporation's business and risk factors contained in Item 1 and 1A of its Form 10-K for the year ended December 31, 2012 discusses additional information about the business of the Corporation and the material risk factors that, in addition to the other information in this report, readers should consider.

OVERVIEW

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 loans, investment banking, broker-dealer, auto and equipment leasing and financing, and insurance services through specialized subsidiaries. Effective December 31, 2012, Popular Mortgage, which was a wholly-owned subsidiary of BPPR prior to that date, was merged with and into BPPR as part of an internal reorganization.

The Corporation's mortgage origination business will continue to be conducted under the brand name Popular Mortgage. 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. As part of the rebranding of the BPNA franchise, all of its branches operate under a new name, Popular Community Bank. Note 41 to the consolidated financial statements presents information about the Corporation's business segments.

The Corporation has several investments which accounts for under the equity method. These include the 48.5% interest in EVERTEC, a 20% interest in Centro Financiero BHD and our 24.9% interest in PRLP 2011 Holdings LLP, among other investments in limited partnerships which mainly hold investment securities. EVERTEC provides transaction processing services throughout the Caribbean and Latin America, including servicing many of the Corporation's system infrastructures and transaction processing businesses. Centro Financiero BHD is a diversified financial services institution operating in the Dominican Republic. PRLP 2011 Holdings LLP is a joint venture to which the Corporation sold construction and commercial loans, most of which were non-performing, with a fair value of \$148 million during the year 2011. For the year ended December 31, 2012, the Corporation recorded approximately \$20.7 million in earnings from these investments on an aggregate basis. The carrying amounts of these investments as of December 31, 2012 were \$246.8 million. Refer to Note 16 to the consolidated financial statements for additional information of the Corporation's investments at equity.

The Corporation's net income for the year ended December 31, 2012 amounted to \$245.3 million, compared with net income of \$151.3 million and \$137.4 million for 2011 and 2010, respectively. The results for 2012 reflect an income tax benefit of \$72.9 million related to reduction of the deferred tax liability on the estimated gains for tax purposes related to the loans acquired from Westernbank as a result of the closing agreement with the Puerto Rico Department of Treasury, which established that these would be taxed at a capital gain rate. Also, the results from 2012 reflect a benefit of approximately \$26.9 million from the Corporation's share of a tax benefit from a grant received by EVERTEC from the Puerto Rico Government. During 2011, the Corporation recorded an income tax expense of \$103.3 million as a result of the reduction in the marginal tax rate, which was partially offset by a benefit of \$53.6 million recorded as a result of a closing agreement with the Puerto Rico Department of Treasury, which deferred the deduction of charge-offs taken during 2009 and 2010 until the years 2013-2016. The results for 2010 include a \$640.8 million gain on the sale of a majority interest in

EVERTEC. Table 1 provides selected financial data for the past five years. For purposes of the discussions, assets subject to loss sharing agreements with the FDIC, including loans and other real estate owned, are referred to as "covered assets" or "covered loans" since the Corporation expects to be reimbursed for 80% of any future losses on those assets, subject to the terms of the FDIC loss sharing agreements.

During 2012, the Corporation maintained a strong net interest margin, produced solid and stable top line income throughout the challenging credit cycle, and reflected a reduction in its provision for loan losses. For 2012, top line income, defined as net interest income plus non-interest income, remained strong at \$1.8 billion, while the provision for loan losses declined by \$166.8 million, compared with 2011. Substantial efforts to bring down the cost of deposits helped maintain a strong net interest margin, on a taxable equivalent basis, of 4.47% for the year 2012.

In Puerto Rico, the credit environment appears to be stabilizing although credit costs remain high, but there has been improvement in some of the Corporation's Puerto Rico loan portfolios during 2012, which contributed to a decline in the provision for loan losses in the BPPR reportable segment of \$130.7 million compared with the year 2011. The improvement is the result of lower level of non-performing loans and improved credit performance. Current conditions in Puerto Rico make loan growth a challenge. However, the Corporation has seen growth in the mortgage lending sector. The Corporation experienced an increase in residential mortgage loan originations during 2012, when compared with 2011. The increase in mortgage loan origination volumes reflect the benefit of a low interest rate environment, the HARP and FHA Streamline programs and the housing incentives in P.R. which helped increase volumes during 2012. Also, the Corporation benefited from its strong position in the mortgage sector, having the highest market share in Puerto Rico. Credit management has remained a primary area of focus in the BPPR reportable segment, principally in the commercial, construction and mortgage lending areas.

The Corporation's U.S. mainland operations were profitable during 2012 with net interest income benefiting from lower funding costs in the midst of improving credit conditions. The improved credit performance of BPNA resulted in a reduction in the provision for loan losses of \$36.4 million for 2012, when compared to the previous year. The U.S. operations have followed the general credit trends on the mainland demonstrating progressive improvement. Furthermore, the successful disposition of OREOs contributed to reduced operating expenses. Management remains focused on increasing BPNA's customer base, as it continues its strategy to transition from a mainly Hispanic-focused bank to a more broad-based community bank. The biggest challenge for the BPNA reportable segment is achieving healthy loan growth in the markets it serves at an adequate risk-adjusted return.

Table 1 - Selected Financial Data

	Year ended December 31,				
<i>(Dollars in thousands, except per common share data)</i>	2012	2011	2010	2009	2008
CONDENSED STATEMENTS OF OPERATIONS					
Interest income	\$ 1,751,705	\$ 1,937,501	\$ 1,948,246	\$ 1,854,997	\$ 2,274,123
Interest expense	379,086	505,509	653,381	753,744	994,919
Net interest income	1,372,619	1,431,992	1,294,865	1,101,253	1,279,204
Provision for loan losses:					
Non-covered loans	334,102	430,085	1,011,880	1,405,807	991,384
Covered loans	74,839	145,635	—	—	—
Non-interest income	466,342	560,277	1,288,193	896,501	829,974
Operating expenses	1,211,148	1,150,297	1,325,547	1,154,196	1,336,728
Income tax (benefit) expense	(26,403)	114,927	108,230	(8,302)	461,534
Income (loss) from continuing operations	245,275	151,325	137,401	(553,947)	(680,468)
Loss from discontinued operations, net of tax	—	—	—	(19,972)	(563,435)
Net income (loss)	\$ 245,275	\$ 151,325	\$ 137,401	\$ (573,919)	\$ (1,243,903)
Net income (loss) applicable to common stock	\$ 241,552	\$ 147,602	\$ (54,576)	\$ 97,377	\$ (1,279,200)
PER COMMON SHARE DATA [1]					
Net income (loss) - basic and diluted:					
From continuing operations	\$ 2.35	\$ 1.44	\$ (0.62)	\$ 2.88	\$ (25.46)
From discontinued operations	—	—	—	(0.49)	(20.05)
Total	\$ 2.35	\$ 1.44	\$ (0.62)	\$ 2.39	\$ (45.51)
Dividends declared	\$ —	\$ —	\$ —	\$ 0.20	\$ 4.80
Book value	39.35	37.71	36.67	38.91	63.29
Market price	20.79	13.90	31.40	22.60	51.60
Outstanding shares:					
Average - basic	102,429,755	102,179,393	88,515,404	40,822,950	28,107,920
Average - assuming dilution	102,653,610	102,289,496	88,515,404	40,822,950	28,107,920
End of period	103,169,806	102,590,457	102,272,780	63,954,011	28,200,471
AVERAGE BALANCES					
Net loans [2]	\$ 24,845,494	\$ 25,617,767	\$ 25,821,778	\$ 24,836,067	\$ 26,471,616
Earning assets	31,569,702	32,931,332	34,154,021	34,083,406	36,026,077
Total assets	36,264,031	38,066,268	38,378,966	36,569,370	40,924,017
Deposits	26,903,933	27,503,391	26,650,497	26,828,209	27,464,279
Borrowings	4,415,624	5,846,874	7,448,021	5,832,896	7,378,438
Total stockholders' equity	3,843,652	3,732,836	3,259,167	2,852,065	3,358,295
PERIOD END BALANCES					
Net loans [2]	\$ 25,093,632	\$ 25,314,392	\$ 26,458,855	\$ 23,803,909	\$ 26,268,931
Allowance for loan losses	730,607	815,308	793,225	1,261,204	882,807
Earning assets	31,906,198	32,441,983	33,507,582	32,340,967	36,146,389
Total assets	36,507,535	37,348,432	38,814,998	34,736,325	38,882,769
Deposits	27,000,613	27,942,127	26,762,200	25,924,894	27,550,205
Borrowings	4,430,673	4,293,669	6,946,955	5,288,748	6,943,305
Total stockholders' equity	4,110,000	3,918,753	3,800,531	2,538,817	3,268,364
SELECTED RATIOS					
Net interest margin (taxable equivalent basis)	4.47%	4.47%	3.82%	3.47%	3.81%
Return on average total assets	0.68	0.40	0.36	(1.57)	(3.04)
Return on average common stockholders' equity	6.37	4.01	4.37	(32.95)	(44.47)
Tier I Capital to risk-adjusted assets	17.35	15.97	14.52	9.81	10.81
Total Capital to risk-adjusted assets	18.63	17.25	15.79	11.13	12.08

[1] Per share data is based on the average number of shares outstanding during the periods, except for the book value and market price which are based on the information at the end of the periods. All per share data has been adjusted to retroactively reflect the 1-for-10 reverse stock split effected on May 29, 2012.

[2] Includes loans held-for-sale and covered loans.

During 2012, the Corporation strived to mitigate the decline in earning assets amid challenging economic conditions in Puerto Rico, its principal market. The BPPR reportable segment's non-covered loans held-in-portfolio increased by \$392 million from December 31, 2011 to the same date in 2012, as a result of higher origination volumes and the purchase of high quality loans. Mortgage loan originations for the BPPR reportable segment totalled \$1.5 billion, an increase of \$272 million from 2011. Also, during 2012, the BPPR reportable segment purchased \$265 million (unpaid principal balance) in consumer loans. Furthermore, the U.S. reportable segment recorded mortgage loan purchases of approximately \$486 million during 2012, while it did not purchase mortgage loans in 2011.

During the first half of 2011, the Corporation completed two bulk purchases of residential mortgage loans from a Puerto Rico financial institution, adding \$518 million in performing mortgage loans to its portfolio. In August 2011, the Corporation completed the purchase of Citibank's AAdvantage co-branded credit card portfolio in Puerto Rico and the U.S. Virgin Islands, which represented approximately \$131 million in balances. In addition, BPPR entered into an agreement with American Airlines, Inc. to become the exclusive issuer of AAdvantage co-branded credit cards in those two regions. Also, during 2011 the Corporation executed sales of \$457 million (unpaid principal balance) non-performing mortgage loans at

BPNA and \$358 million in unpaid principal balance of construction and commercial real estate loans at BPPR as part of its de-risking strategy.

The year 2010 was one of several accomplishments for the Corporation that contributed to the Corporation's profitability and de-risking in 2011. In an effort to position the Corporation for its participation in an FDIC-assisted transaction in Puerto Rico, during 2010 the Corporation enhanced its capital position with an equity offering in which it raised \$1.15 billion of new common equity capital. This capital raise, along with the after-tax gain of \$531.0 million, net of transaction costs, on the sale of a 51% interest in EVERTEC, substantially strengthened the Corporation's capital ratios, placing it in a position to participate in the consolidation of the Puerto Rico banking market and to pursue strategies to improve the credit quality of its loan portfolio. Furthermore, the Westernbank FDIC-assisted transaction proved to be an important strategic move that further solidified the Corporation's leadership position in Puerto Rico amid a contracting market and has contributed with a positive financial impact. Apart from expanding its client base, the covered assets have boosted the Corporation's net interest margin and other revenues. The yield on covered loans approximated 7.44% and 8.95% for the years ended December 31, 2012 and 2011, respectively. Table 2 provides a summary of the gross revenues derived from the assets acquired in the FDIC-assisted transaction during 2012, 2011 and 2010.

Table 2 - Financial Information - Westernbank FDIC-Assisted Transaction

<i>(In thousands)</i>	Year ended December 31,		
	2012	2011	2010
Interest income:			
Interest income on covered loans, except for discount accretion on ASC 310-20 covered loans	\$301,441	\$375,595	\$223,271
Discount accretion on ASC 310-20 covered loans	–	37,083	79,825
Total interest income on covered loans	301,441	412,678	303,096
FDIC loss share (expense) income :			
(Amortization) accretion of loss share indemnification asset	(129,676)	(10,855)	73,487
80% mirror accounting on credit impairment losses [1]	58,187	110,457	–
80% mirror accounting on reimbursable expenses	29,234	5,093	–
80% mirror accounting on discount accretion for loans and unfunded commitments accounted for under ASC 310-20	(969)	(33,221)	(95,383)
Change in true-up payment obligation	(13,178)	(6,304)	(3,855)
Other	191	1,621	–
Total FDIC loss share (expense) income	(56,211)	66,791	(25,751)
Fair value change in equity appreciation instrument	–	8,323	42,555
Amortization of contingent liability on unfunded commitments (included in other operating income)	1,211	4,487	39,404
Total revenues	246,441	492,279	359,304
Provision for loan losses	74,839	145,635	–
Total revenues less provision for loan losses	\$171,602	\$346,644	\$359,304

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

Average balances

<i>(In millions)</i>	Year ended December 31,	
	2012	2011
Covered loans	\$4,051	\$4,613
FDIC loss share asset	1,680	2,177
Note issued to the FDIC	–	1,382

Interest income on covered loans for the year 2012 amounted to \$301.4 million vs. \$412.7 million in 2011, reflecting a yield of 7.44% vs. 8.95%, for each year respectively. This portfolio, due to its nature, should continue to decline as scheduled payments are received and workout arrangements are made. The yield variance was impacted by the fact that the interest income for 2011 includes \$37.1 million of discount accretion related to covered loans accounted for under ASC 310-20. As previously mentioned, this discount was fully accreted into earnings during 2011. Also, during 2011, resolutions of certain large commercial loan relationships caused the unamortized discount to be recognized into income for one pool and increased the accretable yield to be recognized over a short period of time for another pool. Interest income for the year 2010 reflected only eight months of income vs. a full year of earnings for the year 2011.

The FDIC loss share reflected an expense of \$56.2 million for 2012, compared to an income of \$66.8 million for 2011. This was the result of a lower provision for loan losses on covered loans by \$70.8 million and higher amortization of the FDIC loss share asset due to a decrease in expected losses, partially offset by the favorable mirror accounting on expenses reimbursable from the FDIC and discount accretion on loans and unfunded commitments subject to ASC 310-20 since the discount on these loans had been fully accreted by the end of the third quarter of 2011.

The decrease in the provision for loan losses for covered loans from 2011 to 2012 was mostly driven by certain commercial and construction loan pools accounted for under ASC 310-30 which reflected lower expected loss estimates and reductions in the specific reserves of certain commercial loan relationships accounted for under ASC 310-20. The covered loan portfolio did not require an allowance for loan losses at December 31, 2010.

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 lower FDIC payments under the loss share agreements. This is reflected in the increased amortization of the loss share asset for 2012. This is also reflected in the increase in the fair value of the true-up payment obligation. The change in the amortization of the loss share asset from 2010 to 2011 also reflected lower estimated losses from year to year.

The discussion that follows provides highlights of the Corporation's results of operations for the year ended December 31, 2012 compared to the results of operations of 2011. It also provides some highlights with respect to the Corporation's financial condition, credit quality, capital and liquidity. Table 3 presents a five-year summary of the components of net income (loss) as a percentage of average total assets.

Table 3 - Components of Net Income (Loss) as a Percentage of Average Total Assets

	2012	2011	2010	2009	2008
Net interest income	3.79%	3.76%	3.38%	3.01%	3.13%
Provision for loan losses	(1.13)	(1.51)	(2.64)	(3.84)	(2.42)
Net gain on sale and valuation adjustments of investment securities	–	0.03	0.01	0.60	0.17
Net gain (loss) on sale of loans, including adjustments to indemnity reserves, and valuation adjustments on loans held-for-sale	0.08	(0.01)	(0.15)	(0.10)	0.01
Trading account (loss) profit	(0.05)	0.01	0.04	0.11	0.11
FDIC loss share (expense) income	(0.16)	0.18	(0.07)	–	–
Fair value change in equity appreciation instrument	–	0.02	0.11	–	–
Gain on sale of processing and technology business	–	–	1.67	–	–
Other non-interest income	1.42	1.24	1.74	1.84	1.74
Total net interest income and non-interest income, net of provision for loan losses	3.95	3.72	4.09	1.62	2.74
Operating expenses	(3.34)	(3.02)	(3.45)	(3.16)	(3.27)
Income (loss) from continuing operations before income tax	0.61	0.70	0.64	(1.54)	(0.53)
Income tax benefit (expense)	0.07	(0.30)	(0.28)	0.02	(1.13)
Income (loss) from continuing operations	0.68	0.40	0.36	(1.52)	(1.66)
Loss from discontinued operations, net of tax	–	–	–	(0.05)	(1.38)
Net income (loss)	0.68%	0.40%	0.36%	(1.57)%	(3.04)%

Net interest income on a taxable equivalent basis for the year ended December 31, 2012 amounted to \$1.4 billion, a decrease of \$64.0 million, compared with 2011. The net interest margin on a taxable equivalent basis remained flat at 4.47% for the years ended December 31, 2012 and 2011. Although there was a decrease in the yield of interest earning assets, this was offset by the decrease in cost of funds. 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 provision for loan losses for the year ended December 31, 2012 decreased by \$166.8 million, or 29%, compared with 2011, which was the net result of a decrease in the provision for non-covered loans of \$96.0 million, coupled with a decrease in the provision for loan losses on covered loans of \$70.8 million. The allowance for loan losses was 2.96% of non-covered loans held-in-portfolio at December 31, 2012, compared with 3.35% at December 31, 2011. Total net charge-offs for 2012 decreased \$61.1 million, compared with 2011. The reduction in the allowance for loan losses for non-covered loans at December 31, 2012, compared with 2011, was mostly attributable to a lower portfolio balance and net charge-offs from the commercial and construction loan portfolios, and an improvement in the credit quality performance of the Corporation's consumer loan portfolios, partially offset by higher specific reserve requirements on the mortgage loan portfolio. Year-over-year, total non-performing assets decreased by \$364 million, driven by resolution of non-performing loans and a reduction in non-performing construction loans, offset in part by an increase in other real estate owned. The Corporation's non-covered, non-performing loans held-in-portfolio decreased by \$313 million from December 31, 2011 to the same date in 2012, reaching \$1.4 billion or 6.79% of total non-covered loans held-in-portfolio at December 31, 2012, compared to 8.44% for the same date in 2011. The decrease in non-performing loans held-in-portfolio was reflected in the commercial, construction and residential mortgage loan portfolios of the BPPR reportable segment.

The provision for the Puerto Rico reportable segment for the year ended December 31, 2012 decreased by \$130.3 million from the year 2011, driven mainly by a lower provision in the covered portfolio. The provision for the covered portfolio was lower by \$70.8 million and reflected lower expected losses in loans accounted by ASC Subtopic 310-30, mainly in commercial and construction loan pools. The provision for the non-covered portfolio decreased by \$59.5 million, mainly driven by lower net charge offs and lower allowance for loan losses in the commercial and construction portfolios. This was offset by higher allowance levels for the mortgage loan portfolio due to specific reserves for restructured loans. The BPNA reportable segment reflected lower provisions for the year ended December 31, 2012, compared to 2011 by \$36.5 million. This was principally as a result of lower net charge-offs mainly

from the legacy, commercial and consumer loan portfolios due to improved credit performance.

Refer to the Provision for Loan Losses and Credit Risk Management and Loan Quality section of this MD&A for information on the allowance for loan losses, non-performing assets, troubled debt restructurings, net charge-offs and credit quality metrics.

Non-interest income for the year ended December 31, 2012 amounted to \$466.3 million, a decrease of \$93.9 million, compared with 2011, mainly due to the FDIC loss share expense. The FDIC loss share reflected an expense of \$56.2 million for 2012, compared to an income of \$66.8 million for 2011. This was the result of a lower provision for loan losses on covered loans and higher amortization of the loss share asset due to a decrease in expected losses, partially offset by the favorable mirror accounting on expenses reimbursable from the FDIC and discount accretion on loans subject to ASC 310-20 and unfunded commitments. Non-interest income for the year ended December 31, 2010 was \$1.3 billion. The results for 2010 reflected a \$640.8 million gain on the sale of the 51% interest in EVERTEC. Refer to the Non-Interest Income section of this MD&A for a table that provides a breakdown of the different categories of non-interest income.

Total operating expenses for the year 2012 amounted to \$1.2 billion, an increase of \$60.9 million, when compared with the previous year. The increase was reflected in the Puerto Rico operations. Higher operating expenses in the Puerto Rico reportable segment were principally due to a loss on early extinguishment of structured repos of approximately \$25.0 million; higher professional fees and other operating expenses of \$16.0 million and \$17.2 million, respectively, some of which are collection and credit related costs reimbursable by the FDIC; and an increase of \$14.9 million in OREO expenses due mainly to subsequent fair value adjustments. The U.S. reportable segment reflected a decrease in operating expenses of approximately \$11.6 million, principally due to lower OREO expenses due to realized gains on sales of foreclosed properties. Refer to the Operating Expenses section of this MD&A for additional explanations on the major variances in the different categories of operating expenses.

For the year 2012, the Corporation recorded an income tax benefit of \$26.4 million, compared to an income tax expense of \$114.9 million for the year 2011. During the second quarter of 2012, the Corporation recorded a benefit of \$72.9 million, as a reduction of the deferred tax liability on the estimated gains for tax purposes related to the loans acquired from Westernbank, pursuant to a closing agreement with the Puerto Rico Department of Treasury by which these will be taxed at capital gain rates. During 2011, the Corporation recorded an income tax expense of \$103.3 million and a decrease in the net deferred tax assets of the Puerto Rico operations resulting from the reduction in the marginal tax rate from 39% to 30% as a result

of the enactment of a new Internal Revenue Code in Puerto Rico. This expense in 2011 was partially offset by a tax benefit of \$53.6 million recorded in June 2011 for the recognition of certain tax benefits not previously recorded during 2009 (the benefit of reduced tax rates for capital gains) and 2010 (the benefit of the tax-exempt income) as a result of a closing agreement with the Puerto Rico Treasury Department, which also established that the deductions for charge offs during 2009 and 2010 could be deferred until 2013-2016. Refer to the Income Taxes section in this MD&A and Note 39 to the consolidated financial statements for information on the private ruling issued by the Puerto Rico Department of the Treasury to the Corporation, as well as other detailed information such as the changes in the tax rate.

Total assets amounted to \$36.5 billion at December 31, 2012, compared with \$37.3 billion at December 31, 2011, a decrease of \$0.8 billion. Total earning assets at December 31, 2012 amounted to \$31.9 billion, a decrease of \$0.5 billion, or 1.5%, compared with December 31, 2011.

Total loans, including loans held-for-sale and covered loans, decreased \$221 million from December 31, 2011 to the same date in 2012, principally in commercial loans, partially offset by higher volume of mortgage and consumer loans held-in-portfolio. The decrease was principally in the Puerto Rico operations, mainly in the covered loans by \$593 million, offset by the increase in the non-covered portfolio of \$381 million driven primarily by mortgage loans. The Corporation's U.S. mainland operations experienced a reduction in total loans of \$12 million, reflecting decreases in legacy loans, offset by increased volume of mortgage loans. The decline in total loans was mainly due to portfolio run-off, loan sales, charge-offs and reclassifications to repossessed properties as part of foreclosure proceedings, coupled with low new loan demand in certain loan segments.

Refer to Table 18 in the Statement of Financial Condition Analysis section of this MD&A for the percentage allocation of the composition of the Corporation's financing to total assets. Deposits amounted to \$27.0 billion at December 31, 2012, compared with \$27.9 billion at December 31, 2011. Table 19 presents a breakdown of deposits by major categories. The decrease in deposits was mostly associated with lower volume of brokered and time deposits, partially offset by higher volume of savings and demand deposits. The decrease in brokered and time deposits was part of the Corporation's strategy to replace these with lower cost advances from the Federal Home Loan Bank of New York. The Corporation's borrowings amounted to \$4.4 billion at December 31, 2012, compared with \$4.3 billion at December 31, 2011.

Stockholders' equity amounted to \$4.1 billion at December 31, 2012, compared with \$3.9 billion at December 31, 2011. The Corporation continues to be well-capitalized at December 31, 2012. The Corporation's regulatory capital ratios improved from December 31, 2011 to December 31, 2012. The Tier 1 risk-based capital and Tier 1

common equity to risk-weighted assets stood at 17.35% and 13.18%, respectively, at December 31, 2012, compared with 15.97% and 12.10%, respectively, at December 31, 2011. The improvement in the Corporation's regulatory capital ratios from the end of 2011 to December 31, 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 summary, 2012 was a solid year during which the Corporation sustained its strong net interest margin, reflected lower provision for loan losses and reported operational profits. As mentioned above, the Corporation remains over the well-capitalized levels at the end of 2012. The covered loans portfolio has provided better than expected results reflecting lower estimated losses, driving lower provisions. The Corporation's leading position in the Puerto Rico market has allowed it to benefit from the improved loan demand in certain sectors. During 2012, there were notable reductions in the levels of non-performing assets, reflecting the continuous efforts to resolve non-performing loans.

Key transactions during the past years, including the reorganization of the U.S. operations to exit high-risk businesses, the acquisition of assets of Westernbank on the FDIC-assisted transaction and the acquisition of Citibank's retail business in Puerto Rico, strengthened the Corporation's financial position. The capital raise and sale of EVERTEC positioned the Corporation to participate in the FDIC-assisted transaction.

Operationally, the Corporation is a smaller organization than it was a few years ago. The Corporation is now focused on its core banking business both in Puerto Rico and the U.S. mainland. Heading into 2013, management expects the Puerto Rico economy to remain flat and the U.S. mainland economy to grow moderately.

Moving forward, in Puerto Rico, the Corporation also expects to continue pursuing resolution and sales of non-performing loans, further enhance loss-mitigation areas, redesign processes and consolidate branches to achieve greater efficiencies and continue to identify opportunities to add lower-risk assets that can be managed within the existing business platforms. In the U.S. mainland, the Corporation expects to solidify the trend of improving credit quality by continuing the run-off or disposition of discontinued portfolios, actively managing the existing classified portfolio, and identifying new asset growth in selected loan categories. Also, going forward, BPNA plans to continue improving its client mix, maximizing the value of the rebranding, achieving growth in targeted loan portfolios both organically and through asset acquisitions and continue enhancing its retail network and products offerings.

For further discussion of operating results, financial condition and business risks refer to the narrative and tables included herein.

The shares of the Corporation's common stock are traded on the NASDAQ Global Select Market under the symbol BPOP. Table 4 shows

the Corporation's common stock performance on a quarterly basis during the last five years.

Table 4 - Common Stock Performance

	Market Price		Cash Dividends Declared per Share	Book Value Per Share	Dividend Yield [1]	Price/ Earnings Ratio	Market/Book Ratio
	High	Low					
2012				\$39.35	N.M.	8.85x	52.83%
4th quarter	\$ 20.90	\$17.42	\$ -				
3rd quarter	18.74	13.55	-				
2nd quarter	21.20	13.58	-				
1st quarter	23.00	14.30	-				
2011				37.71	N.M.	9.65	36.86
4th quarter	\$ 19.00	\$11.15	\$ -				
3rd quarter	28.30	13.70	-				
2nd quarter	32.40	26.30	-				
1st quarter	35.33	28.70	-				
2010				36.67	N.M.	(50.65)	85.63
4th quarter	\$ 31.40	\$27.01	\$ -				
3rd quarter	29.50	24.50	-				
2nd quarter	40.20	26.40	-				
1st quarter	29.10	17.50	-				
2009				38.91	2.55%	9.46	58.08
4th quarter	\$ 28.00	\$21.20	\$ -				
3rd quarter	28.30	10.40	-				
2nd quarter	36.60	21.90	-				
1st quarter	55.20	14.70	0.20				
2008				63.29	6.17	(1.13)	81.53
4th quarter	\$ 86.10	\$49.00	\$0.80				
3rd quarter	111.70	51.20	0.80				
2nd quarter	130.60	65.90	1.60				
1st quarter	140.70	89.00	1.60				

[1] Based on the average high and low market price for the four quarters.

Note: All per share data has been adjusted to retroactively reflect the 1-for-10 reverse stock split effected on May 29, 2012.

N.M. - Not meaningful.

CRITICAL ACCOUNTING POLICIES / ESTIMATES

The accounting and reporting policies followed by the Corporation and its subsidiaries conform with generally accepted accounting principles ("GAAP") in the United States of America and general practices within the financial services industry. The Corporation's significant accounting policies are described in detail in Note 2 to the consolidated financial statements and should be read in conjunction with this section.

Critical accounting policies require management to make estimates and assumptions, which involve significant judgment about the effect of matters that are inherently uncertain and that involve a high degree of subjectivity. 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. The following MD&A section is a summary of what management considers the Corporation's critical accounting policies / estimates.

Fair Value Measurement of Financial Instruments

The Corporation measures fair value as required by ASC Subtopic 820-10 "Fair Value Measurements and Disclosures", which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Corporation currently measures at fair value on a recurring basis its trading assets, available-for-sale securities, derivatives, mortgage servicing rights and contingent

consideration. Occasionally, the Corporation may be required to record at fair value other assets on a nonrecurring basis, such as loans held-for-sale, impaired loans held-in-portfolio that are collateral dependent and certain other assets. These nonrecurring fair value adjustments typically result from the application of lower of cost or fair value accounting or write-downs of individual assets.

The Corporation categorizes its assets and liabilities measured at fair value under the three-level hierarchy. The level within the hierarchy is based on whether the inputs to the valuation methodology used for fair value measurement are observable. 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. No significant degree of judgment for these valuations is needed, as they 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, and 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* - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value measurement of the financial asset or liability. Unobservable inputs reflect the Corporation's own assumptions about what market participants would use to price the asset or liability, including assumptions about risk. The inputs are developed based on the best available information, which might include the Corporation's own data such as internally-developed models and discounted cash flow analyses.

The Corporation requires the use of observable inputs when available, in order to minimize the use of unobservable inputs to determine fair value. The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing on those securities. The amount of judgment involved in estimating the fair value of a financial instrument depends upon the availability of quoted market prices or observable market parameters. In addition, it may be affected by other factors such as the type of instrument, the liquidity of the market for the instrument, transparency around the inputs to the valuation, as well as the contractual characteristics of the instrument.

If listed prices or quotes are not available, the Corporation employs valuation models that primarily use market-based

inputs including yield curves, interest rate curves, volatilities, credit curves, and discount, prepayment and delinquency rates, among other considerations. When market observable data is not available, the valuation of financial instruments becomes more subjective and involves substantial judgment. The need to use unobservable inputs generally results from diminished observability of both actual trades and assumptions resulting from the lack of market liquidity for those types of loans or securities. When fair values are estimated based on modeling techniques such as discounted cash flow models, the Corporation uses assumptions such as interest rates, prepayment speeds, default rates, loss severity rates and discount rates. 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.

The fair value measurements and disclosures guidance in ASC Subtopic 820-10 also addresses measuring fair value in situations where markets are inactive and transactions are not orderly. Transactions or quoted prices for assets and liabilities may not be determinative of fair value when transactions are not orderly and thus may require adjustments to estimate fair value. Price quotes based on transactions that are not orderly should be given little, if any, weight in measuring fair value. Price quotes based upon transactions that are orderly shall be considered in determining fair value and the weight given is based on facts and circumstances. If sufficient information is not available to determine if price quotes are based upon orderly transactions, less weight should be given to the price quote relative to other transactions that are known to be orderly.

The lack of liquidity is incorporated into the fair value measurement based on the type of asset measured and the valuation methodology used. An illiquid market is one in which little or no observable activity has occurred or one that lacks willing buyers or willing sellers. Discounted cash flow techniques incorporate forecasting of expected cash flows discounted at appropriate market discount rates which reflect the lack of liquidity in the market which a market participant would consider. 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.

Management believes that fair values are reasonable and consistent with the fair value measurement guidance based on the Corporation's internal validation procedure and consistency of the processes followed, which include obtaining market quotes when possible or using valuation techniques that incorporate market-based inputs.

Refer to Note 31 to the consolidated financial statements for information on the Corporation's fair value measurement disclosures required by the applicable accounting standard. At December 31, 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 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. U.S. Treasury securities were valued based on yields that were interpolated from the constant maturity treasury curve. Obligations of U.S. Government sponsored entities were priced based on an active exchange market and on quoted prices for similar securities. Obligations of Puerto Rico, States and political subdivisions were valued based on trades, bid price or spread, two sided markets, quotes, benchmark curves, market data feeds, discount and capital rates and trustee reports. MBS and CMOs were priced based on a bond’s theoretical value from similar bonds defined by credit quality and market sector. Refer to the Derivatives section below for a description of the valuation techniques used to value these derivative instruments.

The remaining 3% of assets measured at fair value on a recurring basis at December 31, 2012 were classified as Level 3 since their valuation methodology considered significant unobservable inputs. The financial assets measured as Level 3 included mostly Puerto Rico tax-exempt GNMA mortgage-backed securities and mortgage servicing rights (“MSRs”). GNMA tax exempt mortgage-backed securities are priced using a local demand price matrix prepared from local dealer quotes, and other local investments such as corporate securities and local mutual funds which are priced by local dealers. MSRs, on the other hand, are priced internally using a discounted cash flow model which considers servicing fees, portfolio characteristics, prepayment assumptions, delinquency rates, late charges, other ancillary revenues, cost to service and other economic factors. Additionally, the Corporation reported \$104 million of financial assets that were measured at fair value on a nonrecurring basis at December 31, 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 \$40 million at December 31, 2012, of which \$20 million were Level 3 assets and \$20 million were Level 2 assets. Level 3 assets consisted principally of tax-exempt GNMA mortgage-backed securities. Fair value for these securities was based on an internally-prepared matrix derived from an average of two indicative local broker quotes. The main input used in the matrix pricing was non-binding local broker quotes obtained from limited trade activity. Therefore, these securities were classified as Level 3.

There were \$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 year ended December 31, 2012. The transfers from Level 2 to Level 3 of trading mortgage-backed securities were the result of a change in valuation technique to a matrix pricing model, based on indicative prices provided by brokers. The transfers from Level 3 to Level 2 of trading mortgage-backed securities resulted from observable market data becoming available for these securities. There were no transfers in and/or out of Level 2 and Level 3 for financial instruments measured at fair value on a recurring basis during the year ended December 31, 2011. There were \$198 million in transfers from Level 3 to Level 2 for financial instruments measured at fair value on a recurring basis during the year ended December 31, 2010. These transfers of certain exempt FNMA and GNMA mortgage-backed securities were the result of a change in valuation methodology from an internally-developed matrix pricing to pricing them based on a bond’s theoretical value from similar bonds defined by credit quality and market sector. Their fair value incorporates an option adjusted spread. 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 1 during 2012, 2011, and 2010.

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 year ended December 31, 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 year ended December 31, 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 December 31, 2012, the Corporation's portfolio of trading and investment securities available-for-sale amounted to \$ 5.4 billion and represented 96% of the Corporation's assets measured at fair value on a recurring basis. At December 31, 2012, net unrealized gains on the trading and available-for-sale investment securities portfolios approximated \$16 million and \$ 172 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, represent less than 1% of the Corporation's total portfolio of trading and investment securities available-for-sale.

Mortgage Servicing Rights

Mortgage servicing rights ("MSRs"), which amounted to \$ 154 million at December 31, 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 13 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 year ended December 31, 2012, inclusion of credit risk in the fair value of the derivatives resulted in a net gain of \$2.9 million recorded in the other operating income and interest expense captions of the consolidated statement of operations, which consisted of a loss of \$0.5 million resulting from the Corporation's own credit standing adjustment and a gain of \$3.4 million from the assessment of the counterparties' credit risk.

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 amounted to \$112 million at December 31, 2012. The fair value was estimated using projected cash flows related to the loss sharing agreements at the true-up measurement date, taking 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 4 to the consolidated

financial statements for a description of the true-up payment formula. 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, size and supply and demand. The challenging conditions of the housing markets 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.

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 is classified as Level 3 since they are subject to internal adjustments and reported as a nonrecurring fair value measurement.

Loans and Allowance for Loan Losses

Interest on loans is accrued and recorded as interest income based upon the principal amount outstanding.

Non-accrual loans are those loans on which the accrual of interest is discontinued. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is charged against income and the loan is accounted for either on a cash-basis method or on the cost-recovery method. Loans designated as non-accruing are returned to accrual status when the Corporation expects repayment of the remaining contractual principal and interest. The determination as to the ultimate collectability of the loan's balance may involve management's

judgment in the evaluation of the borrower's financial condition and prospects for repayment.

Refer to the MD&A section titled Credit Risk Management and Loan Quality, particularly the Non-performing assets subsection, for a detailed description of the Corporation's non-accruing and charge-off policies by major loan categories.

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 accounting guidance, specifically 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 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.

According to the accounting guidance criteria for specific impairment of a loan, the Corporation defines as impaired loans those commercial and construction borrowers with outstanding debt of \$1 million or more and with interest and/or principal 90 days or more past due. Also, specific commercial borrowers with outstanding debt of \$1 million or over are deemed impaired when, based on current information and events, management considers that it is probable that the debtor would be unable to pay all amounts due according to the contractual terms of the loan agreement. Commercial and construction loans that originally met the Corporation's threshold for impairment identification in a prior period, but due to charge-offs or payments are currently below the \$1 million threshold and are still 90 days past due, except for TDRs, are accounted for under the Corporation's general reserve methodology. Although the accounting codification guidance for specific impairment of a loan excludes large groups of smaller balance homogeneous loans that are collectively evaluated for impairment (e.g. mortgage and consumer loans), it specifically requires that loan modifications considered troubled debt restructurings ("TDRs") be analyzed under its provisions. An allowance for loan impairment is recognized to the extent that the carrying value of an impaired loan exceeds the present value of the expected future cash flows discounted at the loan's effective rate, the observable market price of the loan, if available, or the fair value of the collateral if the loan is collateral dependent.

The fair value of the collateral on commercial and construction loans is generally obtained from appraisals or evaluations. The Corporation periodically requires updated appraisal reports for loans that are considered impaired. The frequency of updated appraisals depends on total debt outstanding and type of collateral. Currently, for commercial and construction loans secured by real estate, if the borrower's total debt is equal to or greater than \$1 million, the appraisal is updated annually. If the borrower's total debt is less than \$1 million, the appraisal is updated at least every two years.

As a general procedure, the Corporation internally reviews appraisals as part of the underwriting and approval process and also for credits considered impaired following certain materiality benchmarks. Appraisals may be adjusted due to their age, property conditions, geographical area 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. Discount rates used may change from time-to-time based on management's estimates. Refer to the Credit Risk Management and Loan Quality section of this MD&A for more detailed information on the Corporation's collateral value estimation for other real estate.

The Corporation's management evaluates the adequacy of the allowance for loan losses on a quarterly basis following a systematic methodology in order to provide for known and inherent risks in the loan portfolio. In developing its assessment of the adequacy of the allowance for loan losses, 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 to include when estimating losses, the level of volatility of losses in a specific portfolio, changes in underwriting standards, financial accounting standards and loan impairment measurement, 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 collateral dependent method is generally used for the impairment determination on commercial and construction loans since the expected realizable value of the loan is based upon the proceeds received from the liquidation of the collateral property. For commercial properties, the "as is" value or the "income approach" value is used depending on the financial condition of the subject borrower and/or the nature of the subject collateral. In most cases, impaired commercial loans do not have reliable or sustainable cash flow to use the discounted cash flow valuation method. On construction loans,

"as developed" collateral values are used when the loan is originated since the assumption is that the cash flow of the property once leased or sold will provide sufficient funds to repay the loan. In the case of many impaired construction loans, the "as developed" collateral value is also used since completing the project reflects the best exit strategy in terms of potential loss reduction. In these cases, the costs to complete are considered as part of the impairment determination. As a general rule, the appraisal valuation used by the Corporation for impaired construction loans is based on discounted value to a single purchaser, discounted sell out or "as is" depending on the condition and status of the project and the performance of the same.

A restructuring constitutes a TDR when the Corporation separately concludes that both of the following conditions exist: (i) the restructuring constitutes a concession and (ii) the debtor is experiencing financial difficulties. The concessions stem from an agreement between the creditor and the debtor or are imposed by law or a court. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. A concession has been granted when, as a result of the restructuring, the Corporation does not expect to collect all amounts due, including interest accrued at the original contract rate. If the payment of principal is dependent on the value of collateral, the current value of the collateral is taken into consideration in determining the amount of principal to be collected; therefore, all factors that changed are considered to determine if a concession was granted, including the change in the fair value of the underlying collateral that may be used to repay the loan. In addition, in order to expedite the resolution of delinquent construction and commercial loans, the Corporation routinely enters into liquidation agreements with borrowers and guarantors through the regular legal process, bankruptcy procedures and in certain occasions, out of Court transactions. These liquidation agreements, in general, contemplate the following conditions: (1) consent to judgment by the borrowers and guarantors; (2) acknowledgement by the borrower of debt, its liquidity and maturity; (3) acknowledgement of the default payments. The contractual interest rate is not reduced and continues to accrue during the term of the agreement. At the end of the period, borrower is obligated to remit all amounts due or be subject to the Corporation's exercise of its foreclosure rights and further collection efforts. Likewise, the borrower's failure to make stipulated payments will grant the Corporation the ability to exercise its foreclosure rights. This strategy procures to expedite the foreclosure process, resulting in a more effective and efficient collection process. Although in general, these liquidation agreements do not contemplate the forgiveness of principal or interest as debtor is required to cover all outstanding amounts when the agreement becomes due, it could be construed that the Corporation has granted a

concession by temporarily accepting a payment schedule that is different from the contractual payment schedule. Accordingly, loans under this program are considered TDRs.

Classification of loan modifications as TDRs involves a degree of judgment. Indicators that the debtor is experiencing financial difficulties which are considered include: (i) the borrower is currently in default on any of its debt or it is probable that the borrower would be in payment default on any of its debt in the foreseeable future without the modification; (ii) the borrower has declared or is in the process of declaring bankruptcy; (iii) there is significant doubt as to whether the borrower will continue to be a going concern; (iv) the borrower has securities that have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange; (v) based on estimates and projections that only encompass the borrower's current business capabilities, it is forecasted that the entity-specific cash flows will be insufficient to service the debt (both interest and principal) in accordance with the contractual terms of the existing agreement through maturity; and (vi) absent the current modification, the borrower cannot obtain funds from sources other than the existing creditors at an effective interest rate equal to the current market interest rate for similar debt for a non-troubled debtor. The identification of TDRs is critical in the determination of the adequacy of the allowance for loan losses. Loans classified as TDRs are excluded from TDR status if performance under the restructured terms exists for a reasonable period (at least twelve months of sustained performance) and the loan yields a market rate.

For 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 default and loss-given-foreclosure on the related estimated cash flows. For consumer loans deemed TDRs, the Corporation also uses a discounted cash flow value methodology, but currently does not incorporate a default rate assumption pre- or post-modification.

Refer to Note 11 to the consolidated financial statements for disclosures on the impact of adopting ASU 2011-02 and to Note 3 for a general description of the ASU 2011-02 guidance.

Acquisition Accounting for Covered Loans and Related Indemnification Asset

The Corporation accounted for the Westernbank FDIC-assisted transaction under the accounting guidance of ASC Topic No. 805, *Business Combinations*, which requires the use of the purchase method of accounting. All identifiable assets and liabilities acquired were initially recorded at fair value. No allowance for loan losses related to the acquired loans was recorded on the acquisition date as the fair value of the loans

acquired incorporated assumptions regarding credit risk. Loans acquired were recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820, exclusive of the shared-loss agreements with the FDIC. These fair value estimates associated with the loans included estimates related to expected prepayments and the amount and timing of expected principal, interest and other cash flows.

Because the FDIC has agreed to reimburse the Corporation for losses related to the acquired loans in the Westernbank FDIC-assisted transaction, subject to certain provisions specified in the agreements, an indemnification asset was recorded at fair value at the acquisition date. The indemnification asset was recognized at the same time as the indemnified loans, and is measured on the same basis, subject to collectability or contractual limitations. The loss share indemnification asset on the acquisition date reflected the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflected counterparty credit risk and other uncertainties.

Refer to Note 4 for a description of the FDIC-assisted transaction and the terms of the loss share agreements.

The initial valuation of these loans and related indemnification asset required management to make subjective judgments concerning estimates about how the acquired loans would perform in the future using valuation methods, including discounted cash flow analyses and independent third-party appraisals. Factors that may significantly affect the initial valuation included, among others, market-based and industry data related to expected changes in interest rates, assumptions related to probability and severity of credit losses, estimated timing of credit losses including the timing of foreclosure and liquidation of collateral, expected prepayment rates, required or anticipated loan modifications, unfunded loan commitments, the specific terms and provisions of any loss share agreements, and specific industry and market conditions that may impact discount rates and independent third-party appraisals.

The Corporation applied the guidance of ASC 310-30 to all loans acquired in the Westernbank FDIC-assisted transaction (including loans that do not meet the scope of ASC 310-30), except for credit cards and revolving lines of credit. ASC 310-30 provides two specific criteria that have to be met in order for a loan to be within its scope: (1) credit deterioration on the loan from its inception until the acquisition date and (2) that it is probable that not all of the contractual cash flows will be collected on the loan. Once in the scope of ASC 310-30, the credit portion of the fair value discount on an acquired loan cannot be accreted into income until the acquirer has assessed that it expects to receive more cash flows on the loan than initially anticipated.

Acquired loans that meet the definition of nonaccrual status fall within the Corporation's definition of impaired loans under ASC 310-30. It is possible that performing loans would not meet criteria number 1 above related to evidence of credit

deterioration since the date of loan origination, and therefore not fall within the scope of ASC 310-30. Based on the fair value determined for the acquired portfolio, acquired loans that did not meet the Corporation's definition of non-accrual status also resulted in the recognition of a significant discount attributable to credit quality.

Given the significant discount related to credit in the valuation of the Westernbank acquired portfolio, the Corporation considered two possible options for the performing loans (1) accrete the entire fair value discount (including the credit portion) using the interest method over the life of the loan in accordance with ASC 310-20; or (2) analogize to ASC 310-30 and only accrete the portion of the fair value discount unrelated to credit.

Pursuant to an AICPA letter dated December 18, 2009, the AICPA summarized the SEC Staff's view regarding the accounting in subsequent periods for discount accretion associated with loan receivables acquired in a business combination or asset purchase. Regarding the accounting for such loan receivables, in the absence of further standard setting, the AICPA understands that the SEC Staff would not object to an accounting policy based on contractual cash flows (Option 1 - ASC 310-20 approach) or an accounting policy based on expected cash flows (Option 2 - ASC 310-30 approach). As such, the Corporation considered the two allowable options as follows:

- Option 1 - Since the credit portion of the fair value discount is associated with an expectation of cash flows that an acquirer does not expect to receive over the life of the loan, it does not appear appropriate to accrete that portion over the life of the loan as doing so could eventually overstate the acquirer's expected value of the loan and ultimately result in recognizing income (i.e. through the accretion of the yield) on a portion of the loan it does not expect to receive. Therefore, the Corporation does not believe this is an appropriate method to apply.
- Option 2 – The Corporation believes analogizing to ASC 310-30 is the more appropriate option to follow in accounting for the credit portion of the fair value discount. By doing so, the loan is only being accreted up to the value that the acquirer expected to receive at acquisition of the loan.

Based on the above, the Corporation elected Option 2 - the ASC 310-30 approach to the outstanding balance for all the acquired loans in the Westernbank FDIC-assisted transaction with the exception of revolving lines of credit with active privileges as of the acquisition date, which are explicitly scoped out by the ASC 310-30 accounting guidance. New advances / draws after the acquisition date under existing credit lines that did not have revolving privileges as of the acquisition date, particularly for construction loans, will effectively be treated as

a "new" loan for accounting purposes and accounted for under the provisions of ASC 310-20, resulting in a hybrid accounting for the overall construction loan balance.

Management used judgment in evaluating factors impacting expected cash flows and probable loss assumptions, including the quality of the loan portfolio, portfolio concentrations, distressed economic conditions in Puerto Rico, quality of underwriting standards of the acquired institution, reductions in collateral real estate values, and material weaknesses disclosed by the acquired institution, including matters related to credit quality review and appraisal report review.

At April 30, 2010, the acquired loans accounted for pursuant to ASC 310-30 by the Corporation totaled \$4.9 billion which represented undiscounted unpaid contractually-required principal and interest balances of \$9.9 billion reduced by a discount of \$5.0 billion resulting from acquisition date fair value adjustments. The non-accretable discount on loans accounted for under ASC 310-30 amounted to \$3.4 billion or approximately 68% of the total discount, thus indicating a significant amount of expected credit losses on the acquired portfolios.

Pursuant to ASC 310-20-15-5, the Corporation aggregated loans acquired in the FDIC-assisted transaction into pools with common risk characteristics for purposes of applying the recognition, measurement and disclosure provisions of this subtopic. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Characteristics considered in pooling loans in the Westernbank FDIC-assisted transaction included loan type, interest rate type, accruing status, amortization type, rate index and source type. Once the pools are defined, the Corporation maintains the integrity of the pool of multiple loans accounted for as a single asset.

Under ASC Subtopic 310-30, the difference between the undiscounted cash flows expected at acquisition and the fair value of the loans, or the "accretable yield," is recognized as interest income using the effective yield method over the estimated life of the loan if the timing and amount of the future cash flows of the pool is reasonably estimable. The non-accretable difference represents the difference between contractually required principal and interest and the cash flows expected to be collected. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date are recognized as interest income prospectively as an adjustment to accretable yield over the loan's or pool's remaining life. Decreases in expected cash flows after the acquisition date are recognized by recording an allowance for loan losses.

The fair value discount of lines of credit with revolving privileges that are accounted for pursuant to the guidance of ASC Subtopic 310-20, represented the difference between the contractually required loan payment receivable in excess of the initial investment in the loan. Any cash flows collected in

excess of the carrying amount of the loan are recognized in earnings at the time of collection. The carrying amount of lines of credit with revolving privileges, which are accounted pursuant to the guidance of ASC Subtopic 310-20, are subject to periodic review to determine the need for recognizing an allowance for loan losses.

The FDIC loss share indemnification asset for loss share agreements is measured separately from the related covered assets as it is not contractually embedded in the assets and is not transferable with the assets should the assets be sold.

The FDIC loss share indemnification asset is recognized on the same basis as the assets subject to loss share protection, except that the amortization / accretion terms differ for each asset. For covered loans accounted for pursuant to ASC Subtopic 310-30, decreases in expected reimbursements from the FDIC due to improvements in expected cash flows to be received from borrowers are recognized in non-interest income prospectively over the life of the FDIC loss sharing agreements. For covered loans accounted for under ASC Subtopic 310-20, as the loan discount recorded as of the acquisition date was accreted into income, a reduction of the related indemnification asset was recorded as a reduction in non-interest income. Increases in expected reimbursements from the FDIC are recognized in non-interest income in the same period that the allowance for credit losses for the related loans is recognized.

Over the life of the acquired loans that are accounted under ASC Subtopic 310-30, the Corporation continues to estimate cash flows expected to be collected on individual loans or on pools of loans sharing common risk characteristics. The Corporation evaluates at each balance sheet date whether the present value of its loans determined using the effective interest rates has decreased based on revised estimated cash flows and if so, recognizes a provision for loan loss in its consolidated statement of operations and an allowance for loan losses in its consolidated statement of financial condition. For any increases in cash flows expected to be collected from borrowers, the Corporation adjusts the amount of accretable yield recognized on the loans on a prospective basis over the loan's or pool's remaining life.

The evaluation of estimated cash flows expected to be collected subsequent to acquisition on loans accounted pursuant to ASC Subtopic 310-30 and inherent losses on loans accounted pursuant to ASC Subtopic 310-20 require the continued usage of key assumptions and estimates. Given the current economic environment, the Corporation must apply judgment to develop its estimates of cash flows considering the impact of home price and property value changes, changing loss severities and prepayment speeds. Decreases in the expected cash flows for ASC Subtopic 310-30 loans and decreases in the net realizable value of ASC Subtopic 310-20 loans will generally result in a charge to the provision for credit losses resulting in an increase to the allowance for loan losses. These estimates are particularly sensitive to changes in loan credit quality.

The amount that the Corporation realizes on the covered loans and related indemnification assets could differ materially from the carrying value reflected in these financial statements, based upon the timing and amount of collections on the acquired loans in future periods. The Corporation's losses on these assets may be mitigated to the extent covered under the specific terms and provisions of the loss share agreements.

Refer to Notes 4 and 12 to the consolidated financial statements for further discussions on the Westernbank FDIC-assisted transaction and loans acquired.

Income Taxes

Income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and attributable to operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered or paid. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period when the changes are enacted.

The calculation of periodic income taxes is complex and requires the use of estimates and judgments. The Corporation has recorded two accruals for income taxes: (i) the net estimated amount currently due or to be received from taxing jurisdictions, including any reserve for potential examination issues, and (ii) a deferred income tax that represents the estimated impact of temporary differences between how the Corporation recognizes assets and liabilities under accounting principles generally accepted in the United States (GAAP), and how such assets and liabilities are recognized under the tax code. Differences in the actual outcome of these future tax consequences could impact the Corporation's financial position or its results of operations. In estimating taxes, management assesses the relative merits and risks of the appropriate tax treatment of transactions taking into consideration statutory, judicial and regulatory guidance.

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 realization of deferred tax assets

requires the consideration of all sources of taxable income available to realize the deferred tax asset, including the future reversal of existing temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in 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 December 31, 2012, taking into account taxable income adjusted by temporary differences. For purposes of assessing the realization of the deferred tax assets in the U.S. mainland operations, this cumulative taxable loss position is considered significant negative evidence, which evaluated along with all sources of taxable income available to realize the deferred tax asset, has caused management to conclude that it is more-likely-than-not that the Corporation will not be able to fully realize the deferred tax assets in the future, considering solely the criteria of ASC Topic 740. Management will reassess the realization of the deferred tax assets based on the criteria of the applicable accounting pronouncement each reporting period. At December 31, 2012, the Corporation recorded a full valuation allowance of approximately \$1.3 billion on the deferred tax assets of the Corporation's U.S. operations. To the extent that the financial results of the U.S. operations improve and the deferred tax asset becomes realizable, the Corporation will be able to reduce the valuation allowance through earnings.

At December 31, 2012, the Corporation had net deferred tax assets related to its Puerto Rico operations amounting to \$558 million. The Corporation's Puerto Rico banking operation is no longer in a cumulative loss position. This operation shows a cumulative income position for the three-year period ended December 31, 2012 taking into account taxable income exclusive of reversing temporary differences (adjusted taxable income). The sustained profitability during years 2011 and 2012 is considered a strong piece of objectively verifiable positive evidence for the evaluation of the deferred tax asset valuation allowance. Based on this evidence and its estimated adjusted taxable income for future years, the Corporation has concluded that it is more likely than not that the net deferred tax asset of the Puerto Rico operations will be realized.

Changes in the Corporation's estimates can occur due to changes in tax rates, new business strategies, newly enacted guidance, and resolution of issues with taxing authorities regarding previously taken tax positions. Such changes could affect the amount of accrued taxes. The current income tax payable for 2012 has been paid during the year in accordance with estimated tax payments rules. Any remaining payment will not have any significant impact on liquidity and capital resources.

The valuation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in the financial statements or tax returns and future profitability. The accounting for deferred tax

consequences represents management's best estimate of those future events. Changes in management's current estimates, due to unanticipated events, could have a material impact on the Corporation's financial condition and results of operations.

The Corporation establishes tax liabilities or reduces tax assets for uncertain tax positions when, despite its assessment that its tax return positions are appropriate and supportable under local tax law, the Corporation believes it may not succeed in realizing the tax benefit of certain positions if challenged. In evaluating a tax position, the Corporation determines whether it is more-likely-than-not that the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Corporation's estimate of the ultimate tax liability contains assumptions based on past experiences, and judgments about potential actions by taxing jurisdictions as well as judgments about the likely outcome of issues that have been raised by taxing jurisdictions. The tax position is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Corporation evaluates these uncertain tax positions each quarter and adjusts the related tax liabilities or assets in light of changing facts and circumstances, such as the progress of a tax audit or the expiration of a statute of limitations. The Corporation believes the estimates and assumptions used to support its evaluation of uncertain tax positions are reasonable.

The amount of unrecognized tax benefits, including accrued interest, at December 31, 2012 amounted to \$16.9 million. Refer to Note 39 to the consolidated financial statements for further information on this subject matter. The Corporation anticipates a reduction in the total amount of unrecognized tax benefits within the next 12 months, which could amount to approximately \$10 million.

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. Although the outcome of tax audits is uncertain, the Corporation believes that adequate amounts of tax, interest and penalties have been provided for any adjustments that are expected to result from open years. From time to time, the Corporation is audited by various federal, state and local authorities regarding income tax matters. Although management believes its approach in determining the appropriate tax treatment is supportable and in accordance with the accounting standards, it is possible that the final tax authority will take a tax position that is different than the tax position reflected in the Corporation's income tax provision and other tax reserves. As each audit is conducted, adjustments, if any, are appropriately recorded in the

consolidated financial statement in the period determined. Such differences could have an adverse effect on the Corporation's income tax provision or benefit, or other tax reserves, in the reporting period in which such determination is made and, consequently, on the Corporation's results of operations, financial position and / or cash flows for such period.

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.

At December 31, 2012, goodwill amounted to \$648 million. Note 17 to the consolidated financial statements provides the assignment of goodwill by reportable segment and the Corporate group.

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, 2011), 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 reporting unit estimated fair value calculated in Step 1 using all valuation methodologies exceeded BPPR’s equity value by approximately \$222 million or 9% in the July 31, 2012 annual test as compared with approximately \$472 million or 20% at July 31, 2011. This result 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 or 46% as compared to approximately \$701 million or 64% 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 improvement credit quality of its loan portfolio.

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 are indicative of possible impairment.

Pension and Postretirement Benefit Obligations

The Corporation provides pension and restoration benefit plans for certain employees of various subsidiaries. The Corporation also provides certain health care benefits for retired employees of BPPR. The non-contributory defined pension and benefit restoration plans (“the Plans”) are frozen with regards to all future benefit accruals.

The estimated benefit costs and obligations of the pension and postretirement benefit plans are impacted by the use of subjective assumptions, which can materially affect recorded amounts, including expected returns on plan assets, discount rates, termination rates, retirement rates and health care trend rates. Management applies judgment in the determination of these factors, which normally undergo evaluation against current industry practice and the actual experience of the Corporation. The Corporation uses an independent actuarial firm for assistance in the determination of the pension and postretirement benefit costs and obligations. Detailed information on the Plans and related valuation assumptions are included in Note 33 to the consolidated financial statements.

The Corporation periodically reviews its assumption for the long-term expected return on pension plan assets. The Plans’ assets fair value at December 31, 2012 was \$656.1 million. The expected return on plan assets is determined by considering various factors, including a total fund return estimate based on a weighted-average of estimated returns for each asset class in the plan. Asset class returns are estimated using current and projected economic and market factors such as real rates of return, inflation, credit spreads, equity risk premiums and excess return expectations.

As part of the review, the Corporation’s independent consulting actuaries performed an analysis of expected returns based on the plan’s asset allocation at January 1, 2013. This analysis is reviewed by the Corporation and used as a tool to develop expected rates of return, together with other data. This forecast reflects the actuarial firm’s view of expected long-term rates of return for each significant asset class or economic indicator; for example, 8.8% for large cap stocks, 3.5% for fixed-income securities, 9.0% for small cap stocks and 2.2% inflation at January 1, 2013. A range of expected investment returns is developed, and this range relies both on forecasts and on broad-market historical benchmarks for expected returns, correlations, and volatilities for each asset class.

As a consequence of recent reviews, the Corporation reduced its expected return on plan assets for year 2013 from 7.60% to 7.25%. The 7.60% and 8.00% had been used as the expected rate of return in 2012 and 2011, respectively. Since the expected return assumption is on a long-term basis, it is not materially impacted by the yearly fluctuations (either positive or negative) in the actual return on assets. However, if the actual return on assets performs below management’s expectations for a continued period of time, this could

eventually result in the reduction of the expected return on assets percentage assumption.

During the fourth quarter of 2011, the Corporation offered a Voluntary Retirement Program (“VRP”) to all participants eligible for retirement under the Plans, excluding senior management. The VRP provided for an additional benefit of one-year of base pay, payable either as a lump-sum payment from the Plans on February 1, 2012, or as an increase in monthly pension payments on their elected pension benefit commencement date.

Pension expense for the Plans amounted to \$13.2 million in 2012. The total pension expense included a credit of \$41.3 million for the expected return on assets.

Pension expense is sensitive to changes in the expected return on assets. For example, decreasing the expected rate of return for 2013 from 7.25% to 7.00% would increase the projected 2013 expense for the Banco Popular de Puerto Rico Retirement Plan, the Corporation’s largest plan, by approximately \$1.5 million.

The Corporation accounts for the underfunded status of its pension and postretirement benefit plans as a liability, with an offset, net of tax, in accumulated other comprehensive income or loss. The determination of the fair value of pension plan obligations involves judgment, and any changes in those estimates could impact the Corporation’s consolidated statement of financial condition. The valuation of pension plan obligations is discussed above. Management believes that the fair value estimates of the pension plan assets are reasonable given that the plan assets are managed, in the most part, by the fiduciary division of BPPR, which is subject to periodic audit verifications. Also, the composition of the plan assets, as disclosed in Note 33 of the consolidated financial statements, is primarily in equity and debt securities, which have readily determinable quoted market prices.

The Corporation uses the Tower’s Watson RATE: Link (10/90) Model to discount the expected program cash flows of the plans as a guide in the selection of the discount rate. The Corporation used a discount rate of 3.80% to determine the benefit obligation at December 31, 2012, compared with 4.40% at December 31, 2011.

A 50 basis point decrease in the assumed discount rate of 3.80% as of the beginning of 2013 would increase the projected 2013 expense for the Banco Popular de Puerto Rico Retirement Plan by approximately \$2.8 million. The change would not affect the minimum required contribution to the Plan.

The Corporation also provides a postretirement health care benefit plan for certain employees of BPPR. This plan was unfunded (no assets were held by the plan) at December 31, 2012. The Corporation had an accrual for postretirement benefit costs of \$183.6 million at December 31, 2012. Assumed health care trend rates may have significant effects on the amounts reported for the health care plan. Note 33 to the

consolidated financial statements provides information on the assumed rates considered by the Corporation and on the sensitivity that a one-percentage point change in the assumed rate may have on specified cost components and the postretirement benefit obligation of the Corporation.

STATEMENT OF OPERATIONS ANALYSIS

Net Interest Income

Net interest income is the Corporation's primary source of earnings with 75% of total revenues (defined as net interest income plus non-interest income) for 2012 compared to 72% in 2011. The Corporation's main source of income is subject to volatility derived from several risk factors which include market driven events, changes in volumes and repricing characteristics of assets and liabilities, as well as strategic decisions made by the Corporation's management. Net interest income on a taxable equivalent basis for the year ended December 31, 2012 resulted in a decrease of \$64 million when compared with the same period in 2011.

The average key index rates for the years 2010 through 2012 were as follows:

	2012	2011	2010
Prime rate	3.25%	3.25%	3.25%
Fed funds rate	0.14	0.11	0.18
3-month LIBOR	0.42	0.34	0.34
3-month Treasury Bill	0.08	0.05	0.13
10-year Treasury	1.74	2.76	3.19
FNMA 30-year	3.07	4.11	3.95

Interest earning assets include the investment securities and loans that are exempt from income tax, principally in Puerto Rico. The main sources of tax-exempt interest income are certain investments in obligations of the U.S. Government, its agencies and sponsored entities, and certain obligations of the Commonwealth of Puerto Rico and its agencies. Assets held by the Corporation's international banking entities had a temporary 5% tax rate that ended in December, 2011. 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 at each period, in the subsidiaries that have the benefit. The taxable equivalent computation considers the interest expense disallowance required by the Puerto Rico tax law. Under this law, the exempt interest can be deducted up to the amount of taxable income. The decrease in taxable equivalent adjustment for 2012 is mainly related to lower exempt income due to renewal of cash flows in lower yielding securities, higher premium amortization and a lower volume of investment securities.

Average outstanding securities balances are based upon amortized cost excluding any unrealized gains or losses on securities available-for-sale. Non-accrual loans have been included in the respective average loans and leases categories.

Loan fees collected and costs incurred in the origination of loans are deferred and amortized over the term of the loan as an adjustment to interest yield. Prepayment penalties, late fees collected and the amortization of premiums / discounts on purchased loans are also included as part of the loan yield. Interest income for the period ended December 31, 2012 included a favorable impact, excluding the discount accretion on covered loans accounted for under ASC 310-30, of \$19.2 million, related to those items, compared to a favorable impact of \$21.4 million for the same period in 2011 and \$19.1 million in 2010. The \$2.2 million reduction from 2011 to 2012 resulted in part from higher amortization of premiums related to mortgage loans purchased. The discount accretion on covered loans accounted for under ASC 310-20 (revolving lines) was fully accreted in the third quarter of 2011 and totaled \$37.1 million.

Tables 5 and 6 present the different components of the Corporation's net interest income, on a taxable equivalent basis, for the year ended December 31, 2012, as compared with the same period in 2011, segregated by major categories of interest earning assets and interest bearing liabilities.

Net interest margin, on a taxable equivalent basis, remained flat at 4.47% for the years ended December 31, 2012 and 2011. Although the net interest margin did not change from year to year, there were several factors that affected its composition as detailed below:

- a decrease in the yield of investments in part due to higher premium amortization related to mortgage backed securities as a result of higher prepayment activity and renewal of cash inflows in lower yielding collateralized mortgage obligations;
- a lower proportion and lower yield of covered loans. This portfolio, due to its nature, will continue to decline as scheduled payments are received and workout arrangements are made. The yield variance was impacted by the fact that the interest income for 2011 includes \$37.1 million of discount accretion related to covered loans accounted for under ASC 310-20. As previously mentioned, this discount was fully accreted into earnings during 2011. Also, during 2011, resolutions of certain large commercial loan relationships caused the unamortized discount to be recognized into income for one pool and increased the accretable yield to be recognized over a short period of time for another pool. The accretion generated by the amortization of the discount for covered loans accounted for under ASC 310-20 as well as the transactions occurring within these two ASC 310-30 pools contributed to the high yield exhibited by the covered loan portfolio during 2011; and
- a decrease in the yield of mortgage loans due to acquisitions made, mainly in the US, of high quality loans, which generally carry a lower rate, originations in a lower

rate environment, reversal of interest for delinquent loans, and non-performing loans repurchased under credit recourse agreements.

The above variances were partially offset by the following factors which affected positively the Corporation's net interest margin:

- higher yield in the non-covered construction portfolio as a result of a lower proportion of non-performing loans;
- decrease of 35 basis points in the cost of interest bearing deposits, driven by management actions to reduce deposit costs; and
- lower cost of short-term borrowings resulting from the cancellation, during the quarter ended June 30, 2012, of \$350 million in repurchase agreements with an average cost of 4.36% and replacing them with lower cost Federal Home Loan Bank advances.

Average earning assets decreased \$1.4 billion when compared with 2011. This reduction was distributed between both investments and loans categories. The average loans volume decreased by approximately \$772 million, principally in the categories of non-covered and covered commercial loans. This reduction occurred in both Puerto Rico and U.S. markets. Lower origination activity, resolution of non-performing loans and charge-offs continue to impact the portfolio balance. In addition, the covered loan portfolio continues its normal amortization which contributes to the reduction in loan balances. For a detailed movement of covered loans refer to Note 10 of this Annual Report. The increase in the mortgage loans category resulted from strong originations within the Puerto Rico market as well as acquisitions made during the year by BPNA. The Corporation is pursuing its strategy of acquiring high quality assets to mitigate the reduction in the loan portfolio. The consumer loans category also benefitted from this strategy as \$225 million of portfolio purchases at the end of June 2012 contributed to the increase in the average balance of this category. In addition, the reduction in the average balance of investment securities reflects maturities and prepayment activity within the mortgage related investments. The average balance of borrowings decreased by \$1.4 billion mostly due to the repayment, at the end of 2011, of the note issued to the FDIC.

The increase in the net interest margin, on a taxable equivalent basis, from 3.82% in 2010 to 4.47% in 2011 was driven mostly by:

- a higher proportion of covered loans when compared to 2010. This was mainly due to the covered loan portfolio being outstanding for the full year in 2011 vs. eight months during 2010. This portfolio, due to its nature, carries a higher yield than the other loan portfolios. This impact is included in the line item "Covered loans" in Table 6;
- a decrease of 40 basis points in the cost of interest bearing deposits, driven by management actions to reduce deposit costs as well as renewing brokered certificates of deposits at a lower cost due to the low rate environment; and
- a higher yield in the investments category by 26 basis points. This increase was the result of the combination of maturities of lower yielding investments as well as a higher taxable equivalent benefit for 2011.

The above variances were partially offset by the following factors which affected negatively the Corporation's net interest margin:

- excess liquidity invested in money market investments with the Federal Reserve earning a low interest rate, which reduced the yield on earning assets;
- a lower yield in both the commercial and construction portfolios. This reduction can be attributed to the level of non-performing loans within the portfolio; and
- the FDIC loss share indemnification asset of \$1.9 billion at December 31, 2011, which is a non-interest earning asset being funded throughout the year with interest bearing liabilities, mainly a combination of the FDIC note at a 2.50% annual fixed interest rate and brokered certificates of deposits. The FDIC note was repaid as of December 31, 2011. The accretion of the FDIC loss share indemnification asset is recorded in non-interest income.

The increase in the taxable equivalent adjustment for 2011 was mainly the result of a change in BPPR's tax position when compared to 2010. During 2011, BPPR was able to deduct tax exempt income, net of the related interest expense. BPPR's net interest income for 2010 did not include a tax benefit related to exempt income due to its tax position at that time.

Table 5 - Analysis of Levels and Yields on a Taxable Equivalent Basis

						Year ended December 31,				
Average volume			Average yields / costs			Interest			Variance attributable to	
2012	2011	Variance	2012	2011	Variance	2012	2011	Variance	Rate	Volume
(\$ in millions)						(In thousands)				
\$1,051	\$1,152	\$(101)	0.35%	0.31%	0.04%	\$ 3,704	\$ 3,597	\$ 107	\$ 206	\$ (99)
5,227	5,494	(267)	3.45	4.05	(0.60)	180,243	222,465	(42,222)	(28,147)	(14,075)
446	667	(221)	5.81	5.82	(0.01)	25,909	38,850	(12,941)	(76)	(12,865)
6,724	7,313	(589)	3.12	3.62	(0.50)	Total money market, investment and trading securities				
						209,856	264,912	(55,056)	(28,017)	(27,039)
Loans:										
10,226	10,889	(663)	4.95	5.06	(0.11)	506,127	551,252	(45,125)	(12,105)	(33,020)
459	731	(272)	3.61	1.48	2.13	16,597	10,801	5,796	11,001	(5,205)
545	577	(32)	8.62	8.81	(0.19)	46,960	50,867	(3,907)	(1,121)	(2,786)
5,817	5,154	663	5.58	6.06	(0.48)	324,574	312,348	12,226	(25,994)	38,220
3,749	3,654	95	10.22	10.30	(0.08)	383,003	376,158	6,845	(3,484)	10,329
20,796	21,005	(209)	6.14	6.20	(0.06)	1,277,261	1,301,426	(24,165)	(31,703)	7,538
4,050	4,613	(563)	7.44	8.95	(1.51)	301,441	412,678	(111,237)	(63,177)	(48,060)
24,846	25,618	(772)	6.35	6.69	(0.34)	Total loans				
\$31,570	\$32,931	\$(1,361)	5.67%	6.01%	(0.34)%	1,578,702	1,714,104	(135,402)	(94,880)	(40,522)
Total earning assets						\$1,788,558	\$1,979,016	\$(190,458)	\$(122,897)	\$(67,561)
Interest bearing deposits:										
\$5,555	\$ 5,204	\$ 351	0.44%	0.60%	(0.16)%	\$ 24,576	\$ 30,994	\$ (6,418)	\$ (8,445)	\$ 2,027
6,571	6,321	250	0.33	0.59	(0.26)	21,727	37,537	(15,810)	(17,383)	1,573
9,421	10,920	(1,499)	1.46	1.84	(0.38)	137,786	200,956	(63,170)	(38,344)	(24,826)
21,547	22,445	(898)	0.85	1.20	(0.35)	Total deposits				
2,565	2,630	(65)	1.82	2.10	(0.28)	184,089	269,487	(85,398)	(64,172)	(21,226)
-	1,382	(1,382)	-	2.33	(2.33)	46,805	55,258	(8,453)	3,013	(11,466)
484	456	28	15.92	15.89	0.03	-	32,161	(32,161)	-	(32,161)
1,367	1,379	(12)	5.21	5.52	(0.31)	76,977	72,520	4,457	127	4,330
25,963	28,292	(2,329)	1.46	1.79	(0.33)	71,215	76,083	(4,868)	(2,223)	(2,645)
Total interest bearing liabilities						379,086	505,509	(126,423)	(63,255)	(63,168)
Non-interest bearing demand deposits										
5,357	5,058	299				Other sources of funds				
250	(419)	669				379,086	505,509	(126,423)	(63,255)	(63,168)
\$31,570	\$32,931	\$(1,361)	1.20%	1.54%	(0.34)%	Total source of funds				
			4.47%	4.47%	-%	Net interest margin				
						Net interest income on a taxable equivalent basis				
			4.21%	4.22%	(0.01)%	\$1,409,472	\$1,473,507	\$ (64,035)	\$ (59,642)	\$ (4,393)
Net interest spread										
Taxable equivalent adjustment						36,853	41,515	(4,662)		
Net interest income						\$1,372,619	\$1,431,992	\$(59,373)		

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

[1] Includes interest bearing demand deposits corresponding to certain government entities in Puerto Rico.

[2] Junior subordinated deferrable interest debentures held by the U.S. Treasury.

Table 6 - Analysis of Levels & Yields on a Taxable Equivalent Basis

						Year ended December 31,					
Average volume			Average yields / costs			Interest			Variance attributable to		
2011	2010	Variance	2011	2010	Variance	2011	2010	Variance	Rate	Volume	
(\$ in millions)						(In thousands)					
\$1,152	\$1,539	\$(387)	0.31%	0.35%	(0.04)%	Money market investments	\$3,597	\$5,384	\$(1,787)	\$(610)	\$(1,177)
5,494	6,300	(806)	4.05	3.79	0.26	Investment securities	222,465	238,654	(16,189)	19,324	(35,513)
667	493	174	5.82	6.55	(0.73)	Trading securities	38,850	32,333	6,517	(3,896)	10,413
7,313	8,332	(1,019)	3.62	3.32	0.30	Total money market, investment and trading securities	264,912	276,371	(11,459)	14,818	(26,277)
10,889	11,889	(1,000)	5.06	5.17	(0.11)	Loans:	551,252	614,187	(62,935)	(12,085)	(50,850)
731	1,458	(727)	1.48	2.03	(0.55)	Commercial	10,801	29,539	(18,738)	(6,605)	(12,133)
577	629	(52)	8.81	8.77	0.04	Construction	50,867	55,144	(4,277)	283	(4,560)
5,154	4,627	527	6.06	6.02	0.04	Leasing	312,348	278,339	34,009	2,138	31,871
3,654	3,854	(200)	10.30	10.40	(0.10)	Mortgage	376,158	400,662	(24,504)	(8,947)	(15,557)
21,005	22,457	(1,452)	6.20	6.14	0.06	Consumer	1,301,426	1,377,871	(76,445)	(25,216)	(51,229)
4,613	3,365	1,248	8.95	9.01	(0.06)	Sub-total loans	412,678	303,096	109,582	(1,702)	111,284
25,618	25,822	(204)	6.69	6.51	0.18	Covered loans	1,714,104	1,680,967	33,137	(26,918)	60,055
\$32,931	\$34,154	\$(1,223)	6.01%	5.73%	0.28%	Total loans	\$1,979,016	\$1,957,338	\$21,678	\$(12,100)	\$33,778
\$5,204	\$4,981	\$223	0.60%	0.80%	(0.20)%	Interest bearing deposits:	\$30,994	\$39,776	\$(8,782)	\$(10,113)	\$1,331
6,321	5,970	351	0.59	0.90	(0.31)	NOW and money market [1]	37,537	54,021	(16,484)	(19,907)	3,423
10,920	10,967	(47)	1.84	2.34	(0.50)	Savings	200,956	257,084	(56,128)	(53,031)	(3,097)
22,445	21,918	527	1.20	1.60	(0.40)	Time deposits	269,487	350,881	(81,394)	(83,051)	1,657
2,630	2,401	229	2.10	2.51	(0.41)	Total deposits	55,258	60,278	(5,020)	(8,658)	3,638
1,382	2,753	(1,371)	2.33	2.13	0.20	Short-term borrowings	32,161	58,521	(26,360)	5,114	(31,474)
456	434	22	15.89	15.84	0.05	FDIC note	72,520	68,694	3,826	196	3,630
1,379	1,860	(481)	5.52	6.18	(0.66)	TARP funds [2]	76,083	115,007	(38,924)	5,093	(44,017)
28,292	29,366	(1,074)	1.79	2.22	(0.43)	Other medium and long-term debt	505,509	653,381	(147,872)	(81,306)	(66,566)
5,058	4,732	326				Total interest bearing liabilities					
(419)	56	(475)				Non-interest bearing demand deposits					
\$32,931	\$34,154	\$(1,223)	1.54%	1.91%	(0.37)%	Other sources of funds					
			4.47%	3.82%	0.65%	Total source of funds	505,509	653,381	(147,872)	(81,306)	(66,566)
			4.22%	3.51%	0.71%	Net interest margin					
						Net interest income on a taxable equivalent basis	\$1,473,507	\$1,303,957	\$169,550	\$69,206	\$100,344
						Net interest spread					
						Taxable equivalent adjustment	41,515	9,092	32,423		
						Net interest income	\$1,431,992	\$1,294,865	\$137,127		

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

[1] Includes interest bearing demand deposits corresponding to certain government entities in Puerto Rico.

[2] Junior subordinated deferrable interest debentures held by the U.S. Treasury.

Provision for Loan Losses

The provision for loan losses amounted to \$408.9 million, or 83% of net charge-offs, for the year ended December 31, 2012, compared with \$575.7 million, or 104%, respectively, for 2011, and \$1.0 billion, or 88%, respectively, for 2010. The provision for loan losses for non-covered loans decreased by \$96.0 million, or 22%, from 2011 to 2012 and by \$581.8 million, or 57%, from 2010 to 2011. The provision for loan losses for covered loans decreased by \$70.8 million, or 49%, from 2011 to 2012 but increased by \$145.6 million from 2010 to 2011.

The decrease in the provision for loan losses for non-covered loans from 2011 to 2012 was mainly driven by continued credit quality improvements in all loan categories, except mortgage loans. Net charge-offs declined by \$131.3 million in all loan categories, except in mortgage loans which increased by \$30.1 million principally related revisions to the charge-off policy during the first quarter of 2012, coupled with the continued impact of weak economic conditions in the real estate market of Puerto Rico. The general allowance decreased by \$121 million mainly driven by the improvements in credit quality and lower underlying loss trends, partially offset by an increase in the

specific allowance of \$52 million. The increase in the specific allowance, particularly in the BPPR segment, was primarily attributed to an increase in the specific allowance for mortgage loans reflecting the intensification of the loss mitigation efforts. In the other hand, the decrease in the provision for loan losses for covered loans from 2011 to 2012 was mostly driven by certain commercial and construction loan pools accounted for under ASC Subtopic 310-30 which reflected lower expected loss estimates and reductions in the specific reserves of certain commercial loan relationships accounted for under ASC Subtopic 310-20.

The decrease in the provision for loan losses for non-covered loans from 2010 to 2011 was driven by the following factors: (i) a \$176.0 million charge taken in 2010 to provide for the difference between the book value and the estimated fair value of the BPPR commercial and construction loans and the BPNA non-conventional mortgage loans transferred to loans held-for-sale, (ii) a lower level of problem loans in the commercial and construction loan portfolio balances classified as held-for-investment, (iii) the running-off of the BPNA non-conventional

mortgage loan portfolio and (iv) the continued improvement in the credit quality performance of the Corporation's consumer loan portfolios. Overall, reductions in net charge-offs, which decreased by \$597.9 million compared to 2010, were reflected in all loan categories and segments, except in mortgage loans at the BPPR reportable segment, which increased by \$5.9 million. In the other hand, the increase in the provision for loan losses for covered loans from 2010 to 2011 was primarily due to reductions in expected cash flows on certain pools accounted for pursuant to ASC 310-30 and to two particular credit relationships accounted for pursuant to ASC 310-20 which required specific reserves of \$28.2 million, of which \$10.9 million were charged-off during the fourth quarter of 2011. The covered loan portfolio did not require an allowance for loan losses at December 31, 2010.

Refer to the Credit Risk Management and Loan Quality section for 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 7 for a breakdown of non-interest income by major categories for the past five years.

Table 7 - Non-Interest Income

<i>(In thousands)</i>	Years ended December 31,				
	2012	2011	2010	2009	2008
Service charges on deposit accounts	\$183,026	\$184,940	\$195,803	\$213,493	\$206,957
Other service fees:					
Debit card fees	36,787	49,459	100,639	110,040	108,274
Credit card fees and discounts	57,551	49,049	84,786	94,636	107,713
Insurance fees	53,825	54,390	49,768	50,132	50,417
Processing fees	6,330	6,839	45,055	55,005	51,731
Sale and administration of investment products	37,766	34,388	37,783	34,134	34,373
Mortgage servicing fees, net of fair value adjustments	30,770	12,098	24,801	15,086	25,987
Trust fees	16,353	15,333	14,217	12,455	12,099
Check cashing fees	244	339	408	588	512
Other fees	16,919	17,825	20,047	22,111	25,057
Total other services fees	256,545	239,720	377,504	394,187	416,163
Net (loss) gain on sale and valuation adjustments of investment securities	(1,707)	10,844	3,992	219,546	69,716
Trading account (loss) profit	(17,682)	5,897	16,404	39,740	43,645
Net gain on sale of loans, including valuation adjustments on loans held-for-sale	48,765	30,891	15,874	5,151	26,256
Adjustments (expense) to indemnity reserves on loans sold	(21,198)	(33,068)	(72,013)	(40,211)	(20,238)
FDIC loss share (expense) income	(56,211)	66,791	(25,751)	–	–
Fair value change in equity appreciation instrument	–	8,323	42,555	–	–
Gain on sale of processing and technology business	–	–	640,802	–	–
Other operating income	74,804	45,939	93,023	64,595	87,475
Total non-interest income	\$466,342	\$560,277	\$1,288,193	\$896,501	\$829,974

The decrease in non-interest income for the year ended December 31, 2012, when compared with the previous year, was mainly impacted by the following factors:

- unfavorable variance in net (loss) gain on sale and valuation adjustments of investment securities of \$12.6 million due to the \$8.5 million gain on the sale of \$234 million in FHLB notes during the third quarter of 2011 and to the \$2.8 million gain on the sale of a limited partnership interest in real estate limited partnerships owning property qualifying for low-income housing tax credits by BPNA during the fourth quarter of 2011;
- unfavorable variance in trading account (loss) profit of \$23.6 million mainly driven by lower unrealized gains on outstanding mortgage-backed securities in the P.R. operations due to lower market prices on a lower volume of outstanding pools, partially offset by lower realized losses on derivatives at BPPR;
- unfavorable variance in FDIC loss share (expense) income of \$123.0 million. This unfavorable variance was mainly the result of higher amortization of the FDIC loss share asset due to a decrease in expected losses 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 2 for a breakdown of FDIC loss share (expense) income by major categories.
- 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 year ended December 31, 2012, when compared with the previous year, were partially offset by the following positive factors:

- higher other service fees by \$16.8 million due to lower unfavorable fair value adjustments on mortgage servicing rights, higher credit card fees mainly due to higher interchange income from credit card portfolio acquisitions and higher membership fees from the credit card portfolio acquired in August 2011, partially offset by lower debit card fees mostly from lower interchange income driven by the Durbin Amendment of the Dodd-Frank Act that began to take effect on October 1, 2011;
- higher net gain on sale of loans, including valuation adjustments on loans held-for-sale, by \$17.9 million. The favorable variance in net gain on sale of loans was

principally due to higher gains on securitization transactions in the BPPR reportable segment by \$52.8 million. This favorable variance was partially offset by higher unfavorable valuation adjustments on loans held-for-sale of approximately \$20.1 million principally related 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 revised appraisals and market indicators;

- lower unfavorable adjustments recorded to indemnity reserves on loans sold by \$11.9 million mainly as a result of improvements in delinquency 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; and
- higher other operating income by \$28.9 million principally due to higher net earnings on investments accounted for under the equity method by \$38.7 million (net of intra-entity eliminations). This was mainly attributed to \$31.6 million of income recorded during the fourth quarter of 2012 related to the Corporation's proportionate share of a tax benefit from a tax grant received by EVERTEC from the Puerto Rico Government; partially offset by the gain of \$20.6 million on the sale of the equity interest in CONTADO during the first quarter of 2011.

For the year ended December 31, 2011, non-interest income decreased by \$727.9 million, or 57%, when compared to 2010, principally due to the gain on sale of the 51% ownership interest in the Corporation's processing and technology business, EVERTEC, during 2010 of \$640.8 million. In addition, other service fees declined by \$137.8 million principally due to lower credit and debit card fees, mainly as a result of transferring the merchant banking business to EVERTEC as part of the aforementioned sale of those operations during 2010. There was also an unfavorable impact in the fair value of the equity appreciation instrument issued to the FDIC as part of the Westernbank FDIC-assisted transaction of \$34.2 million since the instrument expired on May 7, 2011. Also, other operating income decreased by \$47.1 million mainly due to \$23.4 million in higher losses (net of intra-entity eliminations) from the retained ownership interest in EVERTEC and \$34.9 million in lower accretion of the contingent liability for unfunded lending commitments recorded as part of the FDIC-assisted transaction on revolving lines with maturities of one year or less, partially offset by the gain of \$20.6 million on the sale of the equity interest in CONTADO during 2011. These unfavorable variances were partially offset by the following factors: lower unfavorable adjustments related to indemnity reserves on loans sold by \$38.9 million due to lower unfavorable representation and

warranty adjustments in both the P.R. and U.S. operations by \$5.8 million and \$22.1 million, respectively, and lower credit recourse adjustments in the BPPR reportable segment by \$10.1 million; and a favorable variance in FDIC loss share (expense) income by \$92.5 million mainly driven by the recording of

provision for loan losses on covered loans during 2011 and the impact of lower discount accretion on the loans and contingent liability for unfunded commitments, partially offset by higher amortization of the FDIC loss share asset due to a decrease in expected losses on covered loans.

Operating Expenses

Table 8 provides a breakdown of operating expenses by major categories.

Table 8 - Operating Expenses

<i>(In thousands)</i>	Year ended December 31,				
	2012	2011	2010	2009	2008
Personnel costs:					
Salaries	\$301,965	\$305,018	\$352,139	\$364,529	\$421,134
Commissions, incentives and other bonuses	54,702	44,421	53,837	43,840	61,745
Pension, postretirement and medical insurance	66,976	62,219	61,294	81,372	56,481
Other personnel costs, including payroll taxes	42,059	41,712	46,928	43,522	69,105
Total personnel costs	465,702	453,370	514,198	533,263	608,465
Net occupancy expenses	100,452	102,319	116,203	111,035	120,456
Equipment expenses	45,290	43,840	85,851	101,530	111,478
Other taxes	50,120	51,885	50,608	52,605	52,799
Professional fees:					
Collections, appraisals and other credit related fees	46,658	34,241	27,081	21,675	21,413
Programming, processing and other technology services	102,222	96,699	45,685	31,286	35,830
Other professional fees	63,010	64,002	93,339	58,326	63,902
Total professional fees	211,890	194,942	166,105	111,287	121,145
Communications	26,834	27,115	38,905	46,264	51,386
Business promotion	61,576	55,067	46,671	38,872	62,731
Impairment losses on long-lived assets	—	—	—	1,545	13,491
FDIC deposit insurance	85,697	93,728	67,644	76,796	15,037
Loss (gain) on early extinguishment of debt	25,196	8,693	38,787	(78,300)	—
Other real estate owned (OREO) expenses	23,520	21,778	46,789	25,800	12,158
Other operating expenses:					
Credit and debit card processing, volume, interchange and other expenses	19,729	17,539	40,574	43,806	45,326
Transportation and travel	6,582	7,012	7,769	8,796	12,751
Printing and supplies	4,615	5,273	9,302	11,093	14,450
Operational losses	24,465	13,239	19,018	13,649	16,399
All other	49,408	44,843	67,950	46,673	54,667
Total other operating expenses	104,799	87,906	144,613	124,017	143,593
Goodwill and trademark impairment losses	—	—	—	—	12,480
Amortization of intangibles	10,072	9,654	9,173	9,482	11,509
Total operating expenses	\$1,211,148	\$1,150,297	\$1,325,547	\$1,154,196	\$1,336,728
Personnel costs to average assets	1.28%	1.19%	1.34%	1.46%	1.54%
Operating expenses to average assets	3.34	3.02	3.45	3.16	3.39
Employees (full-time equivalent)	8,072	8,329	8,277	9,407	10,387
Average assets per employee (in millions)	\$4.49	\$4.57	\$4.64	\$3.89	\$3.80

Operating expenses for the year ended December 31, 2012 increased by \$60.9 million, or 5%, when compared with the year ended December 31, 2011. The increase in operating expenses was impacted by the following variances:

- an increase in personnel costs of \$12.3 million, principally reflected in the following categories:
 - higher incentives, commissions and other bonuses by \$10.3 million mainly due to higher annual incentives programs, branch sales incentives, retail commissions and other performance incentives; and
 - higher medical insurance expenses by \$5.8 million due to higher claims activity and revised premiums during 2012.
- an increase in professional fees of \$16.9 million driven primarily by higher collection, appraisals and other credit related fees by \$12.4 million, mainly in the BPPR reportable segment. Some of these expenses are reimbursable by the FDIC since they are covered under the loss sharing agreements;
- an increase in business promotion expenses of \$6.5 million mainly driven by higher costs from the credit card rewards programs, higher expenses related to institutional advertising campaigns, and the expenses related to mobile banking applications;
- higher loss on extinguishment of debt by \$16.5 million as a result of the prepayment expense of \$25 million recorded during the second quarter of 2012 which was related to the early termination of repurchase agreements of \$350 million with original contractual maturities between March 2014 and May of 2014, partially offset by \$8 million in prepayment penalties recorded during the first quarter of 2011 on the repayment of \$100 million in medium-term notes; and
- an increase in the category of other operating expenses of \$16.9 million mainly due to higher tax, insurance advances, properties maintenance and repair expenses, and other costs associated with the collection efforts of the Westernbank covered loan portfolio by \$10.5 million. Under the loss sharing agreements, 80% of certain expenses are reimbursable by the FDIC and although the related expenses are reflected in this category, the 80% offset to these expenses is recorded in the income statement category of FDIC loss share income (expense) in non-interest income.

The above variances were partially offset by a decrease in the FDIC deposit insurance expense of \$8.0 million mainly driven by revisions in the deposit insurance premium calculation and efficiencies achieved from the internal reorganization of Popular Mortgage into BPPR during the fourth quarter of 2012.

Total operating expenses for the year 2011 declined by \$175.3 million, or 13%, when compared with 2010. The main driver for the decrease pertained to EVERTEC's operating

expenses in 2010, prior to the sale of the 51% interest in EVERTEC during 2010. The decrease was principally reflected in personnel costs by \$60.8 million, net occupancy expenses by \$13.9 million, equipment expenses by \$42.0 million and communication expenses by \$11.8 million. Also contributing to the decrease in operating expenses for the year ended December 31, 2011 when compared with the previous year, were a lower loss on extinguishment of debt by \$38.8 million, lower other real estate owned expenses by \$25.0 million and a decline in credit and debit card processing, volume and interchange expenses of \$25.1 million. These favorable variances were partially offset by an increase in professional fees of \$28.8 million, primarily due to system application processing and hosting services provided by EVERTEC to the Corporation's subsidiaries, which were eliminated during consolidation prior to the 51% ownership sale of EVERTEC. There was also an increase in business promotion expenses of \$8.4 million, mainly due to advertising expenses and higher FDIC deposit insurance assessments during 2011 by \$26.1 million mainly due to the change in the assessment computation for BPPR in the second quarter of 2011. Also, operating expenses for the year ended December 31, 2011 included approximately \$15.6 million in pension costs related to employees that were eligible and elected to participate in the voluntary retirement program of 2011. A total of 369 employees retired effective February 1, 2012.

INCOME TAXES

Income tax benefit amounted to \$26.4 million for the year December 31, 2012, compared with an income tax expense of \$114.9 million for the previous year. The decrease in income tax expense was due to lower income recognized by the P.R. operations during the year ended December 31, 2012 compared to year ended December 31, 2011. Furthermore, 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.

Additionally, an income tax benefit of \$72.9 million was recorded during 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 year ended December 31, 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.

Income tax expense for the year ended December 31, 2011 was \$114.9 million, compared with an income tax expense of \$108.2 million for 2010. The increase in income tax expense was mainly due to the recognition during 2011 of \$103.3 million in income tax expense as a result of the reduction in the marginal tax rate as explained above partly offset by the tax

benefit of \$53.6 million, recorded as a result of the Closing Agreement signed by the Corporation and the P.R. Treasury in June 2011. Additionally, this increase was offset by lower income before taxes on the Puerto Rico operations mostly because of the gain on the sale of 51% interest in Evertec that took place during 2010. The gain was calculated at the preferential tax rate of 25%.

The Corporation's net deferred tax assets at December 31, 2012 amounted to \$531 million (net of the valuation allowance of \$1.3 billion) compared to \$405 million at December 31, 2011. Note 39 to the consolidated financial statements provides the composition of the net deferred tax assets as of such dates. All of the net deferred tax assets at December 31, 2012 pertain to the Puerto Rico operations. Of the amount related to the U.S. operations, without considering the valuation allowance, \$1.1 billion is attributable to net operating losses of such operations.

The components of income tax (benefit) expense for the years ended December 31, 2012, 2011 and 2010 are included in the following table.

Table 9 - Components of Income Tax (Benefit) Expense

<i>(In thousands)</i>	2012		2011		2010	
	Amount	% of pre-tax income	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax at statutory rates	\$65,662	30%	\$79,876	30%	\$100,586	41%
Benefit of net tax exempt interest income	(25,540)	(12)	(31,379)	(12)	(7,799)	(3)
Effect of income subject to preferential tax rate [1]	(78,132)	(36)	(1,852)	(1)	(143,844)	(59)
Deferred tax asset valuation allowance	166	—	7,192	3	143,754	59
Non-deductible expenses	23,093	11	21,756	8	28,130	11
Difference in tax rates due to multiple jurisdictions	(6,034)	(3)	(8,555)	(3)	13,908	6
Initial adjustment in deferred tax due to change in tax rate	—	—	103,287	39	—	—
Recognition of tax benefits from previous years [2]	—	—	(53,615)	(20)	—	—
Unrecognized tax benefits	(8,985)	(4)	(5,160)	(2)	—	—
Others	3,367	2	3,377	1	(26,505)	(11)
Income tax (benefit) expense	\$(26,403)	(12)%	\$114,927	43%	\$108,230	44%

[1] Includes the impact of the Closing Agreement with the P.R. Treasury signed in June 2012 and income from investments in subsidiaries subject to preferential tax rates.

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

The full valuation allowance in the Corporation's U.S. operations was recorded in the year 2008 in consideration of the requirements of ASC 740. Refer to the Critical Accounting Policies / Estimates section of this MD&A for information on the requirements of ASC 740. The Corporation's U.S. mainland operations are in a cumulative loss position for the three-year period ended December 31, 2012 taking into account taxable income adjusted by temporary differences. For purposes of assessing the realization of the deferred tax assets in the U.S. mainland, this cumulative taxable loss position, along with the evaluation of all sources of taxable income available to realize the deferred tax asset, has caused management to conclude that it is more likely than not that the Corporation will not be able

to fully realize the deferred tax assets in the future, considering solely the criteria of ASC 740.

The Corporation's Puerto Rico Banking operation is no longer in a cumulative loss position. This operation shows a cumulative income position for the three-year period ended December 31, 2012 taking into account taxable income exclusive of reversing temporary differences (adjusted taxable income). The sustained profitability during the years 2011 and 2012 is considered a strong piece of objectively verifiable positive evidence for the evaluation of the deferred tax valuation allowance. Based on this evidence and its estimated adjusted taxable income for future years, the Corporation has concluded that it is more likely than not that the net deferred tax asset of the Puerto Rico operations will be realized.

Management will reassess the realization of the deferred tax assets based on the criteria of ASC 740 each reporting period. To the extent that the financial results of the U.S. operations improve and the deferred tax asset becomes realizable, the Corporation will be able to reduce the valuation allowance through earnings.

Refer to Note 39 to the consolidated financial statements for additional information on income taxes.

Fourth Quarter Results

The Corporation recognized net income of \$83.9 million for the quarter ended December 31, 2012, compared with \$3.0 million for the same quarter of 2011. The variance in the quarterly results was mainly driven by a reduction in the provision for loan losses of \$97.0 million.

Net interest income for the fourth quarter of 2012 amounted to \$350.4 million, compared with \$344.8 million for the fourth quarter of 2011. The increase in net interest income was primarily due to a higher volume of mortgage loans, a higher volume and yield of consumer loans, and a reduction in the cost of deposits and repurchase agreements.

The provision for loan losses amounted to \$82.8 million or 73% of net charge-offs for the quarter ended December 31, 2012, compared to \$179.8 million or 131% of net charge-offs for the fourth quarter of 2011. There was a decrease of \$37.7 million in the provision for loan losses on non-covered loans and \$59.3 million in the provision for loan losses on covered loans. The decrease in the provision for loan losses on non-covered loans was mainly due to reductions in the general reserves as a result of improvements in credit quality and lower underlying loss trends. This favorable variance was partially offset by increases in the specific reserves of the mortgage loan portfolio. The decrease in the provision for loan losses on covered loans was driven by reversals to provision expense for certain construction pools accounted for under ASC Subtopic 310-30 and a reduction in the specific reserve of certain commercial loan relationships accounted for under ASC Subtopic 310-20.

Non-interest income amounted to \$133.0 million for the quarter ended December 31, 2012, compared with \$149.4 million for the same quarter in 2011. The decrease in non-interest income was mainly due to an unfavorable variance in FDIC loss share (expense) income of \$54.3 million principally due to a release of allowance for loan and lease losses during the fourth quarter of 2012 and higher amortization of the loss share asset due to lower expected losses. In addition, there was an unfavorable variance in trading account (loss) gain of \$8.6 million related to higher unrealized losses on trading mortgage-backed securities and higher realized losses on derivatives. These unfavorable variances were partially offset by higher gains on sales of loans, net of valuation adjustments on loans held-for-sale, by \$14.1 million

as a result of higher gains on securitization transactions at BPPR, and higher other operating income by \$34.5 million mostly due to \$31.6 million of income recorded from the Corporation's interest in EVERTEC during the fourth quarter of 2012 related to its proportionate share of a tax benefit from a tax grant received by EVERTEC from the Puerto Rico Government.

Operating expenses totaled \$296.7 million for the quarter ended December 31, 2012, compared with \$311.1 million for the same quarter in the previous year. There were lower personnel costs by \$8.2 million mainly due to the \$15.6 million charge during the fourth quarter of 2011 related to the voluntary retirement program, partially offset by an increase in the amortization of pension costs resulting from a decrease in the discount rate and in the expected return of plan assets, and an increase in incentive compensation and medical insurance expenses. In addition, there was a decrease in FDIC deposit insurance expenses of \$11.4 million due to revisions in the deposit insurance premium calculation and efficiencies achieved from the internal reorganization of Popular Mortgage into BPPR during the fourth quarter of 2012. Also, there were lower OREO expenses by \$8.8 million driven mainly by higher gains on sales of commercial properties in the U.S. mainland and a decrease in fair value adjustments for commercial properties in BPPR. These favorable variances were partially offset by higher professional fees by \$8.2 million due to appraisal and programming costs, processing fees, and other technology costs related to services from EVERTEC; and higher other operating expenses by \$6.7 million mainly due to a higher provision for operational losses in the Puerto Rico and U.S. operations, partially offset by lower charges to increase the reserve for unfunded lending commitments in the Puerto Rico operations.

Income tax expense amounted to \$19.9 million for the quarter ended December 31, 2012, compared with \$0.3 million for the same quarter of 2011. The variance was primarily due to higher income recognized by the Puerto Rico operations during the fourth quarter of 2012 compared with the same period of 2011, including higher income from the Corporation's investment in EVERTEC's parent company.

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 41 to the consolidated financial statements.

The Corporate group reported a net loss of \$91.9 million for the year ended December 31, 2012, compared with net loss of \$110.8 million for the year ended December 31, 2011. The favorable variance in the results for the Corporate group was the net effect of higher income, net of intra-entity eliminations, from the equity interest in EVERTEC; and prepayment penalties incurred in 2011 on the early cancellation of medium-term notes, partially offset by a gain recognized during the year ended December 31, 2011 from the sale of its equity investment in CONTADO.

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

Banco Popular de Puerto Rico

The Banco Popular de Puerto Rico reportable segment's net income amounted to \$290.8 million for the year ended December 31, 2012, compared with \$231.5 million for the year ended December 31, 2011. The principal factors that contributed to the variance in the financial results included the following:

- lower net interest income by \$42.2 million, or 3%, mostly due to a reduction in interest income from the covered loan portfolio by \$111.2 million resulting from \$37.1 million discount accretion recognized during the year ended December 31, 2011 on revolving lines of credit accounted for pursuant to ASC 310-20, and from a lower average balance of covered loans by \$563 million. Also, a reduction of approximately \$794 million in the average volume of money market, investment and trading securities resulted in a lower interest income of \$48.3 million. The unfavorable impact resulting from these reductions was partially offset by a \$63.6 million reduction in deposit costs or 35 basis points and \$44.4 million in the cost of borrowings mostly associated with the prepayment during 2011 of the note issued to the FDIC. The net interest margin was 5.06% for the year ended December 31, 2012, compared to 5.02% for 2011;
- lower provision for loan losses by \$130.7 million, or 27%, due to the decrease in the provision for loan losses on the covered loan portfolio of \$70.8 million, or 49% and \$59.9 million, or 18% in the provision for loan losses on the non-covered loan portfolio. The provision for loan losses for the non-covered portfolio reflected lower net charge-offs by \$40.9 million and reductions in the allowance for loan losses, mainly driven by the commercial and consumer portfolios, as a result of continued improvement in credit trends. These reductions were more than offset by higher allowance levels for the mortgage loan portfolio prompted by higher loss trends and higher specific reserves for loans restructured under the Corporation's loss mitigation program. 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 2011 when compared with the revisions in expected loss estimates for 2012;
- lower non-interest income by \$86.4 million, or 18%, mainly due to FDIC loss share expense of \$56.2 million recognized for the year ended December 31, 2012, compared with FDIC loss share income of \$66.8 million for the same period previous year. Refer to Table 2 for components of this variance. The decrease in non-interest income was also due to an unfavorable variance of \$23.8 million in trading account (loss) profit resulting from lower unrealized gains on outstanding mortgage-backed securities due to lower market prices on a lower volume of outstanding pools, partially offset by lower realized losses on derivatives. Also, the decrease was due to unfavorable variances of \$21.2 million in valuation adjustments on loans held-for-sale, and the \$8.5 million gain on the sale of \$234 million in FHLB notes during the third quarter of 2011. These unfavorable variances were partially offset by an increase in gain on sale of loans by \$40.7 million mainly due to higher gains on securitization transactions by \$52.8 million, partially offset by the gain of \$17.4 million on the sale of construction and commercial real estate loans to a joint venture during the third quarter of 2011. Also there was a favorable variance of \$20.7 million in other service fees due to lower unfavorable fair value adjustments on mortgage servicing rights, higher credit card fees mainly due to higher interchange income from credit card portfolio acquisitions and higher membership fees from the credit card portfolio, partially offset by lower debit card fees mostly from lower interchange income driven by the Durbin Amendment of the Dodd-Frank Act that began to take effect on October 1, 2011. In addition, there were lower adjustments by \$18.6 million to increase the indemnity reserve on loans serviced and higher other operating income by \$9.6 million mainly due to \$7.8 million income from the equity investment in PRLP 2011 Holdings, LLC during 2012;
- higher operating expenses by \$82.9 million, or 9%, 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 of \$17.7 million in other operating expenses mostly due to costs associated with the collection efforts of the covered loan portfolio, of which 80% is reimbursed by the FDIC; an increase in OREO expenses of \$14.9 million mainly related to higher subsequent fair value

adjustments on commercial, construction and mortgage properties; and an increase of \$16.0 million in professional fees mostly due to appraisal expenses and loan collection efforts, some of which are reimbursable by the FDIC. Also there were unfavorable variances of \$7.2 million in personnel costs due to higher incentive and other compensation, net periodic pension costs, medical insurance costs, post retirement health benefits, among other factors; and \$5.8 million in business promotion expense mostly from credit card reward programs and other retail product promotional campaigns; and

- lower income tax expense by \$140.1 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 \$72.9 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 2011.

The main factors that contributed to the variance in the financial results for the year ended December 31, 2011, when compared with 2010, included the following:

- higher net interest income by \$144.8 million, or 13%, mostly due to interest income from covered loans which increased by \$109.6 million. Other favorable variances included reduced deposit and borrowing cost, and greater volume of mortgage loans. The net interest margin was 5.02% for the year ended December 31, 2011, compared with 4.43% for the year 2010;
- lower provision for loan losses by \$122.4 million, or 20%, mostly due to the decrease in the provision for loan losses on the non-covered loan portfolio of \$268.0 million, partially offset by an increase of \$145.6 million related to the covered loan portfolio. The decline on the provision for loan losses for non-covered loans was mainly driven by lower levels of commercial, construction and consumer net charge-offs, coupled with an improved outlook in net charge-offs for the consumer loan portfolio due to better macro-economic indicators. These improvements were partially offset by provisioning requirements for consumer and mortgage loans restructured under loss mitigation programs that are considered troubled debt restructurings and require to be analyzed for specific reserves under ASC Section 310-10-35. The decrease in net charge-offs was in part because of the charge-offs taken in December 2010 on the commercial and construction loans reclassified to held-for-sale. Also, the decrease in net charge-offs of the BPPR construction loan portfolio was principally because a substantial portion of the portfolio was classified as held-for-sale. The decline consumer loan net charge-offs reflects some signs of more stable credit performance in the personal and auto loan portfolios. These favorable variances were partially offset by the recording of a provision for loan losses on the covered loans during the year 2011, principally due to reductions in expected cash flows of certain loans accounted for pursuant to ASC 310-30 and two particular credit relationships accounted for pursuant to ASC 310-20. Refer to the Credit Risk Management and Loan Quality section of this MD&A for certain quality indicators and further explanations;
- higher non-interest income by \$40.2 million, or 9%, which included an increase in FDIC loss share income of \$92.5 million, higher gains on sale of loans, net of valuation adjustments on loans held-for-sale, of \$8.9 million, and lower adjustments to indemnity reserves on loans serviced by \$16.0 million. These favorable variances were partially offset by lower fair value adjustment on the equity appreciation instrument by \$34.2 million, lower amortization of the contingent liability on unfunded commitments of Westernbank by \$34.9 million, lower trading account profits by \$10.5 million, lower service charges on deposit accounts by \$2.3 million and other service fees by \$2.9 million. The latter was principally due to a reduction in credit and debit card fees and unfavorable adjustments in the fair value of servicing rights, offset in part by higher insurance agency fees and revenues for the sale and administration of investment products. Refer to Table 2 for detailed amounts on the Westernbank-related items.
- higher operating expenses by \$29.7 million, or 3%, mainly due to increase in personnel costs by \$4.5 million, mostly pension and postretirement benefit costs by \$9.8 million, and professional fees by \$13.5 million primarily for consulting, legal and credit related services, such as appraisals. Also, there was higher business promotion expense by \$6.3 million related to credit card programs and advertising, other operating taxes by \$4.2 million related mostly to personal property taxes, and higher FDIC deposit insurance by \$31.9 million. These unfavorable variances were partially offset by lower equipment, net occupancy, and communication expenses,

as well as a reduction in provision for unfunded lending commitments and the subsequent fair value adjustments in other real estate properties; and

- higher income tax expense by \$92.7 million, mainly due to an increase in income before tax. Also, during the first quarter of 2011, an adjustment to income tax expense was made to reduce the net deferred tax asset of the Puerto Rico operations as a result of the reduction in the marginal rate from 39% to 30%. These variances were partially offset by a tax benefit of \$53.6 million for the recognition of certain tax benefits not previously recorded during years 2009 and 2010 and by higher benefit on net exempt interest income.

Banco Popular North America

For the year ended December 31, 2012, the reportable segment of Banco Popular North America reported net income of \$46.0 million, compared with \$29.9 million for the year ended December 31, 2011. The principal factors that contributed to the variance in the financial results included the following:

- lower net interest income by \$13.9 million, or 5%, which was primarily the effect of lower average volume by \$527 million in the loan portfolio, partially offset by higher volume of investment securities and lower deposit balances. The BPNA reportable segment's net interest margin was 3.60% for 2012, compared with 3.64% for 2011;
- lower provision for loan losses by \$36.4 million, or 41%, principally as a result of lower net charge-offs by \$90.6 million mainly from the legacy, commercial and consumer loan portfolios due to improved credit performance. These favorable variances were partly offset by a lower allowance for loan losses release for 2011. 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. Refer to the Credit Risk Management and Loan Quality section of this MD&A for certain quality indicators and further explanations corresponding to the BPNA reportable segment;
- lower non-interest income by \$18.0 million, or 24%, mostly due to higher adjustments to indemnity reserves by \$6.8 million; lower gains on sale of securities by \$4.1 million mainly due to the \$2.8 million gain on the sale of a limited partnership interest in real estate limited partnerships owning property qualifying for low-income housing tax credits during the fourth quarter of 2011; lower other service fees by \$3.9 million, mostly related to debit card fees due to the effect of the Durbin Amendment of the Dodd-Frank Act; lower service charges on deposits by \$2.5 million; and lower gains on sales of mortgage loans by \$3.7 million; and

- lower operating expenses by \$11.6 million, or 5%, mainly due to a decrease in OREO expenses of \$13.2 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 increases of \$4.3 million in personnel costs mainly due to higher headcount, benefit accruals and medical insurance costs, and \$2.3 million in other operating expenses mostly due to higher operational losses.

The main factors that contributed to the variance in the financial results for the year ended December 31, 2011, when compared with 2010, included the following:

- lower net interest income by \$14.4 million, or 5%, principally as a result of lower earning assets primarily due to loan pay downs, sales, and charge-offs. This negative variance was partially offset by deleveraging of the balance sheet and lower deposit cost. The BPNA reportable segment's net interest margin was 3.64% for 2011, compared with 3.32% for 2010;
- lower provision for loan losses by \$313.8 million, or 78% of net charge-offs, principally driven by improvements in credit performance, lower loan balances, primarily in the commercial loan portfolio, and decreases in net charge-offs in all loan categories. Refer to the Credit Risk Management and Loan Quality section of this MD&A for certain quality indicators and further explanations corresponding to the BPNA reportable segment;
- higher non-interest income by \$20.3 million, or 37%, principally due to lower adjustments to representation and warranty reserves of \$22.1 million as E-LOAN has negotiated settlements with certain major counterparties who have agreed to release the Corporation from any future claims, and higher gains on the sale of loans, net of valuation adjustments, by \$5.9 million, partially offset by lower service charges on deposit accounts by \$8.5 million; and
- lower operating expenses by \$49.9 million, or 17%, mainly due to lower prepayment penalties on early extinguishment of debt by \$21.9 million, lower FDIC deposit insurance amortization by \$5.9 million and lower professional fees by \$7.0 million, including legal fees, armored car expenses, appraisal fees and computer service fees. In addition, there were lower other real estate property expenses and also lower net occupancy and equipment expenses mainly due to fewer branches. In addition, the results for 2010 included a settlement loss on the termination of the BPNA pension plan of \$4.2 million.

STATEMENT OF FINANCIAL CONDITION ANALYSIS

Assets

Refer to the consolidated financial statements included in this 2012 Annual Report for the Corporation's consolidated statements of financial condition at December 31, 2012 and December 31, 2011. Also, refer to the Statistical Summary 2008-2012 in this MD&A for condensed statements of financial condition for the past five years. At December 31, 2012, the Corporation's total assets were \$36.5 billion, compared with \$37.3 billion at December 31, 2011.

Money market, trading and investment securities

Money market investments amounted to \$1.1 billion at December 31, 2012, compared with \$1.4 billion at the same date in 2011. The decrease from the end of 2011 to 2012 was mainly due to a decrease of \$210 million in time deposits with other banks, principally in balances at the Federal Reserve Bank of New York.

Trading account securities amounted to \$315 million at December 31, 2012, compared with \$436 million at December 31, 2011. The decrease in trading account securities was principally due to Puerto Rico government bonds (GDB Senior Notes 2011) and Puerto Rico Infrastructure Financing Authority bonds (PRIFA) purchased by Popular Securities in December 2011, that were sold to retail clients in January 2012. Refer to the Market / Interest Rate Risk section of this MD&A included in the Risk Management section for a table that provides a breakdown of the trading portfolio by security type.

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 at December 31, 2012 and 2011. Notes 8 and 9 to the consolidated financial statements provide additional information with respect to the Corporation's investment securities AFS and HTM.

Table 10 - AFS and HTM Securities

<i>(In millions)</i>	2012	2011
U.S. Treasury securities	\$37.2	\$38.7
Obligations of U.S. government sponsored entities	1,096.3	985.5
Obligations of Puerto Rico, States and political subdivisions	171.2	157.7
Collateralized mortgage obligations	2,369.7	1,755.6
Mortgage-backed securities	1,483.1	2,139.6
Equity securities	7.4	6.9
Other	62.1	51.2
Total AFS and HTM investment securities	\$5,227.0	\$5,135.2

The investment securities portfolio consists primarily of highly liquid and rated securities. The increase in investment securities from December 31, 2011 to December 31, 2012 was mainly related to purchases of collateralized mortgage obligations, principally in the form of U.S. Government agency-issued collateralized mortgage obligations, partially offset by a reduction in mortgage-backed securities, due to maturities and prepayments.

At December 31, 2012, there were investment securities available-for-sale and held-to-maturity with a fair value of \$357 million in an unrealized loss position of \$2 million, compared with securities of \$210 million with unrealized losses of \$9 million at December 31, 2011. Management performed its quarterly analysis of all debt securities in an unrealized loss position at December 31, 2012 and concluded that no individual debt security was other-than-temporarily impaired as of such date. At December 31, 2012, the Corporation does 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 those investment securities prior to recovery of their amortized cost basis.

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.

Table 11 - Loans Ending Balances

<i>(in thousands)</i>	At December 31,				
	2012	2011	2010	2009	2008 [2]
Loans not covered under FDIC loss sharing agreements:					
Commercial	\$9,858,202	\$9,973,327	\$10,570,502	\$11,448,204	\$12,148,082
Construction	252,857	239,939	340,556	1,349,942	1,709,186
Legacy [1]	384,217	648,409	1,013,484	1,647,117	2,043,499
Lease financing	540,523	548,706	572,787	618,797	714,188
Mortgage	6,078,507	5,518,460	4,524,722	4,603,246	4,469,134
Consumer	3,868,886	3,673,755	3,705,984	4,045,807	4,648,784
Total non-covered loans held-in-portfolio	20,983,192	20,602,596	20,728,035	23,713,113	25,732,873
Loans covered under FDIC loss sharing agreements:					
Commercial	2,244,647	2,512,742	2,767,181	—	—
Construction	361,396	546,826	640,492	—	—
Mortgage	1,076,730	1,172,954	1,259,459	—	—
Consumer	73,199	116,181	169,750	—	—
Loans covered under FDIC loss sharing agreements	3,755,972	4,348,703	4,836,882	—	—
Total loans held-in-portfolio	24,739,164	24,951,299	25,564,917	23,713,113	25,732,873
Loans held-for-sale:					
Commercial	16,047	25,730	60,528	972	365,728
Construction	78,140	236,045	412,744	—	—
Legacy [1]	2,080	468	—	1,925	—
Mortgage	258,201	100,850	420,666	87,899	170,330
Total loans held-for-sale	354,468	363,093	893,938	90,796	536,058
Total loans	\$25,093,632	\$25,314,392	\$26,458,855	\$23,803,909	\$26,268,931

[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] Loans disclosed exclude the discontinued operations of PFH.

In general, the changes in most loan categories generally reflect soft loan demand, the impact of loan charge-offs, portfolio runoff of the exited loan origination channels at the BPNA reportable segment and the resolution of non-performing loans. The decreases were partially offset by mortgage and consumer loan growth, mostly due to loans origination, in part, by government incentives in the housing market, loans acquisitions, and mortgage loans repurchases under recourse agreements in Puerto Rico.

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 December 31, 2012 was reflected in the BPPR reportable segment which decreased by \$174 million, partially offset by an increase on \$59 million in the BPNA reportable segment. The decrease in the BPPR reportable segment was principally the result of overall portfolio runoff, loan net charge-offs by \$145 million during 2012 and the cancellation and repayment of certain commercial lines of credit. The increase in the BPNA reportable segment was principally due to new originations, offset by portfolio runoff of the discontinued lending business, loan amortization, the sale of loans, and the impact of net charge-offs during 2012

Construction loans held-in-portfolio increased \$13 million from December 31, 2011 to December 31, 2012. The BPPR reportable segment increased \$51 million due to new notes, while BPNA segment decreased \$38 million due loan sales of approximately \$32 million during 2012.

Commercial and construction loans held-for-sale loans decreased \$10 million and \$158 million, respectively, from December 31, 2011 to the end of 2012. The decrease in commercial loans was reflected in the BPPR and BPNA reportable segments by \$5 million in each reportable segment. The decrease in construction loans was \$150 million in the BPPR segment and \$8 million in the BPNA segment. These decreases were impacted by lower new loan origination activity, portfolio run-off associated with exited origination channels in the U.S. operations and loan sales.

The BPNA legacy portfolio, which 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, declined mostly due to the run-off status of this portfolio and the effect of net charge-offs of \$16 million for the year ended December 31, 2012.

The decline in the lease financing portfolio from December 31, 2011 to the same date in 2012 was experienced in the BPPR reportable segments by approximately \$8 million. The decrease at the BPPR reportable segment was mainly due to a slowdown in originations due to economic conditions in Puerto Rico. BPNA reportable segment is no longer originating lease financing and as such, the outstanding portfolio in those operations is running off and its part of the legacy loan portfolio.

The increase in mortgage loans held-in-portfolio was reflected in both reportable segments, BPPR and BPNA segments. BPNA reportable segment increased \$301 million or 36% from the balances at December 31, 2011, while the BPPR reportable segment increased \$259 million or 6%. The increase in the BPPR segment was principally associated to loan repurchases and loans originations. During 2012, mortgage originations amounted to \$1.5 billion, an increase of 21% when compared to the originations during 2011. Partially offsetting these increases, were net charge-offs of \$57 million during 2012 in the BPPR segment. The increase in BPNA segment was also related to loan purchases of approximately \$486 million, partially offset by net charge-offs of \$15 million during 2012.

The portfolio of mortgage loans held-for-sale increased \$157 million from December 31, 2011 to December 31, 2012. The increase was principally at the BPPR reportable segment mostly due to loans originated and purchased held with the purpose of executing agency securitizations in the secondary markets.

The increase in consumer loans held-in-portfolio from December 31, 2011 to December 31, 2012 of \$195 million was reflected in the BPPR reportable segment which experienced an increase of \$264 million, mostly due to the acquisition of \$260 million (unpaid principal balance) during 2012, out of which \$225 million were purchased during the second quarter of 2012. The BPNA reportable segment decreased \$69 million as a result of the runoff status of the portfolio at exited lines of business, including E-LOAN. Net charge-offs for the BPPR segment was \$90 million and \$36 million for the BPNA reportable segment.

Covered loans were initially recorded at fair value. Their carrying value approximated \$3.8 billion at December 31, 2012, of which approximately 60% pertained to commercial loans, 9% to construction loans, 29% to mortgage loans and 2% to consumer loans. Note 10 to the consolidated financial statements presents the carrying amount of the covered loans broken down by major loan type categories and the activity in the carrying amounts of loans accounted for pursuant to ASC 310-30. A substantial amount of the covered loans, or approximately \$3.5 billion of their carrying value at December 31, 2012, was accounted for under ASC Subtopic 310-30. The reduction was principally the result of loan collections and to charge-offs amounting to \$47 million for the year ended December 31, 2012, partially offset by the accretion on the loans, which increases their carrying value. 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 accretible discount has been impacted by increases in cash flow expectations on the loan pools based on quarterly revisions of the portfolio. The increase in the accretible discount is recognized as interest income using the effective yield method over the estimated life in each applicable loan pool.

FDIC loss share asset

As indicated in the Critical Accounting Policies / Estimates section of this MD&A, the Corporation recorded the FDIC loss share asset, measured separately from the covered loans, as part of the Westernbank FDIC-assisted transaction. Based on the accounting guidance in ASC Topic 805, at each reporting date subsequent to the initial recording of the indemnification asset, the Corporation measures the indemnification asset on the same basis as the covered loans and assesses its collectability.

The amount to be ultimately collected for the indemnification asset is dependent upon the performance of the underlying covered assets, the passage of time, claims submitted to the FDIC and the Corporation's compliance with the terms of the loss sharing agreements. Refer to Note 12 to the consolidated financial statements for additional information on the FDIC loss share agreements.

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

<i>(In thousands)</i>	Years ended December 31,	
	2012	2011
Beginning balance	\$ 4,036,471	\$4,539,928
Accretion	280,596	352,401
Collections / charge-offs	(825,308)	(855,858)
Ending balance	\$ 3,491,759	\$4,036,471
Allowance for loan losses (ALLL)	(95,407)	(83,477)
Ending balance, net of ALLL	\$ 3,396,352	\$3,952,994

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

<i>(In thousands)</i>	Years ended December 31,	
	2012	2011
Beginning balance	\$1,470,259	\$1,331,108
Accretion [1]	(280,596)	(352,401)
Change in expected cash flows	262,006	491,552
Ending balance	\$ 1,451,669	\$ 1,470,259

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

The loan discount accretion in 2012 and 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 pool's accretable yield.

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 lower FDIC payments under the loss share agreements.

Table 14 sets forth the activity in the FDIC loss share asset for the years ended December 31, 2012, 2011 and 2010.

Table 14 -Activity of Loss Share Asset

<i>(In thousands)</i>	Year ended December 31,		
	2012	2011	2010
Balance at beginning of year	\$1,915,128	\$2,410,219	\$-
FDIC loss share indemnification asset recorded at business combination	-	-	2,425,929
(Amortization) accretion of loss share indemnification asset	(129,676)	(10,855)	73,487
Credit impairment losses to be covered under loss sharing agreements	58,187	110,457	-
Reimbursable expenses to be covered under loss sharing agreements	29,234	5,093	-
Decrease due to reciprocal accounting on the discount accretion for loans and unfunded commitments accounted for under ASC Subtopic 310-20	(969)	(33,221)	(95,383)
Payments received from FDIC under loss sharing agreements	(462,016)	(561,111)	-
Other adjustments attributable to FDIC loss sharing agreements	(10,790)	(5,454)	6,186
Balance at end of period	\$1,399,098	\$1,915,128	\$2,410,219

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 Amortization (Discount)

<i>(In thousands)</i>	Year ended December 31,		
	2012	2011	2010
Balance at beginning of period [1]	\$117,916	\$(139,283)	\$(212,770)
(Amortization of negative discount) accretion of discount [2]	(129,676)	(10,855)	73,487
Impact of lower projected losses	153,560	268,054	-
Balance at end of period	\$141,800	\$117,916	\$(139,283)

[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. Aggressive collection of non-performing loans and a slowdown in OREO sales have led to an increase in the amount of other real estate owned from \$282 million at December 31, 2011 to \$406 million at December 31, 2012. Table 16 provides the activity in other real estate for the years ended December 31, 2012 and 2011. The amounts included as “covered other real estate” are partially sheltered by the FDIC loss sharing agreements.

Table 16 - Other Real Estate Owned (“OREO”) Activity

For the year ended December 31, 2012						
<i>(In thousands)</i>	Non-covered OREO		Covered OREO		Total	
	Commercial/	Construction	Non-covered OREO Mortgage	Commercial/ Construction		Covered OREO Mortgage
Balance at beginning of period	\$ 90,230		\$ 82,267	\$ 77,776	\$ 31,359	\$ 281,632
Write-downs in value	(13,727)		(10,823)	(7,466)	(767)	(32,783)
Additions	110,947		108,312	60,920	23,195	303,374
Sales	(51,422)		(46,091)	(32,022)	(13,122)	(142,657)
Other adjustments	(166)		(2,683)	190	(1,005)	(3,664)
Ending balance	\$135,862		\$130,982	\$ 99,398	\$ 39,660	\$ 405,902

For the year ended December 31, 2011						
<i>(In thousands)</i>	Non-covered OREO		Covered OREO		Total	
	Commercial/	Construction	Non-covered OREO Mortgage	Commercial/ Construction		Covered OREO Mortgage
Balance at beginning of period	\$ 87,283		\$ 74,213	\$ 41,153	\$ 16,412	\$ 219,061
Write-downs in value	(15,576)		(3,032)	(4,095)	(220)	(22,923)
Additions	78,064		77,543	54,898	23,421	233,926
Sales	(59,537)		(65,115)	(13,829)	(8,184)	(146,665)
Other adjustments	(4)		(1,342)	(351)	(70)	(1,767)
Ending balance	\$ 90,230		\$ 82,267	\$ 77,776	\$ 31,359	\$ 281,632

Other assets

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

Table 17 - Other Assets

<i>(In thousands)</i>	2012	2011	Change
Net deferred tax assets (net of valuation allowance)	\$541,499	\$429,691	\$111,808
Investments under the equity method	246,776	313,152	(66,376)
Bank-owned life insurance program	233,475	238,077	(4,602)
Prepaid FDIC insurance assessment	27,533	58,082	(30,549)
Prepaid taxes	88,360	17,441	70,919
Other prepaid expenses	60,626	59,894	732
Derivative assets	41,925	61,886	(19,961)
Trades receivables from brokers and counterparties	137,542	69,535	68,007
Others	191,842	214,635	(22,793)
Total other assets	\$1,569,578	\$1,462,393	\$107,185

The increase in other assets from December 31, 2011 to December 31, 2012 was principally due to higher deferred tax assets mainly due to the reduction in the deferred tax liability of \$72.9 million associated with the tax treatment of the loans acquired in the Westernbank FDIC-assisted transaction, since the gains resulting from a Closing Agreement with the Puerto Rico Treasury which established that 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 Puerto Rico 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 Puerto Rico Treasury, and recorded an increase in the deferred tax asset in June 2012. The increase in the 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 39 to the consolidated financial statements. Also, securities sold not yet delivered increase by \$68 million, mostly due to mortgage-backed securities sold in December 2012 (trade date) that settled in January 2013. Partially offsetting these increases, was a decrease in investments accounted for under the equity method mainly due to cash dividends received from EVERTEC's parent company of \$155 million, which reduced the Corporation's equity investment in the entity, partially offset by the equity pick up of the investments in EVERTEC and Centro Financiero BHD, S.A. Refer to Notes 16 and 30 for additional information on the Corporation's investments under the equity method.

Deposits and Borrowings

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

Table 18 - Financing to Total Assets

<i>(In millions)</i>	December 31, 2012	December 31, 2011	% increase (decrease) from 2011 to 2012	% of total assets 2012	2011
Non-interest bearing deposits	\$5,795	\$5,655	2.5 %	15.9 %	15.1 %
Interest-bearing core deposits	15,993	15,690	1.9	43.8	42.0
Other interest-bearing deposits	5,213	6,597	(21.0)	14.3	17.7
Repurchase agreements	2,017	2,141	(5.8)	5.5	5.7
Other short-term borrowings	636	296	114.9	1.7	0.8
Notes payable	1,778	1,856	(4.2)	4.9	5.0
Others	966	1,194	(19.1)	2.6	3.2
Stockholders' equity	4,110	3,919	4.9	11.3	10.5

Deposits

A breakdown of the Corporation's deposits for the past five years is included in Table 19.

Table 19 - Deposits Ending Balances

<i>(In thousands)</i>	2012	2011	2010	2009	2008
Demand deposits [1]	\$6,442,739	\$6,256,530	\$5,501,430	\$5,066,282	\$4,849,387
Savings, NOW and money market deposits (non-brokered)	11,190,335	10,762,869	10,371,580	9,635,347	9,554,866
Savings, NOW and money market deposits (brokered)	456,830	212,688	-	-	64,711
Time deposits (non-brokered)	6,541,660	7,552,434	8,594,759	8,513,854	10,123,845
Time deposits (brokered CDs)	2,369,049	3,157,606	2,294,431	2,709,411	2,957,396
Total deposits	\$27,000,613	\$27,942,127	\$26,762,200	\$25,924,894	\$27,550,205

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

At December 31, 2012, the Corporation's total deposits amounted to \$27.0 billion, compared to \$27.9 billion at December 31, 2011, a decrease of approximately 3%. The decrease in total deposits from the end of 2011 to December 31, 2012 was mainly related to lower time deposits of \$1.8 billion, partially offset by an increase of \$0.7 billion in savings, NOW and money market deposits. Non-brokered time deposits decrease of \$1 billion was mainly at the BPPR segment, in part due to lower deposit rate offerings in order to lower the cost of funds. In addition, brokered CD's decreased \$0.8 billion mostly in the BPPR segment. 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 a combination of short-term repurchase agreements and Federal Home Loan Bank advances. 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 \$4.4 billion at December 31, 2012, compared with \$4.3 billion at December 31, 2011. The increase in borrowings from December 31, 2011 to the same date in 2012 was mostly due to higher short term FHLB of NY advances. Refer to Notes 19, 20 and 21 to the consolidated financial statements for detailed information on the Corporation's borrowings at December 31, 2012 and December 31, 2011. Also, refer to the Liquidity section in this MD&A for additional information on the Corporation's funding sources.

Refer to the Off-Balance Sheet Arrangements and Other Commitments section in this MD&A for additional information on the Corporation's contractual obligations at December 31, 2012.

Other liabilities

The Corporation's other liabilities amounted to \$966 million at December 31, 2012, compared with \$1.2 billion at December 31, 2011. The decrease in other liabilities of \$228 million from December 31, 2011 to the same date in 2012 was mostly due to lower GNMA loan buy back option liability of \$124 million, lower accrued income taxes of \$36 million, lower pension plan liability of \$28 million and lower derivatives liabilities of \$26 million. The decrease in the GNMA loan purchase option was due to loan repurchases of \$255 million made by the Corporation during the last two quarters of 2012. 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 if brought back to current status, these may be either retained in portfolio or re-sold in the secondary market.

Stockholders' Equity

Stockholders' equity totaled \$4.1 billion at December 31, 2012, compared with \$3.9 billion at December 31, 2011. The increase from December 31, 2011 to the end of 2012 was principally due to the net income of \$245.3 million recorded for the year, partially offset by lower unrealized gains on investment securities available-for-sale. Refer to the consolidated statements of financial condition and of stockholders' equity for information on the composition of stockholders' equity. Also, refer to Note 25 for a detail of the accumulated other comprehensive income (loss), an integral component of stockholders' equity.

REGULATORY CAPITAL

Table 20 presents the Corporation's capital adequacy information for the years 2008 through 2012. Note 24 to the consolidated financial statements presents further information on the Corporation's regulatory capital requirements, including the regulatory capital ratios of its depository institutions, BPPR and BPNA. The Corporation continues to exceed the well-capitalized guidelines under the federal banking regulations.

Table 20 - Capital Adequacy Data

(Dollars in thousands)	At December 31,				
	2012	2011	2010	2009	2008
Risk-based capital:					
Tier I capital	\$4,058,242	\$3,899,593	\$3,733,776	\$2,563,915	\$3,272,375
Supplementary (Tier II) capital	298,906	312,477	328,522	346,527	384,975
Total capital	\$4,357,148	\$4,212,070	\$4,062,298	\$2,910,442	\$3,657,350
Risk-weighted assets:					
Balance sheet items	\$21,175,833	\$21,775,369	\$22,621,779	\$23,182,230	\$26,838,542
Off-balance sheet items	2,215,739	2,638,954	3,099,186	2,964,649	3,431,217
Total risk-weighted assets	\$23,391,572	\$24,414,323	\$25,720,965	\$26,146,879	\$30,269,759
Ratios:					
Tier I capital (minimum required - 4.00%)	17.35%	15.97%	14.52%	9.81%	10.81%
Total capital (minimum required - 8.00%)	18.63	17.25	15.79	11.13	12.08
Leverage ratio [1]	11.52	10.90	9.70	7.50	8.46
Average equity to assets	10.60	9.81	8.49	7.80	8.21
Average tangible equity to assets	8.82	8.10	6.77	6.12	6.64
Average equity to loans	15.47	14.57	12.62	11.48	12.14
Internal capital generation rate [2]	6.28	3.95	4.21	(21.88)	(42.11)

[1] All banks are required to have minimum Tier 1 leverage ratio of 3% or 4% of adjusted quarterly average assets, depending on the bank's classification.

[2] Internal capital generation rate is defined as the rate at which a bank generates equity capital, computed by dividing net income (loss) less dividends by the average balance of stockholders' equity for a given accounting period.

To meet minimum adequately-capitalized regulatory requirements, an institution must maintain a Tier 1 capital ratio of 4% and a total capital ratio of 8%. A “well-capitalized” institution must generally maintain capital ratios 200 basis points higher than the minimum guidelines. The risk-based capital rules have been further supplemented by a Tier 1 leverage ratio, defined as Tier 1 capital divided by adjusted quarterly average total assets, after certain adjustments. “Well capitalized” bank holding companies must have a minimum Tier 1 leverage ratio of 5%. The Corporation’s ratios presented in Table 20 show that the Corporation was “well capitalized” for regulatory purposes, the highest classification, for all years presented. BPPR and BPNA were also well-capitalized for all years presented.

The improvement in the Corporation’s regulatory capital ratios from the end of 2011 to December 31, 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, 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 December 31, 2012 and 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 December 31, 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 December 31, 2012, the remaining \$935 million in trust preferred securities corresponded to capital securities issued to the U.S. Treasury pursuant to the Emergency Economic Stabilization Act of 2008. The Dodd-Frank Act includes an exemption from the phase-out provision that applies to these capital securities.

The tangible common equity ratio and tangible book value per common share, which are presented in the table that follows, are non-GAAP measures. Management and many stock analysts use the tangible common equity ratio and tangible book value per common share in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations with significant amounts of goodwill or other intangible assets, typically stemming from the use of the purchase accounting method of accounting for mergers and acquisitions. Neither tangible common equity nor tangible assets or related measures should be considered in isolation or as a substitute for stockholders’ equity, total assets or any other measure calculated in accordance with 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 December 31, 2012 and 2011.

Table 21 - Reconciliation Tangible Common Equity and Assets

	At December 31,	
<i>(In thousands, except share or per share information)</i>	2012	2011
Total stockholders’ equity	\$4,110,000	\$3,918,753
Less: Preferred stock	(50,160)	(50,160)
Less: Goodwill	(647,757)	(648,350)
Less: Other intangibles	(54,295)	(63,954)
Total tangible common equity	\$3,357,788	\$3,156,289
Total assets	\$36,507,535	\$37,348,432
Less: Goodwill	(647,757)	(648,350)
Less: Other intangibles	(54,295)	(63,954)
Total tangible assets	\$35,805,483	\$36,636,128
Tangible common equity to tangible assets at end of period	9.38%	8.62%
Common shares outstanding at end of period	103,169,806	102,590,457
Tangible book value per common share	\$32.55	\$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.

Table 22 reconciles the Corporation's total common stockholders' equity (GAAP) to Tier 1 common equity as defined by the Federal Reserve Board, FDIC and other bank regulatory agencies (non-GAAP).

Table 22 - Reconciliation Tier 1 Common Equity

<i>(In thousands)</i>	At December 31,	
	2012	2011
Common stockholders' equity	\$4,059,840	\$3,868,593
Less: Unrealized gains on available-for-sale securities, net of tax [1]	(154,568)	(203,078)
Less: Disallowed deferred tax assets [2]	(385,060)	(249,325)
Less: Intangible assets:		
Goodwill	(647,757)	(648,350)
Other disallowed intangibles	(14,444)	(29,655)
Less: Aggregate adjusted carrying value of all non-financial equity investments	(1,160)	(1,189)
Add: Pension liability adjustment, net of tax and accumulated net gains (losses) on cash flow hedges [3]	226,159	216,798
Total Tier 1 common equity	\$3,083,010	\$2,953,794

[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 \$118 million of the Corporation's \$541 million of net deferred tax assets at December 31, 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 \$385 million of such assets at December 31, 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 \$38 million of the Corporation's other net deferred tax assets at December 31, 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 Federal Reserve Board, the Office of the Comptroller of the Currency ("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 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.

The Corporation continues to evaluate the impact of the proposed NPRs on its regulatory capital ratios. It is anticipated that based on the Corporation's current level of assets, non-performing assets and the composition of these, the implementation of the NPRs as currently proposed would reduce the Corporation's excess capital over well capitalized thresholds as compared to the Basel I rules currently in effect. However, the Corporation expects to continue to exceed the minimum requirements for well capitalized status after the implementation of the NPRs.

OFF-BALANCE SHEET ARRANGEMENTS AND OTHER COMMITMENTS

In the ordinary course of business, the Corporation engages in financial transactions that are not recorded on the balance sheet, or may be recorded on the balance sheet in amounts that are different than the full contract or notional amount of the transaction. As a provider of financial services, the Corporation routinely enters into commitments with off-balance sheet risk to meet the financial needs of its customers. These commitments may include loan commitments and standby letters of credit. These commitments are subject to the same credit policies and approval process used for on-balance sheet instruments. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial position. Other types of off-balance sheet arrangements that the Corporation enters in the ordinary course of business include derivatives, operating leases and provision of guarantees, indemnifications, and representation and warranties.

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 the end of 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.

As previously indicated, 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 statements 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.

At December 31, 2012, the aggregate contractual cash obligations, including purchase obligations and borrowings, by maturities, are presented in Table 23.

Table 23 - Contractual Obligations

<i>(In millions)</i>	Payments Due by Period				Total
	Less than 1 year	1 to 3 years	3 to 5 years	After 5 years	
Certificates of deposits	\$5,617	\$2,210	\$1,003	\$81	\$8,911
Repurchase agreements	1,275	174	568	–	2,017
Other short-term borrowings	636	–	–	–	636
Long-term debt	98	229	413	1,014 [1]	1,754
Purchase obligations	109	46	18	–	173
Annual rental commitments under operating leases	35	65	52	163	315
Capital leases	1	2	2	19	24
Total contractual cash obligations	\$7,771	\$2,726	\$2,056	\$1,277	\$13,830

[1] Includes junior subordinated debentures with an aggregate liquidation amount of \$936 million, net of \$437 million discount. These junior subordinated debentures are perpetual (no stated maturity).

Under the Corporation's repurchase agreements, Popular is required to deposit cash or qualifying securities to meet margin requirements. To the extent that the value of securities previously pledged as collateral declines because of changes in interest rates, the Corporation will be required to deposit additional cash or securities to meet its margin requirements, thereby adversely affecting its liquidity.

At December 31, 2012, the Corporation's liability on its pension, restoration and postretirement benefit plans amounted to \$319 million, compared with \$344 million at December 31, 2011. The Corporation's expected contributions to the pension and benefit restoration plans are minimal, while the expected contributions to the postretirement benefit plan to fund current benefit payment requirements are estimated at \$6.8 million for 2013. Obligations to these plans are based on current and projected obligations of the plans, performance of the plan assets, if applicable, and any participant contributions. Refer to Note 33 to the consolidated financial statements for further information on these plans. Management believes that the effect of the pension and postretirement plans on liquidity is not significant to the Corporation's overall financial condition. The BPPR's non-contributory defined pension and benefit restoration plans are frozen with regards to all future benefit accruals.

At December 31, 2012, the liability for uncertain tax positions was \$13.4 million, compared with \$19.5 million as of

the end of 2011. This liability represents an estimate of tax positions that the Corporation has taken in its tax returns which may ultimately not be sustained upon examination by the tax authorities. The ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty. Under the statute of limitations, the liability for uncertain tax positions expires as follows: 2013 - \$7.1 million, 2014 - \$2.5 million, 2015 - \$2.2 million, 2016 - \$0.8 million, and 2017 - \$0.8 million. As a result of examinations, the Corporation anticipates a reduction in the total amount of unrecognized tax benefits within the next 12 months, which could amount to approximately \$10 million.

The Corporation also 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.

The following table presents the contractual amounts related to the Corporation's off-balance sheet lending and other activities at December 31, 2012:

Table 24 - Off-Balance Sheet Lending and Other Activities

<i>(In millions)</i>	Amount of Commitment - Expiration Period				Total
	2013	2014 - 2015	2016 - 2017	2018 - thereafter	
Commitments to extend credit	\$6,026	\$235	\$423	\$91	\$6,775
Commercial letters of credit	21	—	—	—	21
Standby letters of credit	119	9	—	—	128
Commitments to originate mortgage loans	40	1	—	—	41
Unfunded investment obligations	1	—	9	—	10
Total	\$6,207	\$245	\$432	\$91	\$6,975

Guarantees Associated with Loans Sold / Serviced

At December 31, 2012, the Corporation serviced \$2.9 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 has not sold any mortgage loans subject to credit recourse since 2010.

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.

The following table presents the delinquency status of the residential mortgage loans serviced by the Corporation that are subject to lifetime credit recourse provisions at December 31, 2012 and December 31, 2011.

Table 25 - Delinquency of Residential Mortgage Loans Subject to Lifetime Credit Recourse

<i>(In thousands)</i>	2012	2011
Total portfolio	\$2,932,555	\$3,456,933
Days past due:		
30 days and over	\$412,313	\$500,524
90 days and over	\$158,679	\$215,597
As a percentage of total portfolio:		
30 days past due or more	14.06 %	14.48 %
90 days past due or more	5.41 %	6.24 %

During the year ended December 31, 2012, the Corporation repurchased approximately \$157 million of unpaid principal balance in mortgage loans subject to the credit recourse provisions (December 31, 2011 - \$241 million). 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. The current economic situation has forced the investors to take a closer review at loan performance and recourse triggers, thus causing an increase in loan repurchases.

At December 31, 2012, there were 59 outstanding unresolved claims related to the recourse portfolio with a principal balance outstanding of \$8.0 million, compared with 19 and \$2.1 million, respectively, at December 31, 2011. The outstanding unresolved claims at December 31, 2012 pertained to FNMA, while the claims outstanding at December 31, 2011 pertained to FNMA and FHLMC.

At December 31, 2012, the Corporation's liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to \$52 million, compared with \$59 million at December 31, 2011.

The following table presents the changes in the Corporation's liability of estimated losses from these credit recourse agreements, included in the consolidated statements of financial condition for the years ended December 31, 2012 and 2011.

Table 26 - Changes in Liability of Estimated Losses from Credit Recourse Agreements

<i>(In thousands)</i>	2012	2011
Balance as of beginning of period	\$58,659	\$53,729
Additions for new sales	—	—
Provision for recourse liability	16,153	43,828
Net charge-offs / terminations	(23,139)	(38,898)
Balance as of end of period	\$51,673	\$58,659

The provision for credit recourse liability decreased \$27.7 million for the year ended December 31, 2012, when compared to the same period in 2011. The decrease was mainly driven by improvements in the credit quality of mortgage loans subject to credit recourse agreements, evidenced by a decline in net-charge-offs of \$15.8 million.

The estimated losses to be absorbed under the credit recourse arrangements are recorded as a liability when the loans are sold 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 the 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 obligated to repurchase the loans amounted to \$3.2 million in unpaid principal balance with losses amounting to \$0.5 million for the year ended December 31, 2012 (\$ 22 million and \$ 2.5 million, respectively, at December 31, 2011). 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 \$15 million to discharge the financial institution from any repurchase obligation and other claims over the serviced portfolio of approximately \$2.9 billion at December 31, 2012. The Corporation recorded a representation and warranty reserve for the amount of the proceeds received from the third-party financial institution. At December 31, 2012, this reserve amounted to \$7.6 million. The reduction was principally the result of refinement in reserve estimates based on historical claims and loss expectations.

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 December 31, 2012, the Corporation serviced \$16.7 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 December 31, 2012, the outstanding balance of funds advanced by the Corporation under such mortgage loan servicing agreements was approximately \$19 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 December 31, 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 had been 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 to these loans. At December 31, 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.

On a quarterly basis, the Corporation reassesses its estimate for expected losses associated to 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 40% of claimed amounts during the 24-month period ended December 31, 2012 (51% during the 24-month period ended December 31, 2011). On the remaining 60% of claimed amounts, the Corporation either repurchased the balance in full or negotiated settlements. For the accounts where the Corporation settled, it averaged paying 49% of claimed amounts during the 24-month period ended December 31, 2012 (59% during the 24-month period ended December 31, 2011). In total, during the

24-month period ended December 31, 2012, the Corporation paid an average of 33% 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 at December 31, 2012 and December 31, 2011 are presented in the table below.

Table 27 - E-LOAN's Outstanding Unresolved Claims from Mortgage Loan Sales

<i>(In thousands)</i>	2012	2011
By Counterparty		
GSEs	\$1,270	\$432
Whole loan and private-label securitization investors	533	360
Total outstanding claims by counterparty	\$1,803	\$792
By Product Type		
1st lien (Prime loans)	\$1,803	\$792
Total outstanding claims by product type	\$1,803	\$792

The outstanding claims balance from private-label investors is comprised by two counterparties at December 31, 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. During the year ended December 31, 2012, charge-offs recorded by E-LOAN against this representation and warranty reserve associated with loan repurchases, indemnification or make-whole events and settlement / closure of certain agreements with counterparties to reduce the exposure to future claims were minimal. 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. Historically, claims have been predominantly for first mortgage agency loans and principally consist of underwriting errors related to undisclosed debt or missing documentation. The table that follows presents the changes in the Corporation's liability for estimated losses associated with customary representations and warranties related to loans sold by E-LOAN, included in the consolidated statement of condition for the years ended December 31, 2012 and 2011.

Table 28 - Changes in Liability for Estimated Losses Related to Loans Sold by E-LOAN

<i>(In thousands)</i>	2012	2011
Balance as of beginning of period	\$10,625	\$30,659
Additions for new sales	-	-
(Reversal) provision for representation and warranties	(1,836)	(4,936)
Net charge-offs / terminations	(1,049)	(2,198)
Other - settlements paid	-	(12,900)
Balance as of end of period	\$7,740	\$10,625

PIHC fully and unconditionally guarantees certain borrowing obligations issued by certain of its wholly-owned consolidated subsidiaries amounting to \$0.5 billion at December 31, 2012 (December 31, 2011 - \$0.7 billion). In addition, at December 31, 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 22 to the consolidated financial statements for further information on the trust preferred securities.

The Corporation is a defendant in a number of legal proceedings arising in the ordinary course of business as described in Note 27 to the consolidated financial statements.

RISK MANAGEMENT

Managing risk is an essential component of the Corporation's business. Risk identification and monitoring are key elements in overall risk management. The following principal risks, which have been incorporated into the Corporation's risk management program, include:

- **Credit Risk** - Potential for default or loss resulting from an obligor's failure to meet the terms of any contract with the Corporation or any of its subsidiaries, or failure otherwise to perform as agreed. Credit risk arises from all activities where success depends on counterparty, issuer, or borrower performance.
- **Interest Rate Risk ("IRR")** - Interest rate risk is the risk to earnings or capital arising from changes in interest rates. Interest rate risk arises from differences between the timing of rate changes and the timing of cash flows (repricing risk); from changing rate relationships among different yield curves affecting bank lending and borrowing activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest related options embedded in bank products (options risk).
- **Market Risk** - Potential for loss resulting from changes in market prices of the assets or liabilities in the Corporation's or in any of its subsidiaries' portfolios. Market prices may change as a result of changes in rates, credit and liquidity for the product or general economic conditions.

- **Liquidity Risk** - Potential for loss resulting from the Corporation or its subsidiaries not being able to meet their financial obligations when they come due. This could be a result of market conditions, the ability of the Corporation to liquidate assets or manage or diversify various funding sources. This risk also encompasses the possibility that an instrument cannot be closed out or sold at its economic value, which might be a result of stress in the market or in a specific security type given its credit, volume and maturity.
- **Operational Risk** - This risk is the possibility that inadequate or failed systems and internal controls or procedures, human error, fraud or external influences such as disasters, can cause losses.
- **Compliance Risk and Legal Risk** - Potential for loss resulting from violations of or non-conformance with laws, rules, regulations, prescribed practices, existing contracts or ethical standards.
- **Strategic Risk** - Potential for loss arising from adverse business decisions or improper implementation of business decisions. Also, it incorporates how management analyzes external factors that impact the strategic direction of the Corporation.
- **Reputational Risk** - Potential for loss arising from negative public opinion.

The Corporation's Board of Directors (the "Board") has established a Risk Management Committee ("RMC") to undertake the responsibilities of overseeing and approving the Corporation's Risk Management Program, as well as the Corporation's Capital Plan. The Capital Plan is a plan to maintain sufficient regulatory capital at the Corporation, BPPR and BPNA, which considers current and future regulatory capital requirements, expected future profitability and credit trends and, at least, two macroeconomic scenarios, including a base and stress scenario.

The RMC, as an oversight body, monitors and approves the overall business strategies, and corporate policies to identify, measure, monitor and control risks while maintaining the effectiveness and efficiency of the business and operational processes. As an approval body for the Corporation, the RMC reviews and approves relevant risk management policies and critical processes. Also, it periodically reports to the Board about its activities.

The Board and RMC have delegated to the Corporation's management the implementation of the risk management processes. This implementation is split into two separate but coordinated efforts that include (i) business and / or operational units who identify, manage and control the risks resulting from their activities, and (ii) a Risk Management Group ("RMG"). In general, the RMG is mandated with responsibilities such as assessing and reporting to the Corporation's management and

RMC the risk positions of the Corporation; developing and implementing mechanisms, policies and procedures to identify, measure and monitor risks; implementing measurement mechanisms and infrastructure to achieve effective risk monitoring; developing and implementing the necessary management information and reporting mechanisms; and monitoring and testing the adequacy of the Corporation's policies, strategies and guidelines.

The RMG is responsible for the overall coordination of risk management efforts throughout the Corporation and is composed of three reporting divisions: (i) Credit Risk Management, (ii) Compliance Management, and (iii) Financial and Operational Risk Management. The latter includes an Enterprise Risk Management function that facilitates, among other aspects, the identification, coordination, and management of multiple and cross-enterprise risks.

Additionally, the Internal Auditing Division provides an independent assessment of the Corporation's internal control structure and related systems and processes.

Moreover, management oversight of the Corporation's risk-taking and risk management activities is conducted through management committees:

- **CRESKO (Credit Strategy Committee)** - Manages the Corporation's overall credit exposure and approves credit policies, standards and guidelines that define, quantify, and monitor credit risk. Through this committee, management reviews asset quality ratios, trends and forecasts, problem loans, establishes the provision for loan losses and assesses the methodology and adequacy of the allowance for loan losses on a quarterly basis.
- **ALCO (Asset / Liability Management Committee)** - Oversees and approves the policies and processes designed to ensure sound market risk and balance sheet strategies, including the interest rate, liquidity, investment and trading policies. The ALCO monitors the capital position and plan for the Corporation and approves all capital management strategies, including capital market transactions and capital distributions. The ALCO also monitors forecasted results and their impact on capital, liquidity, and net interest margin of the Corporation.
- **ORCO (Operational Risk Committee)** - Monitors operational risk management activities to ensure the development and consistent application of operational risk policies, processes and procedures that measure, limit and manage the Corporation's operational risks while maintaining the effectiveness and efficiency of the operating and businesses' processes.

Market / Interest Rate Risk

The financial results and capital levels of the Corporation are constantly exposed to market, interest rate and liquidity risks. The 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 RMC. In addition, the Financial and Operational Risk Management Division is responsible for the independent monitoring and reporting of adherence with established policies, and enhancing and strengthening controls surrounding interest, liquidity and market risk. The ALCO generally meets on a weekly basis and reviews the Corporation's current and forecasted asset and liability levels as well as desired pricing strategies and other relevant topics. Also, on a monthly basis the ALCO reviews various interest rate risk sensitivity 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.

During 2012 U.S. real GDP increased 1.5 percent, while in 2011 it rose 2.0 percent. However, the economy weakened in the fourth quarter, posting a minus 0.1 percent annualized pace, due to weaker government spending and inventory drawdowns.

The unemployment rate fell 0.8 percentage points in 2012, almost the same as the 0.9 in 2011. But the quality of the change was better because the labor force participation rate stabilized. Energy prices were volatile in 2012 but have remained under the Federal Reserve's 2% target.

During the last week of December, U.S. lawmakers put together an agreement to avert the "fiscal cliff", the concerted spending cuts and tax hikes that were set to kick in during 2013. This has temporarily helped avoid the risk of another economic slowdown, and a possible recession. However, an agreement will have to be reached on federal spending to prevent the activation of automatic spending cuts.

The housing market recovery in the U.S. appears to be gaining strength as recent data suggests all around improvement in most indicators for the sector. Average home prices have been rising moderately across most major cities in recent months while confidence among homebuilders remains high. Though existing home sales have seen some volatility, the broader sales trends appear to be positive. Helped by the Federal Reserve's renewed mortgage bond purchases, mortgage rates remain at record lows and are encouraging more buyers into the housing market. Housing inventories have also seen a steady decline recently, which could help support home prices in coming months, unless offset by an unexpected rise in foreclosures. Banks are also lending more as their balance sheets have been mostly repaired and since profitability has improved. A continued housing recovery is essential to sustain the labor market gains through job additions in the construction and related sectors.

The latest figures from the Puerto Rico Planning Board (PB) cut projected gross product growth for the current 2013 fiscal year (ends June 30) nearly in half, to 0.6% from 1.1%. The PB also cut the estimated economic growth rate during fiscal 2012

(ended June 30, 2012) to 0.4% from 0.9%. This was the first full year with a stable, but weak economy in Puerto Rico, following a six-year steep decline in economic activity. Employment continued to be a weak spot with the economy losing 13,000 jobs in 2012 and the unemployment rate at 13.4% by year-end. Puerto Rico's fiscal situation is expected to continue to be challenging in 2013. The Commonwealth's credit rating was downgraded by Moody's in December 2012, to Baa3 with a negative outlook, with various factors noted, including the lack of clear growth catalysts, the fiscal budget deficits and the financial condition of the public sector employee pension plans, which are significantly underfunded. On February 21, 2013, Fitch ratings placed the BBB- plus general obligation bond ratings of the Commonwealth of Puerto Rico debt on Rating Watch Negative. The Rating Watch Negative reflects Fitch's expectation of a significant increase in the Commonwealth's estimated operating imbalance for the current and coming fiscal years, based on reported revenue results through the first half of the current fiscal year and public statements by the new government.

Interest Rate Risk

The Corporation is subject to various categories of interest rate risk, including repricing, basis, yield curve and option risks. In addition, interest rates may have an indirect impact on loan demand, loan origination volume, the value of the Corporation's investment securities holdings and other assets subject to market valuation, gains and losses on sales of securities and loans, the value of its mortgage servicing rights, the funded status of the retirement plans, and other sources of earnings. In limiting interest rate risk to an acceptable level, management may alter the mix of floating and fixed rate assets and liabilities, change pricing schedules, adjust maturities through sales and purchases of investment securities, and enter into derivative contracts, among other alternatives.

Interest rate risk management is an active process that encompasses monitoring loan and deposit flows complemented by investment and funding activities. Effective management of interest rate risk begins with understanding the dynamic characteristics of assets and liabilities and determining the appropriate rate risk position given line of business forecasts, management objectives, market expectations and policy constraints.

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

Net interest income simulation analysis performed by legal entity and on a consolidated basis is a tool used by the Corporation in estimating the potential change in 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 by comparing various net interest income simulations under different interest rate scenarios that differ in direction of interest rate changes, the degree of change over time, the speed of change and the projected shape of the yield curve. For example, the types of rate scenarios processed during the year included economic most likely scenarios, flat rates, yield curve twists, + 200 and + 400 basis points parallel ramps and + 200 basis points parallel shocks. Given the fact that during the year ended December 31, 2012, some market interest rates were close to zero, management has focused on measuring the risk on net interest income in rising rate scenarios. Management also performs analyses to isolate and measure basis and prepayment risk exposures.

The asset and liability management group performs validation procedures on various assumptions used as part of the sensitivity analysis as well as validations of results on a monthly basis. In addition, the model and processes used to assess IRR are subject to third-party validations according to the guidelines established in the Model Governance and Validation policy. Due to the importance of critical assumptions in measuring market risk, the risk models incorporate third-party developed data for critical assumptions such as prepayment speeds on mortgage loans and mortgage-backed securities, estimates on the duration of the Corporation's deposits and interest rate scenarios. 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.

The Corporation processes 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 simulations reflect gradual parallel changes of 200 and 400 basis points during the twelve-month period ending December 31, 2013. Under a 200 basis points rising rate scenario, 2013 projected net interest income increases by \$13.6 million, while under a 400 basis points rising rate scenario,

2013 projected net interest income increases by \$23.7 million. These scenarios were compared against the Corporation's flat or unchanged interest rates forecast scenario. Simulation analyses are based on many assumptions, including relative levels of market interest rates, interest rate spreads, loan prepayments and deposit decay. Thus, 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.

Static gap analysis measures the volume of assets and liabilities maturing or repricing at a future point in time. Static gap reports stratify all of the Corporation's assets, liabilities and off-balance sheet positions according to the instrument's maturity, repricing characteristics and optionality, assuming no new business. The repricing volumes typically include adjustments for anticipated future asset prepayments and for differences in sensitivity to market rates. The volume of assets and liabilities repricing during future periods, particularly within one year, is used as one short-term indicator of IRR. Depending on the duration and repricing characteristics, changes in interest rates could either increase or decrease the level of net interest income. For any given period, the pricing structure of the assets and liabilities is generally matched when an equal amount of such assets and liabilities mature or reprice in that period. Any mismatch of interest earning assets and interest bearing liabilities is known as a gap position. A positive gap denotes asset sensitivity, which means that an increase in interest rates could have a positive effect on net interest income, while a decrease in interest rates could have a negative effect on net interest income. As shown in Table 29, at December 31, 2012, the Corporation's one-year cumulative positive gap was \$2.7 billion, or 8.55% of total earning assets. This compares with \$3.3 billion or 10.26%, respectively, at December 31, 2011. The change in the one-year cumulative gap position was influenced in part by a lower level of loans expected to reprice or mature within 2013 and the cancellation during June 2012 of approximately \$350 million in long-term repurchase agreements that were replaced with short term Federal Home Loan Bank advances. These static measurements do not reflect the results of any projected activity and are best used as early indicators of potential interest rate exposures. They do not incorporate possible actions that could be taken to manage the Corporation's IRR, nor do they capture the basis risks that might be included within the cumulative gap, given possible changes in the spreads between asset rates and the rates used to fund them.

Table 29 - Interest Rate Sensitivity

At December 31, 2012										
(Dollars in thousands)	By repricing dates								Non-interest bearing funds	Total
	0-30 days	Within 31 - 90 days	After three months but within six months	After six months but within nine months	After nine months but within one year	After one year but within two years	After two years			
Assets:										
Money market investments	\$1,057,261	\$28,119	\$100	\$100	\$-	-	-	-	-	\$1,085,580
Investment and trading securities	287,503	389,742	757,552	338,520	192,335	\$691,394	\$3,069,940	-	-	5,726,986
Loans	7,702,059	1,023,146	968,155	875,692	857,720	2,587,312	11,079,548	-	-	25,093,632
Other assets	-	-	-	-	-	-	-	-	\$4,601,337	4,601,337
Total	9,046,823	1,441,007	1,725,807	1,214,312	1,050,055	3,278,706	14,149,488	4,601,337		36,507,535
Liabilities and stockholders' equity:										
Savings, NOW and money market and other interest bearing demand deposits										
	3,323,544	11	-	-	103	299	8,971,318	-	-	12,295,275
Certificates of deposit										
	1,313,606	1,417,215	1,774,542	795,469	566,412	1,405,065	1,638,400	-	-	8,910,709
Federal funds purchased and assets sold under agreements to repurchase										
	1,077,775	245,489	-	-	-	16,291	677,197	-	-	2,016,752
Other short-term borrowings										
	636,200	-	-	-	-	-	-	-	-	636,200
Notes payable										
	95	48,190	182	50,182	499,652	189,441	989,979	-	-	1,777,721
Non-interest bearing deposits										
	-	-	-	-	-	-	-	-	5,794,629	5,794,629
Other non-interest bearing liabilities										
	-	-	-	-	-	-	-	-	966,249	966,249
Stockholders' equity										
	-	-	-	-	-	-	-	-	4,110,000	4,110,000
Total	\$6,351,220	\$1,710,905	\$1,774,724	\$845,651	\$1,066,167	\$1,611,096	\$12,276,894	\$10,870,878		\$36,507,535
Interest rate sensitive gap	2,695,603	(269,898)	(48,917)	368,661	(16,112)	1,667,610	1,872,594	(6,269,541)		-
Cumulative interest rate sensitive gap	2,695,603	2,425,705	2,376,788	2,745,449	2,729,337	4,396,947	6,269,541	-		-
Cumulative interest rate sensitive gap to earning assets	8.45%	7.60%	7.45%	8.60%	8.55%	13.78%	19.65%	-		-

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 up or down rate changes in expected cash flows, including principal and interest, from all future periods.

EVE sensitivity calculated using interest rate shock scenarios is estimated on a quarterly basis. The shock scenarios consist of +/- 200 basis points parallel shocks. Management has defined limits for the increases / decreases in EVE sensitivity resulting from the shock scenarios.

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.

The Corporation's loan and investment portfolios are subject to prepayment risk, which results from the ability of a third-party to repay debt obligations prior to maturity. Prepayment risk also could have a significant impact on the duration of mortgage-backed securities and collateralized mortgage obligations, since prepayments could shorten (or lower prepayments could extend) the weighted average life of these portfolios. Table 30, which presents the maturity distribution of earning assets, takes into consideration prepayment assumptions.

Table 30 - Maturity Distribution of Earning Assets

<i>(In thousands)</i>	As of December 31, 2012					
	Maturities					Total
	One year or less	After one year through five years		After five years		
		Fixed interest rates	Variable interest rates	Fixed interest rates	Variable interest rates	
Money market securities	\$1,085,580	—	—	—	—	\$1,085,580
Investment and trading securities	1,828,347	\$1,712,820	\$105,961	\$1,808,453	\$78,556	5,534,137
Loans:						
Commercial	3,812,512	1,772,625	2,602,668	671,194	1,350,781	10,209,780
Construction	308,432	19,430	34,178	8,754	4,308	375,102
Lease financing	211,730	335,442	—	12	—	547,184
Consumer	1,981,618	1,320,024	304,674	91,397	171,173	3,868,886
Mortgage	1,364,736	2,100,149	247,697	2,350,067	274,059	6,336,708
Total non-covered loans	7,679,028	5,547,670	3,189,217	3,121,424	1,800,321	21,337,660
Covered loans under FDIC loss sharing agreements	1,668,280	510,360	680,223	379,144	517,965	3,755,972
	\$12,261,235	\$7,770,850	\$3,975,401	\$5,309,021	\$2,396,842	\$31,713,349

Note: Equity securities available-for-sale and other investment securities, including Federal Reserve Bank stock and Federal Home Loan Bank stock held by the Corporation, are not included in this table. Loans held-for-sale have been allocated according to the expected sale date.

Covered loans

The loans acquired in the Westernbank FDIC-assisted transaction were initially recorded at estimated fair values. As expressed in the Critical Accounting Policies / Estimates section of this MD&A, most of the covered loans have an accretable yield. The accretable yield includes the future interest expected to be collected over the remaining life of the acquired loans and the purchase premium or discount. The remaining life includes the effects of estimated prepayments and expected credit losses. For covered loans accounted for under ASC Subtopic 310-30, the Corporation is required to periodically evaluate its estimate of cash flows expected to be collected. These evaluations, performed quarterly, require the continued usage of key assumptions and estimates. Management must apply judgment to develop its estimates of cash flows for those covered loans given the impact of home price and property value changes, changes in interest rates and loss severities and prepayment speeds. Decreases in the expected cash flows by pool will generally result in a charge to the provision for credit losses resulting in an increase to the allowance for loan losses, while increases in the expected cash flows of a pool will generally result in an increase in interest income over the remaining life of the loan, or pool of loans.

Trading

The Corporation engages in trading activities in the ordinary course of business at 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 December 31, 2012, the Corporation held for trading, securities with a fair value of \$315 million, representing approximately 1% of the Corporation's total assets, compared with \$436 million and 1% a year earlier. Mortgage-backed securities represented 84% of the trading portfolio at December 31, 2012, compared with 75% at the end of 2011. The mortgage-backed securities are 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 net trading account loss of \$17.7 million for the year ended December 31, 2012. Table 31 provides the composition of the trading portfolio at December 31, 2012 and 2011.

Table 31 - Trading Portfolio

<i>(Dollars in thousands)</i>	December 31, 2012		December 31, 2011	
	Amount	Weighted Average Yield [1]	Amount	Weighted Average Yield [1]
Mortgage-backed securities	\$262,863	4.64%	\$325,205	4.56%
Collateralized mortgage obligations	3,117	4.57	3,545	4.69
Commercial paper	1,778	5.05	—	—
Puerto Rico and U.S. Government obligations	24,801	4.74	90,648	4.87
Interest-only strips	1,136	11.40	1,378	12.80
Other (includes related trading derivatives)	20,830	4.07	15,555	4.32
Total	\$314,525	4.64%	\$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 \$1.2 million, assuming a confidence level of 99%, for the last week in December 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.

Derivatives

Derivatives are used by the Corporation as part of its overall interest rate risk management strategy to minimize significant unexpected fluctuations in earnings and cash flows that are caused by fluctuations in interest rates. Derivative instruments that the Corporation may use include, among others, interest rate swaps, caps, floors, indexed options, and forward contracts. The Corporation does not use highly leveraged derivative instruments in its interest rate risk management strategy. The Corporation enters into interest rate swaps, interest rate caps and foreign exchange contracts for the benefit of commercial customers. Credit risk embedded in these transactions is reduced by requiring appropriate collateral from counterparties and entering into netting agreements whenever possible. All outstanding derivatives are recognized in the Corporation's consolidated statement of condition at their fair value. Refer to Note 29 to the consolidated financial statements for further

information on the Corporation's involvement in derivative instruments and hedging activities.

The Corporation's derivative activities are entered primarily to offset the impact of market volatility on the economic value of assets or liabilities. The net effect on the market value of potential changes in interest rates of derivatives and other financial instruments is analyzed. The effectiveness of these hedges is monitored to ascertain that the Corporation is reducing market risk as expected. Derivative transactions are generally executed with instruments with a high correlation to the hedged asset or liability. The underlying index or instrument of the derivatives used by the Corporation is selected based on its similarity to the asset or liability being hedged. As a result of interest rate fluctuations, fixed and variable interest rate hedged assets and liabilities will appreciate or depreciate in fair value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by the Corporation's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Management will assess if circumstances warrant liquidating or replacing the derivatives position in the hypothetical event that high correlation is reduced. Based on the Corporation's derivative instruments outstanding at December 31, 2012, it is not anticipated that such a scenario would have a material impact on the Corporation's financial condition or results of operations.

Certain derivative contracts also present credit risk and liquidity risk because the counterparties may not comply with the terms of the contract, or the collateral obtained might be illiquid or become so. The Corporation controls credit risk through approvals, limits and monitoring procedures, and through master netting and collateral agreements whenever possible. Further, as applicable under the terms of the master agreements, the Corporation may obtain collateral, where appropriate, to reduce credit risk. The credit risk attributed to the counterparty's nonperformance risk is incorporated in the fair value of the derivatives. Additionally, as required by the fair value measurements guidance, the fair value of the Corporation's own credit standing is considered in the fair

value of the derivative liabilities. During the year ended December 31, 2012, inclusion of the credit risk in the fair value of the derivatives resulted in a net gain of \$2.9 million (2011 - net loss of \$0.6 million; 2010 - net loss of \$0.2 million), which consisted of a loss of \$0.5 million (2011 - gain of \$1.1 million; 2010 - loss of \$0.5 million) resulting from the Corporation's credit standing adjustment and a gain of \$3.4 million (2011 - loss of \$1.7 million; 2010 - gain of \$0.3 million) from the assessment of the counterparties' credit risk. At December 31, 2012, the Corporation had \$46 million (2011 - \$72 million) recognized for the right to reclaim cash collateral posted. On the other hand, the Corporation had \$1 million recognized for the obligation to return cash collateral received at December 31, 2012 (2011 - \$2 million).

The Corporation performs appropriate due diligence and monitors the financial condition of counterparties that represent a significant volume of credit exposure. Additionally, the Corporation has exposure limits to prevent any undue funding exposure.

Cash Flow Hedges

The Corporation manages the variability of cash payments due to interest rate fluctuations by the effective use of derivatives designated as cash flow hedges and that are linked to specified hedged assets and liabilities. The notional amount of derivatives designated as cash flow hedges at December 31, 2012 amounted to \$281 million (2011 - \$137 million). The cash flow hedges outstanding relate to forward contracts or "to be announced" ("TBA") mortgage-backed securities that are sold and bought for future settlement to hedge mortgage-backed securities and loans prior to securitization. The seller agrees to deliver on a specified future date a specified instrument at a specified price or yield. These securities are hedging a forecasted transaction and thus qualify for cash flow hedge accounting.

Refer to Note 29 to the consolidated financial statements for additional quantitative information on these derivative contracts.

Fair Value Hedges

The Corporation did not have any derivatives designated as fair value hedges during the years ended December 31, 2012 and 2011.

Trading and Non-Hedging Derivative Activities

The Corporation enters into derivative positions based on market expectations or to benefit from price differentials between financial instruments and markets mostly to economically hedge a related asset or liability. The Corporation also enters into various derivatives to provide these types of derivative products to customers. These free-standing derivatives are carried at fair value with changes in fair value recorded as part of the results of operations for the period.

Following is a description of the most significant of the Corporation's derivative activities that are not designated for hedge accounting. Refer to Note 29 to the consolidated financial statements for additional quantitative and qualitative information on these derivative instruments.

At December 31, 2012, the Corporation had outstanding \$0.8 billion (2011 - \$1.4 billion) in notional amount of interest rate swap agreements with a net negative fair value of \$3 million (2011 - net negative fair value of \$6 million), which were not designated as accounting hedges. These swaps were entered in the Corporation's capacity as an intermediary on behalf of its customers and their offsetting swap position.

For the year ended December 31, 2012, the impact of the mark-to-market of interest rate swaps not designated as accounting hedges was a net increase in earnings of approximately \$3.0 million, recorded in the other operating income category of the consolidated statement of operations, compared with an earnings reduction of approximately \$1.4 million and \$0.9 million, in 2011 and in 2010 respectively.

At December 31, 2012, the Corporation had forward contracts with a notional amount of \$53 million (2011 - \$115 million) and a net negative fair value of \$8 thousand (2011 - net negative fair value of \$0.2 million) not designated as accounting hedges. These forward contracts are considered derivatives and are recorded at fair value. Subsequent changes in the value of these forward contracts are recorded in the consolidated statement of operations. For the year ended December 31, 2012, the impact of the mark-to-market of the forward contracts not designated as accounting hedges was a reduction to non-interest income of \$8.0 million (2011 - loss of \$32.5 million; 2010 - loss of \$10.2 million), which was included in the category of trading account profit in the consolidated statement of operations. The lower loss in 2012 was mainly attributable to lower volume of forward contracts.

Furthermore, the Corporation has over-the-counter option contracts which are utilized in order to limit the Corporation's exposure on customer deposits whose returns are tied to the S&P 500 or to certain other equity securities or commodity indexes. The Corporation offers certificates of deposit with returns linked to these indexes to its retail customers, principally in connection with individual retirement accounts (IRAs), and certificates of deposit. At December 31, 2012, these deposits amounted to \$84 million (2011 - \$82 million), or less than 1% (2011 - less than 1%) of the Corporation's total deposits. In these certificates, the customer's principal is guaranteed by the Corporation and insured by the FDIC to the maximum extent permitted by law. The instruments pay a return based on the increase of these indexes, as applicable, during the term of the instrument. Accordingly, this product gives customers the opportunity to invest in a product that protects the principal invested but allows the customer the potential to earn a return based on the performance of the indexes.

The risk of issuing certificates of deposit with returns tied to the applicable indexes is hedged by the Corporation. BPPR and BPNA purchase indexed options from financial institutions with strong credit standings, whose return is designed to match the return payable on the certificates of deposit issued by these banking subsidiaries. By hedging the risk in this manner, the effective cost of these deposits is fixed. The contracts have a maturity and an index equal to the terms of the pool of retail deposits that they are economically hedging.

The purchased option contracts are initially accounted for at cost (i.e., amount of premium paid) and recorded as a derivative asset. The derivative asset is marked-to-market on a quarterly basis with changes in fair value charged to earnings. The deposits are hybrid instruments containing embedded options that must be bifurcated in accordance with the derivatives and hedging activities guidance. The initial value of the embedded option (component of the deposit contract that pays a return based on changes in the applicable indexes) is bifurcated from the related certificate of deposit and is initially recorded as a derivative liability and a corresponding discount on the certificate of deposit is recorded. Subsequently, the discount on the deposit is accreted and included as part of interest expense while the bifurcated option is marked-to-market with changes in fair value charged to earnings.

The purchased indexed options are used to economically hedge the bifurcated embedded option. These option contracts do not qualify for hedge accounting, and therefore, cannot be designated as accounting hedges. At December 31, 2012, the notional amount of the indexed options on deposits approximated \$ 86 million (2011 - \$73 million) with a fair value of \$ 14 million (asset) (2011 - \$11 million) while the embedded options had a notional value of \$84 million (2011 - \$82 million) with a fair value of \$11 million (liability) (2011 - \$8 million).

Refer to Note 29 to the consolidated financial statements for a description of other non-hedging derivative activities utilized by the Corporation during 2012 and 2011.

Foreign Exchange

The Corporation holds an interest in Centro Financiero BHD, S.A. ("BHD") in the Dominican Republic, which is an investment accounted for under the equity method. The Corporation's carrying value of the equity interest in BHD approximated \$79 million at December 31, 2012. This business is conducted in the country's foreign currency. The resulting foreign currency translation adjustment, from operations for which the functional currency is other than the U.S. dollar, is reported in accumulated other comprehensive loss in the consolidated statements of condition, except for highly-inflationary environments in which the effects would be included in the consolidated statements of operations. At December 31, 2012, the Corporation had approximately \$31 million in an unfavorable foreign currency translation adjustment as part of accumulated other comprehensive loss,

compared with an unfavorable adjustment of \$29 million at December 31, 2011 and \$36 million at December 31, 2010.

Popular, Inc. also operates in Venezuela through its wholly-owned subsidiary Tarjetas y Transacciones en Red Tranred, C.A., formerly EVERTEC VENEZUELA, C.A. ("Red Tranred"). On January 7, 2010, Venezuela's National Consumer Price Index ("NCPI") for December 2009 was released. The cumulative three-year inflation rates for both of Venezuela's inflation indices were over 100 percent. The Corporation began considering Venezuela's economy as highly inflationary as of January 1, 2010, and the financial statements of Red Tranred were remeasured as if the functional currency was the reporting currency as of such date. Under ASC Topic 830, if a country's economy is classified as highly inflationary, the functional currency of the foreign entity operating in that country must be remeasured to the functional currency of the reporting entity. The unfavorable impact of remeasuring the financial statements of Red Tranred at December 31, 2010, was approximately \$1.9 million. Total assets for Red Tranred remeasured amounted to approximately \$8.9 million at the end of 2010. At December 31, 2011, the Corporation had completely written-off its investment in Red Tranred.

Liquidity

The objective of effective liquidity management is to ensure that the Corporation has sufficient liquidity to meet all of its financial obligations, finance expected future growth and maintain a reasonable safety margin for cash commitments under both normal and stressed market conditions. The Board is responsible for establishing the Corporation's tolerance for liquidity risk, including approving relevant risk limits and policies. The Board has delegated the monitoring of these risks to the RMC and the ALCO. The management of liquidity risk, on a long-term and day-to-day basis, is the responsibility of the Corporate Treasury Division. The Corporation's Corporate Treasurer is responsible for implementing the policies and procedures approved by the Board and for monitoring the Corporation's liquidity position on an ongoing basis. Also, the Corporate Treasury Division coordinates corporate wide liquidity management strategies and activities with the reportable segments, oversees policy breaches and manages the escalation process. The Financial and Operational Risk Management Division is responsible for the independent monitoring and reporting of adherence with established policies.

An institution's liquidity may be pressured if, for example, its credit rating is downgraded, it experiences a sudden and unexpected substantial cash outflow, or some other event causes counterparties to avoid exposure to the institution. Factors that the Corporation does not control, such as the economic outlook, adverse ratings of its principal markets and regulatory changes, could also affect its ability to obtain funding.

Liquidity is managed by the Corporation at the level of the holding companies that own the banking and non-banking subsidiaries. It is also managed at the level of the banking and non-banking subsidiaries. The Corporation has adopted policies and limits to monitor more effectively the Corporation's liquidity position and that of the banking subsidiaries. Additionally, contingency funding plans are used to model various stress events of different magnitudes and affecting different time horizons that assist management in evaluating the size of the liquidity buffers needed if those stress events occur. However, such models may not predict accurately how the market and customers might react to every event, and are dependent on many assumptions.

Deposits, including customer deposits, brokered deposits, and public funds deposits, continue to be the most significant source of funds for the Corporation, funding 74% of the Corporation's total assets at December 31, 2012, compared with 75% at December 31, 2011 and 69% at December 31, 2010. The ratio of total ending loans to deposits was 93% at December 31, 2012, compared with 91% at the same date in 2011 and 99% in 2010. In addition to traditional deposits, the Corporation maintains borrowing arrangements. At December 31, 2012, these borrowings consisted primarily of \$2.0 billion in assets sold under agreement to repurchase, \$1.2 billion in advances with the FHLB, \$939 million in junior subordinated deferrable interest debentures (net of discount of \$437 million) and \$237 million in term notes. A detailed description of the Corporation's borrowings, including their terms, is included in Notes 19 to 21 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 2012, the Corporation's liquidity position remained strong. The Corporation executed several strategies to deploy excess liquidity at its banking subsidiaries and improve the Corporation's net interest margin. During 2011, the Corporation fully repaid the note issued to the FDIC, which had a carrying amount of \$2.5 billion at December 31, 2010. Also, the Corporation deployed excess liquidity at the BPNA reportable segment, including proceeds received from the sale of non-conventional mortgage loans to purchase \$753 million in securities during the first quarter of 2011, primarily U.S. Agencies securities and U.S. Government agency-issued collateralized mortgage obligations. Funds were invested in longer-term securities to improve the net interest margin. These securities can be pledged to other counterparties in the repo market and continue to serve as a source to manage the Corporation's liquidity needs. Furthermore, in the first quarter of 2011, the Corporation repaid \$100 million of medium-term notes, which was accounted for as an early extinguishment of debt. In 2012, BPNA acquired \$499 million in loans to deploy its excess liquidity and strengthen revenues.

The following sections provide further information on the Corporation's major funding activities and needs, as well as the risks involved in these activities. A detailed description of the Corporation's borrowings and available lines of credit, including its terms, is included in Notes 19 to 21 to the consolidated financial statements. Also, the consolidated statements of cash flows in the accompanying consolidated financial statements provide information on the Corporation's cash inflows and outflows.

Banking Subsidiaries

Primary sources of funding for the Corporation's banking subsidiaries (BPPR and BPNA), or "the banking subsidiaries," include retail and commercial deposits, brokered deposits, collateralized borrowings, unpledged investment securities, and, to a lesser extent, loan sales. In addition, the Corporation maintains borrowing facilities with the FHLB and at the 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 44 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, excluding brokered deposits, depends on various factors, including pricing, service, convenience and financial stability as reflected by operating results, credit ratings (by nationally recognized credit rating agencies), and importantly, FDIC deposit insurance. Although a downgrade in the credit ratings of the Corporation's banking subsidiaries may impact their ability to raise retail and commercial deposits or the rate that it is required to pay on such deposits, management does not believe that the impact should be material. Deposits at

all of the Corporation's banking subsidiaries are federally insured (subject to FDIC limits) and this is expected to mitigate the potential effect of a downgrade in the credit ratings.

Deposits are a key source of funding as they tend to be less volatile than institutional borrowings and their cost is less sensitive to changes in market rates. Refer to Table 19 for a breakdown of deposits by major types. Core deposits are generated from a large base of consumer, corporate and institutional customers. Core deposits include all non-interest bearing deposits, savings deposits and certificates of deposit under \$100,000, excluding brokered deposits with denominations under \$100,000. Core deposits have historically provided the Corporation with a sizable source of relatively stable and low-cost funds. Core deposits totaled \$21.8 billion, or 81% of total deposits, at December 31, 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 December 31, 2012, compared with 66% at December 31, 2011.

Certificates of deposit with denominations of \$100,000 and over at December 31, 2012 totaled \$3.2 billion, or 12% of total deposits, compared with \$4.2 billion, or 15%, at December 31, 2011. Their distribution by maturity at December 31, 2012 is presented in the table that follows.

Table 32 - Distribution by Maturity of Certificate of Deposits of \$100,000 and Over

<i>(In thousands)</i>	
3 months or less	\$1,323,848
3 to 6 months	574,114
6 to 12 months	523,850
Over 12 months	821,924
	\$3,243,736

Average deposits, including brokered deposits, for the year ended December 31, 2012 represented 85% of average earning assets, compared with 84% and 78% for the years ended December 31, 2011 and 2010, respectively. Table 33 summarizes average deposits for the past five years.

Table 33 - Average Total Deposits

<i>(In thousands)</i>	For the year ended December 31,				
	2012	2011	2010	2009	2008
Non-interest bearing demand deposits	\$5,356,649	\$5,058,424	\$4,732,132	\$4,293,285	\$4,120,280
Savings accounts	6,571,133	6,320,825	5,970,000	5,538,077	5,600,377
NOW, money market and other interest bearing demand accounts	5,555,203	5,204,235	4,981,332	4,804,023	4,948,186
Certificates of deposit:					
Under \$100,000	5,276,389	5,966,089	6,099,741	7,166,756	6,955,843
\$100,000 and over	3,375,846	4,026,042	4,073,047	4,214,125	4,598,146
Certificates of deposit	8,652,235	9,992,131	10,172,788	11,380,881	11,553,989
Other time deposits	768,713	927,776	794,245	811,943	1,241,447
Total interest bearing deposits	21,547,284	22,444,967	21,918,365	22,534,924	23,343,999
Total average deposits	\$26,903,933	\$27,503,391	\$26,650,497	\$26,828,209	\$27,464,279

At December 31, 2012, approximately 8% of the Corporation's assets were financed by brokered deposits, compared with 9% at December 31, 2011. The Corporation had \$2.8 billion in brokered deposits at December 31, 2012, compared with \$3.4 billion at December 31, 2011. The Corporation decreased its use of brokered deposits in 2012 as compared to year-end 2011, by replacing some of the decline with other borrowing sources with lower costs. 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 December 31, 2012 and 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 \$1.2 billion and \$0.9 billion at December 31, 2012 and 2011, respectively. Such advances are collateralized by loans held-in-

portfolio, do not have restrictive covenants and do not have any callable features. At December 31, 2012, the credit facilities authorized with the FHLB were collateralized by \$3.8 billion in loans held-in-portfolio, compared with \$3.2 billion at December 31, 2011. Refer to Notes 20 and 21 to the consolidated financial statements for additional information on the terms of FHLB advances outstanding.

At December 31, 2012, the Corporation's borrowing capacity at the Fed's Discount Window amounted to approximately \$3.1 billion, compared with \$2.6 billion at December 31, 2011, which remained unused as of both dates. This facility is a collateralized source of credit that is highly reliable even under difficult market conditions. The amount available under this borrowing facility is dependent upon the balance of performing loans and securities pledged as collateral and the haircuts assigned to such collateral. At December 31, 2012, this credit facility with the Fed was collateralized by \$4.7 billion in loans held-in-portfolio, compared with \$4.0 billion at December 31, 2011.

During the years ended December 31, 2012 and 2011, the Corporation's bank holding companies (Popular, Inc. ("PIHC") and Popular North America, Inc. ("PNA")), ("BHCs") did not make any capital contributions to BPNA and BPPR.

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

At December 31, 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 change. The Corporation's financial flexibility will be severely constrained if its banking subsidiaries are unable to maintain access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. The banking subsidiaries also are required to deposit cash or qualifying securities to meet margin requirements. To the extent that the value of securities previously pledged as collateral declines because of changes in interest rates, a liquidity crisis or any other factors, the Corporation will be required to deposit additional cash or securities to meet its margin requirements, thereby adversely affecting its liquidity. Finally, if management is required to rely more heavily on more expensive funding sources to support future growth, revenues

may not increase proportionately to cover costs. In this case, profitability would be adversely affected.

Westernbank FDIC-assisted Transaction and Impact on Liquidity

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

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

The effects of the loss sharing agreements on cash flows and operating results in the long-term will be similar to the short-term effects described above, except for the liquidity provided by the pledging of the loans to the FHLB, following their release of collateral upon full repayment of the FDIC note in December 2011. The long-term effects that we may experience will depend primarily on the ability of the borrowers whose loans are covered by the loss sharing agreements to make payments over time. As the loss sharing agreements are in effect for a period of ten years for one-to-four family loans and five years for commercial, construction and consumer loans (with periods commencing on April 30, 2010), changing economic conditions will likely impact the timing of future charge-offs and the resulting reimbursements from the FDIC. Management believes that any recapture of interest income and recognition of cash flows from the borrowers or received from the FDIC on the claims filed may be recognized unevenly over this period, as management exhausts its collection efforts under the Corporation's normal practices.

Bank Holding Companies

The principal sources of funding for the holding companies include cash on hand, investment securities, dividends received from banking and non-banking subsidiaries (subject to regulatory limits and authorizations) asset sales, credit facilities available from affiliate banking subsidiaries and proceeds from potential securities offerings. The principal source of cash flows for the parent holding company during 2012 was the payment of \$155 million in net capital distributions from EVERTEC.

The principal use of these funds include the repayment of debt, and interest payments to holders of senior debt and junior subordinated deferrable interest (related to trust preferred

securities) and capitalizing its banking subsidiaries. During 2012, the main cash flows of the holding companies were \$128.1 million for interest on outstanding debt and \$41.8 million for repayment at maturity of senior debt obligation.

Another use of liquidity at the parent holding company is the payment of dividends on preferred stock. At the end of 2010, the Corporation resumed paying dividends on its Series A and B preferred stock. The preferred stock dividends amounted to \$3.7 million for the year ended December 31, 2012 and 2011. The preferred stock dividends paid were financed by issuing new shares of common stock to the participants of the Corporation's qualified employee savings plans. The Corporation is required to obtain approval from the Fed prior to declaring or paying dividends, incurring, increasing or guaranteeing debt or making any distributions on its trust preferred securities or subordinated debt. The Corporation anticipates that any future preferred stock dividend payments would continue to be financed with the issuance of new common stock in connection with its qualified employee savings plans. The Corporation is not paying dividends to holders of its common stock.

The BHCs have in the past borrowed in the money markets and in the corporate debt market primarily to finance their non-banking subsidiaries, however, the cash needs of the Corporation's non-banking subsidiaries other than to repay indebtedness and interest are now minimal. These sources of funding have become more costly due to the reductions in the Corporation's credit ratings. The Corporation's principal credit ratings are below "investment grade" which affects the Corporation's ability to raise funds in the capital markets. The Corporation has an open-ended, automatic shelf registration statement filed and effective with the Securities and Exchange Commission, which permits the Corporation to issue an unspecified amount of debt or equity securities

Note 44 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 outstanding balance of notes payable at the BHCs amounted to \$1.2 billion at December 31, 2012 and 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 a combination of internal liquidity resources stemming mainly from future dividend receipts and new borrowings. Increasing or guaranteeing new debt would be subject to the approval of the Fed.

The contractual maturities of the BHC's notes payable at December 31, 2012 are presented in Table 34.

Table 34 - Distribution of BHC's Notes Payable by Contractual Maturity

<i>Year</i>	<i>(In thousands)</i>
2013	\$3,000
2014	78,602
2015	35,162
2016	119,857
2017	-
Later years	439,800
No stated maturity	936,000
Sub-total	1,612,421
Less: Discount	436,530
Total	\$1,175,891

As indicated previously, the BHC did not issue new registered debt in the capital markets during the year ended December 31, 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.

Non-banking subsidiaries

The principal sources of funding for the non-banking subsidiaries include internally generated cash flows from operations, loan sales, repurchase agreements, and borrowed funds from their direct parent companies or the holding companies. The principal uses of funds for the non-banking subsidiaries include repayment of maturing debt, operational expenses and payment of dividends to the BHCs. The liquidity needs of the non-banking subsidiaries are minimal since most of them are funded internally from operating cash flows or from intercompany borrowings from their holding companies, BPPR or BPNA.

Other Funding Sources and Capital

The investment securities portfolio provides an additional source of liquidity, which may be realized through either securities sales or repurchase agreements. The Corporation's investment securities portfolio consists primarily of liquid U.S. government investment securities, sponsored U.S. agency securities, government sponsored mortgage-backed securities, and collateralized mortgage obligations that can be used to raise funds in the repo markets. At December 31, 2012, the investment and trading securities portfolios, as shown in Table 30, totaled \$5.5 billion, of which \$1.8 billion, or 33%, had maturities of one year or less. Mortgage-related investments in Table 30 are presented based on expected maturities, which may differ from contractual maturities, since they could be subject to prepayments. The availability of the repurchase agreement would be subject to having sufficient unpledged collateral available at the time the transactions are to be

consummated, in addition to overall liquidity and risk appetite of the various counterparties. The Corporation's unpledged investment and trading securities, excluding other investment securities, amounted to \$2.0 billion at December 31, 2012 and \$1.5 billion at December 31, 2011. A substantial portion of these securities could be used to raise financing quickly in the U.S. money markets or from secured lending sources.

Additional liquidity may be provided through loan maturities, prepayments and sales. The loan portfolio can also be used to obtain funding in the capital markets. In particular, mortgage loans and some types of consumer loans, have secondary markets which the Corporation could use. The maturity distribution of the total loan portfolio at December 31, 2012 is presented in Table 30. As of that date, \$9.3 billion, or 37% of the loan portfolio was expected to mature within one year, compared with \$10.1 billion or 40% of the loan portfolio in the previous year. The contractual maturities of loans have been adjusted to include prepayments based on historical data and prepayment trends.

Risks to Liquidity

Total lines of credit outstanding are not necessarily a measure of the total credit available on a continuing basis. Some of these lines could be subject to collateral requirements, standards of creditworthiness, leverage ratios and other regulatory requirements, among other factors. Derivatives, such as those embedded in long-term repurchase transactions or interest rate swaps, and off-balance sheet exposures, such as recourse, performance bonds or credit card arrangements, are subject to collateral requirements. As their fair value increases, the collateral requirements may increase, thereby reducing the balance of unpledged securities.

The importance of the Puerto Rico market for the Corporation is an additional risk factor that could affect its financing activities. In the case of a deterioration in economic conditions in Puerto Rico, the credit quality of the Corporation could be affected and result in higher credit costs. The Puerto Rico economy continues to face various challenges, including significant pressures in some sectors of the residential real estate market. Refer to the Geographical and Government Risk section of this MD&A for some highlights on the current status of the Puerto Rico economy.

Factors that the Corporation does not control, such as the economic outlook and credit ratings of its principal markets and regulatory changes, could also 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 FHLB and the Fed.

The credit ratings of Popular's debt obligations are a relevant factor for liquidity because they impact the Corporation's ability to borrow in the capital markets, its cost and access to funding sources. Credit ratings are based on the financial strength, credit quality and concentrations in the loan portfolio, the level and volatility of earnings, capital adequacy, the quality of management, the liquidity of the balance sheet, the availability of a significant base of core retail and commercial deposits, and the Corporation's ability to access a broad array of wholesale funding sources, among other factors.

The Corporation's banking subsidiaries have historically not used unsecured capital market borrowings to finance its operations, and therefore are less sensitive to the level and changes in the Corporation's overall credit ratings. At the BHCs, the volume of capital market borrowings has declined substantially, as the non-banking lending businesses that it had historically funded have been shut down and the need to raise unsecured senior debt has been substantially reduced.

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 December 31, 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 \$31 million at December 31, 2012, with the Corporation providing collateral totaling \$46 million to cover the net liability position with counterparties on these derivative instruments.

In addition, certain mortgage servicing and custodial agreements that BPPR has with third parties include rating covenants. In the event of a credit rating downgrade, the third parties have the right to require the institution to engage a substitute cash custodian for escrow deposits and/or increase collateral levels securing the recourse obligations. Also, as discussed in the Guarantees section of this MD&A, the Corporation services residential mortgage loans subject to credit recourse provisions. Certain contractual agreements require the Corporation to post collateral to secure such recourse obligations if the institution's required credit ratings are not maintained. Collateral pledged by the Corporation to secure recourse obligations amounted to approximately \$135 million at December 31, 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

Credit risk occurs any time funds are advanced, committed, invested or otherwise exposed. Credit risk arises primarily from the Corporation's lending activities, as well as from other on-balance sheet and off-balance sheet credit instruments. Credit risk management is based on analyzing the creditworthiness of the borrower or counterparty, the adequacy of underlying collateral given current events and conditions, and the existence and strength of any guarantor support.

Business activities that expose the Corporation to credit risk are managed within the Board's established limits that consider factors, such as maintaining a prudent balance of risk-taking across diversified risk types and business units (compliance with regulatory guidance, considering factors such as concentrations and loan-to-value ratios), controlling the exposure to lower credit quality assets, and limiting growth in, and overall exposure to, any product or risk segment where the Corporation does not have sufficient experience and a proven ability to predict credit losses.

The significant changes in the economic conditions and the resulting changes in the borrower's profile over the past several years requires the Corporation to continue to focus on the identification, monitoring and managing of its credit risk. The Corporation manages credit risk by maintaining sound underwriting standards, monitoring and evaluating loan portfolio quality, its trends and collectability, and assessing reserves and loan concentrations. Also, credit risk is mitigated by implementing and monitoring lending policies and collateral requirements, and instituting credit review procedures to ensure appropriate actions to comply with laws and regulations. The Corporation's credit policies require prompt identification and quantification of asset quality deterioration or potential loss in order to ensure the adequacy of the allowance for loan losses. Included in these policies, primarily determined by the amount, type of loan and risk characteristics of the credit facility, are various approval levels and lending limit constraints, ranging from the branch or department level to those that are more centralized. When considered necessary, the Corporation requires collateral to support credit extensions and commitments, which is generally in the form of real estate and personal property, cash on deposit and other highly liquid instruments.

The Corporation's Credit Strategy Committee ("CRESCO") is management's top policy-making body with respect to credit-related matters and credit strategies. CRESCO reviews the activities of each subsidiary, in the detail that it deems appropriate, to ensure a proactive and coordinated management of credit granting, credit exposures and credit procedures. CRESCO's principal functions include reviewing the adequacy of the allowance for loan losses and periodically approving

appropriate provisions, monitoring compliance with charge-off policy, establishing portfolio diversification, yield and quality standards, establishing credit exposure reporting standards, monitoring asset quality, and approving credit policies and amendments thereto for the subsidiaries and/or business lines, including special lending approval authorities when and if appropriate. The analysis of the allowance adequacy is presented to the Risk Management Committee of the Board of Directors for review, consideration and ratification on a quarterly basis.

The Corporation also has a Corporate Credit Risk Management Division ("CCRMD"). CCRMD is a centralized unit, independent of the lending function. The CCRMD's functions include identifying, measuring and controlling credit risk independently from the business units, evaluating the credit risk rating system and reviewing the adequacy of the allowance for loan losses in accordance with GAAP and regulatory standards. CCRMD also ensures that the subsidiaries comply with the credit policies and applicable regulations, and monitors credit underwriting standards. Also, the CCRMD performs ongoing monitoring of the portfolio, including potential areas of concern for specific borrowers and/or geographic regions. The CCRMD has strengthened its quantitative measurement capabilities, part of continued improvements to the credit risk management processes.

The Corporation has a Loan Review Department within the CCRMD, which performs annual credit process reviews of several small and 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 Corporate Loan Review Department recommends corrective actions, if necessary, that help in maintaining a sound credit process. In the case of the portfolios of commercial and construction loans in the U.S. mainland operations, credit process reviews are performed by an outside contractor. 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 Corporation also created during the first quarter of 2012 the Commercial Credit Administration Group, which

includes the Special Loans Division, the Commercial Credit Operations Division and the Loss-Sharing Agreement Administration Group. This unit focuses on maximizing the value of the Corporation's special loans and other real estate owned of the commercial portfolio, as well as the FDIC covered loans portfolio. The continued expansion of the workout resources demonstrates the Corporation's commitment on proactively identifying problem loans in order to reduce the level of non-performing assets.

At December 31, 2012, the Corporation's credit exposure was centered in its \$25.1 billion total loan portfolio, which represented 79% of its earning assets. The portfolio composition for the last five years is presented in Table 11.

The Corporation issues certain credit-related off-balance sheet financial instruments including commitments to extend credit, standby letters of credit and commercial letters of credit to meet the financing needs of its customers. For these financial instruments, the contract amount represents the credit risk associated with failure of the counterparty to perform in accordance with the terms and conditions of the contract and the decline in value of the underlying collateral. The credit risk associated with these financial instruments varies depending on the counterparty's creditworthiness and the value of any collateral held. Refer to Note 27 to the consolidated financial statements and to the Contractual Obligations and Commercial Commitments section of this MD&A for the Corporation's involvement in these credit-related activities.

At December 31, 2012, the Corporation maintained a reserve of approximately \$5 million for potential losses associated with unfunded loan commitments related to commercial and consumer lines of credit (2011 - \$15 million).

The Corporation is also exposed to credit risk by using derivative instruments but manages the level of risk by only dealing with counterparties of good credit standing, entering into master netting agreements whenever possible and, when appropriate, obtaining collateral. Refer to Note 29 to the consolidated financial statements for further information on the Corporation's involvement in derivative instruments and hedging activities, and the Derivatives sub-section included under Risk Management in this MD&A.

The Corporation may also encounter risk of default in relation to its investment securities portfolio. Refer to Notes 8 and 9 for the composition of the investment securities available-for-sale and held-to-maturity. The investment securities portfolio held by the Corporation at December 31, 2012 are mostly Obligations of U.S. Government sponsored entities, collateralized mortgage obligations, mortgage-backed securities and Obligations of Puerto Rico, States and political subdivisions. The vast majority of these securities are rated the equivalent of AAA by the major rating agencies. A substantial portion of these instruments are guaranteed by mortgages, a U.S. government sponsored entity or the full faith and credit of the U.S. Government.

The Corporation's credit risk exposure is spread among individual consumers, small and medium businesses, as well as corporate borrowers engaged in a wide variety of industries. Only 194 of these commercial lending relationships have an aggregate exposure of \$10 million or more. At December 31, 2012, highly leveraged transactions and credit facilities to finance real estate ventures or business acquisitions amounted to \$93 million, and there are no loans to less developed countries. The Corporation limits its exposure to concentrations of credit risk by the nature of its lending limits.

The Corporation has a significant portfolio of construction and commercial loans, mostly secured by commercial and residential real estate properties. Due to their nature, these loans entail a higher credit risk than consumer and residential mortgage loans, since they are larger in size, may have less collateral coverage, higher concentrated risk in a single borrower and are generally more sensitive to economic downturns. Rapidly changing collateral values, general economic conditions and numerous other factors continue to create volatility in the housing markets and have increased the possibility that additional losses may have to be recognized with respect to the Corporation's current nonperforming assets. Furthermore, given the current slowdown in the real estate market, the properties securing these loans may be difficult to dispose of, if foreclosed.

The U.S. economic conditions showed positive signs throughout 2012, however concerns remain given the uneven and uncertain nature of the economic recovery. The continued high unemployment rate, as well as the risks and uncertainties associated with the U.S. government budget issues, among other factors, slowed any significant recovery. The pronounced downturn in the residential real estate market since early 2007 resulted in significantly lower real estate values. The Corporation has significant exposure in loans secured by real estate. Further declines in property values could impact the credit quality of the Corporation's U.S. loan portfolios because the value of the collateral underlying the loans is the primary source of repayment in the event of foreclosure. Recent indicators suggests that the U.S. economy should continue stable with modest improvements in unemployment rates, occupancies and leases rates, as well as stabilizing housing prices, but risks remain elevated.

The level of real estate prices in Puerto Rico has been more stable than in other U.S. markets, in part motivated by the Puerto Rico Government. Nevertheless, the current economic environment has accelerated the devaluation of properties when compared with previous periods. Also, additional economic weakness in Puerto Rico and the U.S. mainland could further pressure residential property values. Lower real estate values could increase the provision for loan losses, loan delinquencies, foreclosures and the cost of repossessing and disposing of real estate collateral.

The Corporation is reaping the benefits from numerous de-risking strategies taken since 2009. During 2009, the Corporation executed a plan to close, consolidate or sell underperforming branches and exit lending businesses that do not generate deposits or fee income. The Corporation significantly curtailed the production of non-traditional mortgages as it ceased originating non-conventional mortgage loans in its U.S. mainland operations. This initiative was part of the BPNA restructuring plan implemented in 2008. During 2011, BPNA sold a substantial portion of its non-conventional mortgage loan portfolio. The non-conventional mortgage unit is currently focused on servicing the run-off portfolio and restructuring loans that have or show signs of credit deterioration. In addition, as part of the actions taken to reduce credit risk, during 2011, the Corporation executed the sale of construction and commercial real estate loans from its Puerto Rico operations, which had been reclassified to held-for-sale in December 2010. The majority of these loans were in non-accrual status at the transaction date.

Management continues to refine the Corporation's credit standards to meet the changing economic environment. The Corporation has strengthened its underwriting criteria, as well as enhanced its line management, collection strategies and problem loan management process. The commercial banking group continues strengthening critical areas to manage more effectively the current scenario, focusing strategies on critical steps in the origination and portfolio management processes to ensure the quality of incoming loans as well as to detect and manage potential problem loans early. The consumer lending area has also tightened the underwriting standards across all business lines and reduced its exposure in areas that are more likely to be impacted under the current economic conditions.

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 41 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. Puerto Rico's fiscal situation is expected to continue to be challenging in 2013.

The latest figures from the Puerto Rico Planning Board (PB) cut projected gross product growth for the current 2013 fiscal year (ends June 30) nearly in half, to 0.6% from 1.1%. The PB also cut the estimated economic growth rate during fiscal 2012 (ended June 30, 2012) to 0.4% from 0.9%. This was the first full year with a stable, but weak economy in Puerto Rico, following a six-year steep decline in economic activity. Employment continued to be a weak spot with the economy losing 13,000 jobs in 2012 and the unemployment rate at 13.4% by year-end. Total non-farm payroll employment (seasonally adjusted) amounted to 904,100 jobs in December 2012, a decline of 2.4% versus the previous year.

A housing-incentive law, along with the low interest-rate scenario and federal refinance programs, has served as a catalyst for higher mortgage origination volumes. The temporary local incentive package for the housing sector was extended until June 2013 with minor modifications. The incentives include reductions in taxes and government closing fees, tax exemption on rental income from new properties for 10 years, an exemption on long-term capital gain taxes on the future sale of new properties and no property taxes for 5 years on new housing, among others. The incentives, together with the current environment of low interest rates, continue to attract home buyers into the market.

General fund net revenues of the government during the first six months of fiscal year 2013 (July 2012 to June 2013) amounted to \$3.7 billion, a 3% year-over-year decrease.

Occupancy rates at hotels and country-inns reached an 8-year high of 80.3% in July 2012. Following the end of the U.S. recession of 2008-2009, non-resident hotel check-ins began rising again, reaching a growth rate of almost 7% in fiscal year 2012 with respect to the previous year. Meanwhile, resident hotel check-ins rose at almost 14% with respect to the previous year.

Despite the improved outlook, Puerto Rico continues to be susceptible to fluctuations in the price of crude oil due to its high dependence on fuel oil for energy production. An unexpected rise in the price of oil could have a negative impact on the overall economy, as it is dependent on oil for most of its electricity and transportation. Also, loan demand in the Puerto Rico market continues to be sluggish even as the economy appears to be transitioning from recession to stability. Lower loan demand could impact our level of earning assets and profitability. The recessionary cycle has increased the level of non-performing assets and deterioration in the economy of Puerto Rico, although not expected, could increase significantly the Corporation's credit costs and could adversely affect its profitability.

On November 9, 2012, Standard & Poor's Ratings Services issued a statement that said that "the election on November 6, 2012 of Alejandro Garcia Padilla as the Commonwealth of Puerto Rico's new governor has no immediate impact on its ratings on the commonwealth's general obligation ('BBB/Negative') and appropriation ('BBB-/Negative') debt ratings or other related obligors. However, we still believe that there is at least a one in three chance that we may lower these ratings later this year or in early 2013."

On December 13, 2012, Moody's Investors Service downgraded the rating of the outstanding general obligation (GO) bonds of the Commonwealth of Puerto Rico from 'Baa1' to 'Baa3,' with a negative outlook. On February 21, 2013, Fitch ratings placed the BBB- plus general obligation bond ratings of the Commonwealth of Puerto Rico debt on Rating Watch Negative. The Rating Watch Negative reflects Fitch's expectation of a significant increase in the Commonwealth's

estimated operating imbalance for the current and coming fiscal years, based on reported revenue results through the first half of the current fiscal year and public statements by the new government.

At December 31, 2012, the Corporation had approximately \$0.9 billion of credit facilities granted to the Puerto Rico Government, its municipalities and public corporations, of which \$75 million were uncommitted lines of credit (2011 - \$1.0 billion and \$215 million, respectively). Of the total credit facilities granted, \$749 million was outstanding at December 31, 2012, of which \$61 million were uncommitted lines of credit (2011 - \$799 million and \$0, respectively). A substantial portion of the Corporation's credit exposure to the Government of Puerto Rico is either collateralized loans or obligations that have a specific source of income or revenues identified for their repayment. Some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services or products, such as water and electric power utilities. Public corporations have varying degrees of independence from the central Government and many receive appropriations or other payments from it. The Corporation also has loans to various municipalities in Puerto Rico for which, in most cases, the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment. These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all of its general obligation bonds and loans. Another portion of these loans consists of special obligations of various municipalities that are payable from the basic real and personal property taxes collected within such municipalities.

Furthermore, as of December 31, 2012, we had outstanding \$218 million in obligations issued or guaranteed by the Puerto Rico Government, its municipalities and public corporations as part of our investment securities portfolio. We continue to closely monitor the political and economic situation of Puerto Rico and evaluate the portfolio for any declines in value that management may consider being other-than-temporary.

As further detailed in Notes 8 and 9 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, \$845 million of residential mortgages and \$179 million in commercial loans were insured or guaranteed by the U.S. Government or its agencies at December 31, 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. Although at the time

of the ratings change its ultimate market impact was uncertain, during the subsequent time period, the market impact of these actions has been minimal with U.S. Treasury rates continuing to decline.

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 35.

The Corporation's non-accruing and charge-off policies by major categories of loan portfolios are as follows:

- Commercial and construction loans - recognition of interest income on commercial and construction loans is discontinued when the loans are 90 days or more in arrears on payments of principal or interest or when other factors indicate that the collection of principal and interest is doubtful. The impaired portions of secured loans past due as to principal and interest is charged-off not later than 365 days past due. However, in the case of collateral dependent loans individually evaluated for impairment, the excess of the recorded investment over the fair value of the collateral (portion deemed uncollectible) is generally promptly charged-off, but in any event, not later than the quarter following the quarter in which such excess was first recognized. Commercial unsecured loans are charged-off no later than 180 days past due. Overdrafts are generally charged-off no later than 60 days past their due date.
- Lease financing - recognition of interest income for lease financing is ceased when loans are 90 days or more in arrears. Leases are charged-off when they are 120 days in arrears.
- Mortgage loans - recognition of interest income on mortgage loans is generally discontinued when loans are 90 days or more in arrears on payments of principal or interest. The impaired portion of a mortgage loan is charged-off when the loan is 180 days past due. The Corporation discontinues the recognition of interest income on residential mortgage loans insured by the Federal Housing Administration ("FHA") or guaranteed by the U.S. Department of Veterans Affairs ("VA") when 18 months delinquent as to principal or interest. The principal repayment on these loans is insured.
- Consumer loans - recognition of interest income on closed-end consumer loans and home-equity lines of credit is discontinued when the loans are 90 days or more in arrears on payments of principal or interest. Income is generally recognized on open-end consumer loans, except for home equity lines of credit, until the loans are charged-off. Closed-end consumer loans are charged-off when they are 120 days in arrears. Open-end consumer

loans are charged-off when they are 180 days in arrears. Overdrafts in excess of 60 days are generally charged-off no later than 60 days past their due date.

- Troubled debt restructurings (“TDRs”) - loans classified as TDRs are typically in non-accrual status at the time of the modification. The TDR loan continues in non-accrual status until the borrower has demonstrated a willingness and ability to make the restructured loan payments (generally at least six months of sustained performance after the modification (or one year for loans providing for quarterly or semi-annual payments)) and management has concluded that it is probable that the borrower would not be in payment default in the foreseeable future.
- 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 \$1.8 billion at December 31, 2012, declining by \$384 million, or 18%, compared with December 31, 2011, and \$617 million, or 26%, compared with December 31, 2010. These reductions are part of the Corporation’s strategic efforts to resolve non-performing loans.

The composition of non-performing loans continues to be concentrated in real estate as 93% of non-performing loans were secured by real estate as of December 31, 2012. At December 31, 2012, non-performing loans secured by real estate held-in-portfolio, excluding covered loans, amounted to \$1.1 billion in the Puerto Rico operations and \$208 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 35, at December 31, 2012, there were \$96 million of non-covered performing loans, mostly commercial loans, in management’s opinion, are currently subject to potential future classification as non-performing and are considered impaired, compared with \$27 million at December 31, 2011, and \$111 million at December 31, 2010.

Table 35 - Non-Performing Assets

(Dollars in thousands)	At December 31,				
	2012	2011	2010	2009	2008 [1]
Non-accrual loans:					
Commercial	\$665,289	\$830,092	\$665,463	\$727,527	\$388,296
Construction	43,350	96,286	132,897	667,645	223,234
Legacy [2]	40,741	75,660	165,484	298,313	174,200
Lease financing	4,865	5,642	5,674	7,835	9,855
Mortgage	630,130	686,502	542,033	510,847	338,961
Consumer	40,758	43,668	60,302	64,185	68,263
Total non-performing loans held-in-portfolio, excluding covered loans	1,425,133	1,737,850	1,571,853	2,276,352	1,202,809
Non-performing loans held-for-sale [3]	96,320	262,302	671,757	—	—
Other real estate owned (“OREO”), excluding covered OREO	266,844	172,497	161,496	125,483	89,721
Total non-performing assets, excluding covered assets	\$1,788,297	\$2,172,649	\$2,405,106	\$2,401,835	\$1,292,530
Covered loans and OREO [4]	213,469	192,771	83,539	—	—
Total non-performing assets	\$2,001,766	\$2,365,420	\$2,488,645	\$2,401,835	\$1,292,530
Accruing loans past-due 90 days or more [5] [6]	\$388,712	\$316,614	\$338,359	\$239,559	\$150,545
Excluding covered loans: [7]					
Non-performing loans to loans held-in-portfolio	6.79%	8.44%	7.58%	9.60%	4.67%
Including covered loans:					
Non-performing loans to loans held-in-portfolio	6.06	7.30	6.25	9.60	4.67
Interest lost	\$86,442	\$103,390	\$75,684	\$59,982	\$48,707

HIP = “held-in-portfolio”

- [1] Amounts at December 31, 2008 exclude assets from discontinued operations. Non-performing loans and other real estate from discontinued operations amounted to \$3 million and \$0.9 million, respectively, at December 31, 2008.
- [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.
- [3] Non-performing loans held-for-sale consist of \$78 million in construction loans, \$16 million in commercial loans, \$2 million in legacy loans and \$53 thousand in mortgage loans at December 31, 2012 (December 31, 2011 - \$236 million, \$26 million, \$468 thousand and \$59 thousand, respectively).
- [4] The amount consists of \$74 million in non-performing covered loans accounted for under ASC Subtopic 310-20 and \$139 million in covered OREO at December 31, 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.
- [5] The carrying value of covered loans accounted for under ASC Subtopic 310-30 that are contractually 90 days or more past due was \$0.7 billion at December 31, 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] It is the Corporation’s policy to report delinquent residential mortgage loans insured by FHA or guaranteed by the VA as accruing loans past due 90 days or more as opposed to non-performing since the principal repayment is insured. These balances include \$86 million of residential mortgage loans insured by FHA or guaranteed by the VA that are no longer accruing interest as of December 31, 2012.
- [7] These asset quality ratios have been adjusted to remove the impact of covered loans. 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.

Another key measure used to evaluate and monitor the Corporation's asset quality is loan delinquencies. Loans delinquent 30 days or more and delinquencies, as a percentage of their related portfolio category at December 31, 2012 and 2011, are presented below.

Table 36 - Loan Delinquencies

<i>(Dollars in millions)</i>	2012	2011
Loans delinquent 30 days or more	\$3,894	\$4,454
Total delinquencies as a percentage of total loans:		
Commercial	8.26%	10.49%
Construction	19.72	49.16
Legacy	19.94	17.57
Lease financing	2.39	2.89
Mortgage	23.00	23.77
Consumer	3.99	4.72
Covered loans	34.37	32.20
Loans held-for-sale	27.49	75.37
Total	15.52%	17.59%

Accruing loans past due 90 days or more are composed primarily of credit cards, residential mortgage loans insured by FHA / VA, and delinquent mortgage loans 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 to purchase, even when they elect not to exercise that option. Also, accruing loans past due 90 days or more include residential conventional loans purchased from other financial institutions that, although delinquent, the Corporation has received timely payment from the sellers / servicers, and, in some instances, have partial guarantees under recourse agreements.

Refer to Table 37 for a summary of the activity in the allowance for loan losses and selected loan losses statistics for the past 5 years.

Table 37 –Allowance for Loan Losses and Selected Loan Losses Statistics

(Dollars in thousands)	2012			2011			2010			2009	2008
	Non-covered loans	Covered loans	Total	Non-covered loans	Covered loans	Total	Non-covered loans	Covered loans	Total		
Balance at the beginning of year	\$690,363	\$124,945	\$815,308	\$793,225	\$–	\$793,225	\$1,261,204	\$–	\$1,261,204	\$882,807	\$548,832
Provision for loan losses	334,102	74,839	408,941	430,085	145,635	575,720	1,011,880	–	1,011,880	1,405,807	991,384
	1,024,465	199,784	1,224,249	1,223,310	145,635	1,368,945	2,273,084	–	2,273,084	2,288,614	1,540,216
Charged-offs:											
Commercial	255,017	46,290	301,307	324,573	13,774	338,347	380,818	–	380,818	192,562	147,189
Construction	5,569	30,556	36,125	19,849	4,353	24,202	307,900	–	307,900	202,207	66,382
Legacy	36,529	–	36,529	78,338	–	78,338	198,059	–	198,059	212,742	97,196
Lease financing	4,680	–	4,680	6,527	–	6,527	10,517	–	10,517	16,628	16,997
Mortgage	75,994	5,909	81,903	45,785	826	46,611	99,835	–	99,835	124,781	53,303
Consumer	161,703	8,225	169,928	196,433	3,253	199,686	252,227	–	252,227	347,027	264,437
	539,492	90,980	630,472	671,505	22,206	693,711	1,249,356	–	1,249,356	1,095,947	645,504
Recoveries:											
Commercial	65,724	31	65,755	52,628	–	52,628	26,769	–	26,769	22,643	12,834
Construction	7,452	61	7,513	11,090	1,500	12,590	2,118	–	2,118	113	–
Legacy	20,191	–	20,191	26,014	–	26,014	20,639	–	20,639	6,573	3,208
Lease financing	3,737	–	3,737	3,083	–	3,083	4,058	–	4,058	4,137	3,059
Mortgage	4,054	–	4,054	3,974	15	3,989	5,056	–	5,056	4,175	425
Consumer	35,604	10	35,614	40,668	1	40,669	38,064	–	38,064	30,896	26,014
	136,762	102	136,864	137,457	1,516	138,973	96,704	–	96,704	68,537	45,540
Net loans charged-offs (recoveries):											
Commercial	189,293	46,259	235,552	271,945	13,774	285,719	354,049	–	354,049	169,919	134,355
Construction	(1,883)	30,495	28,612	8,759	2,853	11,612	305,782	–	305,782	202,094	66,382
Legacy	16,338	–	16,338	52,324	–	52,324	177,420	–	177,420	206,169	93,988
Lease financing	943	–	943	3,444	–	3,444	6,459	–	6,459	12,491	13,938
Mortgage	71,940	5,909	77,849	41,811	811	42,622	94,779	–	94,779	120,606	52,878
Consumer	126,099	8,215	134,314	155,765	3,252	159,017	214,163	–	214,163	316,131	238,423
	402,730	90,878	493,608	534,048	20,690	554,738	1,152,652	–	1,152,652	1,027,410	599,964
Net (write-downs) recoveries related to loans transferred to loans held-for-sale	(34)	–	(34)	1,101	–	1,101	(327,207)	–	(327,207)	–	(12,430)
Change in allowance for loan losses from discontinued operations [1]	–	–	–	–	–	–	–	–	–	–	(45,015)
Balance at end of year	\$621,701	\$108,906	\$730,607	\$690,363	\$124,945	\$815,308	\$793,225	\$–	\$793,225	\$1,261,204	\$882,807
Loans held-in-portfolio:											
Outstanding at year end	\$20,983,192		\$24,739,164	\$20,602,596		\$24,951,299	\$20,728,035		\$25,564,917	\$23,713,113	\$25,732,873
Average	20,477,264		24,527,602	20,496,966		25,110,328	22,376,612		25,741,544	24,650,071	26,162,786
Ratios:											
Allowance for loan losses to year end loans held-in-portfolio	2.96%		2.95%	3.35%		3.27%	3.83%		3.10%	5.32%	3.43%
Recoveries to charge-offs	25.35		21.71	20.47		20.03	7.74		7.74	6.25	7.05
Net charge-offs to average loans held-in-portfolio	1.97		2.01	2.61		2.21	5.15		4.48	4.17	2.29
Allowance for loan losses to net charge-offs	1.54x		1.48x	1.29x		1.47x	0.69x		0.69x	1.23x	1.47x
Provision for loan losses to:											
Net charge-offs	0.83		0.83	0.81		1.04	0.88		0.88	1.37	1.65
Average loans held-in-portfolio	1.63%		1.67%	2.10%		2.29%	4.52%		3.93%	5.70%	3.79%
Allowance to non performing loans held-in-portfolio	43.62		48.72	39.73		44.76	50.46		49.64	55.40	73.40

[1] Represents lower provision for loan losses recorded during the period compared to net charge-offs.

The following table presents net charge-offs to average loans held-in-portfolio (“HIP”) by loan category for the years ended December 31, 2012, 2011 and 2010:

Table 38 - Net Charge-Offs (Recoveries) to Average Loans HIP

	2012	2011	2010
Commercial	1.94%	2.68%	3.25%
Construction	(0.77)	3.22	26.04
Lease financing	0.18	0.62	1.10
Legacy	3.12	6.42	13.47
Mortgage	1.27	0.83	2.08
Consumer	3.36	4.26	5.56
Total	1.97%	2.61%	5.15%

The Corporation’s annualized net charge-offs to average non-covered loans held-in-portfolio ratio was 1.97% for the year ended December 31, 2012, down from 2.61% and 5.15% the same period in 2011 and 2010, respectively. Net charge-offs, excluding covered loans, for the year ended December 31, 2012, decreased by \$131.3 million and \$749.9 million, compared to the years ended December 31, 2011 and 2010.

Credit quality trends continued to improve significantly throughout the year 2012 as evidenced by the improvements in the key asset quality metrics. Reductions in non-performing loans and net charge-offs reflected significant improvements in the underlying credit performance of most portfolios, as well as successful credit management practices. The Corporation continued to aggressively engage in collection and loss mitigation strategies, restructurings and sales in order to reduce non-performing loans.

The discussions in the sections that follow assess credit quality performance for 2012 for each of the Corporation’s loan portfolios.

Commercial loans

Non-covered non-performing commercial loans held-in-portfolio were \$665 million at December 31, 2012, compared with \$830 million at December 31, 2011. The decrease of \$165

million, or 20%, was principally attributed to reductions in the BPPR segment. The percentage of non-performing commercial loans held-in-portfolio to commercial loans held-in-portfolio decreased from 8.32% at December 31, 2011 to 6.75% at December 31, 2012.

Commercial non-covered non-performing loans held-in-portfolio at the BPPR segment decreased by \$108 million from December 31, 2011. This decrease reflects stronger underlying credit performance, as well as aggressive collection and loss mitigation efforts which led to lower inflows of non-performing loans and loan resolutions. The Corporation continues to focus on non-performing loans reduction through early recognition of risk and problem loan resolutions.

Commercial non-performing loans held-in-portfolio at the BPNA segment decreased by \$56 million from December 31, 2011. This improving trend throughout 2012 was due to lower inflows of non-performing loans, reflective of improved credit performance, coupled with problem loan resolutions.

Table 39 provides information on commercial non-performing loans and net charge-offs for the years ended December 31, 2012, December 31, 2011, and December 31, 2010 for the BPPR (excluding the Westernbank covered loan portfolio) and BPNA reportable segments.

Table 39 - Non-Performing Commercial Loans and Net Charge-offs (Excluding Covered Loans)

(Dollars in thousands)	BPPR			BPNA			Popular, Inc.		
	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2012	December 31, 2011	December 31, 2010
Non-performing commercial loans	\$ 522,733	\$ 631,171	\$ 485,469	\$142,556	\$198,921	\$ 179,994	\$ 665,289	\$ 830,092	\$ 665,463
Non-performing commercial loans to commercial loans HIP	8.30%	9.75%	7.23%	4.00%	5.68%	4.67%	6.75%	8.32%	6.30%

(Dollars in thousands)	BPPR			BPNA			Popular, Inc.		
	For the year ended			For the year ended			For the year ended		
	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2012	December 31, 2011	December 31, 2010
Commercial loan net charge-offs	\$144,640	\$195,388	\$231,133	\$44,653	\$76,557	\$122,916	\$189,293	\$271,945	\$354,049
Commercial loan net charge-offs to average commercial loans HIP	2.30%	3.00%	3.39%	1.29%	2.10%	3.02%	1.94%	2.68%	3.25%

For the year ended December 31, 2012, inflows of commercial non-performing loans held-in-portfolio at the BPPR segment amounted to \$287 million, a decrease of \$248 million, or 46%, when compared to the inflows for the same period in 2011. Inflows of commercial non-performing loans held-in-portfolio at the BPNA segment amounted to \$117 million, a decrease of \$78 million, or 40%, compared to the inflows for 2011. These reductions are driven by improvements in the underlying quality of the loan portfolio, proactive portfolio management processes, and greater economic stability.

Tables 40 and 41 present the changes in the non-performing commercial loans held-in-portfolio for the years ended December 31, 2012 and 2011 for the BPPR (excluding covered loans) and BPNA segments.

Table 40 - Activity in Non-Performing Commercial Loans Held-In-Portfolio (Excluding Covered Loans)

(In thousands)	For the year ended December 31, 2012		
	BPPR	BPNA	Popular, Inc.
Beginning Balance - NPLs	\$631,171	\$198,921	\$830,092
Plus:			
New non-performing loans	286,830	110,921	397,751
Advances on existing non-performing loans	—	1,060	1,060
Loans transferred from held-for-sale	—	4,933	4,933
Other	1,139	—	1,139
Less:			
Non-performing loans transferred to OREO	(34,435)	(44,205)	(78,640)
Non-performing loans charged-off	(164,015)	(51,512)	(215,527)
Loans returned to accrual status / loan collections	(194,657)	(70,869)	(265,526)
Loans in accrual status transfer to held-for-sale	—	(6,693)	(6,693)
Other	(3,300)	—	(3,300)
Ending balance - NPLs	\$522,733	\$142,556	\$665,289

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

<i>(In thousands)</i>	For the year ended December 31, 2011		
	BPPR	BPNA	Popular, Inc.
Beginning Balance - NPLs	\$485,469	\$179,993	\$665,462
Plus:			
New non-performing loans	524,361	194,275	718,636
Advances on existing non-performing loans	10,037	265	10,302
Less:			
Non-performing loans transferred to OREO	(12,365)	(14,820)	(27,185)
Non-performing loans charged-off	(182,202)	(90,233)	(272,435)
Loans returned to accrual status / loan collections	(194,129)	(65,552)	(259,681)
Loans in accrual status transfer to held-for-sale	—	(5,007)	(5,007)
Ending balance - NPLs	\$631,171	\$198,921	\$830,092

There were two commercial loan relationships greater than \$10 million in non-accrual status with an outstanding aggregate balance of \$24 million at December 31, 2012, compared with six commercial loan relationships with an outstanding aggregate balance of \$113 million at December 31, 2011.

Commercial loan net charge-offs, excluding net charge-offs for covered loans, declined by \$82.7 million, or 30%, for the year ended December 31, 2012, compared with the year ended December 31, 2011. Commercial loans annualized net charge-offs to average non-covered loans held-in-portfolio decreased from 2.68% for the year ended December 31, 2011 to 1.94% for the year ended December 31, 2012. This decrease was due to improvements in credit quality and successful actions taken by the Corporation to address problem loans, which led to reductions in net charge-offs in the BPPR and BPNA segments of \$50.8 million and \$31.9 million, respectively. For the year ended December 31, 2012, the charge-offs associated with collateral dependent commercial loans amounted to approximately \$77.3 million in the BPPR segment and \$24.6 million in the BPNA reportable segment. Management identified commercial loans considered impaired and charged-off specific reserves based on the value of the collateral.

Commercial loan net charge-offs decreased by \$82.1 million for the year ended 2011 from the same period in 2010. During the fourth quarter of 2010, the Corporation decided to promptly charge-off previously reserved impaired amounts of collateral dependent loans both in the BPPR and BPNA segments. Commercial charge-offs associated with this decision amounted to approximately \$71.5 million and \$26.1 million, for the BPPR and BPNA segments, respectively. Excluding these charge-offs, commercial net charge-offs in the BPPR segment increased by \$35.8 million from the year 2010 to 2011. The decrease in the commercial net charge-off in the BPNA segment was primarily driven by credit stabilization in during 2011.

The allowance for loan losses of the commercial loans held-in-portfolio, excluding covered loans, amounted to \$298 million or 3.02% of that portfolio at December 31, 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 44.74% at December 31, 2012, compared with 44.50% at December 31, 2011.

The allowance for loan losses for the commercial loan portfolio in the BPPR segment, excluding the allowance for covered loans, totaled \$218 million or 3.46% of non-covered commercial loans held-in-portfolio at December 31, 2012, compared with \$255 million or 3.96% at December 31, 2011. At the BPNA segment, the allowance for loan losses of the commercial loan portfolio totaled \$80 million or 2.25% of commercial loans held-in-portfolio at December 31, 2012, compared with \$114 million or 3.25% at December 31, 2011. The decrease in allowance for loan losses for the commercial loans held-in-portfolio was primarily driven by positive credit quality trends, as non-performing loans and underlying loss trends continue to improve.

The Corporation's commercial loan portfolio secured by real estate ("CRE"), excluding covered loans, amounted to \$6.5 billion at December 31, 2012, of which \$2.8 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 \$528 million at December 31, 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 11.13% and 4.73%, respectively, at December 31, 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. In addition, in order to

expedite the resolution of delinquent commercial loans, the Corporation may enter into a liquidation agreement with borrowers. Although in general, these liquidation agreements do not contemplate the forgiveness of principal or interest, loans under this program are considered TDRs since it could be construed that the Corporation has granted concession by temporarily accepting a payment schedule different from the contractual payment schedule. At December 31, 2012, the Corporation's commercial loans held-in-portfolio, excluding covered loans, included a total of \$297 million of loan modifications for the BPPR segment and \$16 million for the BPNA segment, which were considered TDRs since they involved granting a concession to borrowers under financial difficulties. The outstanding commitments for these commercial loan TDRs amounted to \$4 million in the BPPR segment and no commitments outstanding in the BPNA segment at December 31, 2012. The commercial loan TDRs in non-performing status for the BPPR and BPNA segments at December 31, 2012 amounted to \$192 million and \$16 million, respectively. Commercial loans that have been modified as part of loss mitigation efforts are evaluated individually for impairment. The commercial loan TDRs were evaluated for impairment resulting in a specific reserve of \$17 million for the

BPPR segment and \$12 thousand for the BPNA segment at December 31, 2012.

Construction loans

Non-covered non-performing construction loans held-in-portfolio were \$43 million at December 31, 2012, compared to \$96 million at December 31, 2011. The decrease of \$53 million, or 55%, was driven by declines of \$17 million and \$36 million in the BPPR and BPNA segments, respectively, principally driven by loan resolutions and minimal inflows of new construction non-performing loans. Favorable credit quality trends in the construction portfolio derives from previous actions taken by the Corporation, which included loans held-for-sale reclassification during the fourth quarter of 2010, and the downsizing of the construction loan portfolio at the BPNA segment. The ratio of non-performing construction loans to construction loans held-in-portfolio, excluding covered loans, decreased from 40.13% at December 31, 2011 to 17.14% at December 31, 2012. At December 31, 2010 this ratio was 39.02%.

Tables 42 and 43 present changes in non-performing construction loans held-in-portfolio for the years ended December 31, 2012 and 2011 for the BPPR (excluding covered loans) and BPNA segments.

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

(In thousands)	For the year ended December 31, 2012		
	BPPR	BPNA	Popular, Inc.
Beginning Balance - NPLs	\$53,859	\$42,427	\$96,286
Plus:			
New non-performing loans	13,377	–	13,377
Advances on existing non-performing loans	145	465	610
Other	3,300	–	3,300
Less:			
Non-performing loans transferred to OREO	(280)	(3,605)	(3,885)
Non-performing loans charged-off	(3,576)	(1,644)	(5,220)
Loans returned to accrual status / loan collections	(28,296)	(21,351)	(49,647)
Loans in accrual status transfer to held-for-sale	–	(10,332)	(10,332)
Other	(1,139)	–	(1,139)
Ending balance - NPLs	\$37,390	\$5,960	\$43,350

Table 43 - Activity in Non-Performing Construction Loans Held-in-Portfolio (Excluding Covered Loans)

(In thousands)	For the year ended December 31, 2011		
	BPPR	BPNA	Popular, Inc.
Beginning Balance - NPLs	\$64,678	\$68,218	\$132,896
Plus:			
New non-performing loans	38,647	13,173	51,820
Advances on existing non-performing loans	205	196	401
Less:			
Non-performing loans transferred to OREO	(4,924)	(926)	(5,850)
Non-performing loans charged-off	(13,945)	(4,288)	(18,233)
Loans returned to accrual status / loan collections	(30,802)	(26,402)	(57,204)
Loans in accrual status transfer to held-for-sale	–	(7,544)	(7,544)
Ending balance - NPLs	\$53,859	\$42,427	\$96,286

For the year ended December 31, 2012, inflows to construction non-performing loans held in portfolio at the BPPR segment amounted to \$14 million, a decrease of \$25.3 million, when compared with the additions for the year ended December 31, 2011. There were minimal additions to construction loans held-in-portfolio to non-performing status at the BPNA segment during 2012. As previously mentioned, the decline in the inflows to non-performing loans is principally due to the strategies implemented by the Corporation to significantly reduce its construction loan exposure.

In the non-covered loans held-in-portfolio, there was one construction loan relationship greater than \$10 million in non-performing status with an aggregate outstanding balance of approximately \$11 million at December 31, 2012, compared with three construction loan relationships with an aggregate outstanding principal balance of \$38 million at December 31, 2011.

Construction loan net charge-offs, excluding covered loans, for the year ended December 31, 2012, decreased by \$10.6 million when compared with the year ended December 31, 2011, with reductions of \$8.1 million and \$2.5 million in the BPPR and BPNA segments, respectively. For the year ended December 31, 2012, the charge-offs associated with collateral dependent construction loans amounted to \$4.7 million in the BPPR segment and \$1.4 million in the BPNA segments. Management identified construction loans considered impaired and charged-off specific reserves based on the value of the collateral.

Construction loan net charge-offs for the year ended December 31, 2011, decreased by \$297.0 million, compared

with the year ended December 31, 2010. The decrease in the BPPR and BPNA segment of \$283.3 million and \$13.7 million, respectively, is mainly attributed to the actions taken by the Corporation to mitigate the overall credit risk of this portfolio. The residential real estate construction projects were impacted by general market conditions, decreases in property values, oversupply in certain areas, and reduced absorption rates. In addition, during the fourth quarter of 2010, the Corporation decided to promptly charge-off previously reserved impaired amounts of collateral dependent loans. Construction loans charge-offs associated with this decision amounted to approximately \$81.4 million and \$3.0 million, for the BPPR and BPNA segments, respectively.

The allowance for loan losses corresponding to construction loans represented 2.94% of that portfolio, excluding covered loans, at December 31, 2012, compared with 3.53% at December 31, 2011. The ratio of the allowance to non-performing loans held-in-portfolio in the construction loans category was 17.14% at December 31, 2012, compared with 40.13% at December 31, 2011. The increase in the ratio was 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 required at December 31, 2011.

Table 44 provides information on construction non-performing loans and net charge-offs for the BPPR and BPNA (excluding the covered loan portfolio) segments for the years ended December 31, 2012, December 31, 2011, and December 31, 2010.

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

	BPPR			BPNA			Popular, Inc.		
	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2012	December 31, 2011	December 31, 2010
<i>(Dollars in thousands)</i>									
Non-performing construction loans	\$37,390	\$53,859	\$64,678	\$5,960	\$42,427	\$68,219	\$43,350	\$96,286	\$132,897
Non-performing construction loans to construction loans HIP	17.61%	33.47%	38.42%	14.68%	53.71%	36.62%	17.14%	40.13%	39.02%
	BPPR			BPNA			Popular, Inc.		
	For the year ended			For the year ended			For the year ended		
	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2012	December 31, 2011	December 31, 2010
<i>(Dollars in thousands)</i>									
Construction loan net charge-offs (recoveries)	\$(2,283)	\$5,816	\$289,150	\$400	\$2,944	\$16,632	\$(1,883)	\$8,760	\$305,782
Construction loan net charge-offs to average construction loans HIP	(1.19)%	3.82%	30.41%	0.77%	2.46%	7.44%	(0.77)%	3.22%	26.04%

The allowance for loan losses corresponding to the construction loan portfolio for the BPPR segment, excluding the allowance for covered loans, totaled \$6 million or 2.76% of non-covered construction loans held-in-portfolio at December 31, 2012, compared with \$6 million or 3.63% at December 31, 2011. At the BPNA segment, the allowance for loan losses of the construction loan portfolio totaled \$2 million or 3.86% of construction loans held-in-portfolio at December 31, 2012, compared with \$3 million or 3.33% at December 31, 2011.

Construction loans held-in-portfolio modified in a TDR often involve reducing the interest rate for a limited period of time or the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or reductions in the payment plan. Construction loans modified in a TDR may also involve extending the interest-only payment period. At December 31, 2012, there were \$7 million and \$6 million of construction loan TDRs for the BPPR and BPNA reportable segments, respectively, which were in non-performing status. The amount of outstanding commitments to lend additional funds to debtors owing loans whose terms have been modified in troubled debt restructurings amounted to \$120 thousand in the BPPR segment and no commitments outstanding in the BPNA reportable segment at December 31, 2012. These construction loan TDRs were individually evaluated for impairment resulting

in no specific reserves for the BPPR and BPNA segments at December 31, 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 segment.

Legacy non-performing loans held-in-portfolio were \$41 million at December 31, 2012, compared with \$76 million at December 31, 2011. The decrease of \$35 million, or 46%, was primarily driven by a slowdown 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 10.60% December 31, 2012.

For the year ended December 31, 2012, additions to legacy loans in non-performing status amounted to \$44 million, a decrease of \$39 million, or 47%, compared with the year ended December 31, 2011. The decrease in the inflows of non-performing legacy loans reflects the improvements in overall loan performance.

Tables 45 and 46 present the changes in non-performing legacy loans held in-portfolio for the years ended December 31, 2012 and December 31, 2011.

Table 45 - Activity in Non-Performing Legacy Loans Held-In-Portfolio (Excluding Covered Loans)

(In thousands)	For the year ended December 31, 2012		
	BPPR	BPNA	Popular, Inc.
Beginning Balance - NPLs	\$—	\$75,660	\$75,660
Plus:			
New non-performing loans	—	44,076	44,076
Advances on existing non-performing loans	—	17	17
Less:			
Non-performing loans transferred to OREO	—	(3,485)	(3,485)
Non-performing loans charged-off	—	(31,973)	(31,973)
Loans returned to accrual status / loan collections	—	(22,742)	(22,742)
Loans in accrual status transfer to held-for-sale	—	(20,812)	(20,812)
Ending balance - NPLs	\$—	\$40,741	\$40,741

Table 46 - Activity in non-Performing Legacy Loans Held-in-Portfolio (Excluding Covered Loans)

(In thousands)	For the year ended December 31, 2011		
	BPPR	BPNA	Popular, Inc.
Beginning Balance - NPLs	\$—	\$165,484	\$165,484
Plus:			
New non-performing loans	—	80,921	80,921
Advances on existing non-performing loans	—	1,684	1,684
Less:			
Non-performing loans transferred to OREO	—	(22,077)	(22,077)
Non-performing loans charged-off	—	(75,058)	(75,058)
Loans returned to accrual status / loan collections	—	(74,826)	(74,826)
Loans in accrual status transfer to held-for-sale	—	(468)	(468)
Ending balance - NPLs	\$—	\$75,660	\$75,660

In the loans held-in-portfolio, there was no legacy loan relationship greater than \$10 million in non-accrual status at December 31, 2012, compared with one loan relationship with an aggregate outstanding balance of \$16 million at December 31, 2011.

For the year ended December 31, 2012, legacy net charge-offs decreased by \$36.0 million, or 69%, when compared with the year ended December 31, 2011. Legacy loans net charge-offs to average non-covered loans held-in-portfolio decreased from 6.42% for the year ended December 31, 2011 to 3.12% for the year ended December 31, 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 year ended December 31, 2012, the charge-offs associated with collateral dependent legacy loans amounted to approximately \$4.1 million.

The legacy loan portfolio totaled \$384 million at December 31, 2012, compared with \$648 million at December 31, 2011. The allowance for loan losses for the legacy loans held-in-portfolio amounted to \$33 million or 8.62% of that portfolio at December 31, 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 81.25% at December 31, 2012, compared with 61.13% 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.

Legacy loans held-in-portfolio modified in a TDR often involve reducing the interest rate for a limited period of time or the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, reductions in the payment plan or other actions intended to maximize collection. At December 31, 2012, the Corporation's legacy loans held-in-portfolio included a total of \$6 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 December 31, 2012. The legacy loan TDRs were evaluated for impairment requiring no specific reserves at December 31, 2012.

Table 47 provides information on legacy non-performing loans and net charge-offs.

Table 47 - Non-Performing Legacy Loans and Net Charge-offs

<i>(Dollars in thousands)</i>	BPNA		
	December 31, 2012	December 31, 2011	December 31, 2010
Non-performing legacy loans	\$40,741	\$75,660	\$165,484
Non-performing legacy loans to legacy loans HIP	10.60%	11.67%	16.33%

<i>(Dollars in thousands)</i>	BPNA		
	For the year ended		
	December 31, 2012	December 31, 2011	December 31, 2010
Legacy loan net charge-offs	\$16,338	\$52,323	\$177,420
Legacy loan net charge-offs to average legacy loans HIP	3.12%	6.42%	13.47%

Mortgage loans

Non-covered non-performing mortgage loans held-in-portfolio were \$630 million at December 31, 2012, compared to \$687 million at December 31, 2011. The decrease of \$56 million is driven by reductions of \$53 million and \$3 million in the BPPR and BPNA segments, respectively. The decrease in the BPPR segment was principally due to a higher level of residential mortgage TDRs returning to accrual status after sustained payment performance by borrowers, a slowdown in the inflows of non-performing loans, and charge-offs activity. This improving trend was driven by greater level of loss mitigation

activities, and certain stabilizations in the economic conditions. In addition, during the year ended December 31, 2012, the BPPR segment repurchased \$157 million of unpaid principal balance in mortgage loans subject to the credit recourse provisions, compared to \$241 million for the year ended December 31, 2011.

Tables 48 and 49 present changes in non-performing mortgage loans held-in-portfolio for the years ended December 31, 2012 and 2011 for the BPPR (excluding covered loans) and BPNA reportable segments.

Table 48 - Activity in Non-Performing Mortgage Loans Held-in-Portfolio (Excluding Covered Loans)

<i>(In thousands)</i>	For the year ended December 31, 2012		
	BPPR	BPNA	Popular, Inc.
Beginning Balance - NPLs	\$649,279	\$37,223	\$686,502
Plus:			
New non-performing loans	675,875	30,293	706,168
Less:			
Non-performing loans transferred to OREO	(82,211)	(7,018)	(89,229)
Non-performing loans charged-off	(69,336)	(11,101)	(80,437)
Loans returned to accrual status / loan collections	(577,501)	(15,373)	(592,874)
Ending balance - NPLs	\$596,106	\$34,024	\$630,130

Table 49 - Activity in Non-Performing Mortgage Loans Held-in-Portfolio (Excluding Covered Loans)

<i>(In thousands)</i>	For the year ended December 31, 2011		
	BPPR	BPNA	Popular, Inc.
Beginning Balance - NPLs	\$518,446	\$23,587	\$542,033
Plus:			
New non-performing loans	700,083	40,170	740,253
Less:			
Non-performing loans transferred to OREO	(62,533)	(1,319)	(63,852)
Non-performing loans charged-off	(36,956)	(7,654)	(44,610)
Loans returned to accrual status / loan collections	(469,761)	(17,561)	(487,322)
Ending balance - NPLs	\$649,279	\$37,223	\$686,502

For the year ended December 31, 2012, additions to mortgage non-performing loans at the BPPR and BPNA segments amounted to \$676 million and \$30 million, respectively, decreasing by \$24.2 million and \$9.9 million from the same period in 2011. Although the economy in Puerto Rico appears to be gradually stabilizing and certain improving credit trends have been noted, the residential mortgage portfolio at the BPPR segment continues to be impacted by high levels of non-performing loans and reduced property values.

Mortgage loans net charge-offs, excluding covered loans, increased by \$30.1 million, for the year ended December 31, 2012, compared with the same period in 2011. Mortgage loans net charge-offs to average mortgage non-covered loans held-in-portfolio increased from 0.83% for the year ended December 31, 2011 to 1.27% for the same period in 2012. The increase in the mortgage loans net charge-offs 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, coupled with the current real estate market condition. The Corporation's mortgage loans net charge-offs to average mortgage loans held-in-portfolio was 2.08% for the year ended December 31, 2010.

Mortgage loans net charge-offs, excluding covered loans, at the BPPR segment amounted to \$56.8 million for the year ended December 31, 2012, an increase of \$29.2 million, when compared to 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. Notwithstanding, underwriting criteria and high reinstatement rate experience in Puerto Rico continue to maintain losses at relatively low levels.

The net charge-offs in BPNA's mortgage loan portfolio amounted to approximately \$15.2 million for the year ended December 31, 2012, relatively flat when compared to the previous year. The mortgage loan portfolio in the BPNA segment maintains low levels of net charge-offs, since most of the non-conventional mortgage loans in non-performing status were classified as held-for-sale and adjusted to fair value in December 2010, and subsequently sold during the first quarter of 2011. The net charge-offs for BPNA's non-conventional mortgage loan portfolio amounted to approximately \$10.6 million, or 2.26% of average non-conventional mortgage loans held-in-portfolio for the year ended December 31, 2012, compared with \$6.7 million, or 1.33% of average loans for the year ended December 31, 2011. These figures were approximately \$65.9 million or 6.74% for the year ended December 31, 2010. Mortgage loans net charge-offs increase from 2010 to 2011 was 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 \$149 million or 2.46% of that portfolio at December 31, 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 segment totaled \$119 million or 2.41% of mortgage loans held-in-portfolio, excluding covered loans, at December 31, 2012 compared with \$72 million or 1.54%, respectively, at December 31, 2011. This increase in reserve requirements is principally driven by 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 2.69% of mortgage loans held-in-portfolio at December 31, 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 \$25 million, or 5.60%, 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.

Residential mortgage loans modified in a TDR are primarily comprised of loans where monthly payments are lowered to accommodate the borrowers' financial needs for a period of time, normally five years. After the lowered monthly payment period ends, the borrower reverts back to paying principal and interest per the original terms with the maturity date adjusted accordingly. At December 31, 2012, the mortgage loan TDRs for the BPPR and BPNA segments amounted to \$624 million (including \$148 million guaranteed by U.S. sponsored entities) and \$54 million, respectively, of which \$263 million and \$10 million, respectively, were in non-performing status. These mortgage loan TDRs were evaluated for impairment resulting in a specific allowance for loan losses of \$59 million and \$16 million for the BPPR and BPNA segments, respectively, at December 31, 2012.

Table 50 provides information on mortgage non-performing loans and net charge-offs for the BPPR and BPNA (excluding the covered loan portfolio) segments for the years ended December 31, 2012, 2011, and 2010.

Table 50 - Non-Performing Mortgage Loans and Net Charge-offs (Excluding Covered Loans)

	BPPR			BPNA			Popular, Inc.		
	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2012	December 31, 2011	December 31, 2010
<i>(Dollars in thousands)</i>									
Non-performing mortgage loans	\$596,106	\$649,279	\$518,446	\$34,024	\$37,223	\$23,587	\$630,130	\$686,502	\$542,033
Non-performing mortgage loans to mortgage loans HIP	12.05%	13.85%	14.21%	3.01%	4.49%	2.70%	10.37%	12.44%	11.98%

	BPPR			BPNA			Popular, Inc.		
	For the year ended			For the year ended			For the year ended		
<i>(Dollars in thousands)</i>	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2012	December 31, 2011	December 31, 2010
Mortgage loan net charge-offs	\$56,777	\$27,624	\$21,712	\$15,163	\$14,187	\$73,067	\$71,940	\$41,811	\$94,779
Mortgage loan net charge-offs to average mortgage loans HIP	1.21%	0.66%	0.68%	1.52%	1.67%	5.36%	1.27%	0.83%	2.08%

Consumer loans

Non-performing consumer loans decreased by \$3 million from December 31, 2011 to December 31, 2012, primarily as a result of a decrease of \$3 million in the BPNA segment. The decrease in the BPNA reportable segment was primarily associated with home equity lines of credit and closed-end second mortgages, which are categorized by the Corporation as consumer loans. These portfolios have experienced steady improvements in terms of delinquencies and net charge-offs since 2010.

Additions to consumer non-performing loans amounted to \$90 million in the BPPR segment for the years ended

December 31, 2012 and 2011. The additions to consumer non-performing loans in the BPNA segment amounted to \$39 million, compared with additions of \$42 million for 2011.

The Corporation's consumer loan net charge-offs as a percentage of average consumer loans held-in-portfolio decreased to 3.36% for the year ended December 31, 2012 from 4.26% for the prior year, reflective of improved delinquency metrics across all consumer loan types in the BPPR and BPNA segments.

The allowance for loan losses for the consumer portfolio, excluding covered loans, amounted to \$131 million, or 3.39%,

of that portfolio at December 31, 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 segment totaled \$100 million, or 3.09%, of that portfolio at December 31, 2012, compared with \$115 million, or 3.88%, at December 31, 2011. At the BPNA segment, the allowance for loan losses of the consumer loan portfolio totaled \$31 million, or 4.94%, of consumer loans at December 31, 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, reflecting improvement in the risk profile of the consumer portfolios.

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

Table 51 provides information on consumer non-performing loans and net charge-offs by reportable segments.

Table 51 - Non-Performing Consumer Loans and Net Charge-offs (Excluding Covered Loans)

(Dollars in thousands)	BPPR			BPNA			Popular, Inc.		
	December 31,	December 31,	December 31,	December 31,	December 31,	December 31,	December 31,	December 31,	December 31,
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Non-performing consumer loans	\$30,888	\$31,291	\$37,236	\$9,870	\$12,377	\$23,066	\$40,758	\$43,668	\$60,302
Non-performing consumer loans to consumer loans HIP	0.96%	1.05%	1.28%	1.56%	1.76%	2.85%	1.05%	1.19%	1.63%

(Dollars in thousands)	BPPR			BPNA			Popular, Inc.		
	For the year ended			For the year ended			For the year ended		
	December 31,	December 31,	December 31,	December 31,	December 31,	December 31,	December 31,	December 31,	December 31,
2012	2011	2010	2012	2011	2010	2012	2011	2010	
Consumer loan net charge-offs	\$90,095	\$98,647	\$131,783	\$36,004	\$57,118	\$82,380	\$126,099	\$155,765	\$214,163
Consumer loan net charge-offs to average consumer loans HIP, excluding loans	2.93%	3.40%	4.44%	5.38%	7.59%	9.30%	3.36%	4.26%	5.56%

Combined net charge-offs for E-LOAN's home equity lines of credit and closed-end second mortgages amounted to approximately \$21.2 million or 6.27% of those particular average loan portfolios for the year ended December 31, 2012, compared with \$38.4 million or 9.68% for the year ended December 31, 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 December 31, 2012 totaled \$312 million with a related allowance for loan losses of \$17 million, representing 5.47% 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 December 31, 2012, 29% are paying the minimum amount due on the home equity lines of credit.

Other real estate

Other real estate represents real estate property acquired through foreclosure, part of the Corporation's continuous efforts to aggressively resolve non-performing loans. Other real estate not covered under loss sharing agreements with the FDIC increased by \$94 million from December 31, 2011 to the same date in 2012, driven by an increase in the BPPR and BPNA segments of \$75 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.

Other real estate covered under loss sharing agreements with the FDIC, comprised principally of repossessed commercial real estate properties, amounted to \$139 million at December 31, 2012, compared with \$109 million at the same date in 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.

During 2012, the Corporation transferred \$303 million of loans to other real estate, sold \$143 million of foreclosed properties and recorded write-downs and other adjustments of approximately \$36 million.

Updated appraisals or third-party opinions of value (“BPOs”) are obtained to adjust the values of the other real estate assets. Commencing in 2011, the appraisal for a commercial or construction other real estate property with a book value greater than \$1 million is updated annually and if lower than \$1 million it is updated at least every two years. For residential other real estate property, the Corporation requests third-party BPOs or appraisals generally on an annual basis. Appraisals may be adjusted due to age, collateral inspections and property profiles or due to general market conditions. The adjustments applied are based upon internal information like other appraisals for the type of properties and loss severity information that can provide historical trends in the real estate market, and may change from time to time based on market conditions.

For commercial and construction other real estate properties at the BPPR 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 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 lender relative to the most recent appraised value of the properties. However, additional haircuts can be applied depending upon the age of appraisal, the region and the condition of the property or project.

In the case of the BPPR segment, for year 2012, appraisals and BPOs of residential properties were subject to downward adjustments of up to approximately 22%, including cost to sell of 5%. In the case of the U.S. mainland residential properties, the downward adjustment approximated up to 30%, including cost to sell of 10%.

Troubled debt restructurings

The following tables present the loans classified as TDRs according to their accruing status at December 31, 2012, 2011 and 2010.

Table 52 - TDRs Non-Covered Loans 2012

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

Table 53 - TDRs Non-Covered Loans 2011

<i>(In thousands)</i>	December 31, 2011		
	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
Total	\$426,619	\$454,131	\$880,750

Table 54 - TDRs Non-Covered Loans 2010

<i>(In thousands)</i>	December 31, 2010		
	Accruing	Non-Accruing	Total
Commercial	\$77,278	\$80,894	\$158,172
Construction	–	30,727	30,727
Legacy	–	61,482	61,482
Mortgage	68,831	107,791	176,622
Consumer	123,012	10,804	133,816
Total	\$269,121	\$291,698	\$560,819

Table 55 presents the covered loans classified as TDRs according to their accruing status at December 31, 2012.

Table 55 -TDRs Covered Loans

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

The Corporation's TDR loans totaled \$1.2 billion at December 31, 2012, an increase of \$270 million, or 31%, from December 31, 2011, including increases of \$105 million and \$207 million in the commercial and mortgage portfolios, respectively. Commercial loans TDRs in the BPPR segment increased by \$100 million from December 31, 2011 mainly driven by liquidation agreements, considered TDRs since the fourth quarter of 2012. The intensification of loss mitigation efforts in the mortgage loan portfolio at the BPPR segment led to an increase of \$204 million, or 49%, from December 31, 2011, of which \$149 million are in accruing status.

Refer to Note 11 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.

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.

The following tables set forth information concerning the composition of the Corporation's allowance for loan losses ("ALLL") at December 31, 2012, December 31, 2011 and December 31, 2010 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.

Table 56 - Composition of ALLL

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

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

[2] Excludes covered loans acquired on the Westernbank FDIC-assisted transaction. At December 31, 2012, the general allowance on the covered loans amounted to \$100 million while the specific reserve amounted to \$9 million.

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

Table 57 - Composition of ALLL

	December 31, 2011						
<i>(Dollars in thousands)</i>	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.

Table 58 - Composition of ALLL

	December 31, 2010						
<i>(Dollars in thousands)</i>	Commercial	Construction	Legacy [3]	Leasing	Mortgage	Consumer	Total [2]
Specific ALLL	\$8,550	\$216	\$—	\$—	\$5,004	\$—	\$13,770
Impaired loans [1]	\$433,579	\$132,581	\$111,130	\$—	\$121,209	\$—	\$798,499
Specific ALLL to impaired loans [1]	1.97%	0.16%	—%	—%	4.13%	—%	1.72%
General ALLL	\$391,372	\$39,570	\$76,407	\$7,153	\$65,864	\$199,089	\$779,455
Loans held-in-portfolio, excluding impaired loans [1]	\$10,136,923	\$207,975	\$902,354	\$572,787	\$4,403,513	\$3,705,984	\$19,929,536
General ALLL to loans held-in-portfolio, excluding impaired loans [1]	3.86%	19.03%	8.47%	1.25%	1.50%	5.37%	3.91%
Total ALLL	\$399,922	\$39,786	\$76,407	\$7,153	\$70,868	\$199,089	\$793,225
Total non-covered loans held-in-portfolio [1]	\$10,570,502	\$340,556	\$1,013,484	\$572,787	\$4,524,722	\$3,705,984	\$20,728,035
ALLL to loans held-in-portfolio [1]	3.78%	11.68%	7.54%	1.25%	1.57%	5.37%	3.83%

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

[2] Excludes covered loans acquired on the Westernbank FDIC-assisted transaction. There was no allowance on these loans at December 31, 2010.

[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 59 details the breakdown of the allowance for loan losses by loan categories. The breakdown is made for analytical purposes, and it is not necessarily indicative of the categories in which future loan losses may occur.

Table 59 - Allocation of the Allowance for Loan Losses

	At December 31,									
	2012		2011		2010		2009		2008	
<i>(Dollars in millions)</i>	ALLL	% of loans in each category to total loans	ALLL	% of loans in each category to total loans	ALLL	% of loans in each category to total loans	ALLL	% of loans in each category to total loans	ALLL	% of loans in each category to total loans
Commercial	\$297.7	47.0%	\$369.4	48.4%	\$399.8	51.0%	\$338.7	48.3%	\$266.9	47.1%
Construction	7.4	1.2	8.5	1.2	39.8	1.6	269.3	5.7	132.0	6.7
Legacy	33.1	1.8	46.2	3.1	76.4	4.9	177.4	6.9	69.1	7.9
Leasing	2.9	2.6	4.7	2.7	7.2	2.8	12.2	2.6	18.9	2.8
Mortgage	149.4	29.0	102.3	26.8	70.9	21.8	154.6	19.4	106.3	17.4
Consumer	131.2	18.4	159.3	17.8	199.1	17.9	309.0	17.1	289.6	18.1
Total [1]	\$621.7	100.0%	\$690.4	100.0%	\$793.2	100.0%	\$1,261.2	100.0%	\$882.8	100.0%

[1] Note: For purposes of this table the term loans refers to loans held-in-portfolio excluding covered loans and held-for-sale.

At December 31, 2012, the allowance for loan losses, excluding covered loans, decreased by approximately \$69 million when compared with the same date in the previous year. It represented 2.96% of non-covered loans held-in-portfolio at December 31, 2012, compared with 3.35% at December 31, 2011. This decrease in the allowance for loan losses considers reductions in the Corporation's general reserves of approximately \$121 million, offset by an increase of \$52 million in the specific reserves.

At December 31, 2012, the allowance for loan losses for non-covered loans at the BPPR segment totaled \$445 million or 2.92% 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 \$60 million in the general reserve component, when compared with December 31, 2011, mainly due to a lower underlying loss trends in the commercial and consumer loan portfolios. These improvements were partially offset by an increase of \$52 million in specific reserves mainly related to residential mortgage troubled debt restructured loans due to the intensification of loss mitigation efforts.

The allowance for loan losses at the BPNA segment totaled \$176 million or 3.07% 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 \$61 million in the general reserve component, when compared with December 31, 2011, reflective of sustained improvements in credit quality.

The following table presents the Corporation's recorded investment in loans that were considered impaired and the related valuation allowance at December 31, 2012, 2011, and 2010.

Table 60 - Impaired Loans (Non-Covered Loans) and the Related Valuation Allowance

<i>(In millions)</i>	2012		2011		2010	
	Recorded Investment [1]	Valuation Allowance [2]	Recorded Investment [1]	Valuation Allowance [2]	Recorded Investment [1]	Valuation Allowance
Impaired loans:						
Valuation allowance	\$897.6	\$111.1	\$632.9	\$59.0	\$154.3	\$13.8
No valuation allowance required	440.1	–	593.1	–	644.2	–
Total impaired loans	\$1,337.7	\$111.1	\$1,226.0	\$59.0	\$798.5	\$13.8

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

[2] Excludes the specific reserve related to covered loans acquired on the Westernbank FDIC-assisted transaction which amounted to \$9 million at December 31, 2012 (2011 - \$27 million).

With respect to the \$440 million portfolio of impaired loans for which no allowance for loan losses was required at December 31, 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 years ended December 31, 2012 and December 31, 2011 were \$1.4 billion and \$1.1 billion, respectively. The Corporation recognized interest income on impaired loans of \$39.1 million and \$20.0 million for the years ended December 31, 2012 and December 31, 2011, respectively.

The following tables set forth the activity in the specific reserves for impaired loans for the years ended December 31, 2012 and 2011.

Table 61 - Activity in Specific ALLL for the Year Ended December 31, 2012

<i>(In thousands)</i>	Commercial	Construction	Mortgage	Legacy	Consumer	Leasing	Total
Beginning balance	\$11,738	\$289	\$29,063	\$57	\$17,046	\$793	\$58,986
Provision for impaired loans	107,497	5,942	54,984	4,054	840	273	173,590
Net charge-offs	(101,887)	(6,111)	(9,380)	(4,111)	–	–	(121,489)
Specific allowance for loan losses at December 31, 2012	\$17,348	\$120	\$74,667	\$–	\$17,886	\$1,066	\$111,087

Table 62 - Activity in Specific ALLL for the Year Ended December 31, 2011

<i>(In thousands)</i>	Commercial	Construction	Mortgage	Legacy	Consumer	Leasing	Total
Beginning balance	\$8,550	\$216	\$5,004	\$–	\$–	\$–	\$13,770
Provision for impaired loans	152,143	23,576	11,861	14,632	21,347	793	224,352
Net charge-offs	(136,250)	(23,503)	(1,608)	(14,575)	(4,301)	–	(180,237)
Net (write-downs) recoveries	(12,705)	–	13,806	–	–	–	1,101
Specific allowance for loan losses at December 31, 2011	\$11,738	\$289	\$29,063	\$57	\$17,046	\$793	\$58,986

For the year ended December 31, 2012, total net charge-offs for individually evaluated impaired loans amounted to approximately \$121.5 million, of which \$91.1 million pertained

to the BPPR segment and \$30.4 million to the BPNA reportable segment. Most of these net charge-offs were related to the commercial and construction loan portfolios.

The Corporation requests updated appraisal reports from pre-approved appraisers for loans that are considered impaired, and individually analyzes them following the Corporation's reappraisal policy. This policy requires updated appraisals for loans secured by real estate (including construction loans) either annually or every two years depending on the total exposure of the borrower. As a general procedure, the Corporation internally reviews appraisals as part of the underwriting and approval process and also for credits considered impaired. Generally, the specialized appraisal review unit of the Corporation's Credit Risk Management Division internally reviews appraisals following certain materiality benchmarks. In addition to evaluating the reasonability of the appraisal reports, these reviews monitor that appraisals are performed following the Uniform Standards of Professional Appraisal Practice ("USPAP").

Appraisals may be adjusted due to age or general market conditions. The adjustments applied are based upon internal information, like other appraisals and/or loss severity information that can provide historical trends in the real estate market. Specifically, in commercial and construction impaired loans for the BPPR 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 December 31, 2012, the weighted average discount rate for the BPPR segment was 21%.

For commercial and construction loans at the BPNA segment, downward adjustments to the collateral value currently range from 10% to 50% depending on the age of the appraisals and the type, location and condition of the property. This discount used was determined based on a study

of other real estate owned and loan sale transactions during the past two years, comparing net proceeds received by the bank relative to the most recent appraised value of the properties. However, additional haircuts can be applied depending upon the age of appraisal, the region and the condition of the project. Factors are based on appraisal changes and/or trends in loss severities. Discount rates discussed above include costs to sell and may change from time to time based on market conditions. At December 31, 2012, the weighted average discount rate for the BPNA 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 segment, BPOs of the subject collateral properties are currently subject to downward adjustment 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.

The table that follows presents the approximate amount and percentage of non-covered impaired loans for which the Corporation relied on appraisals dated more than one year old for purposes of impairment requirements at December 31, 2012.

Table 63 - Non-Covered Impaired Loans With Appraisals Dated 1 Year Or Older

December 31, 2012			
<i>(In thousands)</i>	Total Impaired Loans - Held-in-portfolio (HIP)		Impaired Loans with Appraisals Over One-Year Old [1]
	Count	Outstanding Principal Balance	
Commercial	312	\$408,211	31%
Construction	17	39,944	11
Legacy	19	18,744	—

[1] Based on outstanding balance of total impaired loans.

Table 64 - Non-Covered Impaired Loans With Appraisals Dated 1 Year Or Older

December 31, 2011			
<i>(In thousands)</i>	Total Impaired Loans - Held-in-portfolio (HIP)		Impaired Loans with Appraisals Over One-Year Old [1]
	Count	Outstanding Principal Balance	
Commercial	376	\$512,150	39%
Construction	28	90,038	16
Legacy	34	48,890	2

[1] Based on outstanding balance of total impaired loans.

The percentage of the Corporation's impaired construction loans that were relied upon "as developed" and "as is" for the periods ended December 31, 2012 and 2011 are presented in the tables below.

Table 65 - Impaired Construction Loans Relied Upon "As is" or "As Developed"

December 31, 2012							
<i>(In thousands)</i>	"As is"			"As developed"			Average % of completion
	Count	Amount in \$	As a % of total	Count	Amount in \$	As a % of total	
			construction impaired loans HIP			construction impaired loans HIP	
Loans held-in-portfolio	19	\$23,685	49%	5	\$24,934	51%	90%

Table 66 - Impaired Construction Loans Relied Upon "As is" or "As Developed"

December 31, 2011							
<i>(In thousands)</i>	"As is"			"As developed"			Average % of completion
	Count	Amount in \$	As a % of total	Count	Amount in \$	As a % of total	
			construction impaired loans HIP			construction impaired loans HIP	
Loans held-in-portfolio	28	\$56,852	47%	19	\$63,728	53%	91%

At December 31, 2012, the Corporation accounted for \$25 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 \$109 million at December 31, 2012. 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 \$95 million at year end, 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 \$14 million, 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.

Enterprise Risk and Operational Risk Management

The Financial and Operational Risk Management Division (the "FORM Division") is responsible for overseeing the implementation of the Enterprise Risk Management (ERM) framework, as well as developing and overseeing the implementation of risk programs and reporting that facilitate a broad integrated view of risks. The FORM Division also leads the ongoing development of a strong risk management culture and the framework that support effective risk governance. For new products and initiatives, the Corporate Compliance Division has put in place processes to ensure that an appropriate standard readiness assessment is performed before launching a new product or initiative. Similar procedures are followed with the Treasury Division for transactions involving the purchase and sale of assets.

Operational risk can manifest itself in various ways, including errors, fraud, cyber attacks, business interruptions, inappropriate behavior of employees, and failure to perform in a timely manner, among others. These events can potentially result in financial losses and other damages to the Corporation, including reputational harm. The successful management of operational risk is particularly important to a diversified financial services company like Popular because of the nature, volume and complexity of its various businesses.

To monitor and control operational risk and mitigate related losses, the Corporation maintains a system of comprehensive policies and controls. The Corporation's Operational Risk Committee (ORCO), which is composed of senior level representatives from the business lines and corporate functions, provides executive oversight to facilitate consistency of effective policies, best practices, controls and monitoring tools for managing and assessing all types of operational risks across the Corporation. The FORM Division, within the Corporation's Risk Management Group, serves as ORCO's operating arm and is responsible for establishing baseline processes to measure, monitor, limit and manage operational risk. In addition, the Auditing Division provides oversight about policy compliance and ensures adequate attention is paid to correct the identified issues.

Operational risks fall into two major categories: business specific and corporate-wide affecting all business lines. The primary responsibility for the day-to-day management of business specific risks relies on business unit managers. Accordingly, business unit managers are responsible for ensuring that appropriate risk containment measures, including corporate-wide or business segment specific policies and procedures, controls and monitoring tools, are in place to minimize risk occurrence and loss exposures. Examples of these include personnel management practices, data reconciliation processes, transaction processing monitoring and analysis and contingency plans for systems interruptions. To manage corporate-wide risks, specialized functions, such as Legal, Information Security, Business Continuity, and Finance and Compliance, among others, assist the business units in the development and implementation of risk management practices specific to the needs of the individual businesses.

Operational risk management plays a different role in each category. For business specific risks, the FORM Division works with the segments to ensure consistency in policies, processes, and assessments. With respect to corporate-wide risks, such as information security, business continuity, legal and compliance, the risks are assessed and a consolidated corporate view is developed and communicated to the business level. Procedures exist that are designed to ensure that policies relating to conduct, ethics, and business practices are followed. We continually monitor the system of internal controls, data processing systems, and corporate-wide processes and procedures to manage operational risk at appropriate, cost-effective levels. An additional level of review is applied to current and potential regulation and its impact on business processes, to ensure that appropriate controls are put in place to address regulation requirements. Today's threats to customer information and information systems are complex, more wide spread, continually emerging, and increasing at a rapid pace. The Corporation continuously monitors these threats and, to date, we have not experienced any material losses as a result of cyber attacks.

ADOPTION OF NEW ACCOUNTING STANDARDS AND ISSUED BUT NOT YET EFFECTIVE ACCOUNTING STANDARDS

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

The FASB issued ASU 2013-02 in February 2013. ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net

income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendments of ASU 2013-02 do not change the current requirements for reporting net income or other comprehensive income in financial statements.

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

The adoption of this guidance impacts presentation disclosures only and will not have an impact on the Corporation's consolidated financial statements.

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

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

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

The adoption of this guidance impacts presentation disclosures only and will not have an impact on the Corporation's consolidated financial statements.

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

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

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 impacts presentation disclosure only and will not have an impact on the Corporation's financial condition or results of operations.

Statistical Summary 2008–2012

Statements of Condition

(In thousands)	At December 31,				
	2012	2011	2010	2009	2008
Assets:					
Cash and due from banks	\$439,363	\$535,282	\$452,373	\$677,330	\$784,987
Money market investments:					
Federal funds sold and securities purchased under agreements to resell	246,977	327,668	181,961	452,932	519,218
Time deposits with other banks	838,603	1,048,506	797,334	549,865	275,436
Total money market investments	1,085,580	1,376,174	979,295	1,002,797	794,654
Trading account securities, at fair value	314,525	436,331	546,713	462,436	645,903
Investment securities available-for-sale, at fair value	5,084,201	5,009,823	5,236,852	6,694,714	7,924,487
Investment securities held-to-maturity, at amortized cost	142,817	125,383	122,354	212,962	294,747
Other investment securities, at lower of cost or realizable value	185,443	179,880	163,513	164,149	217,667
Loans held-for-sale, at lower of cost or fair value	354,468	363,093	893,938	90,796	536,058
Loans held-in-portfolio:					
Loans not covered under loss sharing agreements with the FDIC	21,080,005	20,703,192	20,834,276	23,827,263	25,857,237
Loans covered under loss sharing agreements with the FDIC	3,755,972	4,348,703	4,836,882	–	–
Less - Unearned income	96,813	100,596	106,241	114,150	124,364
Allowance for loan losses	730,607	815,308	793,225	1,261,204	882,807
Total loans held-in-portfolio, net	24,008,557	24,135,991	24,771,692	22,451,909	24,850,066
FDIC loss share asset	1,399,098	1,915,128	2,410,219	–	–
Premises and equipment, net	535,793	538,486	545,453	584,853	620,807
Other real estate not covered under loss sharing agreements with the FDIC	266,844	172,497	161,496	125,483	89,721
Other real estate covered under loss sharing agreements with the FDIC	139,058	109,135	57,565	–	–
Accrued income receivable	125,728	125,209	150,658	126,080	156,227
Mortgage servicing assets, at fair value	154,430	151,323	166,907	169,747	176,034
Other assets	1,569,578	1,462,393	1,449,887	1,324,917	1,119,869
Goodwill	647,757	648,350	647,387	604,349	605,792
Other intangible assets	54,295	63,954	58,696	43,803	53,163
Assets from discontinued operations	–	–	–	–	12,587
Total assets	\$36,507,535	\$37,348,432	\$38,814,998	\$34,736,325	\$38,882,769
Liabilities and Stockholders' Equity					
Liabilities:					
Deposits:					
Non-interest bearing	\$5,794,629	\$5,655,474	\$4,939,321	\$4,495,301	\$4,293,553
Interest bearing	21,205,984	22,286,653	21,822,879	21,429,593	23,256,652
Total deposits	27,000,613	27,942,127	26,762,200	25,924,894	27,550,205
Federal funds purchased and assets sold under agreements to repurchase	2,016,752	2,141,097	2,412,550	2,632,790	3,551,608
Other short-term borrowings	636,200	296,200	364,222	7,326	4,934
Notes payable	1,777,721	1,856,372	4,170,183	2,648,632	3,386,763
Other liabilities	966,249	1,193,883	1,305,312	983,866	1,096,338
Liabilities from discontinued operations	–	–	–	–	24,557
Total liabilities	32,397,535	33,429,679	35,014,467	32,197,508	35,614,405
Stockholders' equity:					
Preferred stock	50,160	50,160	50,160	50,160	1,483,525
Common stock	1,032	1,026	1,023	640	177,379
Surplus	4,150,294	4,123,898	4,103,211	2,809,993	2,218,292
Retained earnings (accumulated deficit)	11,826	(212,726)	(347,328)	(292,752)	(374,488)
Treasury stock – at cost	(444)	(1,057)	(574)	(15)	(207,515)
Accumulated other comprehensive loss, net of tax	(102,868)	(42,548)	(5,961)	(29,209)	(28,829)
Total stockholders' equity	4,110,000	3,918,753	3,800,531	2,538,817	3,268,364
Total liabilities and stockholders' equity	\$36,507,535	\$37,348,432	\$38,814,998	\$34,736,325	\$38,882,769

Statistical Summary 2008-2012

Statements of Operations

<i>(In thousands)</i>	For the years ended December 31,				
	2012	2011	2010	2009	2008
Interest income:					
Loans	\$1,558,397	\$1,694,357	\$1,676,734	\$1,519,249	\$ 1,868,462
Money market investments	3,703	3,596	5,384	8,570	17,982
Investment securities	166,781	203,941	238,210	291,988	343,568
Trading account securities	22,824	35,607	27,918	35,190	44,111
Total interest income	1,751,705	1,937,501	1,948,246	1,854,997	2,274,123
Less - Interest expense	379,086	505,509	653,381	753,744	994,919
Net interest income	1,372,619	1,431,992	1,294,865	1,101,253	1,279,204
Provision for loan losses - non-covered loans	334,102	430,085	1,011,880	1,405,807	991,384
Provision for loan losses - covered loans	74,839	145,635	-		
Net interest income after provision for loan losses	963,678	856,272	282,985	(304,554)	287,820
Net (loss) gain on sale and valuation adjustments of investment securities	(1,707)	10,844	3,992	219,546	69,716
Trading account (loss) profit	(17,682)	5,897	16,404	39,740	43,645
Net gain (loss) on sale of loans, including adjustments to indemnity reserves, and valuation adjustments on loans held-for-sale	27,567	(2,177)	(56,139)	(35,060)	6,018
FDIC loss share (expense) income	(56,211)	66,791	(25,751)	-	-
Fair value change in equity appreciation instrument	-	8,323	42,555	-	-
Gain on sale of processing and technology business	-	-	640,802	-	-
All other operating income	514,375	470,599	666,330	672,275	710,595
Total non-interest income	466,342	560,277	1,288,193	896,501	829,974
Operating expenses:					
Personnel costs	465,702	453,370	514,198	533,263	608,465
All other operating expenses	745,446	696,927	811,349	620,933	728,263
Total operating expenses	1,211,148	1,150,297	1,325,547	1,154,196	1,336,728
Income (loss) from continuing operations, before income tax	218,872	266,252	245,631	(562,249)	(218,934)
Income tax (benefit) expense	(26,403)	114,927	108,230	(8,302)	461,534
Income (loss) from continuing operations	\$ 245,275	\$ 151,325	\$ 137,401	\$ (553,947)	\$ (680,468)
Loss from discontinued operations, net of income tax	-	-	-	(19,972)	(563,435)
Net Income (Loss)	\$ 245,275	\$ 151,325	\$ 137,401	\$ (573,919)	\$ (1,243,903)
Net Income (Loss) Applicable to Common Stock	\$ 241,552	\$ 147,602	\$ (54,576)	\$ 97,377	\$ (1,279,200)

Statistical Summary 2008-2012

Average Balance Sheet and Summary of Net Interest Income

On a Taxable Equivalent Basis*

(Dollars in thousands)	2012			2011			2010		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets									
Interest earning assets:									
Money market investments	\$1,051,373	\$3,704	0.35 %	\$1,152,014	\$3,597	0.31 %	\$1,539,046	\$5,384	0.35 %
U.S. Treasury securities	34,757	1,418	4.08	50,971	1,502	2.95	80,740	1,527	1.89
Obligations of U.S. Government sponsored entities	1,038,829	34,881	3.36	1,180,680	49,781	4.22	1,473,227	54,748	3.72
Obligations of Puerto Rico, States and political subdivisions	152,697	9,850	6.45	139,847	8,972	6.42	228,291	11,171	4.89
Collateralized mortgage obligations and mortgage-backed securities	3,752,954	121,494	3.24	3,896,743	148,884	3.82	4,340,545	160,632	3.70
Other	247,717	12,600	5.09	226,033	13,326	5.90	176,766	10,576	5.98
Total investment securities	5,226,954	180,243	3.45	5,494,274	222,465	4.05	6,299,569	238,654	3.79
Trading account securities	445,881	25,909	5.81	667,277	38,850	5.82	493,628	32,333	6.55
Non-covered loans	20,795,156	1,277,261	6.14	21,004,406	1,301,426	6.20	22,456,846	1,377,871	6.14
Covered loans	4,050,338	301,441	7.44	4,613,361	412,678	8.95	3,364,932	303,096	9.01
Total loans (net of unearned income)	24,845,494	1,578,702	6.35	25,617,767	1,714,104	6.69	25,821,778	1,680,967	6.51
Total interest earning assets/Interest income	\$31,569,702	\$1,788,558	5.67 %	\$32,931,332	\$1,979,016	6.01 %	\$34,154,021	\$1,957,338	5.73 %
Total non-interest earning assets	4,694,329			5,134,936			4,224,945		
Total assets from continuing operations	\$36,264,031			\$38,066,268			\$38,378,966		
Total assets from discontinued operations	—	—	—	—	—	—	—	—	—
Total assets	\$36,264,031			\$38,066,268			\$38,378,966		
Liabilities and Stockholders' Equity									
Interest bearing liabilities:									
Savings, NOW, money market and other interest bearing demand accounts	\$12,126,336	\$46,303	0.38 %	\$11,525,060	\$68,531	0.59 %	\$10,951,331	\$93,796	0.86 %
Time deposits	9,420,948	137,786	1.46	10,919,907	200,956	1.84	10,967,033	257,085	2.34
Short-term borrowings	2,565,110	46,805	1.82	2,629,979	55,258	2.10	2,400,653	60,278	2.51
Notes payable	1,850,514	148,192	8.01	1,834,915	148,603	8.10	2,293,878	183,701	8.01
Note issued to the FDIC	—	—	—	1,381,981	32,161	2.33	2,753,490	58,521	2.13
Total interest bearing liabilities/Interest expense	25,962,908	379,086	1.46	28,291,842	505,509	1.79	29,366,385	653,381	2.22
Total non-interest bearing liabilities	6,457,471			6,041,590			5,753,414		
Total liabilities from continuing operations	32,420,379			34,333,432			35,119,799		
Total liabilities from discontinued operations	—	—	—	—	—	—	—	—	—
Total liabilities	32,420,379			34,333,432			35,119,799		
Stockholders' equity	3,843,652			3,732,836			3,259,167		
Total liabilities and stockholders' equity	\$36,264,031			\$38,066,268			\$38,378,966		
Net interest income on a taxable equivalent basis									
		\$1,409,472			\$1,473,507			\$1,303,957	
Cost of funding earning assets			1.20 %			1.54 %			1.91 %
Net interest margin			4.47 %			4.47 %			3.82 %
Effect of the taxable equivalent adjustment		36,853			41,515			9,092	
Net interest income per books		\$1,372,619			\$1,431,992			\$1,294,865	

* Shows the effect of the tax exempt status of some loans and investments on their yield, using the applicable statutory income tax rates. The computation considers the interest expense disallowance required by the Puerto Rico Internal Revenue Code. This adjustment is shown in order to compare the yields of the tax exempt and taxable assets on a taxable basis.

Note: Average loan balances include the average balance of non-accruing loans. No interest income is recognized for these loans in accordance with the Corporation's policy.

Statistical Summary 2008-2012

Average Balance Sheet and Summary of Net Interest Income

On a Taxable Equivalent Basis

(Dollars in thousands)	2009			2008		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets						
Interest earning assets:						
Money market investments	\$ 1,183,209	\$ 8,573	0.72%	\$ 699,922	\$ 18,790	2.68%
U.S. Treasury securities	70,308	3,452	4.91	463,268	21,934	4.73
Obligations of U.S. Government sponsored entities	1,977,460	103,303	5.22	4,793,935	243,709	5.08
Obligations of Puerto Rico, States and political subdivisions	342,479	22,048	6.44	254,952	16,760	6.57
Collateralized mortgage obligations and mortgage-backed securities	4,757,407	200,616	4.22	2,411,171	114,810	4.76
Other	301,649	15,046	4.99	266,306	14,952	5.61
Total investment securities	7,449,303	344,465	4.62	8,189,632	412,165	5.03
Trading account securities	614,827	40,771	6.63	664,907	47,909	7.21
Non-covered loans	24,836,067	1,540,918	6.20	26,471,616	1,888,786	7.14
Covered loans	—	—	—	—	—	—
Total loans (net of unearned income)	24,836,067	1,540,918	6.20	26,471,616	1,888,786	7.14
Total interest earning assets/Interest income	\$34,083,406	\$1,934,727	5.68%	\$36,026,077	\$2,367,650	6.57%
Total non-interest earning assets	2,478,103			3,417,397		
Total assets from continuing operations	\$36,561,509			\$39,443,474		
Total assets from discontinued operations	7,861			1,480,543		
Total assets	\$36,569,370			\$40,924,017		
Liabilities and Stockholders' Equity						
Interest bearing liabilities:						
Savings, NOW, money market and other interest bearing demand accounts	\$10,342,100	\$ 107,355	1.04%	\$10,548,563	\$ 177,729	1.68%
Time deposits	12,192,824	393,906	3.23	12,795,436	522,394	4.08
Short-term borrowings	2,887,727	69,357	2.40	5,115,166	168,070	3.29
Notes payable	2,945,169	183,126	6.22	2,263,272	126,726	5.60
Note issued to the FDIC	—	—	—	—	—	—
Total interest bearing liabilities/Interest expense	28,367,820	753,744	2.66	30,722,437	994,919	3.24
Total non-interest bearing liabilities	5,338,848			4,966,820		
Total liabilities from continuing operations	33,706,668			35,689,257		
Total liabilities from discontinued operations	10,637			1,876,465		
Total liabilities	33,717,305			37,565,722		
Stockholders' equity	2,852,065			3,358,295		
Total liabilities and stockholders' equity	\$36,569,370			\$40,924,017		
Net interest income on a taxable equivalent basis		\$1,180,983			\$1,372,731	
Cost of funding earning assets			2.21%			2.76%
Net interest margin			3.47%			3.81%
Effect of the taxable equivalent adjustment		79,730			93,527	
Net interest income per books		\$1,101,253			\$1,279,204	

* Shows the effect of the tax exempt status of some loans and investments on their yield, using the applicable statutory income tax rates. The computation considers the interest expense disallowance required by the Puerto Rico Internal Revenue Code. This adjustment is shown in order to compare the yield of the tax exempt and taxable assets on a taxable basis.

Note: Average loan balances include the average balance of non-accruing loans. No interest income is recognized for these loans in accordance with the Corporation's policy.

Statistical Summary 2011-2012

Quarterly Financial Data

<i>(In thousands, except per common share information)</i>	2012				2011			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Summary of Operations								
Interest income	\$437,769	\$434,003	\$440,082	\$439,851	\$453,393	\$491,758	\$506,899	\$485,451
Interest expense	87,358	90,577	98,882	102,269	108,613	122,447	132,357	142,092
Net interest income	350,411	343,426	341,200	337,582	344,780	369,311	374,542	343,359
Provision for loan losses - non-covered loans	86,256	83,589	81,743	82,514	123,908	150,703	95,712	59,762
Provision for loan losses - covered loans	(3,445)	22,619	37,456	18,209	55,900	25,573	48,605	15,557
Net (loss) gain on sale and valuation adjustments of investment securities	(1,422)	64	(349)	—	2,800	8,134	(90)	—
Trading account (loss) profit	(5,990)	(2,266)	(7,283)	(2,143)	2,610	2,912	874	(499)
Gain (loss) on sale of loans, including valuation adjustments on loans held-for- sale	30,196	18,495	(15,397)	15,471	16,135	20,294	(12,782)	7,244
Adjustments (expense) to indemnity reserves on loans sold	(3,208)	(8,717)	(5,398)	(3,875)	(3,481)	(10,285)	(9,454)	(9,848)
FDIC loss share (expense) income	(36,824)	(6,707)	2,575	(15,255)	17,447	(5,361)	38,670	16,035
Fair value change in equity appreciation instrument	—	—	—	—	—	—	578	7,745
Other non-interest income	150,249	114,840	119,576	129,710	113,848	106,696	106,364	143,691
Operating expenses	296,747	290,355	327,879	296,167	311,093	282,355	281,800	275,049
Income (loss) before income tax	103,854	62,572	(12,154)	64,600	3,238	33,070	72,585	157,359
Income tax expense (benefit)	19,914	15,384	(77,893)	16,192	263	5,537	(38,100)	147,227
Net income	\$83,940	\$47,188	\$65,739	\$48,408	\$2,975	\$27,533	\$110,685	\$10,132
Net income applicable to common stock	\$83,009	\$46,257	\$64,809	\$47,477	\$2,044	\$26,602	\$109,754	\$9,202
Net income per common share - basic and diluted:	\$0.81	\$0.45	\$0.63	\$0.46	\$0.02	\$0.26	\$1.07	\$0.09
Selected Average Balances								
<i>(In millions)</i>								
Total assets	\$36,301	\$35,985	\$36,217	\$36,556	\$36,744	\$37,994	\$38,781	\$38,770
Loans	24,962	24,721	24,760	24,939	25,205	25,499	25,830	25,946
Interest earning assets	31,655	31,346	31,579	31,700	31,840	33,039	33,447	33,415
Deposits	26,594	26,592	27,178	27,257	27,524	27,562	27,644	27,279
Interest-bearing liabilities	25,715	25,699	26,034	26,409	26,866	28,142	29,086	29,100
Selected Ratios								
Return on assets	0.92%	0.52%	0.73%	0.53%	0.03%	0.29%	1.14%	0.11%
Return on equity	8.50	4.81	6.94	5.16	0.21	2.81	12.02	1.05

Note: All per share data has been adjusted to retroactively reflect the 1-for-10 reverse stock split effected on May 29, 2012.



Report of Management on Internal Control Over Financial Reporting

The management of Popular, Inc. (the Corporation) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a - 15(f) and 15d - 15(f) under the Securities Exchange Act of 1934 and for our assessment of internal control over financial reporting. The Corporation's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America, and includes controls over the preparation of financial statements in accordance with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C) to comply with the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA). The Corporation's internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The management of Popular, Inc. has assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria set forth in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our assessment, management concluded that the Corporation maintained effective internal control over financial reporting as of December 31, 2012 based on the criteria referred to above.

The Corporation's independent registered public accounting firm, PricewaterhouseCoopers, LLP, has audited the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2012, as stated in their report dated February 28, 2013 which appears herein.

A handwritten signature in black ink, appearing to read 'Richard L. Carrión', with a long horizontal flourish extending to the right.

Richard L. Carrión
Chairman of the Board,
President and Chief Executive Officer

A handwritten signature in black ink, appearing to read 'Jorge A. Junquera', with a long horizontal flourish extending to the right.

Jorge A. Junquera
Senior Executive Vice President
and Chief Financial Officer



Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Popular, Inc.

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of Popular, Inc. and its subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report to Stockholders. Our responsibility is to express opinions on these financial statements and on the Corporation's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Management's assessment and our audit of Popular, Inc.'s internal control over financial reporting also included controls over the preparation of financial statements in accordance with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C) to comply with the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA). A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.



Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Pricewaterhouse Coopers LLP

PRICEWATERHOUSECOOPERS LLP
San Juan, Puerto Rico
February 28, 2013

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
License No. 216 Expires Dec. 1, 2013
Stamp E48039 of the P.R.
Society of Certified Public
Accountants has been affixed
to the file copy of this report.

Consolidated Statements of Financial Condition

(In thousands, except share information)	December 31,	
	2012	2011
Assets:		
Cash and due from banks	\$439,363	\$535,282
Money market investments:		
Federal funds sold	33,515	75,000
Securities purchased under agreements to resell	213,462	252,668
Time deposits with other banks	838,603	1,048,506
Total money market investments	1,085,580	1,376,174
Trading account securities, at fair value:		
Pledged securities with creditors' right to repledge	271,624	402,591
Other trading securities	42,901	33,740
Investment securities available-for-sale, at fair value:		
Pledged securities with creditors' right to repledge	1,603,693	1,737,868
Other investment securities available-for-sale	3,480,508	3,271,955
Investment securities held-to-maturity, at amortized cost (fair value 2012 - \$144,233; 2011 - \$125,254)	142,817	125,383
Other investment securities, at lower of cost or realizable value (realizable value 2012 - \$187,501; 2011 - \$181,583)	185,443	179,880
Loans held-for-sale, at lower of cost or fair value	354,468	363,093
Loans held-in-portfolio:		
Loans not covered under loss sharing agreements with the FDIC	21,080,005	20,703,192
Loans covered under loss sharing agreements with the FDIC	3,755,972	4,348,703
Less - Unearned income	96,813	100,596
Allowance for loan losses	730,607	815,308
Total loans held-in-portfolio, net	24,008,557	24,135,991
FDIC loss share asset	1,399,098	1,915,128
Premises and equipment, net	535,793	538,486
Other real estate not covered under loss sharing agreements with the FDIC	266,844	172,497
Other real estate covered under loss sharing agreements with the FDIC	139,058	109,135
Accrued income receivable	125,728	125,209
Mortgage servicing assets, at fair value	154,430	151,323
Other assets	1,569,578	1,462,393
Goodwill	647,757	648,350
Other intangible assets	54,295	63,954
Total assets	\$36,507,535	\$37,348,432
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	\$5,794,629	\$5,655,474
Interest bearing	21,205,984	22,286,653
Total deposits	27,000,613	27,942,127
Assets sold under agreements to repurchase	2,016,752	2,141,097
Other short-term borrowings	636,200	296,200
Notes payable	1,777,721	1,856,372
Other liabilities	966,249	1,193,883
Total liabilities	32,397,535	33,429,679
Commitments and contingencies (See Note 27)		
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; 103,193,303 shares issued (2011 - 102,634,640) and 103,169,806 shares outstanding (2011 - 102,590,457)	1,032	1,026
Surplus	4,150,294	4,123,898
Retained earnings (accumulated deficit)	11,826	(212,726)
Treasury stock - at cost, 23,497 shares (2011 - 44,183)	(444)	(1,057)
Accumulated other comprehensive loss, net of tax	(102,868)	(42,548)
Total stockholders' equity	4,110,000	3,918,753
Total liabilities and stockholders' equity	\$36,507,535	\$37,348,432

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

Consolidated Statements of Operations

<i>(In thousands, except per share information)</i>	Year ended December 31,		
	2012	2011	2010
Interest income:			
Loans	\$1,558,397	\$1,694,357	\$1,676,734
Money market investments	3,703	3,596	5,384
Investment securities	166,781	203,941	238,210
Trading account securities	22,824	35,607	27,918
Total interest income	1,751,705	1,937,501	1,948,246
Interest expense:			
Deposits	184,089	269,487	350,881
Short-term borrowings	46,805	55,258	60,278
Long-term debt	148,192	180,764	242,222
Total interest expense	379,086	505,509	653,381
Net interest income	1,372,619	1,431,992	1,294,865
Provision for loan losses - non-covered loans	334,102	430,085	1,011,880
Provision for loan losses - covered loans	74,839	145,635	—
Net interest income after provision for loan losses	963,678	856,272	282,985
Service charges on deposit accounts	183,026	184,940	195,803
Other service fees	256,545	239,720	377,504
Net (loss) gain on sale and valuation adjustments of investment securities	(1,707)	10,844	3,992
Trading account (loss) profit	(17,682)	5,897	16,404
Net gain on sale of loans, including valuation adjustments on loans held-for-sale	48,765	30,891	15,874
Adjustments (expense) to indemnity reserves on loans sold	(21,198)	(33,068)	(72,013)
FDIC loss share (expense) income	(56,211)	66,791	(25,751)
Fair value change in equity appreciation instrument	—	8,323	42,555
Gain on sale of processing and technology business	—	—	640,802
Other operating income	74,804	45,939	93,023
Total non-interest income	466,342	560,277	1,288,193
Operating expenses:			
Personnel costs	465,702	453,370	514,198
Net occupancy expenses	100,452	102,319	116,203
Equipment expenses	45,290	43,840	85,851
Other taxes	50,120	51,885	50,608
Professional fees	211,890	194,942	166,105
Communications	26,834	27,115	38,905
Business promotion	61,576	55,067	46,671
FDIC deposit insurance	85,697	93,728	67,644
Loss on early extinguishment of debt	25,196	8,693	38,787
Other real estate owned (OREO) expenses	23,520	21,778	46,789
Other operating expenses	104,799	87,906	144,613
Amortization of intangibles	10,072	9,654	9,173
Total operating expenses	1,211,148	1,150,297	1,325,547
Income before income tax	218,872	266,252	245,631
Income tax (benefit) expense	(26,403)	114,927	108,230
Net Income	\$245,275	\$151,325	\$137,401
Net Income (Loss) Applicable to Common Stock	\$241,552	\$147,602	\$(54,576)
Net Income (Loss) per Common Share - Basic and Diluted [1]	\$2.35	\$1.44	\$(0.62)

[1] Net income per common share has been adjusted to retroactively reflect the 1-for-10 reverse stock split effected on May 29, 2012.

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

Consolidated Statements of Comprehensive Income

(In thousands)	Year ended December 31,		
	2012	2011	2010
Net income	\$245,275	\$151,325	\$137,401
Other comprehensive (loss) income before tax:			
Foreign currency translation adjustment	(2,448)	(2,762)	(442)
Reclassification adjustment for losses included in net income	—	10,084	4,967
Adjustment of pension and postretirement benefit plans	(39,978)	(134,364)	(94,299)
Amortization of net losses	25,159	12,973	12,196
Amortization of prior service cost	(200)	(961)	(1,046)
Unrealized holding (losses) gains on investments arising during the period	(59,484)	54,216	83,967
Reclassification adjustment for losses (gains) included in net income	1,707	(8,044)	(3,483)
Unrealized net losses on cash flow hedges	(13,509)	(11,678)	(6,697)
Reclassification adjustment for net losses included in net income	14,119	9,686	6,433
Other comprehensive (loss) income before tax	(74,634)	(70,850)	1,596
Income tax benefit	14,314	34,263	21,652
Total other comprehensive (loss) income, net of tax	(60,320)	(36,587)	23,248
Comprehensive income, net of tax	\$184,955	\$114,738	\$160,649

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

(In thousands)	Year ended December 31,		
	2012	2011	2010
Adjustment of pension and postretirement benefit plans	\$12,279	\$39,978	\$ 35,634
Amortization of net losses	(7,108)	(3,892)	(3,659)
Amortization of prior service cost	60	288	314
Unrealized holding (losses) gains on investments arising during the period	9,280	(4,013)	(11,275)
Reclassification adjustment for losses (gains) included in net income	(13)	1,219	535
Unrealized net losses on cash flow hedges	4,052	3,589	2,612
Reclassification adjustment for net losses included in net income	(4,236)	(2,906)	(2,509)
Income tax benefit	\$14,314	\$34,263	\$ 21,652

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

Consolidated Statements of Changes in Stockholders' Equity

<i>(In thousands)</i>	Common stock [1]	Preferred stock	Surplus [1]	(Accumulated deficit) Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total
Balance at December 31, 2009	\$640	\$50,160	\$2,809,993	\$(292,752)	\$(15)	\$(29,209)	\$2,538,817
Net income				137,401			137,401
Issuance of stock		1,150,000 [2]	153				1,150,153
Issuance of common stock upon conversion of preferred stock	383 [2]	(1,150,000) [2]	1,341,284 [2]				191,667
Issuance costs			(48,227) [3]				(48,227)
Tax effect from shared-based compensation			8				8
Dividends declared:							
Preferred stock				(310)			(310)
Deemed dividend on preferred stock				(191,667)			(191,667)
Common stock purchases					(559)		(559)
Other comprehensive income, net of tax						23,248	23,248
Balance at December 31, 2010	\$1,023	\$50,160	\$4,103,211	\$(347,328)	\$(574)	\$(5,961)	\$3,800,531
Net income				151,325			151,325
Issuance of stock	3		7,687				7,690
Dividends declared:							
Preferred stock				(3,723)			(3,723)
Common stock purchases					(483)		(483)
Other comprehensive loss, net of tax						(36,587)	(36,587)
Transfer to statutory reserve			13,000	(13,000)			
Balance at December 31, 2011	\$1,026	\$50,160	\$4,123,898	\$(212,726)	\$(1,057)	\$(42,548)	\$3,918,753
Net income				245,275			245,275
Issuance of stock	6		9,396				9,402
Dividends declared:							
Preferred stock				(3,723)			(3,723)
Common stock purchases					(450)		(450)
Common stock reissuance					1,063		1,063
Other comprehensive loss, net of tax						(60,320)	(60,320)
Transfer to statutory reserve			17,000	(17,000)			
Balance at December 31, 2012	\$1,032	\$50,160	\$4,150,294	\$11,826	\$(444)	\$(102,868)	\$4,110,000

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

[2] Issuance and subsequent conversion of depository shares representing interests in shares of contingent convertible non-cumulative preferred stock, Series D, into common stock.

[3] Issuance costs related to issuance and conversion of depository shares (Preferred Stock - Series D).

Disclosure of changes in number of shares: [1]	Year ended December 31,		
	2012	2011	2010
Preferred Stock:			
Balance at beginning of year	2,006,391	2,006,391	2,006,391
Issuance of stock	–	–	1,150,000 [2]
Conversion of stock	–	–	(1,150,000) [2]
Balance at end of year	2,006,391	2,006,391	2,006,391
Common Stock:			
Balance at beginning of year	102,634,640	102,292,916	63,954,490
Issuance of stock	558,663	341,724	5,093
Issuance of stock upon conversion of preferred stock	–	–	38,333,333 [2]
Balance at end of year	103,193,303	102,634,640	102,292,916
Treasury stock	(23,497)	(44,183)	(20,136)
Common Stock - Outstanding	103,169,806	102,590,457	102,272,780

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

[2] Issuance of 46,000,000 in depository shares; converted into 38,333,333 common shares (full conversion of depository shares, each representing a 1/40th interest in shares of contingent convertible perpetual non-cumulative preferred stock).

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

Consolidated Statements of Cash Flows

(In thousands)	Year ended December 31,		
	2012	2011	2010
Cash flows from operating activities:			
Net income	\$245,275	\$151,325	\$137,401
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	408,941	575,720	1,011,880
Amortization of intangibles	10,072	9,654	9,173
Depreciation and amortization of premises and equipment	46,736	46,446	58,861
Net accretion of discounts and amortization of premiums and deferred fees	(37,899)	(113,046)	(254,879)
Impairment losses on net assets to be disposed of	—	4,255	—
Fair value adjustments on mortgage servicing rights	17,406	37,061	22,859
Fair value change in equity appreciation instrument	—	(8,323)	(42,555)
FDIC loss share expense (income)	56,211	(66,791)	25,751
Amortization of prepaid FDIC assessment	32,778	93,728	67,644
Adjustments (expense) to indemnity reserves on loans sold	21,198	33,068	72,013
Earnings from investments under the equity method	(73,478)	(33,769)	(23,582)
Deferred income tax (benefit) expense	(135,491)	5,862	(12,127)
(Gain) loss on:			
Disposition of premises and equipment	(8,619)	(5,526)	(1,812)
Sale and valuation adjustments of investment securities	1,707	(10,844)	(3,992)
Sale of loans, including valuation adjustments on loans held-for-sale	(48,765)	(30,891)	(15,874)
Sale of equity method investment	—	(16,907)	—
Sale of processing and technology business, net of transaction costs	—	—	(616,186)
Sale of other assets	(2,545)	—	—
Acquisitions of loans held-for-sale	(417,108)	(346,004)	(307,629)
Proceeds from sale of loans held-for-sale	325,014	165,335	81,370
Net disbursements on loans held-for-sale	(1,233,240)	(793,094)	(735,095)
Net (increase) decrease in:			
Trading securities	1,387,910	1,143,029	721,398
Accrued income receivable	(519)	25,449	11,315
Other assets	(23,901)	22,329	10,160
Net increase (decrease) in:			
Interest payable	(9,164)	(12,471)	(29,562)
Pension and other postretirement benefit obligation	(40,241)	(111,288)	(11,060)
Other liabilities	1,848	(87,634)	(12,313)
Total adjustments	278,851	525,348	25,758
Net cash provided by operating activities	524,126	676,673	163,159
Cash flows from investing activities:			
Net decrease (increase) in money market investments	290,594	(396,879)	119,741
Purchases of investment securities:			
Available-for-sale	(1,843,922)	(1,357,080)	(764,042)
Held-to-maturity	(25,792)	(74,538)	(97,188)
Other	(212,419)	(172,775)	(64,591)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:			
Available-for-sale	1,636,723	1,360,386	1,865,879
Held-to-maturity	9,751	67,236	188,129
Other	206,856	154,114	123,836
Proceeds from sale of investment securities:			
Available-for-sale	52,058	262,443	397,086
Other	—	5,094	—
Net repayments on loans	629,006	1,136,058	1,539,246
Proceeds from sale of loans	68,396	293,109	34,011
Acquisition of loan portfolios	(1,357,628)	(1,131,388)	(256,406)
Payments received from FDIC under loss sharing agreements	462,016	561,111	—
Cash (paid) acquired related to business acquisitions	—	(855)	261,311
Return of capital from equity method investments	151,196	—	—
Net proceeds from sale of equity method investment	—	31,503	—
Net proceeds from sale of processing and technology business	—	—	642,322
Mortgage servicing rights purchased	(2,231)	(1,732)	(1,041)
Acquisition of premises and equipment	(54,899)	(50,043)	(66,855)
Proceeds from sale of:			
Premises and equipment	19,841	14,939	14,460
Other productive assets	1,026	—	—
Foreclosed assets	206,070	198,490	141,236
Net cash provided by investing activities	236,642	899,193	4,077,134
Cash flows from financing activities:			
Net increase (decrease) in:			
Deposits	(969,596)	1,179,943	(1,553,486)
Federal funds purchased and assets sold under agreements to repurchase	(124,345)	(271,453)	(220,240)
Other short-term borrowings	340,000	(68,022)	356,896
Payments of notes payable	(214,898)	(2,769,477)	(4,260,578)
Proceeds from issuance of notes payable	106,923	432,568	111,101
Proceeds from issuance of common stock	9,402	7,690	153
Net proceeds from issuance of depository shares	—	—	1,101,773
Dividends paid	(3,723)	(3,723)	(310)
Treasury stock acquired	(450)	(483)	(559)
Net cash used in financing activities	(856,687)	(1,492,957)	(4,465,250)
Net (decrease) increase in cash and due from banks	(95,919)	82,909	(224,957)
Cash and due from banks at beginning of period	535,282	452,373	677,330
Cash and due from banks at end of period	\$439,363	\$535,282	\$452,373

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

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Note 1 - 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 41 to the consolidated financial statements presents information about the Corporation's business segments.

Effective December 31, 2012, Popular Mortgage, which was a wholly-owned subsidiary of BPPR prior to that date, was merged with and into BPPR as part of an internal reorganization. The Corporation's mortgage origination business will continue to be conducted under the brand name Popular Mortgage.

Two major transactions impacted the Corporation's operations during 2010. On April 30, 2010, BPPR entered into a purchase and assumption agreement with the Federal Deposit Insurance Corporation (the "FDIC") to acquire certain assets and assume certain deposits and liabilities of Westernbank Puerto Rico ("Westernbank"), a Puerto Rico state-chartered bank headquartered in Mayaguez, Puerto Rico (the "Westernbank FDIC-assisted transaction"). Westernbank was a wholly-owned commercial bank subsidiary of W Holding Company, Inc. and operated in Puerto Rico. Refer to Note 4 to the consolidated financial statements for detailed information on this business combination.

On September 30, 2010, the Corporation completed the sale of a 51% interest in EVERTEC, including the Corporation's merchant acquiring and processing and technology businesses (the "EVERTEC transaction"), and continues to hold the remaining ownership interest in the business which at December 31, 2012 stands at 48.5%. Refer to Note 30 to the consolidated financial statements for a description of the EVERTEC transaction. EVERTEC provides transaction processing services throughout the Caribbean and Latin America, and continues to service many of the Corporation's subsidiaries' system infrastructures and transactional processing businesses. EVERTEC owns the ATH network connecting the automated teller machines ("ATMs") of various financial institutions throughout Puerto Rico, the U.S. Virgin Islands and the British Virgin Islands.

Note 2 - Summary of significant accounting policies

The accounting and financial reporting policies of Popular, Inc. and its subsidiaries (the "Corporation") conform with accounting principles generally accepted in the United States of America and with prevailing practices within the financial services industry.

The following is a description of the most significant of these policies:

Principles of consolidation

The consolidated financial statements include the accounts of Popular, Inc. and its subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. In accordance with the consolidation guidance for variable interest entities, the Corporation would also consolidate any variable interest entities ("VIEs") for which it has a controlling financial interest; and therefore, it is the primary beneficiary. Assets held in a fiduciary capacity are not assets of the Corporation and, accordingly, are not included in the consolidated statements of financial condition.

Unconsolidated investments, in which there is at least 20% ownership, are generally accounted for by the equity method, with earnings recorded in other operating income. These investments are included in other assets and the Corporation's proportionate share of income or loss is included in other operating income. Those investments in which there is less than 20% ownership, are generally carried under the cost method of accounting, unless significant influence is exercised. Under the cost method, the Corporation recognizes income when dividends are received. Limited partnerships are accounted for by the equity method unless the investor's interest is so "minor" that the limited partner may have virtually no influence over partnership operating and financial policies.

Statutory business trusts that are wholly-owned by the Corporation and are issuers of trust preferred securities are not consolidated in the Corporation's consolidated financial statements.

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 23 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.

During the quarter ended March 31, 2011, the Corporation sold certain residential mortgage loans of BPNA that were reclassified from held-in-portfolio to held-for-sale in December 2010. The loans were sold at a better price than the price used to determine their fair value at the time of reclassification to the held-for-sale category. At the time of sale, the Corporation classified \$13.8 million of the impact of the better price as a recovery of the original write-down, which was booked as part of the activity in the allowance for loan losses. This included an

out-of-period adjustment of \$10.7 million since a portion of the sale was completed just prior to the release of the Corporation's Form 10-K for the year ended December 31, 2010. After evaluating the quantitative and qualitative aspects of the misstatement and the out-of-period adjustment to the Corporation's financial results, including consideration of the impact of the one-time adjustment to income tax expense of \$103.3 million from the change in tax rate, offset by the \$53.6 million tax benefit related to the timing of loan charge-offs for tax purposes described in Note 39 to the Corporation's consolidated financial statements, management has determined that the misstatement and the out-of-period adjustment are not material to the 2010 and 2011 financial statements, respectively.

Business combinations

Business combinations are accounted for under the acquisition method. Under this method, assets acquired, liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date are measured at their fair values as of the acquisition date. The acquisition date is the date the acquirer obtains control. Also, assets or liabilities arising from noncontractual contingencies are measured at their acquisition date at fair value only if it is more likely than not that they meet the definition of an asset or liability. Adjustments subsequently made to the provisional amounts recorded on the acquisition date as a result of new information obtained about facts and circumstances that existed as of the acquisition date but were known to the Corporation after acquisition will be made retroactively during a measurement period not to exceed one year. Furthermore, acquisition-related restructuring costs that do not meet certain criteria of exit or disposal activities are expensed as incurred. Transaction costs are expensed as incurred. Changes in income tax valuation allowances for acquired deferred tax assets are recognized in earnings subsequent to the measurement period as an adjustment to income tax expense. Contingent consideration classified as an asset or a liability is remeasured to fair value at each reporting date until the contingency is resolved. The changes in fair value of the contingent consideration are recognized in earnings unless the arrangement is a hedging instrument for which changes are initially recognized in other comprehensive income.

There were no significant business combinations during 2012. The Westernbank FDIC-assisted transaction was accounted for as a business combination in 2010. Note 4 to the consolidated financial statements provides disclosures on this business combination.

Deconsolidation of a subsidiary

The Corporation accounts for the deconsolidation of a subsidiary when it ceases to have a controlling financial interest in the subsidiary. Accordingly, it recognizes a gain or loss in

results of operations measured as the difference between the sum of the fair value of the consideration received, the fair value of any retained non-controlling investment in the former subsidiary and the carrying amount of any non-controlling interest in the former subsidiary, as compared with the carrying amount of the former subsidiary's assets and liabilities. Refer to Note 30 to the consolidated financial statements for information on the Corporation's sale of a majority interest in EVERTEC and the impact of deconsolidating this former wholly-owned subsidiary.

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.

Reclassifications

Certain reclassifications have been made to the 2011 and 2010 consolidated financial statements to conform with the 2012 presentation. Such reclassifications did not have an effect on previously reported statement of operations and of cash flows.

Fair value measurements

The Corporation determines the fair values of its financial instruments based on the fair value framework established in the guidance for Fair Value Measurements in ASC Subtopic 820-10, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The standard describes three levels of inputs that may be used to measure fair value which are (1) quoted market prices for identical assets or liabilities in active markets, (2) observable market-based inputs or unobservable inputs that are corroborated by market data, and (3) unobservable inputs that are not corroborated by market data. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

The guidance in ASC Subtopic 820-10 also addresses measuring fair value in situations where markets are inactive and transactions are not orderly. Transactions or quoted prices for assets and liabilities may not be determinative of fair value when transactions are not orderly, and thus, may require adjustments to estimate fair value. Price quotes based on transactions that are not orderly should be given little, if any,

weight in measuring fair value. Price quotes based on transactions that are orderly shall be considered in determining fair value, and the weight given is based on facts and circumstances. If sufficient information is not available to determine if price quotes are based on orderly transactions, less weight should be given to the price quote relative to other transactions that are known to be orderly.

Covered assets

Assets subject to loss sharing agreements with the FDIC, including certain loans and other real estate properties, are labeled “covered” on the consolidated statements of financial condition and throughout the notes to the consolidated financial statements. Loans acquired in the Westernbank FDIC-assisted transaction, except for credit cards, are considered “covered loans” because the Corporation will be reimbursed for 80% of any future losses on these loans subject to the terms of the FDIC loss sharing agreements.

Investment securities

Investment securities are classified in four categories and accounted for as follows:

- Debt securities that the Corporation has the intent and ability to hold to maturity are classified as securities held-to-maturity and reported at amortized cost. The Corporation may not sell or transfer held-to-maturity securities without calling into question its intent to hold other debt securities to maturity, unless a nonrecurring or unusual event that could not have been reasonably anticipated has occurred. An investment in debt securities is considered impaired if the fair value of the investment is less than its amortized cost. For other-than-temporary impairments the Corporation assess if it has both the intent and the ability to hold the security for a period of time sufficient to allow for an anticipated recovery in its fair value to its amortized cost. For other-than-temporary impairment not related to a credit loss (defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis) for a held-to-maturity security is recognized in other comprehensive loss and amortized over the remaining life of the debt security. The amortized cost basis for a debt security is adjusted by the credit loss amount of other-than-temporary impairments.
- Debt and equity securities classified as trading securities are reported at fair value, with unrealized gains and losses included in non-interest income.
- Debt and equity securities (equity securities with readily available fair value) not classified as either securities held-to-maturity or trading securities, and which have a readily available fair value, are classified as securities available-for-sale and reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, in accumulated other comprehensive income or loss. The specific identification method is used to determine realized gains and losses on securities available-for-sale, which are included in net gains or losses on sale and valuation adjustment of investment securities in the consolidated statements of operations. Declines in the value of debt and equity securities that are considered other-than-temporary reduce the value of the asset, and the estimated loss is recorded in non-interest income. For debt securities, the Corporation assesses whether (a) it has the intent to sell the debt security, or (b) it is more likely than not that it will be required to sell the debt security before its anticipated recovery. If either of these conditions is met, an other-than-temporary impairment on the security is recognized. In instances in which a determination is made that a credit loss (defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis) exists but the entity does not intend to sell the debt security and it is not more likely than not that the entity will be required to sell the debt security before the anticipated recovery of its remaining amortized cost basis (i.e., the amortized cost basis less any current-period credit loss), the impairment is separated into (a) the amount of the total impairment related to the credit loss, and (b) the amount of the total impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in the statement of operations. The amount of the total impairment related to all other factors is recognized in other comprehensive loss. The other-than-temporary impairment analyses for both debt and equity securities are performed on a quarterly basis.
- Investments in equity or other securities that do not have readily available fair values are classified as other investment securities in the consolidated statements of financial condition, and are subject to impairment testing if applicable. These securities are stated at the lower of cost or realizable value. The source of this value varies according to the nature of the investment, and is primarily obtained by the Corporation from valuation analyses prepared by third-parties or from information derived from financial statements available for the corresponding venture capital and mutual funds. Stock that is owned by the Corporation to comply with regulatory requirements, such as Federal Reserve Bank and Federal Home Loan Bank (“FHLB”) stock, is included in this category, and their realizable value equals their cost.

The amortization of premiums is deducted and the accretion of discounts is added to net interest income based on the interest method over the outstanding period of the related

securities. The cost of securities sold is determined by specific identification. Net realized gains or losses on sales of investment securities and unrealized loss valuation adjustments considered other-than-temporary, if any, on securities available-for-sale, held-to-maturity and other investment securities are determined using the specific identification method and are reported separately in the consolidated statements of operations. Purchases and sales of securities are recognized on a trade date basis.

Derivative financial instruments

All derivatives are recognized on the statements of financial condition at fair value. The Corporation's policy is not to offset the fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a master netting arrangement nor to offset the fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from the same master netting arrangement as the derivative instruments.

When the Corporation enters into a derivative contract, the derivative instrument is designated as either a fair value hedge, cash flow hedge or as a free-standing derivative instrument. For a fair value hedge, changes in the fair value of the derivative instrument and changes in the fair value of the hedged asset or liability or of an unrecognized firm commitment attributable to the hedged risk are recorded in current period earnings. For a cash flow hedge, changes in the fair value of the derivative instrument, to the extent that it is effective, are recorded net of taxes in accumulated other comprehensive income and subsequently reclassified to net income (loss) in the same period(s) that the hedged transaction impacts earnings. The ineffective portion of cash flow hedges is immediately recognized in current earnings. For free-standing derivative instruments, changes in fair values are reported in current period earnings.

Prior to entering a hedge transaction, the Corporation formally documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivative instruments that are designated as fair value or cash flow hedges to specific assets and liabilities on the statements of financial condition or to specific forecasted transactions or firm commitments along with a formal assessment, at both inception of the hedge and on an ongoing basis, as to the effectiveness of the derivative instrument in offsetting changes in fair values or cash flows of the hedged item. Hedge accounting is discontinued when the derivative instrument is not highly effective as a hedge, a derivative expires, is sold, terminated, when it is unlikely that a forecasted transaction will occur or when it is determined that is no longer appropriate. When hedge accounting is discontinued the derivative continues to be carried at fair value with changes in fair value included in earnings.

For non-exchange traded contracts, fair value is based on dealer quotes, pricing models, discounted cash flow methodologies similar techniques for which the determination of fair may require significant management judgment or estimation.

The fair value of derivative instruments considers the risk of non-performance by the counterparty or the Corporation, as applicable.

The Corporation obtains or pledges collateral in connection with its derivative activities when applicable under the agreement.

Loans

Loans are classified as loans held-in-portfolio when management has the intent and ability to hold the loan for the foreseeable future, or until maturity or payoff. The foreseeable future is a management judgment which is determined based upon the type of loan, business strategies, current market conditions, balance sheet management and liquidity needs. Management's view of the foreseeable future may change based on changes in these conditions. When a decision is made to sell or securitize a loan that was not originated or initially acquired with the intent to sell or securitize, the loan is reclassified from held-in-portfolio into held-for-sale. Due to changing market conditions or other strategic initiatives, management's intent with respect to the disposition of the loan may change, and accordingly, loans previously classified as held-for-sale may be reclassified into held-in-portfolio. Loans transferred between loans held-for-sale and held-in-portfolio classifications are recorded at the lower of cost or fair value at the date of transfer.

Purchased loans are accounted at fair value upon acquisition.

Loans held-for-sale are stated at the lower of cost or fair value, cost being determined based on the outstanding loan balance less unearned income, and fair value determined, generally in the aggregate. Fair value is measured based on current market prices for similar loans, outstanding investor commitments, prices of recent sales or discounted cash flow analyses which utilize inputs and assumptions which are believed to be consistent with market participants' views. The cost basis also includes consideration of deferred origination fees and costs, which are recognized in earnings at the time of sale. Upon reclassification to held-for-sale, credit related fair value adjustments are recorded as a reduction in the allowance for loan losses ("ALLL"). To the extent that the loan's reduction in value has not already been provided for in the allowance for loan losses, an additional loan loss provision is recorded. Subsequent to reclassification to held-for-sale, the amount, by which cost exceeds fair value, if any, is accounted for as a valuation allowance with changes therein included in the determination of net income (loss) for the period in which the change occurs.

Loans held-in-portfolio are reported at their outstanding principal balances net of any unearned income, charge-offs, unamortized deferred fees and costs on originated loans, and premiums or discounts on purchased loans. Fees collected and costs incurred in the origination of new loans are deferred and amortized using the interest method or a method which approximates the interest method over the term of the loan as an adjustment to interest yield.

The past due status of a loan is determined in accordance with its contractual repayment terms. Furthermore, loans are reported as past due when either interest or principal remains unpaid for 30 days or more in accordance with its contractual repayment terms.

Non-accrual loans are those loans on which the accrual of interest is discontinued. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is charged against income and the loan is accounted for either on a cash-basis method or on the cost-recovery method. Loans designated as non-accruing are returned to accrual status when the Corporation expects repayment of the remaining contractual principal and interest.

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 portion of secured loan past due as to principal and interest is charged-off not later than 365 days past due. However, in the case of a collateral dependent loan 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. 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 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. 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. Recognition of interest income for lease financing is ceased when loans are 90 days or more in arrears. Closed-end consumer loans and leases are charged-off when they are 120 days in arrears. Open-end (revolving credit) consumer

loans are charged-off when 180 days in arrears. Commercial and consumer overdrafts are generally charged-off no later than 60 days past their due date.

Purchased impaired loans accounted for under ASC Subtopic 310-30 are not considered non-performing and 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 on loans accounted under ASC Subtopic 310-30 are recorded only to the extent that losses exceed the non-accretable difference established with purchase accounting.

A loan classified as a troubled debt restructuring ("TDR") is 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 (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.

Lease financing

The Corporation leases passenger and commercial vehicles and equipment to individual and corporate customers. The finance method of accounting is used to recognize revenue on lease contracts that meet the criteria specified in the guidance for leases in ASC Topic 840. Aggregate rentals due over the term of the leases less unearned income are included in finance lease contracts receivable. Unearned income is amortized using a method which results in approximate level rates of return on the principal amounts outstanding. Finance lease origination fees and costs are deferred and amortized over the average life of the lease as an adjustment to the interest yield.

Revenue for other leases is recognized as it becomes due under the terms of the agreement.

Loans acquired in an FDIC-assisted transaction

Loans acquired in a business acquisition are recorded at fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan losses is not recorded at the acquisition date.

The Corporation applied the guidance of ASC Subtopic 310-30 to all loans acquired in Westernbank FDIC-assisted transaction (including loans that do not meet scope of ASC Subtopic 310-30), except for credit cards and revolving lines of credit that were expressly scoped out from the application of this guidance since they continued to have revolving privileges after acquisition. Management used its judgment in evaluating factors impacting expected cash flows and probable loss assumptions, including the quality of the loan portfolio,

portfolio concentrations, distressed economic conditions, quality of underwriting standards of the acquired institution, reductions in collateral real estate values, among other considerations that could also impact the expected cash inflows on the loans.

Loans accounted for under ASC Subtopic 310-30 represent loans showing evidence of credit deterioration and that it is probable, at the date of acquisition, that the Corporation would not collect all contractually required principal and interest payments. Generally, acquired loans that meet the definition for nonaccrual status fall within the Corporation's definition of impaired loans under ASC Subtopic 310-30. Also, based on the fair value determined for the acquired portfolio, acquired loans that did not meet the definition of nonaccrual status also resulted in the recognition of a significant discount attributable to credit quality. Accordingly, an election was made by the Corporation to apply the accretable yield method (expected cash flow model of ASC Subtopic 310-30), as a loan with credit deterioration and impairment, instead of the standard loan discount accretion guidance of ASC Subtopic 310-20, for the loans acquired in the Westernbank FDIC-assisted transaction. These loans are disclosed as a loan that was acquired with credit deterioration and impairment.

Under ASC Subtopic 310-30, the covered loans acquired from the FDIC were aggregated into pools based on loans that had common risk characteristics. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Characteristics considered in pooling loans in the FDIC-assisted transaction included loan type, interest rate type, accruing status, amortization type, rate index and source type. Once the pools are defined, the Corporation maintains the integrity of the pool of multiple loans accounted for as a single asset.

Under ASC Subtopic 310-30, the difference between the undiscounted cash flows expected at acquisition and the fair value in the loans, or the "accretable yield," is recognized as interest income using the effective yield method over the estimated life of the loan if the timing and amount of the future cash flows of the pool is reasonably estimable. The non-accretable difference represents the difference between contractually required principal and interest and the cash flows expected to be collected. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date are recognized as interest income prospectively. Decreases in expected cash flows after the acquisition date are recognized by recording an allowance for loan losses.

The fair value discount of lines of credit with revolving privileges that are accounted for pursuant to the guidance of ASC Subtopic 310-20 represents the difference between the contractually required loan payment receivable in excess of the initial investment in the loan. This discount is accreted into interest income over the life of the loan if the loan is in accruing status. Any cash flows collected in excess of the

carrying amount of the loan are recognized in earnings at the time of collection. The carrying amount of lines of credit with revolving privileges, which are accounted pursuant to the guidance of ASC Subtopic 310-20, are subject to periodic review to determine the need for recognizing an allowance for loan losses.

Allowance for loan losses

The Corporation follows a systematic methodology to establish and evaluate the adequacy of the allowance for loan losses to provide for inherent losses in the loan portfolio. This methodology includes the consideration of factors such as current economic conditions, portfolio risk characteristics, prior loss experience and results of periodic credit reviews of individual loans. The provision for loan losses charged to current operations is based on this methodology. Loan losses are charged and recoveries are credited to the 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. Also, the Corporation determines the allowance for loan losses on purchased impaired loans and purchased loans accounted for under ASC 310-30 by analogy, by evaluating decreases in expected cash flows after the acquisition date.

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 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.

According to the accounting guidance criteria for specific impairment of a loan, the Corporation defines as impaired loans those commercial and construction borrowers with outstanding debt of \$1 million or more and with interest and /or principal 90 days or more past due. Also, specific commercial borrowers with outstanding debt of \$1 million or over are deemed impaired when, based on current information and events, management considers that it is probable that the debtor would be unable to pay all amounts due according to the contractual terms of the loan agreement. Commercial and construction loans that originally met the Corporation's threshold for impairment identification in a prior period, but due to charge-offs or payments are currently below the \$1 million threshold and are still 90 days past due, except for TDRs, are accounted for under the Corporation's general reserve determined under ASC Subtopic 450-20. Although the accounting codification guidance for specific impairment of a loan excludes large groups of smaller balance homogeneous loans that are

collectively evaluated for impairment (e.g. mortgage and consumer loans), it specifically requires that loan modifications considered troubled debt restructurings (“TDRs”) be analyzed under its provisions. An allowance for loan impairment is recognized to the extent that the carrying value of an impaired loan exceeds the present value of the expected future cash flows discounted at the loan’s effective rate, the observable market price of the loan, if available, or the fair value of the collateral if the loan is collateral dependent. The fair value of the collateral is generally obtained from appraisals. The Corporation requests updated appraisal reports from pre-approved appraisers for loans that are considered impaired following the Corporation’s reappraisals 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.

Troubled debt restructurings

A restructuring constitutes a TDR when the Corporation separately concludes that both of the following conditions exist: 1) the restructuring constitute a concession and 2) the debtor is experiencing financial difficulties. The concessions stem from an agreement between the creditor and the debtor or are imposed by law or a court. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. A concession has been granted when, as a result of the restructuring, the Corporation does not expect to collect all amounts due, including interest accrued at the original contract rate. If the payment of principal is dependent on the value of collateral, the current value of the collateral is taken into consideration in determining the amount of principal to be collected; therefore, all factors that changed are considered to determine if a concession was granted, including the change in the fair value of the underlying collateral that may be used to repay the loan. Classification of loan modifications as TDRs involves a degree of judgment. Indicators that the debtor is experiencing financial difficulties which are considered include: (i) the borrower is currently in default on any of its debt or it is probable that the borrower would be in payment default on any of its debt in the foreseeable future without the modification; (ii) the borrower has declared or is in the process of declaring bankruptcy; (iii) there is significant doubt as to whether the borrower will continue to be a going concern; (iv) the borrower has securities that have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange; (v) based on estimates and projections that only encompass the borrower’s current business capabilities, it is forecasted that the entity-specific cash flows will be insufficient to service the debt

(both interest and principal) in accordance with the contractual terms of the existing agreement through maturity; and (vi) absent the current modification, the borrower cannot obtain funds from sources other than the existing creditors at an effective interest rate equal to the current market interest rate for similar debt for a non-troubled debtor. The identification of TDRs is critical in the determination of the adequacy of the allowance for loan losses. Loans classified as TDRs may be excluded from TDR status for certain disclosures only if performance under the restructured terms exists for a reasonable period (at least twelve months of sustained performance) and the loan yields a market rate.

A loan may be restructured in a troubled debt restructuring into two (or more) loan agreements, for example, Note A and Note B. Note A represents the portion of the original loan principal amount that is expected to be fully collected along with contractual interest. Note B represents the portion of the original loan that may be considered uncollectible and charged-off, but the obligation is not forgiven to the borrower. Note A may be returned to accrual status provided all of the conditions for a TDR to be returned to accrual status are met. The modified loans are considered TDRs and thus, are evaluated under the framework of ASC Section 310-10-35 as long as the loans are not part of a pool of loans accounted for under ASC 310-30.

Refer to Note 11 to the consolidated financial statements for additional qualitative information on TDRs and the Corporation’s determination of the allowance for loan losses.

Reserve for unfunded commitments

The reserve for unfunded commitments is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to unfunded credit facilities and is included in other liabilities in the consolidated statements of financial condition. The determination of the adequacy of the reserve is based upon an evaluation of the unfunded credit facilities. Net adjustments to the reserve for unfunded commitments are included in other operating expenses in the consolidated statements of operations.

FDIC loss share indemnification asset and true-up payment obligation (contingent consideration)

The acquisition date fair value of the reimbursement that the Corporation expects to receive from the FDIC under the loss sharing agreements is presented as an FDIC loss share indemnification asset on the consolidated statements of financial condition. Fair value was estimated using projected cash flows related to the loss sharing agreements. Refer to Note 4 for additional information on the valuation methodology.

The FDIC loss share indemnification asset for loss share agreements is measured separately from the related covered assets as it is not contractually embedded in the assets and is not transferable with the assets should the assets be sold.

The FDIC loss share indemnification asset is recognized on the same basis as the assets subject to loss share protection. As such, for covered loans accounted pursuant to ASC Subtopic 310-30, decreases in expected reimbursements from the FDIC due to improvements in expected cash flows to be received from borrowers, are recognized in non-interest income prospectively over the life of the FDIC loss sharing agreements. For covered loans accounted for under ASC Subtopic 310-20, as the loan discount recorded as of the acquisition date was accreted into income, a reduction of the related indemnification asset was recorded as a reduction in non-interest income. Increases in expected reimbursements from the FDIC are recognized in non-interest income in the same period that the allowance for credit losses for the related loans is recognized.

The amortization or accretion due to discounting of the loss share asset and changes in expected loss sharing reimbursements is included in non-interest income, particularly in the category of FDIC loss share income (expense).

The true-up payment obligation associated with the loss share agreements, which is described in detail in Note 4 to the consolidated financial statements, is accounted for at fair value in accordance with ASC 805-30-25-6 as it is considered contingent consideration. The true-up payment obligation is included as part of other liabilities in the consolidated statements of financial condition. Any changes in the carrying value of the obligation is included in the category of FDIC loss share income (expense) in the consolidated statements of operations.

Transfers and servicing of financial assets

The transfer of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset in which the Corporation surrenders control over the assets is accounted for as a sale if all of the following conditions set forth in ASC Topic 860 are met: (1) the assets must be isolated from creditors of the transferor, (2) the transferee must obtain the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the transferor cannot maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. When the Corporation transfers financial assets and the transfer fails any one of these criteria, the Corporation is prevented from derecognizing the transferred financial assets and the transaction is accounted for as a secured borrowing. For federal and Puerto Rico income tax purposes, the Corporation treats the transfers of loans which do not qualify as “true sales” under the applicable accounting guidance, as sales, recognizing a deferred tax asset or liability on the transaction.

For transfers of financial assets that satisfy the conditions to be accounted for as sales, the Corporation derecognizes all assets sold; recognizes all assets obtained and liabilities incurred in consideration as proceeds of the sale, including

servicing assets and servicing liabilities, if applicable; initially measures at fair value assets obtained and liabilities incurred in a sale; and recognizes in earnings any gain or loss on the sale.

The guidance on transfer of financial assets requires a true sale analysis of the treatment of the transfer under state law as if the Corporation was a debtor under the bankruptcy code. A true sale legal analysis includes several legally relevant factors, such as the nature and level of recourse to the transferor, and the nature of retained interests in the loans sold. The analytical conclusion as to a true sale is never absolute and unconditional, but contains qualifications based on the inherent equitable powers of a bankruptcy court, as well as the unsettled state of the common law. Once the legal isolation test has been met, other factors concerning the nature and extent of the transferor's control over the transferred assets are taken into account in order to determine whether derecognition of assets is warranted.

The Corporation sells mortgage loans to the Government National Mortgage Association (“GNMA”) in the normal course of business and retains the servicing rights. The GNMA programs under which the loans are sold allow the Corporation to repurchase individual delinquent loans that meet certain criteria. At the Corporation's option, and without GNMA's prior authorization, the Corporation may repurchase the delinquent loan for an amount equal to 100% of the remaining principal balance of the loan. Once the Corporation has the unconditional ability to repurchase the delinquent loan, the Corporation is deemed to have regained effective control over the loan and recognizes the loan on its balance sheet as well as an offsetting liability, regardless of the Corporation's intent to repurchase the loan.

Servicing assets

The Corporation periodically sells or securitizes loans while retaining the obligation to perform the servicing of such loans. In addition, the Corporation may purchase or assume the right to service loans originated by others. Whenever the Corporation undertakes an obligation to service a loan, management assesses whether a servicing asset or liability should be recognized. A servicing asset is recognized whenever the compensation for servicing is expected to more than adequately compensate the servicer for performing the servicing. Likewise, a servicing liability would be recognized in the event that servicing fees to be received are not expected to adequately compensate the Corporation for its expected cost. Mortgage servicing assets recorded at fair value are separately presented on the consolidated statements of financial condition.

All separately recognized servicing assets are initially recognized at fair value. For subsequent measurement of servicing rights, the Corporation has elected the fair value method for mortgage loans servicing rights (“MSRs”) while all other servicing assets, particularly those related to Small Business Administration (“SBA”) commercial loans, follow the

amortization method. Under the fair value measurement method, MSRs are recorded at fair value each reporting period, and changes in fair value are reported in other service fees in the consolidated statement of operations. Under the amortization method, servicing assets are amortized in proportion to, and over the period of, estimated servicing income, and assessed for impairment based on fair value at each reporting period. Contractual servicing fees including ancillary income and late fees, as well as fair value adjustments, and impairment losses, if any, are reported in other service fees in the consolidated statement of operations. Loan servicing fees, which are based on a percentage of the principal balances of the loans serviced, are credited to income as loan payments are collected.

The fair value of servicing rights is estimated by using a cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected loan prepayment rates, discount rates, servicing costs, and other economic factors, which are determined based on current market conditions.

For purposes of evaluating and measuring impairment of capitalized servicing assets that are accounted under the amortization method, the amount of impairment recognized, if any, is the amount by which the capitalized servicing assets per stratum exceed their estimated fair value. Temporary impairment is recognized through a valuation allowance with changes included in results of operations for the period in which the change occurs. If it is later determined that all or a portion of the temporary impairment no longer exists for a particular stratum, the valuation allowance is reduced through a recovery in earnings. Any fair value in excess of the cost basis of the servicing asset for a given stratum is not recognized. Servicing rights subsequently accounted under the amortization method are also reviewed for other-than-temporary impairment. When the recoverability of an impaired servicing asset accounted under the amortization method is determined to be remote, the unrecoverable portion of the valuation allowance is applied as a direct write-down to the carrying value of the servicing rights, precluding subsequent recoveries.

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed on a straight-line basis over the estimated useful life of each type of asset. Amortization of leasehold improvements is computed over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Costs of maintenance and repairs which do not improve or extend the life of the respective assets are expensed as incurred. Costs of renewals and betterments are capitalized. When assets are disposed of, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in earnings as realized or incurred, respectively.

The Corporation capitalizes interest cost incurred in the construction of significant real estate projects, which consist primarily of facilities for its own use or intended for lease. The amount of interest cost capitalized is to be an allocation of the interest cost incurred during the period required to substantially complete the asset. The interest rate for capitalization purposes is to be based on a weighted average rate on the Corporation's outstanding borrowings, unless there is a specific new borrowing associated with the asset. Interest cost capitalized for the years ended December 31, 2012, 2011 and 2010 was not significant.

The Corporation has operating lease arrangements primarily associated with the rental of premises to support its branch network or for general office space. Certain of these arrangements are non-cancellable and provide for rent escalations and renewal options. Rent expense on non-cancellable operating leases with scheduled rent increases are recognized on a straight-line basis over the lease term.

Impairment of long-lived assets

The Corporation evaluates for impairment its long-lived assets to be held and used, and long-lived assets to be disposed of, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Restructuring costs

A liability for a cost associated with an exit or disposal activity is recognized and measured initially at its fair value in the period in which the liability is incurred. If future service is required for employees to receive the one-time termination benefit, the liability is initially measured at its fair value as of the termination date and recognized over the future service period.

Other real estate

Other real estate, received in satisfaction of debt, is recorded at the lower of cost (carrying value of the loan) or fair value less estimated costs of disposal, by charging the allowance for loan losses. Subsequent to foreclosure, any losses in the carrying value arising from periodic re-evaluations of the properties, and any gains or losses on the sale of these properties are credited or charged to expense in the period incurred and are included as a component of other operating expenses. The cost of maintaining and operating such properties is expensed as incurred.

Updated appraisals or third-party broker price opinions of value ("BPO") are obtained to adjust the value of the other real estate assets. The frequency depends on the loan type and total credit exposure. 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 every two years. For residential mortgage properties, the Corporation requests third-party BPOs or appraisals, generally on an annual basis.

Appraisals may be adjusted due to age, collateral inspections, property profiles, or general market conditions. The adjustments applied are based upon internal information such as other appraisals for the type of properties and/or loss severity information that can provide historical trends in the real estate market, and may change from time to time based on market conditions.

Goodwill and other intangible assets

Goodwill is recognized when the purchase price is higher than the fair value of net assets acquired in business combinations under the purchase method of accounting. Goodwill is not amortized, but is tested for impairment at least annually or more frequently if events or circumstances indicate possible impairment using a two-step process at each reporting unit level. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, the goodwill of the reporting unit is not considered impaired and the second step of the impairment test is unnecessary. If needed, the second step consists of comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. In determining the fair value of a reporting unit, the Corporation generally uses a combination of methods, which include market price multiples of comparable companies and the discounted cash flow analysis. Goodwill impairment losses are recorded as part of operating expenses in the consolidated statement of operations.

Other intangible assets deemed to have an indefinite life are not amortized, but are tested for impairment using a one-step process which compares the fair value with the carrying amount of the asset. In determining that an intangible asset has an indefinite life, the Corporation considers expected cash inflows and legal, regulatory, contractual, competitive, economic and other factors, which could limit the intangible asset's useful life.

Other identifiable intangible assets with a finite useful life, mainly core deposits, are amortized using various methods over the periods benefited, which range from 4 to 10 years. These intangibles are evaluated periodically for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments on intangible assets with a finite useful life are evaluated under the guidance for impairment or disposal of long-lived assets.

Assets sold / purchased under agreements to repurchase / resell

Repurchase and resell agreements are treated as collateralized financing transactions and are carried at the amounts at which the assets will be subsequently reacquired or resold as specified in the respective agreements.

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, and accordingly those securities are not reflected in the Corporation's consolidated statements of financial condition. The Corporation monitors the fair value of the underlying securities as compared to the related receivable, including accrued interest.

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.

The Corporation may require counterparties to deposit additional collateral or return collateral pledged, when appropriate.

Software

Capitalized software is stated at cost, less accumulated amortization. Capitalized software includes purchased software and capitalizable application development costs associated with internally-developed software. Amortization, computed on a straight-line method, is charged to operations over the estimated useful life of the software. Capitalized software is included in "Other assets" in the consolidated statement of financial condition.

Guarantees, including indirect guarantees of indebtedness of others

The Corporation, as a guarantor, recognizes at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. Refer to Note 26 to the consolidated financial statements for further disclosures on guarantees.

Treasury stock

Treasury stock is recorded at cost and is carried as a reduction of stockholders' equity in the consolidated statements of financial condition. At the date of retirement or subsequent reissue, the treasury stock account is reduced by the cost of such stock. At retirement, the excess of the cost of the treasury stock over its par value is recorded entirely to surplus. At reissuance, the difference between the consideration received upon issuance and the specific cost is charged or credited to surplus.

Income Recognition - Insurance agency business

Commissions and fees are recognized when related policies are effective. Additional premiums and rate adjustments are recorded as they occur. Contingent commissions are recorded on the accrual basis when the amount to be received is notified by the insurance company. Commission income from advance business is deferred. An allowance is created for expected adjustments to commissions earned relating to policy cancellations.

Income Recognition - Investment banking revenues and commissions

Investment banking revenue is recorded as follows: underwriting fees at the time the underwriting is completed and income is reasonably determinable; corporate finance advisory fees as earned, according to the terms of the specific contracts; and sales commissions on a trade-date basis. Commission income and expenses related to customers' securities transactions are recorded on a trade-date basis.

Foreign exchange

Assets and liabilities denominated in foreign currencies are translated to U.S. dollars using prevailing rates of exchange at the end of the period. Revenues, expenses, gains and losses are translated using weighted average rates for the period. The resulting foreign currency translation adjustment from operations for which the functional currency is other than the U.S. dollar is reported in accumulated other comprehensive loss, except for highly inflationary environments in which the effects are included in other operating expenses.

The Corporation holds interests in Centro Financiero BHD, S.A. ("BHD") in the Dominican Republic. Some of these businesses are conducted in the country's foreign currency. The resulting foreign currency translation adjustment from these operations is reported in accumulated other comprehensive loss. During 2011, the Corporation sold its equity investments in Consorcio de Tarjetas Dominicanas, S.A. ("CONTADO") and Serfinsa, which businesses were also conducted on their countries foreign currency. Additionally, during 2011, the Corporation wrote-off its investment in Tarjetas y Transacciones en Red Tranred, C.A. (formerly EVERTEC DE VENEZUELA, C.A.) as the Corporation determined to wind-down those operations.

Refer to the disclosure of accumulated other comprehensive loss included in the Note 25 for the outstanding balances of the foreign currency translation adjustments at December 31, 2012 and 2011.

Income taxes

The Corporation recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Corporation's financial statements or tax returns. Deferred income tax assets and liabilities are determined for differences between financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. The computation is based on enacted tax laws and rates applicable to periods in which the temporary differences are expected to be recovered or settled.

The guidance for income taxes requires a reduction of the carrying amounts of deferred tax assets by a valuation allowance if, based on the available evidence, it is more likely than not (defined as a likelihood of more than 50 percent) that such assets will not be realized. Accordingly, the need to

establish valuation allowances for deferred tax assets is assessed periodically by the Corporation based on the more likely than not realization threshold criterion. In the assessment for a valuation allowance, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, all sources of taxable income available to realize the deferred tax asset, including the future reversal of existing temporary differences, the future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in carryback years and tax-planning strategies. In making such assessments, significant weight is given to evidence that can be objectively verified.

The valuation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in the Corporation's financial statements or tax returns and future profitability. The Corporation's accounting for deferred tax consequences represents management's best estimate of those future events.

Positions taken in the Corporation's tax returns may be subject to challenge by the taxing authorities upon examination. Uncertain tax positions are initially recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. Interest on income tax uncertainties is classified within income tax expense in the statement of operations; while the penalties, if any, are accounted for as other operating expenses.

The Corporation accounts for the taxes collected from customers and remitted to governmental authorities on a net basis (excluded from revenues).

Income tax expense or benefit for the year is allocated among continuing operations, discontinued operations, and other comprehensive income, as applicable. The amount allocated to continuing operations is the tax effect of the pretax income or loss from continuing operations that occurred during the year, plus or minus income tax effects of (a) changes in circumstances that cause a change in judgment about the realization of deferred tax assets in future years, (b) changes in tax laws or rates, (c) changes in tax status, and (d) tax-deductible dividends paid to shareholders, subject to certain exceptions.

Employees' retirement and other postretirement benefit plans

Pension costs are computed on the basis of accepted actuarial methods and are charged to current operations. Net pension costs are based on various actuarial assumptions regarding future experience under the plan, which include costs for services rendered during the period, interest costs and return

on plan assets, as well as deferral and amortization of certain items such as actuarial gains or losses. The funding policy is to contribute to the plan as necessary to provide for services to date and for those expected to be earned in the future. To the extent that these requirements are fully covered by assets in the plan, a contribution may not be made in a particular year.

The cost of postretirement benefits, which is determined based on actuarial assumptions and estimates of the costs of providing these benefits in the future, is accrued during the years that the employee renders the required service.

The guidance for compensation retirement benefits of ASC Topic 715 requires the recognition of the funded status of each defined pension benefit plan, retiree health care and other postretirement benefit plans on the statement of financial condition.

Stock-based compensation

The Corporation opted to use the fair value method of recording stock-based compensation as described in the guidance for employee share plans in ASC Subtopic 718-50.

Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances, except those resulting from investments by owners and distributions to owners. The presentation of comprehensive income (loss) is included in separate consolidated statements of comprehensive income (loss).

Net income (loss) per common share

Basic income (loss) per common share is computed by dividing net income (loss) adjusted for preferred stock dividends, including undeclared or unpaid dividends if cumulative, and charges or credits related to the extinguishment of preferred stock or induced conversions of preferred stock, by the weighted average number of common shares outstanding during the year. Diluted income per common share take into consideration the weighted average common shares adjusted for the effect of stock options, restricted stock and warrants on common stock, using the treasury stock method.

Statement of cash flows

For purposes of reporting cash flows, cash includes cash on hand and amounts due from banks.

Note 3 - New accounting pronouncements

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

The FASB issued ASU 2013-02 in February 2013. ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is

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

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

The adoption of this guidance impacts presentation disclosures only and will not have an impact on the Corporation’s consolidated financial statements.

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

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

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

The adoption of this guidance impacts presentation disclosures only and will not have an impact on the Corporation’s consolidated financial statements.

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 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual or interim impairment tests performed as of a date before July 27,

2012, as long as the financial statements have not yet been issued. The Corporation did not elect to adopt early the provisions of this ASU.

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

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 impacts presentation disclosure only and will not have an impact on the Corporation's financial condition or results of operations.

Note 4 - Business combination

On April 30, 2010, the Corporation's banking subsidiary, BPPR, acquired certain assets and assumed certain deposits and liabilities of Westernbank Puerto Rico from the FDIC, as receiver for Westernbank. Also, BPPR entered into loss sharing agreements with the FDIC with respect to a majority of the acquired loans and other real estate (the "covered assets"). Pursuant to the terms of the loss sharing 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 will reimburse BPPR for 80% of losses with respect to covered assets, and BPPR will reimburse the FDIC for 80% of recoveries with respect to losses for which the FDIC paid BPPR 80% reimbursement under the loss sharing agreements. The loss sharing agreement applicable to single-family residential mortgage loans provides for FDIC loss and recoveries sharing for ten years. The loss sharing agreement applicable to commercial and consumer loans provides for FDIC loss sharing for five years and BPPR reimbursement to the FDIC for eight years, in each case, on the same terms and conditions as described above.

In addition, BPPR agreed to make a true-up payment obligation (the “true-up payment”) to the FDIC on the date that is 45 days following the last day (the “true-up measurement date”) 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 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 presents the fair values of major classes of identifiable assets acquired and liabilities assumed by the Corporation as of the April 30, 2010 acquisition date.

<i>(In thousands)</i>	Book value prior to purchase accounting adjustments	Fair value adjustments	Additional consideration	As recorded by Popular, Inc. on April 30, 2010
Assets:				
Cash and money market investments	\$358,132	\$—	\$—	\$358,132
Investment in Federal Home Loan Bank stock	58,610	—	—	58,610
Loans	8,554,744	(3,354,287)	—	5,200,457
FDIC loss share indemnification asset	—	2,425,929	—	2,425,929
Other real estate	125,947	(73,867)	—	52,080
Core deposit intangible	—	24,415	—	24,415
Receivable from FDIC (associated to the note issued to the FDIC)	—	—	111,101	111,101
Other assets	44,926	—	—	44,926
Goodwill	—	86,841	—	86,841
Total assets	\$9,142,359	\$(890,969)	\$111,101	\$8,362,491
Liabilities:				
Deposits	\$2,380,170	\$11,465	\$—	\$2,391,635
Note issued to the FDIC (including a premium of \$12,411 resulting from the fair value adjustment)	—	—	5,770,495	5,770,495
Equity appreciation instrument	—	—	52,500	52,500
True-up payment obligation	—	88,181	—	88,181
Contingent liability on unfunded loan commitments	—	45,755	—	45,755
Accrued expenses and other liabilities	13,925	—	—	13,925
Total liabilities	\$2,394,095	\$145,401	\$5,822,995	\$8,362,491

As part of the transaction, BPPR issued a five-year note to the FDIC, which was secured by a substantial amount of the assets, including loans and foreclosed other real estate properties, acquired in the FDIC-assisted transaction. In addition, as part of the consideration for the transaction, the FDIC received a cash-settled equity appreciation instrument, which is described in detail below.

The following is a description of the methods used to determine the fair values of significant assets acquired and liabilities assumed on the Westernbank FDIC-assisted transaction:

Loans

Fair values for loans were based on a discounted cash flow methodology. Certain loans were valued individually, while other loans were valued as pools. Aggregation into pools considered characteristics such as loan type, payment term, rate type and accruing status. Principal and interest projections considered prepayment rates and credit loss expectations. The discount rates were developed based on the relative risk of the cash flows, taking into account principally the loan type, market rates as of the valuation date, liquidity expectations, and the expected life of the loans.

FDIC loss share indemnification asset and true-up payment obligation

Fair value of the FDIC loss share indemnification asset and true-up payment obligation was estimated using projected cash flows related to the loss sharing agreements based on the expected reimbursements for losses and taking into account the applicable loss sharing percentages. The expected reimbursements did not include reimbursable amounts related to future covered expenditures. The estimates of expected losses used in valuation of the loss share asset and true-up payment obligation were consistent with the loss estimates used in the valuation of the covered assets. The cash flows were discounted to reflect the estimated timing of the receipt of the loss share reimbursement from the FDIC and the true-up payment due to the FDIC at the end of the loss sharing agreements, to the extent applicable. The discount rate used in the calculations was determined using a yield of an A-rated corporate security with a term based on the weighted average life of the recovery of cash flows plus a risk premium reflecting the uncertainty related to the timing of cash flows and the potential rejection of claims by the FDIC. Due to the increased uncertainty of the true-up payment, an additional risk premium was added to the discount rate.

Receivable from the FDIC

The note issued to the FDIC as of the April 30, 2010 transaction date was determined based on a pro-forma statement of assets acquired and liabilities assumed as of February 24, 2010, the bid transaction date. The receivable

from the FDIC represents an adjustment to reconcile the consideration paid based on the assets acquired and liabilities assumed as of April 30, 2010 compared with the pro-forma statement as of February 24, 2010. The carrying amount of this receivable was a reasonable estimate of fair value based on its short-term nature. The receivable from the FDIC was collected by BPPR in June 2010 and is reflected as a cash inflow from financing activities in the consolidated statement of cash flows for the year ended December 31, 2010. The proceeds were remitted to the FDIC in July 2010 as a payment on the note.

Other real estate covered under loss sharing agreements with the FDIC ("OREO")

OREO includes real estate acquired in settlement of loans. OREO properties were recorded at estimated fair values less costs to sell based on management's assessments of existing appraisals or broker price opinions. The estimated costs to sell were based on past experience with similar property types and terms customary for real estate transactions.

Goodwill

The amount of goodwill is the residual difference in the fair value of liabilities assumed and net consideration paid to the FDIC over the fair value of the assets acquired. The goodwill is deductible for income tax purposes. The goodwill from the Westernbank FDIC-assisted transaction was assigned to the BPPR reportable segment.

Core deposit intangible

This intangible asset represents the value of the relationships that Westernbank had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the core deposit base, interest costs, and the net maintenance cost attributable to customer deposits, and the cost of alternative funds.

Deposits

The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the reporting date. The fair values for time deposits were estimated using a discounted cash flow calculation that applies interest rates currently offered to comparable time deposits with similar maturities.

Contingent liability on unfunded loan commitments

Unfunded loan commitments are contractual obligations to provide future funding. The fair value of the liability associated to unfunded loan commitments was principally based on the expected utilization rate or likelihood that the commitment would be exercised. The estimated value of the unfunded commitments was equal to the expected loss associated with the balance expected to be funded. The expected loss was

comprised of both credit and non-credit components; therefore, the discounts derived from the loan valuation were applied to the expected balance to be funded to derive the fair value. The unfunded loan commitments outstanding as of the April 30, 2010 transaction date related principally to commercial and construction loans and commercial revolving lines of credit. Losses incurred on loan disbursements made under these unfunded loan commitments are covered by the FDIC loss sharing agreements provided that the Corporation complies with specific requirements under such agreements. The contingent liability on unfunded loan commitments is included as part of “other liabilities” in the consolidated statement of financial condition.

Deferred taxes

Deferred taxes relate to a difference between the financial statement and tax basis of the assets acquired and liabilities assumed in the transaction. Deferred taxes were reported based upon the principles in ASC Topic 740 “Income Taxes”, and were measured using the enacted statutory income tax rate to be in effect for BPPR at the time the deferred tax is expected to reverse.

For income tax purposes, the Westernbank FDIC-assisted transaction was accounted for as an asset purchase and the tax bases of assets acquired were allocated based on fair values using a modified residual method. Under this method, the purchase price was allocated among the assets in order of liquidity (the most liquid first) up to its fair market value.

Note issued to the FDIC

The fair value of the note issued to the FDIC was determined using discounted cash flows based on market rates available for debt with similar terms, including consideration that the debt was collateralized by the assets covered under the loss sharing agreements. The note was paid in full as of December 31, 2011 without any penalty.

Equity appreciation instrument

BPPR issued an equity appreciation instrument to the FDIC. Under the terms of the equity appreciation instrument, the FDIC had the opportunity to obtain a cash payment with a value equal to the product of (a) 50 million units and (b) the difference between (i) Popular, Inc.’s “average volume weighted price” over the two NASDAQ trading days immediately prior to the exercise date and (ii) the exercise price of \$3.43. The equity appreciation instrument was exercisable by the holder thereof, in whole or in part, up to May 7, 2011. The fair value of the equity appreciation instrument was estimated by determining a call option value using the Black-Scholes Option Pricing Model. The equity appreciation instrument was recorded as a liability and any subsequent changes in its estimated fair value were recognized in earnings. The changes in the fair value of the

equity appreciation instrument are separately disclosed in the consolidated statements of operations within the non-interest income category.

Note 5 - 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 \$952 million at December 31, 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 December 31, 2012, the Corporation held \$41 million in restricted assets in the form of funds deposited in money market accounts, trading account securities and investment securities available for sale (December 31, 2011 - \$38 million). The amounts held in trading account securities and investment securities available for sale consist primarily of restricted assets held for the Corporation’s non-qualified retirement plans and fund deposits guaranteeing possible liens or encumbrances over the title of insured properties.

Note 6 - Securities purchased under agreement to resell

The securities purchased underlying the agreements to resell were delivered to, and are held by, the Corporation. The counterparties to such agreements maintain effective control over such securities. The Corporation is permitted by contract to repledge the securities, and has agreed to resell to the counterparties the same or substantially similar securities at the maturity of the agreements.

The fair value of the collateral securities held by the Corporation on these transactions at December 31, was as follows:

<i>(In thousands)</i>	2012	2011
Repledged	\$227,245	\$274,829
Not repledged	13,234	8,608
Total	\$240,479	\$283,437

The repledged securities were used as underlying securities for repurchase agreement transactions.

Note 7 – 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:

<i>(In thousands)</i>	December 31, 2012	December 31, 2011
Investment securities available-for-sale, at fair value	\$ 1,606,683	\$ 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	452,631	–
Loans held-in-portfolio not covered under loss sharing agreements with the FDIC	8,358,456	8,571,268
Total pledged assets	\$10,442,902	\$10,496,205

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

At December 31, 2012, the Corporation had \$ 1.2 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 December 31, 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 Notes 20 and 21 to the consolidated financial statements for borrowings outstanding under these credit facilities. At December 31, 2012, the credit facilities authorized with the FHLB were collateralized by \$ 3.8 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 \$3.1 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 December 31, 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 December 31, 2012 trades receivables from brokers and counterparties amounting to \$133 million were pledged to secure repurchase agreements (December 31, 2011 - \$68 million).

Note 8 – Investment securities available-for-sale

The following table presents the amortized cost, gross unrealized gains and losses, approximate fair value, weighted average yield and contractual maturities of investment securities available-for-sale at December 31, 2012 and 2011.

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

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

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.

The following table presents the aggregate amortized cost and fair value of investment securities available-for-sale at December 31, 2012, by contractual maturity.

<i>(In thousands)</i>	Amortized cost	Fair value
Within 1 year	\$472,845	\$480,518
After 1 to 5 years	219,424	224,555
After 5 to 10 years	601,567	615,878
After 10 years	3,611,393	3,755,844
Total	4,905,229	5,076,795
Equity securities	6,507	7,406
Total investment securities available-for-sale	\$4,911,736	\$5,084,201

Proceeds from the sale of investment securities available-for-sale during 2012 were \$ 52.1 million (2011 - \$ 262.4 million). Gross realized gains and losses on the sale of investment securities available-for-sale, for the years ended December 31, 2012, 2011 and 2010 were as follows:

<i>(In thousands)</i>	For the year ended December 31,		
	2012	2011	2010
Gross realized gains	\$65	\$8,514	\$3,768
Gross realized losses	(1,684)	(130)	(6)
Net realized (losses) gains on sale of investment securities available-for-sale	\$(1,619)	\$8,384	\$3,762

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 December 31, 2012, and 2011.

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

<i>(In thousands)</i>	At December 31, 2011					
	Less than 12 months		12 months or more		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Obligations of Puerto Rico, States and political subdivisions	\$7,817	\$28	\$191	\$3	\$8,008	\$31
Collateralized mortgage obligations - federal agencies	90,543	208	—	—	90,543	208
Collateralized mortgage obligations - private label	13,595	539	44,148	6,783	57,743	7,322
Mortgage-backed securities	5,577	14	1,466	36	7,043	50
Equity securities	5,199	95	2	9	5,201	104
Total investment securities available-for-sale in an unrealized loss position	\$122,731	\$884	\$45,807	\$6,831	\$168,538	\$7,715

Management evaluates investment securities for other-than-temporary ("OTTI") declines in fair value on a quarterly basis. Once a decline in value is determined to be other-than-temporary, the value of a debt security is reduced and a corresponding charge to earnings is recognized for anticipated credit losses. Also, for equity securities that are considered other-than-temporarily impaired, the excess of the security's

carrying value over its fair value at the evaluation date is accounted for as a loss in the results of operations. The OTTI analysis requires management to consider various factors, which include, but are not limited to: (1) the length of time and the extent to which fair value has been less than the amortized cost basis, (2) the financial condition of the issuer or 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 December 31, 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 December 31, 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 December 31, 2012. Management has the intent and ability to hold the investments in equity securities that are at a loss position at December 31, 2012, for a reasonable period of time for a forecasted recovery of fair value up to (or beyond) the cost of these investments.

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

(In thousands)	2012		2011	
	Amortized cost	Fair value	Amortized cost	Fair value
FNMA	\$1,594,933	\$1,634,927	\$1,049,315	\$1,089,069
FHLB	520,127	528,287	553,940	578,617
Freddie Mac	1,198,969	1,221,863	984,270	1,010,669

Note 9 – 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 December 31, 2012 and 2011.

(In thousands)	At December 31, 2012				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Weighted average yield
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	\$2,420	\$8	\$–	\$2,428	5.74%
After 1 to 5 years	21,335	520	19	21,836	3.63
After 5 to 10 years	18,780	866	5	19,641	6.03
After 10 years	73,642	449	438	73,653	5.35
Total obligations of Puerto Rico, States and political subdivisions	116,177	1,843	462	117,558	5.15
Collateralized mortgage obligations - federal agencies					
After 10 years	140	4	–	144	5.45
Total collateralized mortgage obligations - federal agencies	140	4	–	144	5.45
Other					
Within 1 year	250	–	–	250	0.86
After 1 to 5 years	26,250	31	–	26,281	3.40
Total other	26,500	31	–	26,531	3.38
Total investment securities held-to-maturity	\$142,817	\$1,878	\$462	\$144,233	4.82%

<i>(In thousands)</i>	At December 31, 2011				
	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 table presents the aggregate amortized cost and fair value of investments securities held-to-maturity at December 31, 2012, by contractual maturity.

<i>(In thousands)</i>	Amortized cost	Fair value
Within 1 year	\$2,670	\$2,678
After 1 to 5 years	47,585	48,117
After 5 to 10 years	18,780	19,641
After 10 years	73,782	73,797
Total investment securities held-to-maturity	\$142,817	\$144,233

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 December 31, 2012 and 2011:

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

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

As indicated in Note 8 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 December 31, 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.

Note 10 – 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 these consolidated financial statements.

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

<i>(In thousands)</i>	December 31, 2012	December 31, 2011
Commercial multi-family	\$1,021,780	\$808,933
Commercial real estate non-owner occupied	2,634,432	2,665,499
Commercial real estate owner occupied	2,608,450	2,817,266
Commercial and industrial	3,593,540	3,681,629
Construction	252,857	239,939
Mortgage	6,078,507	5,518,460
Leasing	540,523	548,706
Legacy [2]	384,217	648,409
Consumer:		
Credit cards	1,198,213	1,230,029
Home equity lines of credit	491,035	557,894
Personal	1,388,911	1,130,593
Auto	561,084	518,476
Other	229,643	236,763
Total loans held-in-portfolio [1]	\$20,983,192	\$20,602,596

[1] Non-covered loans held-in-portfolio at December 31, 2012 are net of \$97 million in unearned income and exclude \$354 million in loans held-for-sale (December 31, 2011 - \$101 million in unearned income and \$363 million in loans held-for-sale).

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

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

<i>(In thousands)</i>	December 31, 2012	December 31, 2011
Commercial real estate	\$2,077,411	\$2,271,295
Commercial and industrial	167,236	241,447
Construction	361,396	546,826
Mortgage	1,076,730	1,172,954
Consumer	73,199	116,181
Total loans held-in-portfolio	\$3,755,972	\$4,348,703

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

<i>(In thousands)</i>	December 31, 2012	December 31, 2011
Commercial	\$16,047	\$25,730
Construction	78,140	236,045
Legacy	2,080	468
Mortgage	258,201	100,850
Total loans held-for-sale	\$354,468	\$363,093

During the year ended December 31, 2012, the Corporation recorded purchases (including repurchases) of mortgage loans amounting \$1.5 billion (2011 - \$1.3 billion). Also, the Corporation recorded purchases of \$265 million in consumer loans during the year ended December 31, 2012 (2011 - \$131 million). In addition, during the year ended December 31,

2012, the Corporation recorded purchases of construction loans amounting to \$1 million and none during 2011. The Corporation recorded purchases of commercial loans amounting to \$18 million during the year ended December 31, 2012 and none during 2011.

The Corporation performed whole-loan sales involving approximately \$315 million of residential mortgage loans during the year ended December 31, 2012 (2011 - \$374 million). Also, the Corporation securitized approximately \$ 839 million of mortgage loans into Government National Mortgage Association (“GNMA”) mortgage-backed securities during the year ended December 31, 2012 (2011 - \$ 907 million). Furthermore, the Corporation securitized approximately \$454 million of mortgage loans into Federal National Mortgage Association (“FNMA”) mortgage-backed securities during the year ended December 31, 2012 (2011 - \$ 206 million). Also, the Corporation securitized approximately \$ 38 million of mortgage loans into Federal Home Loan Mortgage Corporation (“FHLMC”) mortgage-backed securities during the year ended December 31, 2012. There were no securitizations into FHLMC for the year ended December 31, 2011. The Corporation sold commercial and construction loans with a book value of approximately \$60 million during the year ended December 31, 2012 (2011 - \$30 million). 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. Refer to Note 28 to the consolidated financial statements for detail of this transaction.

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 December 31, 2012 and 2011. Accruing loans past due 90 days or more consist primarily of credit cards, FHA / VA and other insured mortgage loans, and delinquent mortgage loans which are included in the Corporation's financial statements pursuant to GNMA's buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option

(but not the obligation) to repurchase, even when they elect not to exercise that option. Also, accruing loans past due 90 days or more include residential conventional loans purchased from another financial institution that, although delinquent, the Corporation has received timely payment from the seller / servicer, and, in some instances, have partial guarantees under recourse agreements. However, residential conventional loans purchased from another financial institution, which are in the process of foreclosure, are classified as non-performing mortgage loans.

At December 31, 2012

<i>(In thousands)</i>	Puerto Rico		U.S. mainland		Popular, Inc.	
	Non-accrual loans	Accruing loans past-due 90 days or more	Non-accrual loans	Accruing loans past-due 90 days or more	Non-accrual loans	Accruing loans past-due 90 days or more
Commercial multi-family	\$15,816	\$-	\$18,435	\$-	\$34,251	\$-
Commercial real estate non-owner occupied	66,665	-	78,140	-	144,805	-
Commercial real estate owner occupied	315,534	-	31,931	-	347,465	-
Commercial and industrial	124,717	529	14,051	-	138,768	529
Construction	37,390	-	5,960	-	43,350	-
Mortgage	596,105	364,387	34,025	-	630,130	364,387
Leasing	4,865	-	-	-	4,865	-
Legacy	-	-	40,741	-	40,741	-
Consumer:						
Credit cards	-	22,184	505	-	505	22,184
Home equity lines of credit	-	312	7,454	-	7,454	312
Personal	19,300	23	1,905	-	21,205	23
Auto	8,551	-	4	-	8,555	-
Other	3,036	469	3	-	3,039	469
Total[1]	\$1,191,979	\$387,904	\$233,154	\$-	\$1,425,133	\$387,904

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

At December 31, 2011

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

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

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

December 31, 2012						
Puerto Rico						
(In thousands)	Past due			Total past due	Current	Non-covered loans HIP Puerto Rico
	30-59 days	60-89 days	90 days or more			
Commercial multi-family	\$1,005	\$–	\$15,816	\$16,821	\$98,272	\$115,093
Commercial real estate non-owner occupied	10,580	4,454	66,665	81,699	1,268,734	1,350,433
Commercial real estate owner occupied	28,240	13,319	315,534	357,093	1,685,393	2,042,486
Commercial and industrial	27,977	5,922	125,246	159,145	2,629,127	2,788,272
Construction	1,243	–	37,390	38,633	173,634	212,267
Mortgage	241,930	121,175	960,492	1,323,597	3,625,327	4,948,924
Leasing	6,493	1,555	4,865	12,913	527,610	540,523
Consumer:						
Credit cards	14,521	10,614	22,184	47,319	1,135,753	1,183,072
Home equity lines of credit	124	–	312	436	16,370	16,806
Personal	13,208	7,392	19,323	39,923	1,205,859	1,245,782
Auto	24,128	6,518	8,551	39,197	521,119	560,316
Other	2,120	536	3,505	6,161	222,192	228,353
Total	\$371,569	\$171,485	\$1,579,883	\$2,122,937	\$13,109,390	\$15,232,327

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

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

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

December 31, 2011						
U.S. mainland						
(In thousands)	Past due				Current	Loans HIP U.S. mainland
	30-59 days	60-89 days	90 days or more	Total past due		
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

December 31, 2011						
Popular, Inc.						
(In thousands)	Past due				Current	Non-covered loans HIP Popular, Inc.
	30-59 days	60-89 days	90 days or more	Total past due		
Commercial multi-family	\$15,017	\$121	\$29,331	\$44,469	\$764,464	\$808,933
Commercial real estate non-owner occupied	32,378	3,630	131,833	167,841	2,497,658	2,665,499
Commercial real estate owner occupied	53,582	21,452	445,029	520,063	2,297,203	2,817,266
Commercial and industrial	68,558	21,024	224,574	314,156	3,367,473	3,681,629
Construction	608	21,055	96,286	117,949	121,990	239,939
Mortgage	232,666	111,755	967,414	1,311,835	4,206,625	5,518,460
Leasing	7,927	2,301	5,642	15,870	532,836	548,706
Legacy	30,712	7,536	75,660	113,908	534,501	648,409
Consumer:						
Credit cards	14,821	11,708	26,483	53,012	1,177,017	1,230,029
Home equity lines of credit	7,245	3,982	10,222	21,449	536,445	557,894
Personal	21,157	12,541	20,833	54,531	1,076,062	1,130,593
Auto	22,783	5,920	6,864	35,567	482,909	518,476
Other	1,769	1,452	5,639	8,860	227,903	236,763
Total	\$509,223	\$224,477	\$2,045,810	\$2,779,510	\$17,823,086	\$20,602,596

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

(In thousands)	December 31, 2012	December 31, 2011
Commercial	\$16,047	\$25,730
Construction	78,140	236,045
Legacy	2,080	468
Mortgage	53	59
Total	\$96,320	\$262,302

The components of the net financing leases receivable at December 31, 2012 and 2011 were as follows:

<i>(In thousands)</i>	2012	2011
Total minimum lease payments	\$503,447	\$520,226
Estimated residual value of leased property	129,927	134,194
Deferred origination costs, net of fees	6,966	6,691
Less - Unearned financing income	93,157	97,244
Net minimum lease payments	547,183	563,867
Less - Allowance for loan losses	3,475	4,891
	<u>\$543,708</u>	<u>\$558,976</u>

At December 31, 2012, future minimum lease payments are expected to be received as follows:

<i>(In thousands)</i>	
2013	\$140,579
2014	118,914
2015	102,808
2016	79,213
2017 and thereafter	61,933
	<u>\$503,447</u>

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 December 31, 2012 and December 31, 2011.

<i>(In thousands)</i>	December 31, 2012		December 31, 2011	
	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	\$14,628	\$-	\$14,241	\$125
Commercial and industrial	48,743	504	63,858	1,392
Construction	8,363	-	4,598	5,677
Mortgage	2,133	-	423	113
Consumer	543	265	516	377
Total ^[1]	<u>\$74,410</u>	<u>\$769</u>	<u>\$83,636</u>	<u>\$7,684</u>

[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 December 31, 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.

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

<i>(In thousands)</i>	December 31, 2011						
	Past due				Total past due	Current	Covered loans HIP
	30-59 days	60-89 days	90 days or more	Total past due			
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	<u>\$76,005</u>	<u>\$58,815</u>	<u>\$1,265,530</u>	<u>\$1,400,350</u>	<u>\$2,948,353</u>	<u>\$4,348,703</u>	

The following table presents loans acquired as part of the Westernbank FDIC-assisted transaction accounted for pursuant to ASC Subtopic 310-30 at the April 30, 2010 acquisition date. The information presented includes loans determined to be impaired at the time of acquisition (“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”). Refer to Note 2 in these consolidated financial statements for a description of the Corporation’s significant accounting policies related to acquired loans and criteria considered by management to apply ASC 310-30 analogy to non-credit impaired loans.

<i>(In thousands)</i>	April 30, 2010		
	Non-credit Impaired loans	Credit impaired loans	Total
Contractually-required principal and interest	\$7,855,033	\$1,995,580	\$9,850,613
Non-accretable difference	2,154,542	1,248,365	3,402,907
Cash flows expected to be collected	5,700,491	747,215	6,447,706
Accretable yield	1,487,634	50,425	1,538,059
Fair value of loans accounted for under ASC Subtopic 310-30	\$4,212,857	\$696,790	\$4,909,647

The cash flows expected to be collected consider the estimated remaining life of the underlying loans and include the effects of estimated prepayments. The unpaid principal balance of the acquired loans from the Westernbank FDIC-assisted transaction that are accounted for under ASC Subtopic 310-30 amounted to \$8.1 billion at the April 30, 2010 transaction date.

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.

<i>(In thousands)</i>	December 31, 2012			December 31, 2011		
	Carrying amount			Carrying amount		
	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Commercial real estate	\$1,778,594	\$185,386	\$1,963,980	\$1,920,141	\$215,560	\$2,135,701
Commercial and industrial	55,396	4,379	59,775	85,859	4,621	90,480
Construction	174,054	174,093	348,147	279,561	260,208	539,769
Mortgage	988,158	69,654	1,057,812	1,065,842	102,027	1,167,869
Consumer	55,762	6,283	62,045	95,048	7,604	102,652
Carrying amount	3,051,964	439,795	3,491,759	3,446,451	590,020	4,036,471
Allowance for loan losses	(48,365)	(47,042)	(95,407)	(62,951)	(20,526)	(83,477)
Carrying amount, net of allowance	\$3,003,599	\$392,753	\$3,396,352	\$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 \$4.8 billion at December 31, 2012 (2011 - \$6.0 billion). At December 31, 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 years ended December 31, 2012 and 2011, were as follows:

	Accretable yield					
	For the year ended					
	December 31, 2012			December 31, 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	(258,901)	(21,695)	(280,596)	(271,760)	(80,641)	(352,401)
Change in expected cash flows	276,518	(14,512)	262,006	392,597	98,955	491,552
Ending balance	\$1,446,381	\$5,288	\$1,451,669	\$1,428,764	\$41,495	\$1,470,259

	Carrying amount of loans accounted for pursuant to ASC 310-30					
	For the year ended					
	December 31, 2012			December 31, 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	258,901	21,695	280,596	271,760	80,641	352,401
Collections and charge offs	(653,388)	(171,920)	(825,308)	(719,688)	(136,170)	(855,858)
Ending balance	\$3,051,964	\$439,795	\$3,491,759	\$3,446,451	\$590,020	\$4,036,471
Allowance for loan losses ASC 310-30 covered loans	(48,365)	(47,042)	(95,407)	(62,951)	(20,526)	(83,477)
	\$3,003,599	\$392,753	\$3,396,352	\$3,383,500	\$569,494	\$3,952,994

The Corporation accounts for lines of credit with revolving privileges under the accounting guidance of ASC Subtopic 310-20, which requires that any differences between the contractually required loans payment receivable in excess of the

initial investment in the loans be accreted into interest income over the life of the loans, if the loan is accruing interest. The following table presents acquired loans accounted for under ASC Subtopic 310-20 at the April 30, 2010 acquisition date:

(In thousands)	
Fair value of loans accounted under ASC Subtopic 310-20	\$ 290,810
Gross contractual amounts receivable (principal and interest)	\$ 457,201
Estimate of contractual cash flows not expected to be collected	\$ 164,427

The cash flow expected to be collected consider the estimated remaining life of the underlying loans and include the effects of estimated prepayments.

Covered loans accounted for under ASC Subtopic 310-20 amounted to \$0.3 billion at December 31, 2012 (December 31, 2011 - \$0.3 billion).

Note 11 – Allowance for loan losses

The following tables present the changes in the allowance for loan losses for the years ended December 31, 2012 and 2011.

For the year ended December 31, 2012						
Puerto Rico - Non-covered loans						
<i>(In thousands)</i>	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)	106,802	(2,271)	103,482	(814)	74,868	282,067
Charge-offs	(185,653)	(3,910)	(59,286)	(4,680)	(120,658)	(374,187)
Recoveries	41,013	6,193	2,509	3,737	30,563	84,015
Ending balance	\$217,615	\$5,862	\$119,027	\$2,894	\$99,899	\$445,297

For the year ended December 31, 2012						
Puerto Rico - Covered loans						
<i>(In thousands)</i>	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$94,472	\$20,435	\$5,310	\$—	\$4,728	\$124,945
Provision	23,847	20,006	21,513	—	9,473	74,839
Charge-offs	(46,290)	(30,556)	(5,909)	—	(8,225)	(90,980)
Recoveries	31	61	—	—	10	102
Ending balance	\$72,060	\$9,946	\$20,914	\$—	\$5,986	\$108,906

For the year ended December 31, 2012						
U.S. Mainland						
<i>(In thousands)</i>	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)	10,775	(664)	15,572	3,212	23,140	52,035
Charge-offs	(69,364)	(1,659)	(16,708)	(36,529)	(41,045)	(165,305)
Recoveries	24,711	1,259	1,545	20,191	5,041	52,747
Net (write-down) recovery related to loans transferred to LHFS	(34)	—	—	—	—	(34)
Ending balance	\$80,067	\$1,567	\$30,348	\$33,102	\$31,320	\$176,404

For the year ended December 31, 2012							
Popular, Inc.							
<i>(In thousands)</i>	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)	141,424	17,071	140,567	3,212	(814)	107,481	408,941
Charge-offs	(301,307)	(36,125)	(81,903)	(36,529)	(4,680)	(169,928)	(630,472)
Recoveries	65,755	7,513	4,054	20,191	3,737	35,614	136,864
Net (write-down) recovery related to loans transferred to LHFS	(34)	—	—	—	—	—	(34)
Ending balance	\$369,742	\$17,375	\$170,289	\$33,102	\$2,894	\$137,205	\$730,607

For the year ended December 31, 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)	206,904	(4,408)	57,917	941	80,242	341,596
Charge-offs	(225,011)	(15,563)	(29,215)	(6,527)	(132,552)	(408,868)
Recoveries	29,623	9,747	1,591	3,083	33,905	77,949
Net (write-down) recovery related to loans transferred to LHFS	(12,706)	—	—	—	—	(12,706)
Ending balance	\$255,453	\$5,850	\$72,322	\$4,651	\$115,126	\$453,402

For the year ended December 31, 2011

Puerto Rico - Covered Loans						
(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$—	\$—	\$—	\$—	\$—	\$—
Provision	108,246	23,288	6,121	—	7,980	145,635
Charge-offs	(13,774)	(4,353)	(826)	—	(3,253)	(22,206)
Recoveries	—	1,500	15	—	1	1,516
Ending balance	\$94,472	\$20,435	\$5,310	\$—	\$4,728	\$124,945

For the year ended December 31, 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)	47,255	(18,137)	1,480	22,147	35,744	88,489
Charge-offs	(99,562)	(4,286)	(16,570)	(78,338)	(63,881)	(262,637)
Recoveries	23,005	1,343	2,383	26,014	6,763	59,508
Net (write-down) recovery related to loans transferred to LHFS	—	—	13,807	—	—	13,807
Ending balance	\$113,979	\$2,631	\$29,939	\$46,228	\$44,184	\$236,961

For the year ended December 31, 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	362,405	743	65,518	22,147	941	123,966	575,720
Charge-offs	(338,347)	(24,202)	(46,611)	(78,338)	(6,527)	(199,686)	(693,711)
Recoveries	52,628	12,590	3,989	26,014	3,083	40,669	138,973
Net (write-down) recovery related to loans transferred to LHFS	(12,706)	—	13,807	—	—	—	1,101
Ending balance	\$463,904	\$28,916	\$107,571	\$46,228	\$4,651	\$164,038	\$815,308

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

<i>(In thousands)</i>	ASC 310-30 Covered loans	
	For the years ended	
	December 31, 2012	December 31, 2011
Balance at beginning of period	\$ 83,477	\$ –
Provision for loan losses	59,052	89,802
Net charge-offs	(47,122)	(6,325)
Balance at end of period	\$ 95,407	\$83,477

The following tables present information at December 31, 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.

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

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

At December 31, 2012

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

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

Impaired loans

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

December 31, 2012								
Puerto Rico								
<i>(In thousands)</i>	Impaired Loans – With an Allowance			Impaired Loans With No Allowance		Impaired Loans – Total		
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial multi-family	\$271	\$288	\$6	\$13,080	\$19,969	\$13,351	\$20,257	\$6
Commercial real estate non-owner occupied	22,332	25,671	1,354	55,320	63,041	77,652	88,712	1,354
Commercial real estate owner occupied	100,685	149,342	12,614	121,476	167,639	222,161	316,981	12,614
Commercial and industrial	70,216	85,508	3,349	64,399	99,608	134,615	185,116	3,349
Construction	1,865	3,931	120	33,984	70,572	35,849	74,503	120
Mortgage	517,341	539,171	58,572	39,796	42,913	557,137	582,084	58,572
Leasing	4,881	4,881	1,066	–	–	4,881	4,881	1,066
Consumer:								
Credit cards	42,514	42,514	1,666	–	–	42,514	42,514	1,666
Personal	86,884	86,884	16,022	–	–	86,884	86,884	16,022
Auto	772	772	79	–	–	772	772	79
Other	493	493	12	–	–	493	493	12
Covered loans	64,762	64,762	8,505	44,479	44,479	109,241	109,241	8,505
Total Puerto Rico	\$913,016	\$1,004,217	\$103,365	\$372,534	\$508,221	\$1,285,550	\$1,512,438	\$103,365

December 31, 2012								
U.S. mainland								
<i>(In thousands)</i>	Impaired Loans – With an Allowance			Impaired Loans With No Allowance		Impaired Loans – Total		
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial multi-family	\$1,327	\$1,479	\$25	\$6,316	\$9,898	\$7,643	\$11,377	\$25
Commercial real estate non-owner occupied	–	–	–	45,815	64,783	45,815	64,783	–
Commercial real estate owner occupied	–	–	–	20,369	22,968	20,369	22,968	–
Commercial and industrial	–	–	–	6,058	8,026	6,058	8,026	–
Construction	–	–	–	5,960	5,960	5,960	5,960	–
Mortgage	45,319	46,484	16,095	8,774	10,328	54,093	56,812	16,095
Legacy	–	–	–	18,744	29,972	18,744	29,972	–
Consumer:								
Helocs	201	201	11	–	–	201	201	11
Auto	91	91	2	–	–	91	91	2
Other	2,422	2,422	94	–	–	2,422	2,422	94
Total U.S. mainland	\$49,360	\$50,677	\$16,227	\$112,036	\$151,935	\$161,396	\$202,612	\$16,227

December 31, 2012

Popular, Inc.

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

December 31, 2011

Puerto Rico

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

December 31, 2011

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

The following table presents the average recorded investment and interest income recognized on impaired loans for the years ended December 31, 2012 and 2011.

For the year ended December 31, 2012						
<i>(In thousands)</i>	Puerto Rico		U.S. Mainland		Popular, Inc.	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial multi-family	\$14,737	\$—	\$9,012	\$145	\$23,749	\$145
Commercial real estate non-owner occupied	64,308	1,108	58,688	1,139	122,996	2,247
Commercial real estate owner occupied	202,783	2,820	32,436	91	235,219	2,911
Commercial and industrial	125,373	2,267	18,344	37	143,717	2,304
Construction	44,276	278	17,039	—	61,315	278
Mortgage	450,284	25,534	52,909	1,989	503,193	27,523
Legacy	—	—	33,786	120	33,786	120
Leasing	5,372	—	—	—	5,372	—
Consumer:						
Credit cards	39,574	—	—	—	39,574	—
Helocs	—	—	81	—	81	—
Personal	90,949	—	—	—	90,949	—
Auto	255	—	73	—	328	—
Other	2,813	—	2,404	—	5,217	—
Covered loans	93,820	3,587	—	—	93,820	3,587
Total Popular, Inc.	\$1,134,544	\$35,594	\$224,772	\$3,521	\$1,359,316	\$39,115

For the year ended December 31, 2011						
<i>(In thousands)</i>	Puerto Rico		U.S. Mainland		Popular, Inc.	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial multi-family	\$18,459	\$—	\$7,067	\$—	\$25,526	\$—
Commercial real estate non-owner occupied	36,342	835	78,274	283	114,616	1,118
Commercial real estate owner occupied	194,033	2,096	30,348	751	224,381	2,847
Commercial and industrial	108,002	1,468	22,431	403	130,433	1,871
Construction	57,723	170	103,794	124	161,517	294
Mortgage	227,278	11,587	24,767	1,137	252,045	12,724
Legacy	—	—	30,639	238	30,639	238
Leasing	3,052	—	—	—	3,052	—
Consumer:						
Credit cards	19,437	—	—	—	19,437	—
Personal	46,880	—	—	—	46,880	—
Auto	—	—	46	—	46	—
Other	2,474	—	1,217	—	3,691	—
Covered loans	38,399	1,013	—	—	38,399	1,013
Total Popular, Inc.	\$752,079	\$17,169	\$298,583	\$2,936	\$1,050,662	\$20,105

Modifications

Troubled debt restructurings related to non-covered loan portfolios amounted to \$1.2 billion at December 31, 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 \$120 thousand related to the

construction loan portfolio and \$4 million related to the commercial loan portfolio at December 31, 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.

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

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

As part of its NPL reduction strategy and in order to expedite the resolution of delinquent construction and commercial loans, commencing in 2012, the Corporation routinely enters into liquidation agreements with borrowers and guarantors through the regular legal process, bankruptcy procedures and in certain occasions, out of Court transactions. These liquidation agreements, in general, contemplate the following conditions: (1) consent to judgment by the borrowers and guarantors; (2) acknowledgement by the borrower of the debt, its liquidity and maturity; (3) acknowledgment of the default in payments. The contractual interest rate is not reduced and continues to accrue during the term of the agreement. At the end of the period, borrower is obligated to remit all amounts due or be subject to the Corporation's exercise of its foreclosure rights and further collection efforts. Likewise, the borrower's failure to make stipulated payments will grant the Corporation the ability to exercise its foreclosure rights. This strategy procures to expedite the foreclosure process, resulting in a more effective and efficient collection process. Although in general, these liquidation agreements do

not contemplate the forgiveness of principal or interest as debtor is required to cover all outstanding amounts when the agreement becomes due, it could be construed that the Corporation has granted a concession by temporarily accepting a payment schedule that is different from the contractual payment schedule. Accordingly, loans under these program agreements are considered TDRs. At December 31, 2012 these liquidation agreements amounted to \$79.2 million.

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 twelve months ended December 31, 2012 and 2011.

Puerto Rico				
For the year ended December 31, 2012				
	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Commercial multi-family	–	–	–	2
Commercial real estate non-owner occupied	9	8	–	12
Commercial real estate owner occupied	13	22	–	208
Commercial and industrial	42	91	–	87
Construction	8	1	–	1
Mortgage	579	147	1,548	202
Leasing	–	66	42	–
Consumer:				
Credit cards	1,640	–	–	1,242
Personal	1,080	31	–	5
Auto	–	9	3	–
Other	62	–	–	4
Total	3,433	375	1,593	1,763
U.S. mainland				
For the year ended December 31, 2012				
	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	2	2	5	1
Commercial real estate owner occupied	–	–	–	2
Construction	–	–	–	1
Mortgage	4	1	73	–
Legacy	1	–	–	2
Consumer:				
HELOCs	1	–	3	–
Total	8	3	81	7

Popular, Inc.				
For the year ended December 31, 2012				
	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Commercial multi-family	–	–	–	3
Commercial real estate non-owner occupied	11	10	5	13
Commercial real estate owner occupied	13	22	–	210
Commercial and industrial	42	91	–	87
Construction	8	1	–	2
Mortgage	583	148	1,621	202
Legacy	1	–	–	2
Leasing	–	66	42	–
Consumer:				
Credit cards	1,640	–	–	1,242
HELOCs	1	–	3	–
Personal	1,080	31	–	5
Auto	–	9	3	–
Other	62	–	–	4
Total	3,441	378	1,674	1,770

Puerto Rico				
For the year ended December 31, 2011				
	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	6	3	–	–
Commercial real estate owner occupied	48	20	–	–
Commercial and industrial	95	47	–	–
Construction	4	–	–	–
Mortgage	448	1,032	284	300
Leasing	–	162	3	–
Consumer:				
Credit cards	1,404	–	–	1,247
Personal	2,169	55	–	–
Auto	–	3	5	–
Other	46	–	–	–
Total	4,221	1,322	292	1,547

U.S. mainland				
For the year ended December 31, 2011				
	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Commercial real estate non-owner occupied	–	–	–	1
Commercial real estate owner occupied	–	–	–	1
Commercial and industrial	–	–	–	2
Construction	–	–	–	4
Mortgage	18	5	348	3
Legacy	–	1	–	–
Consumer:				
Other	–	–	3	–
Total	18	6	351	11

Popular, Inc.				
For the year ended December 31, 2011				
	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	6	3	—	1
Commercial real estate owner occupied	48	20	—	1
Commercial and industrial	95	47	—	2
Construction	4	—	—	4
Mortgage	466	1,037	632	303
Legacy	—	1	—	—
Leasing	—	162	3	—
Consumer:				
Credit cards	1,404	—	—	1,247
Personal	2,169	55	—	—
Auto	—	3	5	—
Other	46	—	3	—
Total	4,239	1,328	643	1,558

The following tables present by class, quantitative information related to loans modified as TDRs during the years ended December 31, 2012 and 2011.

Puerto Rico				
For the year ended December 31, 2012				
<i>(Dollars in thousands)</i>	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	2	\$271	\$271	\$6
Commercial real estate non-owner occupied	29	18,240	18,433	(583)
Commercial real estate owner occupied	243	83,271	82,841	(113)
Commercial and industrial	220	77,909	64,767	(6,489)
Construction	10	6,617	5,822	(212)
Mortgage	2,476	325,866	356,077	23,279
Leasing	108	1,752	1,684	217
Consumer:				
Credit cards	2,882	24,193	27,822	81
Personal	1,116	16,875	16,931	2,743
Auto	12	164	168	4
Other	66	240	239	(1)
Total	7,164	\$555,398	\$575,055	\$18,932

U.S. mainland				
For the year ended December 31, 2012				
<i>(Dollars in thousands)</i>	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	\$572	\$563	\$—
Commercial real estate non-owner occupied	10	16,941	18,367	219
Commercial real estate owner occupied	2	3,051	2,547	(106)
Construction	1	1,573	1,573	—
Mortgage	78	8,749	8,855	1,211
Legacy	3	1,272	1,267	(3)
Consumer:				
HELOCs	4	583	560	3
Total	99	\$32,741	\$33,732	\$1,324

Popular, Inc.				
For the year ended December 31, 2012				
<i>(Dollars in thousands)</i>	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	3	\$843	\$834	\$6
Commercial real estate non-owner occupied	39	35,181	36,800	(364)
Commercial real estate owner occupied	245	86,322	85,388	(219)
Commercial and industrial	220	77,909	64,767	(6,489)
Construction	11	8,190	7,395	(212)
Mortgage	2,554	334,615	364,932	24,490
Legacy	3	1,272	1,267	(3)
Leasing	108	1,752	1,684	217
Consumer:				
Credit cards	2,882	24,193	27,822	81
HELOCs	4	583	560	3
Personal	1,116	16,875	16,931	2,743
Auto	12	164	168	4
Other	66	240	239	(1)
Total	7,263	\$588,139	\$608,787	\$20,256

Puerto Rico				
For the year ended December 31, 2011				
<i>(Dollars in thousands)</i>	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	\$-
Commercial real estate non-owner occupied	9	14,186	14,186	633
Commercial real estate owner occupied	68	64,015	64,015	(693)
Commercial and industrial	142	28,617	28,617	795
Construction	4	3,194	3,194	(292)
Mortgage	2,064	291,006	320,781	9,653
Leasing	165	3,702	3,553	34
Consumer:				
Credit cards	2,651	23,563	26,444	113
Personal	2,224	27,688	27,671	645
Auto	8	93	95	-
Other	46	192	188	-
Total	7,382	\$456,399	\$488,887	\$10,888

U.S. mainland				
For the year ended December 31, 2011				
<i>(Dollars in thousands)</i>	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	\$(188)
Commercial real estate owner occupied	1	10,590	7,323	-
Commercial and industrial	2	11,878	9,742	(420)
Construction	4	13,173	13,335	(420)
Mortgage	374	37,722	39,184	12,419
Legacy	1	3,016	3,097	(125)
Consumer:				
Other	3	1,559	1,683	-
Total	386	\$79,981	\$76,396	\$11,266

Popular, Inc.				
For the year ended December 31, 2011				
<i>(Dollars in thousands)</i>	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	\$ –
Commercial real estate non-owner occupied	10	16,229	16,218	445
Commercial real estate owner occupied	69	74,605	71,338	(693)
Commercial and industrial	144	40,495	38,359	375
Construction	8	16,367	16,529	(712)
Mortgage	2,438	328,728	359,965	22,072
Legacy	1	3,016	3,097	(125)
Leasing	165	3,702	3,553	34
Consumer:				
Credit cards	2,651	23,563	26,444	113
Personal	2,224	27,688	27,671	645
Auto	8	93	95	–
Other	49	1,751	1,871	–
Total	7,768	\$536,380	\$565,283	\$22,154

Thirteen loans comprising a recorded investment of approximately \$134 million were restructured into multiple notes (“Note A / B split”) during 2012. The Corporation recorded approximately \$15.9 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 \$115 million at December 31, 2012 with a related allowance for loan losses amounting to approximately \$267 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 December 31, 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 year ended December 31, 2012		
<i>(Dollars In thousands)</i>	Loan count	Recorded investment as of first default date
Commercial real estate non-owner occupied	1	\$1,770
Commercial real estate owner occupied	28	9,011
Commercial and industrial	12	4,031
Construction	5	690
Mortgage	668	94,991
Leasing	24	455
Consumer:		
Credit cards	421	3,778
Personal	338	2,266
Auto	2	28
Other	2	8
Total [1]	1,501	\$117,028

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

U.S. mainland		
Defaulted during the year ended December 31, 2012		
<i>(Dollars In thousands)</i>	Loan count	Recorded investment as of first default date
Commercial real estate owner occupied	1	\$1,935
Mortgage	12	1,134
Total	13	\$3,069

Popular, Inc.		
Defaulted during the year ended December 31, 2012		
<i>(Dollars In thousands)</i>	Loan count	Recorded investment as of first default date
Commercial real estate non-owner occupied	1	\$1,770
Commercial real estate owner occupied	29	10,946
Commercial and industrial	12	4,031
Construction	5	690
Mortgage	680	96,125
Leasing	24	455
Consumer:		
Credit cards	421	3,778
Personal	338	2,266
Auto	2	28
Other	2	8
Total	1,514	\$120,097

Puerto Rico		
Defaulted during the year ended December 31, 2011		
<i>(Dollars In thousands)</i>	Loan count	Recorded investment as of first default date
Commercial multi-family	1	\$143
Commercial real estate non-owner occupied	3	1,109
Commercial real estate owner occupied	15	11,930
Commercial and industrial	25	4,681
Mortgage	522	81,200
Leasing	42	872
Consumer:		
Credit cards	463	4,667
Personal	231	1,293
Other	2	29
Total	1,304	\$105,924

U.S. mainland		
Defaulted during the year ended December 31, 2011		
<i>(Dollars In thousands)</i>	Loan count	Recorded investment as of first default date
Commercial real estate non-owner occupied	1	\$1,984
Commercial real estate owner occupied	1	922
Commercial and industrial	2	1,552
Construction	4	18,034
Legacy	16	6,843
Total	24	\$29,334

Popular, Inc.		
Defaulted during the year ended December 31, 2011		
<i>(Dollars In thousands)</i>	Loan count	Recorded investment as of first default date
Commercial multi-family	1	\$143
Commercial real estate non-owner occupied	4	3,093
Commercial real estate owner occupied	16	12,852
Commercial and industrial	27	6,233
Construction	4	18,034
Mortgage	522	81,200
Legacy	16	6,843
Leasing	42	872
Consumer:		
Credit cards	463	4,667
Personal	231	1,293
Other	2	29
Total	1,328	\$135,258

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

Credit Quality

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

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

Pass Credit Classifications:

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

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

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

Adversely Classified Classifications:

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

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 December 31, 2012 and 2011.

	December 31, 2012							
(In thousands)	Watch	Special Mention	Substandard	Doubtful	Loss	Sub-total	Pass/ Unrated	Total
Puerto Rico [1]								
Commercial multi-family	\$978	\$255	\$16,736	\$-	\$-	\$17,969	\$97,124	\$115,093
Commercial real estate non-owner occupied	120,608	156,853	252,068	-	-	529,529	820,904	1,350,433
Commercial real estate owner occupied	195,876	140,788	647,458	1,242	-	985,364	1,057,122	2,042,486
Commercial and industrial	438,758	201,660	410,026	4,162	682	1,055,288	1,732,984	2,788,272
Total Commercial	756,220	499,556	1,326,288	5,404	682	2,588,150	3,708,134	6,296,284
Construction	645	31,789	41,278	-	-	73,712	138,555	212,267
Mortgage	-	-	569,334	-	-	569,334	4,379,590	4,948,924
Leasing	-	-	4,742	-	123	4,865	535,658	540,523
Consumer:								
Credit cards	-	-	22,965	-	-	22,965	1,160,107	1,183,072
Home equity lines of credit	-	-	1,333	-	3,269	4,602	12,204	16,806
Personal	-	-	8,203	-	77	8,280	1,237,502	1,245,782
Auto	-	-	8,551	-	-	8,551	551,765	560,316
Other	-	-	3,036	-	-	3,036	225,317	228,353
Total Consumer	-	-	44,088	-	3,346	47,434	3,186,895	3,234,329
Total Puerto Rico	\$756,865	\$531,345	\$1,985,730	\$5,404	\$4,151	\$3,283,495	\$11,948,832	\$15,232,327
U.S. mainland								
Commercial multi-family	\$78,490	\$22,050	\$71,658	\$-	\$-	\$172,198	\$734,489	\$906,687
Commercial real estate non-owner occupied	108,806	55,911	204,532	-	-	369,249	914,750	1,283,999
Commercial real estate owner occupied	22,423	6,747	113,161	-	-	142,331	423,633	565,964
Commercial and industrial	24,489	8,889	65,562	-	-	98,940	706,328	805,268
Total Commercial	234,208	93,597	454,913	-	-	782,718	2,779,200	3,561,918
Construction	5,268	-	21,182	-	-	26,450	14,140	40,590
Mortgage	-	-	34,077	-	-	34,077	1,095,506	1,129,583
Legacy	26,176	15,225	109,470	-	-	150,871	233,346	384,217
Consumer:								
Credit cards	-	-	505	-	-	505	14,636	15,141
Home equity lines of credit	-	-	3,150	-	4,304	7,454	466,775	474,229
Personal	-	-	785	-	941	1,726	141,403	143,129
Auto	-	-	-	-	4	4	764	768
Other	-	-	3	-	-	3	1,287	1,290
Total Consumer	-	-	4,443	-	5,249	9,692	624,865	634,557
Total U.S. mainland	\$265,652	\$108,822	\$624,085	\$-	\$5,249	\$1,003,808	\$4,747,057	\$5,750,865
Popular, Inc.								
Commercial multi-family	\$79,468	\$22,305	\$88,394	\$-	\$-	\$190,167	\$831,613	\$1,021,780
Commercial real estate non-owner occupied	229,414	212,764	456,600	-	-	898,778	1,735,654	2,634,432
Commercial real estate owner occupied	218,299	147,535	760,619	1,242	-	1,127,695	1,480,755	2,608,450
Commercial and industrial	463,247	210,549	475,588	4,162	682	1,154,228	2,439,312	3,593,540
Total Commercial	990,428	593,153	1,781,201	5,404	682	3,370,868	6,487,334	9,858,202
Construction	5,913	31,789	62,460	-	-	100,162	152,695	252,857
Mortgage	-	-	603,411	-	-	603,411	5,475,096	6,078,507
Legacy	26,176	15,225	109,470	-	-	150,871	233,346	384,217
Leasing	-	-	4,742	-	123	4,865	535,658	540,523
Consumer:								
Credit cards	-	-	23,470	-	-	23,470	1,174,743	1,198,213
Home equity lines of credit	-	-	4,483	-	7,573	12,056	478,979	491,035
Personal	-	-	8,988	-	1,018	10,006	1,378,905	1,388,911
Auto	-	-	8,551	-	4	8,555	552,529	561,084
Other	-	-	3,039	-	-	3,039	226,604	229,643
Total Consumer	-	-	48,531	-	8,595	57,126	3,811,760	3,868,886
Total Popular, Inc.	\$1,022,517	\$640,167	\$2,609,815	\$5,404	\$9,400	\$4,287,303	\$16,695,889	\$20,983,192

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

Weighted average obligor risk rating	(Scales 11 and 12)	(Scales 1 through 8)
Puerto Rico: [1]	Substandard	Pass
Commercial multi-family	11.94	5.68
Commercial real estate non-owner occupied	11.28	6.98
Commercial real estate owner occupied	11.51	6.93
Commercial and industrial	11.35	6.69
Total Commercial	11.42	6.81
Construction	11.99	7.86
U.S. mainland:	Substandard	Pass
Commercial multi-family	11.26	7.12
Commercial real estate non-owner occupied	11.38	7.04
Commercial real estate owner occupied	11.28	6.64
Commercial and industrial	11.19	6.73
Total Commercial	11.31	6.81
Construction	11.28	7.21
Legacy	11.30	7.48

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

December 31, 2011

<i>(In thousands)</i>	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

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

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

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

Note 12 – FDIC loss share asset

As indicated in Note 4 to the consolidated financial statements, 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. The following table sets forth the activity in the FDIC loss share asset for the periods presented.

(In thousands)	Year ended December 31,		
	2012	2011	2010
Balance at beginning of year	\$1,915,128	\$2,410,219	\$–
FDIC loss share indemnification asset recorded at business combination	–	–	2,425,929
(Amortization) accretion of loss share indemnification asset	(129,676)	(10,855)	73,487
Credit impairment losses to be covered under loss sharing agreements	58,187	110,457	–
Reimbursable expenses to be covered under loss sharing agreements	29,234	5,093	–
Decrease due to reciprocal accounting on the discount accretion for loans and unfunded commitments accounted for under ASC Subtopic 310-20	(969)	(33,221)	(95,383)
Payments received from FDIC under loss sharing agreements	(462,016)	(561,111)	–
Other adjustments attributable to FDIC loss sharing agreements	(10,790)	(5,454)	6,186
Balance at end of period	\$1,399,098	\$1,915,128	\$2,410,219

As part of the loss share agreements, BPPR has agreed 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.

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

(In thousands)	December 31, 2012	December 31, 2011
Carrying amount (fair value)	\$111,519	\$ 98,340
Undiscounted amount	\$178,522	\$170,973

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

- manage and administer the covered assets and collect and effect charge-offs and recoveries with respect to such covered assets in a manner consistent with its usual and prudent business and banking practices and, with respect to single family shared-loss loans, the procedures (including collection procedures) customarily employed by BPPR in servicing and administering mortgage loans for its own account and the servicing procedures established by FNMA or the Federal Home Loan Mortgage Corporation (“FHLMC”), as in effect from time to time, and in accordance with accepted mortgage servicing practices of prudent lending institutions;
- exercise its best judgment in managing, administering and collecting amounts on covered assets and effecting charge-offs with respect to the covered assets;
- use commercially reasonable efforts to maximize recoveries with respect to losses on single family shared-loss assets and best efforts to maximize collections with respect to commercial shared-loss assets;
- retain sufficient staff to perform the duties under the loss share agreements;
- adopt and implement accounting, reporting, record-keeping and similar systems with respect to the commercial shared-loss assets;
- comply with the terms of the modification guidelines approved by the FDIC or another federal agency for any single-family shared-loss loan;

- provide notice with respect to proposed transactions pursuant to which a third party or affiliate will manage, administer or collect any commercial shared-loss assets;
- file monthly and quarterly certificates with the FDIC specifying the amount of losses, charge-offs and recoveries; and
- maintain books and records sufficient to ensure and document compliance with the terms of the loss share agreements.

Note 13 - Transfers of financial assets and 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 26 to the consolidated financial statements for a description of such arrangements.

No liabilities were incurred as a result of these securitizations during the years ended December 31, 2012 and 2011 because they did not contain any credit recourse arrangements. The Corporation recorded a net gain of \$75.8 million and \$24.1 million, respectively, during the years ended December 31, 2012 and 2011 related to these securitized residential mortgage loans.

The following tables present the initial fair value of the assets obtained as proceeds from residential mortgage loans securitized during the years ended December 31, 2012 and 2011:

<i>(In thousands)</i>	Proceeds obtained during the year ended December 31, 2012			
	Level 1	Level 2	Level 3	Initial fair value
Assets				
Trading account securities:				
Mortgage-backed securities - GNMA	–	\$838,795	–	\$838,795
Mortgage-backed securities - FNMA	–	453,697	–	453,697
Mortgage-backed securities - FHLMC	–	38,251	–	38,251
Total trading account securities	–	\$1,330,743	–	\$1,330,743
Mortgage servicing rights	–	–	\$15,793	\$15,793
Total	–	\$1,330,743	\$15,793	\$1,346,536

Proceeds obtained during the year ended December 31, 2011				
(In thousands)	Level 1	Level 2	Level 3	Initial fair value
Assets				
Trading account securities:				
Mortgage-backed securities - GNMA	–	\$907,238	\$–	\$907,238
Mortgage-backed securities - FNMA	–	206,437	–	206,437
Total trading account securities	–	\$1,113,675	\$–	\$1,113,675
Mortgage servicing rights	–	–	\$18,826	\$18,826
Total	–	\$1,113,675	\$18,826	\$1,132,501

During the year ended December 31, 2012 the Corporation retained servicing rights on whole loan sales involving approximately \$259 million in principal balance outstanding (December 31, 2011 - \$134 million), with net realized gains of approximately \$12.6 million (December 31, 2011 - \$2.9 million). All loan sales performed during the year ended December 31, 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 years ended December 31, 2012 and 2011.

Residential MSRs		
(In thousands)	2012	2011
Fair value at beginning of period	\$151,323	\$166,907
Purchases	2,231	1,732
Servicing from securitizations or asset transfers	18,495	19,971
Changes due to payments on loans [1]	(20,275)	(13,156)
Sale of servicing assets	(103)	–
Reduction due to loan repurchases	(5,200)	(3,717)
Changes in fair value due to changes in valuation model inputs or assumptions	8,069	(20,188)
Other disposals	(110)	(226)
Fair value at end of period	\$154,430	\$151,323

[1] Represents changes due to collection / realization of expected cash flows over time.

Residential mortgage loans serviced for others were \$16.7 billion at December 31, 2012 (2011 - \$17.3 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, which may result from changes in the valuation model inputs or assumptions (principally reflecting changes in discount rates and prepayment speed assumptions) and other changes, including changes due to collection / realization of expected cash flows. Mortgage servicing fees, excluding fair value adjustments, for the year ended December 31, 2012 amounted to \$48.2 million (2011 - \$49.2 million; 2010 - \$47.7 million). The banking subsidiaries receive servicing fees based on a percentage of the outstanding loan balance. At December 31, 2012, those weighted average mortgage servicing fees were 0.28% (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 retained at the date of the residential mortgage loan securitizations and whole loan sales by the banking subsidiaries during the years ended December 31, 2012 and 2011 were as follows:

	Year ended	
	December 31, 2012	December 31, 2011
Prepayment speed	6.6%	5.8%
Weighted average life	15.2 years	17.3 years
Discount rate (annual rate)	11.4%	11.5%

Key economic assumptions used to estimate the fair value of MSR's derived from sales and securitizations of mortgage loans performed by the banking subsidiaries and the sensitivity to immediate changes in those assumptions at December 31, 2012 and 2011 were as follows:

Originated MSR's		
<i>(In thousands)</i>	December 31,	
	2012	2011
Fair value of servicing rights	\$102,727	\$99,280
Weighted average life	10.2 years	13.0 years
Weighted average prepayment speed (annual rate)	9.8%	7.7%
Impact on fair value of 10% adverse change	\$(3,226)	\$(2,744)
Impact on fair value of 20% adverse change	\$(7,018)	\$(5,800)
Weighted average discount rate (annual rate)	12.3%	12.6%
Impact on fair value of 10% adverse change	\$(3,518)	\$(3,913)
Impact on fair value of 20% adverse change	\$(7,505)	\$(7,948)

The banking subsidiaries also own servicing rights purchased from other financial institutions. The fair value of purchased MSR's, their related valuation assumptions and the sensitivity to immediate changes in those assumptions at December 31, 2012 and 2011 were as follows:

Purchased MSR's		
<i>(In thousands)</i>	December 31,	
	2012	2011
Fair value of servicing rights	\$51,703	\$52,043
Weighted average life	11.0 years	14.6 years
Weighted average prepayment speed (annual rate)	9.1%	6.9%
Impact on fair value of 10% adverse change	\$(2,350)	\$(1,887)
Impact on fair value of 20% adverse change	\$(4,024)	\$(3,303)
Weighted average discount rate (annual rate)	11.4%	11.4%
Impact on fair value of 10% adverse change	\$(2,516)	\$(2,376)
Impact on fair value of 20% adverse change	\$(4,317)	\$(4,214)

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 December 31, 2012, the Corporation serviced \$2.9 billion (2011 - \$3.5 billion) in residential mortgage loans subject to credit recourse provision, principally loans associated with FNMA and FHLMC residential mortgage loan securitization programs.

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 December 31, 2012, the Corporation had recorded \$56 million in mortgage loans on its consolidated statements of financial condition related to this buy-back option program (December 31, 2011—\$180 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 year ended December 31, 2012, the Corporation repurchased approximately \$255 million of mortgage loans under the GNMA buy-back option program. The determination to repurchase these loans was based on the economic benefits of the transaction, which results in a reduction of the servicing costs for these severely delinquent loans, mostly related to principal and interest advances. Furthermore, due to their

guaranteed nature, the risk associated with the loans is minimal. The Corporation places these loans under its loss mitigation programs and once brought back to current status, these may be either retained in portfolio or re-sold in the secondary market.

The Corporation has also identified the rights to service a portfolio of Small Business Administration (“SBA”) commercial loans as another class of servicing rights. The SBA servicing rights are measured at the lower of cost or fair value method. The following table presents the activity in the SBA servicing rights for the years ended December 31, 2012 and 2011. During 2012 and 2011, the Corporation did not execute any sale of SBA loans.

<i>(In thousands)</i>	2012	2011
Balance at beginning of year	\$1,087	\$1,697
Rights originated / purchased	—	—
Amortization	(392)	(610)
Balance at end of year	\$695	\$1,087
Less: Valuation allowance	—	—
Balance at end of year, net of valuation allowance	\$695	\$1,087
Fair value at end of year	\$2,414	\$3,336

SBA loans serviced for others were \$485 million at December 31, 2012 (2011 - \$514 million).

In 2012 weighted average servicing fees on the SBA serviced loans were approximately 1.03% (2011 - 1.04%).

Key economic assumptions used to estimate the fair value of SBA loans and the sensitivity to immediate changes in those assumptions were as follows:

SBA Loans

<i>(In thousands)</i>	2012	2011
Carrying amount of retained interests	\$695	\$1,087
Fair value of retained interests	\$2,414	\$3,336
Weighted average life	3.1 years	3.2 years
Weighted average prepayment speed (annual rate)	5.6%	5.5%
Impact on fair value of 10% adverse change	\$(33)	\$(46)
Impact on fair value of 20% adverse change	\$(68)	\$(95)
Weighted average discount rate (annual rate)	13.0%	13.0%
Impact on fair value of 10% adverse change	\$(72)	\$(103)
Impact on fair value of 20% adverse change	\$(148)	\$(210)

Quantitative information about delinquencies, net credit losses, and components of securitized financial assets and other assets managed together with them by the Corporation, including its own loan portfolio, for the years ended December 31, 2012 and 2011, are disclosed in the following tables. Loans securitized/sold represent loans in which the Corporation has continuing involvement in the form of credit recourse.

2012			
<i>(In thousands)</i>	Total principal amount of loans, net of unearned	Principal amount 60 days or more past due	Net credit losses
Loans (owned and managed):			
Commercial	\$9,874,249	\$714,411	\$189,293
Construction	330,997	123,170	(1,883)
Legacy	386,297	60,853	16,338
Lease financing	540,523	6,420	943
Mortgage	9,269,263	1,361,636	72,771
Consumer	3,868,886	93,119	126,099
Covered loans	3,755,972	1,166,426	90,878
Less:			
Loans securitized / sold	(2,932,555)	(235,584)	(797)
Loans held-for-sale	(354,468)	(96,360)	(34)
Loans held-in-portfolio	\$24,739,164	\$3,194,091	\$493,608

2011			
<i>(In thousands)</i>	Total principal amount of loans, net of unearned	Principal amount 60 days or more past due	Net credit losses
Loans (owned and managed):			
Commercial	\$9,999,057	\$903,192	\$272,562
Construction	475,984	353,386	20,847
Legacy	648,877	83,196	52,324
Lease financing	548,706	7,943	3,444
Mortgage	9,076,243	1,382,534	29,439
Consumer	3,673,755	105,644	155,765
Covered loans	4,348,703	1,324,345	20,690
Less:			
Loans securitized / sold	(3,456,933)	(301,960)	(1,434)
Loans held-for-sale	(363,093)	(263,648)	1,101
Loans held-in-portfolio	\$24,951,299	\$3,594,632	\$554,738

Note 14 - Premises and equipment

The premises and equipment are stated at cost less accumulated depreciation and amortization as follows:

<i>(In thousands)</i>	Useful life in years	2012	2011
Land		\$108,851	\$108,468
Buildings	10-50	496,621	493,746
Equipment	2-10	306,925	312,975
Leasehold improvements	3-10	85,314	88,882
		888,860	895,603
Less - Accumulated depreciation and amortization		472,684	471,083
Subtotal		416,176	424,520
Construction in progress		10,766	5,498
Total premises and equipment, net		\$535,793	\$538,486

Depreciation and amortization of premises and equipment for the year 2012 was \$46.7 million (2011 - \$46.4 million; 2010 - \$58.9 million), of which \$24.2 million (2011 - \$23.8 million; 2010 - \$24.4 million) was charged to occupancy expense and \$22.5 million (2011 - \$22.6 million; 2010 - \$34.5 million) was charged to equipment, communications and other operating expenses. Occupancy expense is net of rental income of \$22.9 million (2011 - \$23.3 million; 2010 - \$27.1 million).

Note 15 - Other assets

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

<i>(In thousands)</i>	2012	2011
Net deferred tax assets (net of valuation allowance)	\$541,499	\$429,691
Investments under the equity method	246,776	313,152
Bank-owned life insurance program	233,475	238,077
Prepaid FDIC insurance assessment	27,533	58,082
Prepaid taxes	88,360	17,441
Other prepaid expenses	60,626	59,894
Derivative assets	41,925	61,886
Trades receivables from brokers and counterparties	137,542	69,535
Others	191,842	214,635
Total other assets	\$1,569,578	\$1,462,393

Note 16 - Investments in equity investees

During the year ended December 31, 2012, the Corporation recorded pre-tax earnings of \$73.5 million, before intra-entity eliminations, from its equity investments, compared to \$33.7 million and \$23.6 million for 2011 and 2010, respectively. The carrying value of the Corporation's equity method investments was \$246.8 million and \$313.2 million as of December 31, 2012 and 2011, respectively.

The following table presents aggregated summarized financial information of the Corporation's equity method investees.

<i>(in thousands)</i>	Years ended December 31,		
	2012	2011	2010
Operating results:			
Total revenues	\$756,100	\$651,786	\$448,734
Total expenses	532,720	539,202	288,132
Income tax (benefit) expense	(36,914)	(16,656)	9,726
Net income	\$260,294	\$129,240	\$150,876
At December 31,			
<i>(in thousands)</i>	2012	2011	
Balance Sheet:			
Total assets	\$4,711,406	\$4,353,599	
Total liabilities	\$3,920,910	\$3,419,809	

Summarized financial information for these investees may be presented on a lag, due to the unavailability of information for the investees, at the respective balance sheet dates.

Note 17 - Goodwill and other intangible assets

The changes in the carrying amount of goodwill for the years ended December 31, 2012, and 2011, allocated by reportable segments and corporate group, were as follows (refer to Note 41 for the definition of the Corporation's reportable segments):

<i>(In thousands)</i>	2012				
	Balance at January 1, 2012	Goodwill on acquisition	Purchase accounting adjustments	Balance at December 31, 2012	
				Other	
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					
<i>(In thousands)</i>	Balance at January 1, 2011	Goodwill on acquisition	Purchase accounting adjustments	Balance at December 31, 2011	
Banco Popular de Puerto Rico	\$245,309	\$1,035	\$(72)	\$-	\$246,272
Banco Popular North America	402,078	-	-	-	402,078
Total Popular, Inc.	\$647,387	\$1,035	\$(72)	\$-	\$648,350

The goodwill recognized in the BPPR reportable segment during 2011 is related to the acquisition of the Wells Fargo Advisors' Puerto Rico branch.

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 and Corporate Group.

December 31, 2012						
(In thousands)	Balance at January 1, 2012 (gross amounts)	Accumulated impairment losses	Balance at January 1, 2012 (net amounts)	Balance at December 31, 2012 (gross amounts)	Accumulated impairment losses	Balance at December 31, 2012 (net amounts)
Banco Popular de Puerto Rico	\$246,272	\$-	\$246,272	\$245,679	\$-	\$245,679
Banco Popular North America	566,489	164,411	402,078	566,489	164,411	402,078
Total Popular, Inc.	\$812,761	\$164,411	\$648,350	\$812,168	\$164,411	\$647,757

December 31, 2011						
(In thousands)	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

The accumulated impairment losses in the BPNA reportable segment are associated with E-LOAN.

At December 31, 2012 and 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
December 31, 2012			
Core deposits	\$77,885	\$43,627	\$34,258
Other customer relationships	16,835	2,974	13,861
Other intangibles	135	73	62
Total other intangible assets	\$94,855	\$46,674	\$48,181
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

There were no intangible assets acquired during the year ended December 31, 2012.

Certain core deposits and other customer relationships intangibles with a gross amount of \$3 million and \$4 million, respectively, became fully amortized during the year ended December 31, 2012, and, as such, their gross amount and accumulated amortization were eliminated from the tabular disclosure presented above.

During the year ended December 31, 2011, the Corporation recognized \$14 million in customer relationships associated with the purchase of the Citibank American Airlines co-branded credit card portfolio for Puerto Rico and the U.S. Virgin Islands and the acquisition of certain assets and liabilities of the Wells Fargo Advisors Puerto Rico branch. These customer relationship assets are to be amortized to operating expenses ratably on a monthly basis over a 10-year period.

During the year ended December 31, 2012, the Corporation recognized \$10.1 million in amortization expense related to other intangible assets with definite useful lives (2011 - \$9.7 million; 2010 - \$9.2 million).

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

(In thousands)

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 financial 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% at July 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 or 9% in the July 31, 2012 annual test as compared with approximately \$472 million or 20% at July 31, 2011. This result 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 or 46% as compared to approximately \$701 million or 64% 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 improvement 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 are indicative of possible impairment.

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

The valuation of the E-LOAN trademark was performed using the "relief-from-royalty" valuation approach. The basis of

the "relief-from-royalty" method is that, by virtue of having ownership of the trademark, the Corporation is relieved from having to pay a royalty, usually expressed as a percentage of revenue, for the use of trademark. The main attributes involved in the valuation of this intangible asset include the royalty rate, revenue projections that benefit from the use of this intangible, after-tax royalty savings derived from the ownership of the intangible, and the discount rate to apply to the projected benefits to arrive at the present value of this intangible. Since estimates are an integral part of this trademark impairment analysis, changes in these estimates could have a significant impact on the calculated fair value. There were no impairments recognized during the years ended December 31, 2012 and 2011 related to E-LOAN's trademark.

Note 18 - Deposits

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

(In thousands)	December 31,	
	2012	2011
Savings accounts	\$6,694,014	\$6,473,215
NOW, money market and other interest bearing demand deposits	5,601,261	5,103,398
Total savings, NOW, money market and other interest bearing demand deposits	12,295,275	11,576,613
Certificates of deposit:		
Under \$100,000	5,666,973	6,473,095
\$100,000 and over	3,243,736	4,236,945
Total certificates of deposit	8,910,709	10,710,040
Total interest bearing deposits	\$21,205,984	\$22,286,653

A summary of certificates of deposit by maturity at December 31, 2012 follows:

(In thousands)	
2013	\$5,617,372
2014	1,227,264
2015	982,715
2016	486,259
2017	516,460
2018 and thereafter	80,639
Total certificates of deposit	\$8,910,709

At December 31, 2012, the Corporation had brokered deposits amounting to \$2.8 billion (2011 - \$3.4 billion).

The aggregate amount of overdrafts in demand deposit accounts that were reclassified to loans was \$17 million at December 31, 2012 (2011 - \$13 million).

Note 19 - Assets sold under agreements to repurchase

The following table summarizes certain information on assets sold under agreements to repurchase at December 31, 2012 and 2011:

(Dollars in thousands)	2012	2011
Assets sold under agreements to repurchase	\$2,016,752	\$2,141,097
Maximum aggregate balance outstanding at any month-end	\$2,113,557	\$2,822,308
Average monthly aggregate balance outstanding	\$1,885,207	\$2,480,490
Weighted average interest rate:		
For the year	2.33%	2.20%
At December 31	1.91%	2.57%

The repurchase agreements outstanding at December 31, 2012 were collateralized by \$1.6 billion in investment securities available for sale, \$272 million in trading securities and \$133 million in securities sold not yet delivered in other assets (2011 - \$ 1.8 billion in investment securities available for sale, \$403 million in trading securities and \$68 million in securities sold not yet delivered in other assets). It is the Corporation's policy to maintain effective control over assets sold under agreements to repurchase; accordingly, such securities continue to be carried on the consolidated statement of financial condition.

In addition, there were repurchase agreements outstanding collateralized by \$227 million (2011 - \$274 million) in securities purchased underlying agreements to resell to which the Corporation has the right to repledge. 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, and accordingly are not reflected in the Corporation's consolidated statements of financial condition.

The following table presents the liability associated with the repurchase transactions (including accrued interest), their maturities and weighted average interest rates. Also, it includes the carrying value and approximate market value of the collateral (including accrued interest) at December 31, 2012 and 2011. The information excludes repurchase agreement transactions which were collateralized with securities or other assets held-for-trading purposes or which have been obtained under agreements to resell.

<i>(Dollars in thousands)</i>	2012				2011			
	Repurchase liability	Carrying value of collateral	Market value of collateral	Weighted average interest rate	Repurchase liability	Carrying value of collateral	Market value of collateral	Weighted average interest rate
Obligations of U.S. government sponsored entities								
Within 30 days	\$160,288	\$163,934	\$163,934	0.40 %	\$121,004	\$126,317	\$126,317	0.37%
After 30 to 90 days	7,312	7,102	7,102	0.60	—	—	—	—
After 90 days	119,120	143,502	143,502	4.88	348,100	393,998	393,998	3.55
Total obligations of U.S. government sponsored entities	286,720	314,538	314,538	2.27	469,104	520,315	520,315	2.73
Mortgage-backed securities								
Within 30 days	43,107	47,307	47,307	0.54	39,148	43,009	43,009	0.46
After 30 to 90 days	98,887	105,903	105,903	0.60	6,369	7,011	7,011	4.37
After 90 days	320,780	380,900	380,900	3.75	633,930	628,243	628,243	3.99
Total mortgage-backed securities	462,774	534,110	534,110	2.78	679,447	678,263	678,263	3.79
Collateralized mortgage obligations								
Within 30 days	330,000	365,404	365,404	0.53	194,958	240,675	240,675	0.59
After 30 to 90 days	69,856	76,516	76,516	0.60	43,704	47,388	47,388	4.37
After 90 days	287,038	341,687	341,687	4.24	130,003	291,096	291,096	3.52
Total collateralized mortgage obligations	686,894	783,607	783,607	2.09	368,665	579,159	579,159	2.08
Total	\$1,436,388	\$1,632,255	\$1,632,255	2.35%	\$1,517,216	\$1,777,737	\$1,777,737	3.05%

Note 20 – Other short-term borrowings

The following table presents a breakdown of other short-term borrowings at December 31, 2012 and 2011.

<i>(In thousands)</i>	2012	2011
Advances with the FHLB paying interest at maturity, at fixed rates ranging from 0.32% to 0.44% (2011 - 0.31%)	\$635,000	\$295,000
Others	1,200	1,200
Total other short-term borrowings	\$636,200	\$296,200

The maximum aggregate balance outstanding at any month-end was approximately \$1,356 million (2011 - \$391 million). The weighted average interest rate of other short-term borrowings at December 31, 2012 was 0.41% (2011 - 0.35%). The average aggregate balance outstanding during the year was approximately \$ 680 million (2011 - \$149 million). The weighted average interest rate during the year was 0.42% (2011 - 0.55%).

Note 21 presents additional information with respect to available credit facilities.

Note 21 – Notes payable

Notes payable outstanding at December 31, 2012 and 2011, consisted of the following:

<i>(In thousands)</i>	2012	2011
Advances with the FHLB with maturities ranging from 2013 to 2021 paying interest at monthly fixed rates ranging from 0.63% to 4.95% (2011 - 0.66% to 4.95%)	\$ 577,490	\$ 642,568
Term notes with maturities ranging from 2013 to 2016 paying interest semiannually at fixed rates ranging from 5.25% to 7.86% (2011 - 5.25% to 7.86%)	236,620	278,309
Term notes with maturities ranging from 2013 to 2014 paying interest monthly at a floating rate of 3.00% over the 10-year U.S. Treasury note rate	133	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 22)	439,800	439,800
Junior subordinated deferrable interest debentures (related to trust preferred securities) (\$936,000 less discount of \$436,530 as of 2012 and \$465,963 as of 2011) with no stated maturity and a contractual fixed interest rate of 5.00% until, but excluding December 5, 2013 and 9.00% thereafter (Refer to Note 22) ^[1]	499,470	470,037
Others	24,208	25,070
Total notes payable	\$1,777,721	\$1,856,372

Note: The 10-year U.S. Treasury note rate at December 31, 2012 and December 31, 2011 was 1.76% 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 taking into account the discount accretion was approximately 16% at December 31, 2012 and 2011.

The following table presents the aggregate amounts by contractual maturities of notes payable at December 31, 2012.

<i>Year</i>	<i>(In thousands)</i>
2013	\$98,831
2014	189,440
2015	41,107
2016	311,500
2017	103,139
Later years	534,234
No stated maturity	936,000
Subtotal	2,214,251
Less: Discount	436,530
Total notes payable	\$1,777,721

At December 31, 2012, the Corporation had borrowing facilities available with the FHLB whereby the Corporation could borrow up to \$2.8 billion based on the assets pledged with the FHLB at that date (2011 - \$2.0 billion). The FHLB advances at December 31, 2012 are collateralized with mortgage loans, and do not have restrictive covenants or callable features. The maximum borrowing capacity is dependent on certain computations as determined by the FHLB, which consider the amount and type of assets available for collateral.

Also, the Corporation has a borrowing facility at the discount window of the Federal Reserve Bank of New York. At December 31, 2012, the borrowing capacity at the discount window approximated \$3.1 billion (2011 - \$2.6 billion), which remained unused at December 31, 2012 and 2011. The facility is a collateralized source of credit that is highly reliable even under difficult market conditions.

Note 22 – Trust preferred securities

At December 31, 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 December 31, 2012 and December 31, 2011.

(Dollars in thousands)

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

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

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

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

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

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

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

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

[8] Carrying value of junior subordinated debentures of \$499 million at December 31, 2012 (\$936 million aggregate liquidation amount, net of \$437 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 December 31, 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 December 31, 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 December 31, 2012, the remaining \$935 million of trust preferred securities corresponded to capital securities issued to the U.S. Treasury pursuant to the Emergency Economic Stabilization Act of 2008, which are exempt from the phase-out provision.

Note 23 - Stockholders' equity

The Corporation has 30,000,000 shares of authorized preferred stock that may be issued in one or more series, and the shares of each series shall have such rights and preferences as shall be fixed by the Board of Directors when authorizing the issuance of that particular series. The Corporation's shares of preferred stock issued and outstanding at December 31, 2012 and 2011 consisted of:

- 6.375% non-cumulative monthly income preferred stock, 2003 Series A, no par value, liquidation preference value of \$25 per share. Holders on record of the 2003 Series A Preferred Stock are entitled to receive, when, as and if declared by the Board of Directors of the Corporation or an authorized committee thereof, out of funds legally available, non-cumulative cash dividends at the annual rate per share of 6.375% of their liquidation preference value, or \$0.1328125 per share per month. These shares of preferred stock are perpetual, nonconvertible, have no preferential rights to purchase any securities of the Corporation and are redeemable solely at the option of the Corporation with the consent of the Board of Governors of the Federal Reserve System. The redemption price per share is \$25.00. The shares of 2003 Series A Preferred Stock have no voting rights, except for certain rights in instances when the Corporation does not pay dividends for a defined period. These shares are not subject to any sinking fund requirement. Cash dividends declared and paid on the 2003 Series A Preferred Stock amounted to \$ 1.4 million for the year ended December 31, 2012 and 2011 (2010 - \$ 117.6 thousand). Outstanding shares of 2003 Series A Preferred Stock amounted to 885,726 at December 31, 2012, 2011 and 2010.
- 8.25% non-cumulative monthly income preferred stock, 2008 Series B, no par value, liquidation preference value of \$25 per share. The shares of 2008 Series B Preferred Stock were issued in May 2008. Holders of record of the 2008 Series B Preferred Stock are entitled to receive, when, as and if declared by the Board of Directors of the Corporation or an authorized committee thereof, out of funds legally available, non-cumulative cash dividends at the annual rate per share of 8.25% of their liquidation preferences, or \$0.171875 per share per month. These shares of preferred stock are perpetual, nonconvertible, have no preferential rights to purchase any securities of the Corporation and are redeemable solely at the option of

the Corporation with the consent of the Board of Governors of the Federal Reserve System beginning on May 28, 2013. The redemption price per share is \$25.50 from May 28, 2013 through May 28, 2014, \$25.25 from May 28, 2014 through May 28, 2015 and \$25.00 from May 28, 2015 and thereafter. Cash dividends declared and paid on the 2008 Series B Preferred Stock amounted to \$ 2.3 million for the year ended December 31, 2012 and 2011 (2010 - \$ 192.6 thousand). Outstanding shares of 2008 Series B Preferred Stock amounted to 1,120,665 at December 31, 2012, 2011 and 2010.

As part of the Series C Preferred Stock transaction with the U.S. Treasury effected on December 5, 2008, the Corporation issued to the U.S. Treasury a warrant to purchase 2,093,284 shares of the Corporation's common stock at an exercise price of \$67 per share, which continues to be outstanding in full and without amendment at December 31, 2012. The warrant is immediately exercisable, subject to certain restrictions, and has a 10-year term. The exercise price and number of shares subject to the warrant are both subject to anti-dilution adjustments. The U.S. Treasury may not exercise voting power with respect to shares of common stock issued upon exercise of the warrant. The trust preferred securities issued to the U.S. Treasury, which are described in Note 22 to the financial statements, the warrant or the shares issuable upon exercise of the warrant are not subject to any contractual restriction on transfer.

The Corporation's common stock trades on the NASDAQ Stock Market (the "NASDAQ") under the symbol BPOP. The Corporation voluntarily delisted its 2003 Series A and 2008 Series B Preferred Stock from the NASDAQ effective October 8, 2009.

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.

In April 2010, the Corporation raised \$1.15 billion through the sale of 46,000,000 depository shares, each representing a 1/40th interest in a share of Contingent Convertible Perpetual Non-Cumulative Preferred Stock, Series D, no par value, \$1,000 liquidation preference per share. The preferred stock represented by depository shares automatically converted into shares of the Corporation's common stock at a conversion rate of .83333 shares of common stock for each depository share on May 11, 2010. The conversion of the depository shares of preferred stock resulted in the issuance of 38,333,333 additional shares of common stock. The net proceeds from the public offering amounted to approximately \$1.1 billion, after deducting the underwriting discount and estimated offering expenses. Note 34 to the consolidated financial statements provides information on the impact of the conversion on net income per common share.

The Corporation's common stock ranks junior to all series of preferred stock as to dividend rights and / or as to rights on liquidation, dissolution or winding up of the Corporation. Dividends on each series of preferred stocks are payable if declared. The Corporation's ability to declare or pay dividends on, or purchase, redeem or otherwise acquire, its common stock is subject to certain restrictions in the event that the Corporation fails to pay or set aside full dividends on the preferred stock for the latest dividend period. The ability of the Corporation to pay dividends in the future is limited by regulatory requirements and approval, the Corporation's agreements with the U.S. Treasury, legal availability of funds, recent and projected financial results, capital levels and liquidity of the Corporation, general business conditions and other factors deemed relevant by the Corporation's Board of Directors.

During the years ended December 31, 2012, 2011 and 2010 the Corporation did not declare dividends on its common stock.

The Banking Act of the Commonwealth of Puerto Rico requires that a minimum of 10% of BPPR's net income for the year be transferred to a statutory reserve account until such statutory reserve equals the total of paid-in capital on common and preferred stock. Any losses incurred by a bank must first be

charged to retained earnings and then to the reserve fund. Amounts credited to the reserve fund may not be used to pay dividends without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The failure to maintain sufficient statutory reserves would preclude BPPR from paying dividends. BPPR's statutory reserve fund amounted to \$ 432 million at December 31, 2012 (2011 - \$ 415 million; 2010 - \$ 402 million). During 2012, \$ 17 million was transferred to the statutory reserve account (2011 - \$ 13 million). There were no transfers to the statutory reserve during 2010. BPPR was in compliance with the statutory reserve requirement in 2012, 2011 and 2010.

Note 24 - Regulatory capital requirements

The Corporation and its banking subsidiaries are subject to various regulatory capital requirements imposed by the federal banking agencies. Failure to meet minimum capital requirements can lead to certain mandatory and additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Federal Reserve Board and the other bank regulators have adopted quantitative measures which assign risk weightings to assets and off-balance sheet items and also define and set minimum regulatory capital requirements. Rules adopted by the federal banking agencies provide that a depository institution will be deemed to be well capitalized if it maintains a leverage ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6% and a total risk-based ratio of at least 10%. Management has determined that at December 31, 2012 and 2011, the Corporation exceeded all capital adequacy requirements to which it is subject.

At December 31, 2012 and 2011, BPPR and BPNA were well-capitalized under the regulatory framework for prompt corrective action. At December 31, 2012, management believes that there were no conditions or events since the most recent notification date that could have changed the institution's category.

The Corporation has been designated by the Federal Reserve Board as a Financial Holding Company ("FHC") and is eligible to engage in certain financial activities permitted under the Gramm-Leach-Bliley Act of 1999.

The following tables present the Corporation's risk-based capital and leverage ratios at December 31, 2012 and 2011.

<i>(Dollars in thousands)</i>	Actual		Capital adequacy minimum requirement	
	Amount	Ratio	Amount	Ratio
2012				
Total Capital (to Risk-Weighted Assets):				
Corporation	\$4,357,148	18.63%	\$1,871,326	8%
BPPR	2,699,339	15.25	1,415,630	8
BPNA	1,290,343	24.04	429,387	8
Tier I Capital (to Risk-Weighted Assets):				
Corporation	\$4,058,242	17.35%	\$935,663	4%
BPPR	2,288,076	12.93	707,815	4
BPNA	1,221,893	22.77	214,693	4
Tier I Capital (to Average Assets):				
Corporation	\$4,058,242	11.52%	\$1,056,785	3%
			1,409,047	4
BPPR	2,288,076	8.65	793,517	3
			1,058,023	4
BPNA	1,221,893	15.00	244,390	3
			325,853	4

<i>(Dollars in thousands)</i>	Actual		Capital adequacy minimum requirement	
	Amount	Ratio	Amount	Ratio
2011				
Total Capital (to Risk-Weighted Assets):				
Corporation	\$4,212,070	17.25%	\$1,953,146	8%
BPPR	2,595,068	14.30	1,451,841	8
BPNA	1,256,906	21.76	462,172	8
Tier I Capital (to Risk-Weighted Assets):				
Corporation	\$3,899,593	15.97%	\$976,573	4%
BPPR	2,177,865	12.00	725,920	4
BPNA	1,182,642	20.47	231,086	4
Tier I Capital (to Average Assets):				
Corporation	\$3,899,593	10.90%	\$1,073,512	3%
			1,431,350	4
BPPR	2,177,865	8.11	805,263	3
			1,073,684	4
BPNA	1,182,642	14.41	246,256	3
			328,341	4

The following table presents the minimum amounts and ratios for the Corporation's banks to be categorized as well-capitalized under prompt corrective action.

<i>(In thousands)</i>	2012		2011	
	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets):				
BPPR	\$1,769,537	10%	\$1,814,801	10%
BPNA	536,733	10	577,715	10
Tier I Capital (to Risk-Weighted Assets):				
BPPR	\$1,061,722	6%	\$1,088,881	6%
BPNA	322,040	6	346,629	6
Tier I Capital (to Average Assets):				
BPPR	\$1,322,529	5%	\$1,342,105	5%
BPNA	407,316	5	410,426	5

Note 25 – Accumulated other comprehensive loss

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

<i>(In thousands)</i>	At December 31,	
	2012	2011
Foreign currency translation adjustment	\$(31,277)	\$(28,829)
Underfunding of pension and postretirement benefit plans	(348,306)	(333,287)
Tax effect	122,460	117,229
Net of tax amount	(225,846)	(216,058)
Unrealized holding gains on investments	172,969	230,746
Tax effect	(18,401)	(27,668)
Net of tax amount	154,568	203,078
Unrealized net losses on cash flow hedges	(447)	(1,057)
Tax effect	134	318
Net of tax amount	(313)	(739)
Accumulated other comprehensive loss	\$(102,868)	\$(42,548)

Note 26 – Guarantees

The Corporation has obligations upon the occurrence of certain events under financial guarantees provided in certain contractual agreements as summarized below.

The Corporation issues financial standby letters of credit and has risk participation in standby letters of credit issued by other financial institutions, in each case to guarantee the performance of various customers to third parties. If the customers failed to meet its financial or performance obligation to the third party under the terms of the contract, then, upon their request, the Corporation would be obligated to make the payment to the guaranteed party. At December 31, 2012, the

Corporation recorded a liability of \$0.6 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. In accordance with the provisions of ASC Topic 460, the Corporation recognizes at fair value the obligation at inception of the standby letters of credit. The fair value approximates the fee received from the customer for issuing such commitments. These fees are deferred and are recognized over the commitment period. The contracts amount in standby letters of credit outstanding at December 31, 2012 and 2011, shown in Note 27 represent the maximum potential amount of future payments that the Corporation could be required to make under the guarantees in the event of nonperformance by the customers. These standby letters of credit are used by the customers as a credit enhancement and typically expire without being drawn upon. The Corporation's standby letters of credit are generally secured, and in the event of nonperformance by the customers, the Corporation has rights to the underlying collateral provided, which normally includes cash, marketable securities, real estate, receivables, and others. Management does not anticipate any material losses related to these instruments.

Also, the Corporation securitized mortgage loans into guaranteed mortgage-backed securities subject to lifetime credit recourse on the loans that serve as collateral for the mortgage-backed securities. 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 credit recourse or 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 December 31, 2012, the Corporation serviced \$ 2.9 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 2012, the Corporation repurchased approximately \$ 157 million of unpaid principal balance in mortgage loans subject to the credit recourse provisions (2011 - \$ 241 million). 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. At December 31, 2012, the Corporation's liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to \$ 52 million (December 31, 2011 - \$ 59 million). The following table shows the changes in the Corporation's liability of estimated losses from these credit recourse agreements, included in the consolidated statements of financial condition during the years ended December 31, 2012 and 2011.

<i>(In thousands)</i>	2012	2011
Balance as of beginning of period	\$58,659	\$53,729
Additions for new sales	-	-
Provision for recourse liability	16,153	43,828
Net charge-offs / terminations	(23,139)	(38,898)
Balance as of end of period	\$51,673	\$58,659

The probable losses to be absorbed under the credit recourse arrangements are recorded as a liability when the loans are sold 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 obligated to repurchase the loans amounted to \$3.2 million in unpaid principal balance with losses amounting to \$0.5 million for the year ended December 31, 2012 (\$22 million and \$2.5 million, respectively, at December 31, 2011). 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 related serviced portfolio, for which the Corporation recorded a representation and warranty reserve. At December 31, 2012, this reserve amounted to \$7.6 million and the related portfolio amounted approximately to \$2.9 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 December 31, 2012, the Corporation serviced \$16.7 billion in mortgage loans for third-parties, including the loans serviced with credit recourse (December 31, 2011 - \$17.3 billion). The Corporation generally recovers funds advanced pursuant to these arrangements from the mortgage owner, from liquidation proceeds when the mortgage loan is foreclosed or, in the case of FHA/VA loans, under the applicable FHA and VA insurance and guarantees programs. However, in the meantime, the Corporation must absorb the cost of the funds it advances during the time the advance is outstanding. The Corporation must also bear the costs of attempting to collect on delinquent and defaulted mortgage loans. In addition, if a defaulted loan is not cured, the mortgage loan would be canceled as part of the foreclosure proceedings and the Corporation would not receive any future servicing income with respect to that loan. At December 31, 2012, the outstanding balance of funds advanced

by the Corporation under such mortgage loan servicing agreements was approximately \$19 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 December 31, 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 had been 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 to these loans. At December 31, 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. On a quarterly basis, the Corporation reassesses its estimate for expected losses associated to 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, included in the consolidated statement of financial condition for the years ended December 31, 2012 and 2011.

<i>(In thousands)</i>	2012	2011
Balance as of beginning of period	\$10,625	\$30,659
Additions for new sales	-	-
(Reversal) provision for representation and warranties	(1,836)	(4,936)
Net charge-offs / terminations	(1,049)	(2,198)
Other - settlements paid	-	(12,900)
Balance as of end of period	\$7,740	\$10,625

Popular, Inc. Holding Company (“PIHC”) fully and unconditionally guarantees certain borrowing obligations issued by certain of its wholly-owned consolidated subsidiaries amounting to \$0.5 billion at December 31, 2012 (December 31, 2011 - \$0.7 billion). In addition, at December 31, 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 22 to the consolidated financial statements for further information on the trust preferred securities.

Note 27 – 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:

<i>(In thousands)</i>	December 31,	
	2012	2011
Commitments to extend credit:		
Credit card lines	\$4,379,071	\$4,297,755
Commercial lines of credit	2,044,382	2,039,629
Other unused credit commitments	351,537	358,572
Commercial letters of credit	20,634	11,632
Standby letters of credit	127,519	124,709
Commitments to originate mortgage loans	41,187	53,323

At December 31, 2012, the Corporation maintained a reserve of approximately \$5 million for potential losses associated with unfunded loan commitments related to commercial and consumer lines of credit (2011 - \$15 million).

Other commitments

At December 31, 2012, the Corporation also maintained other non-credit commitments for \$10 million, primarily for the acquisition of other investments (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 41 to the consolidated financial statements.

The Corporation’s loan portfolio is diversified by loan category. However, approximately \$13.3 billion, or 64% of the Corporation’s loan portfolio not covered under the FDIC loss sharing agreements, excluding loans held-for-sale, at December 31, 2012, consisted of real estate related loans, including residential mortgage loans, construction loans and commercial loans secured by commercial real estate (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 our total assets or deposits, or in relation to our overall business. At December 31, 2012, the Corporation had approximately \$0.9 billion of credit facilities granted to the Puerto Rico Government, its municipalities and public corporations, of which \$75 million were uncommitted lines of credit (2011 - \$1.0 billion and \$215 million, respectively). Of the total credit facilities granted, \$749 million was outstanding at December 31, 2012, of which \$61 million were uncommitted lines of credit (2011 - \$799 million and \$0, respectively). As part of its investment securities portfolio, the Corporation had \$217 million in obligations issued or guaranteed by the Puerto Rico Government, its municipalities and public corporations at December 31, 2012 (2011 - \$269 million).

Additionally, the Corporation holds consumer mortgage loans with an outstanding balance of \$294 million at December 31, 2012 that are guaranteed by the Puerto Rico Housing Authority (2011- \$294 million). These mortgage loans are secured by the underlying properties and the guarantees serve to cover any shortfall in collateral in the event of a borrower default.

Other contingencies

As indicated in Notes 4 and 12 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 true-up payment obligation was estimated at \$112 million at December 31, 2012 (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 \$19.9 million as of December 31, 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 lawsuits arising from its consumer banking and trust-related activities:

- The Overdraft Fee Litigation

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

In January 2012, the parties to the *Almeyda* action entered into a memorandum of understanding. Under the terms of this memorandum of understanding, subject to certain customary conditions, including court approval of a final settlement agreement, and in consideration for the full and final settlement and release of all defendants, the parties agreed that the amount of \$0.4 million will be paid by defendants, which amount, net of attorneys' fees, shall be donated to one or more non-profit consumer financial counseling services organizations based in Puerto Rico. A settlement stipulation and a joint motion for preliminary approval of such settlement were filed on July 3, 2012 and approved by the Court on September 6, 2012.

On January 16, 2013, a reasonableness hearing was held in the matter of reference. Counsel for both parties appeared, as well as representatives from the three non-profit organizations that were proposed as potential recipients of the settlement funds (Consumer Credit Counseling Service, Fundación Comunitaria and Proyecto PECES). The Court was informed that all class-members had been notified of the proposed settlement. The Court thereafter interviewed the representatives from the three non-profits and approved their designation. The parties agreed to file a proposed Final Order and Judgment. The Court requested that, upon the entering of the final judgment, a public notice be published to inform class-members of their right to seek consumer counseling services from these organizations.

- 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.

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

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

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

Note 28 – 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 VIEs since the equity investors at risk have no substantial decision-making rights. The Corporation does not have a significant variable interest in these trusts. Neither the residual interest held, since it was never funded in cash, nor the loan payable to the trusts is considered a variable interest since they create variability.

Also, it is involved with various special purpose entities mainly in guaranteed mortgage securitization transactions, including GNMA and FNMA. These special purpose entities are deemed to be VIEs since they lack equity investments at risk. The Corporation's continuing involvement in these guaranteed loan securitizations includes owning certain beneficial interests in the form of securities as well as the servicing rights retained. The Corporation is not required to provide additional financial support to any of the variable interest entities to which it has transferred the financial assets. The mortgage-backed securities, to the extent retained, are classified in the Corporation's consolidated statement of financial condition as available-for-sale or trading securities.

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 variable interest entities ("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, are not required to be consolidated in the Corporation's financial statements at December 31, 2012.

The Corporation concluded that it did not hold a controlling financial interest in these trusts since the decisions of the trust 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. In the case of the guaranteed mortgage securitization transactions, the Corporation concluded that, essentially, these entities (FNMA and GNMA) control the design of their respective VIEs, dictate the quality and nature of the collateral, require the underlying insurance, set the servicing standards via the servicing guides and can change them at will, and remove a primary servicer with cause, and without cause in the case of FNMA. Moreover, through their guarantee obligations, agencies (FNMA and GNMA) have the obligation to absorb losses that could be potentially significant to the VIE.

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 31 to the consolidated financial statements for additional information on the debt securities outstanding at December 31, 2012 and 2011, which are classified as available-for-sale and trading securities in the Corporation's consolidated statement 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.

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 December 31, 2012 and 2011.

<i>(In thousands)</i>	2012	2011
<u>Assets</u>		
Servicing assets:		
Mortgage servicing rights	\$105,246	\$101,511
Total servicing assets	\$105,246	\$101,511
Other assets:		
Servicing advances	\$ 1,106	\$ 3,027
Total other assets	\$ 1,106	\$ 3,027
Total assets	\$106,352	\$104,538
Maximum exposure to loss	\$106,352	\$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 \$9.2 billion at December 31, 2012 (\$9.4 billion at December 31, 2011).

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 December 31, 2012 and 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 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 of \$68.5 million to cover unfunded commitments and costs-to-complete related to certain construction projects, and a revolving working capital line of \$20 million to fund certain operating expenses of the joint venture. Cash proceeds received by the joint venture will be 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 will be 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, BPPR received \$48 million in cash and a 24.9% equity interest in the joint venture. The Corporation is not required to provide any other financial support to the joint venture.

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

The Corporation has determined that PRLP 2011 Holdings, LLC is a VIE but it 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 and the financing provided to the joint venture. The equity interest is accounted for using the equity method of accounting pursuant to ASC Subtopic 323-10.

The initial fair value of the Corporation's equity interest in the joint venture was determined based on the fair value of the loans transferred to the joint venture of \$148 million, which represented the purchase price of the loans agreed by the parties and was an arm's-length transaction between market participants in accordance with ASC Topic 820, reduced by the acquisition loan provided by BPPR to the joint venture, for a total net equity of \$ 63 million. Accordingly, the 24.9% equity interest held by the Corporation was valued at \$16 million. Thus, the fair value of the equity interest is considered a Level 2 fair value measurement since the inputs were based on observable market inputs.

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

<i>(In thousands)</i>	2012	2011
Assets		
Loans held-in-portfolio:		
Acquisition loan	\$39,775	\$64,711
Advance facility advances	5,315	–
Total loans held-in-portfolio	\$45,090	\$64,711
Accrued interest receivable	\$122	\$–
Other assets:		
Investment in PRLP 2011 Holdings LLC	\$35,969	\$37,561
Total other assets	\$35,969	\$37,561
Total assets	\$81,181	\$102,272
Deposits	\$(5,334)	\$(48)
Total liabilities	\$(5,334)	\$(48)
Total net assets	\$75,847	\$102,224
Maximum exposure to loss	\$75,847	\$102,224

The Corporation determined that the maximum exposure to loss under a worst case scenario at December 31, 2012 would be not recovering the carrying amount of the acquisition loan, the advances on the advance facility and working capital line, if any, and the equity interest held by the Corporation, net of deposits.

Note 29 – Derivative instruments and hedging activities

The use of derivatives is incorporated as part of the Corporation's overall interest rate risk management strategy to minimize significant unplanned fluctuations in earnings and cash flows that are caused by interest rate volatility. The Corporation's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that the net interest income is not materially affected by movements in interest rates. The Corporation uses derivatives in its trading activities to facilitate customer transactions, and as a means of risk management. As a result of interest rate fluctuations, hedged fixed and variable interest rate assets and liabilities will appreciate or depreciate in fair value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by the Corporation's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. As a matter of policy, the Corporation does not use highly leveraged derivative instruments for interest rate risk management.

By using derivative instruments, the Corporation exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Corporation's credit risk will equal the fair value of the derivative asset. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the Corporation, thus creating a repayment risk for the Corporation. To manage the level of credit risk, the Corporation deals with counterparties of good credit standing, enters into master netting agreements whenever possible and, when appropriate, obtains collateral. On the other hand, when the fair value of a derivative contract is negative, the Corporation owes the counterparty and, therefore, the fair value of derivatives liabilities incorporates nonperformance risk or the risk that the obligation will not be fulfilled.

The credit risk attributed to the counterparty's nonperformance risk is incorporated in the fair value of the derivatives. Additionally, as required by the fair value measurements guidance, the fair value of the Corporation's own credit standing is considered in the fair value of the derivative liabilities. During the year ended December 31, 2012, inclusion of the credit risk in the fair value of the derivatives resulted in loss of \$0.5 million (2011 - gain of \$ 1.1 million; 2010 - loss of \$ 0.5 million) resulting from the Corporation's credit standing adjustment and a gain of \$3.4 million (2011 - loss of \$1.7 million; 2010 - gain of \$0.3 million) from the assessment of the counterparties' credit risk.

Market risk is the adverse effect that a change in interest rates, currency exchange rates, or implied volatility rates might have on the value of a financial instrument. The Corporation manages the market risk associated with interest rates and, to a limited extent, with fluctuations in foreign currency exchange rates by establishing and monitoring limits for the types and degree of risk that may be undertaken.

Pursuant to the Corporation's accounting policy, the fair value of derivatives is not offset with the amounts for the right to reclaim cash collateral or the obligation to return cash collateral. At December 31, 2012, the amount recognized for the right to reclaim cash collateral under master netting agreements was \$46 million and the amount recognized for the obligation to return cash collateral was \$ 1 million (December 31, 2011 - \$ 72 million and \$ 2 million, respectively).

Certain of the Corporation's derivative instruments include financial covenants tied to the corresponding banking subsidiary's well-capitalized status and credit rating. These agreements could require exposure collateralization, early

termination or both. The aggregate fair value of all derivative instruments with contingent features that were in a liability position at December 31, 2012 was \$31 million (December 31, 2011 - \$ 57 million). Based on the contractual obligations established on these derivative instruments, the Corporation has fully collateralized these positions by pledging collateral of \$46 million at December 31, 2012 (December 31, 2011 - \$ 72 million).

Financial instruments designated as cash flow hedges or non-hedging derivatives outstanding at December 31, 2012 and December 31, 2011 were as follows:

	Notional amount		Derivative assets			Derivative liabilities		
	At December 31,		Statement of	Fair value at		Statement of	Fair value at	
(In thousands)	2012	2011	classification	2012	2011	classification	2012	2011
Derivatives designated as hedging instruments:								
Forward contracts	\$281,000	\$137,301	Other assets	\$31	\$6	Other liabilities	\$521	\$1,179
Total derivatives designated as hedging instruments	\$281,000	\$137,301		\$31	\$6		\$521	\$1,179
Derivatives not designated as hedging instruments:								
Forward contracts	\$53,100	\$114,809	Trading account securities	\$10	\$1	Other liabilities	\$18	\$236
Interest rate swaps	766,668	1,351,386	Other assets	28,136	51,078	Other liabilities	31,008	56,963
Foreign currency forward contracts	143	1,006	Other assets	2	20	Other liabilities	1	14
Interest rate floors	–	22,664	Other assets	–	233	Other liabilities	–	233
Indexed options on deposits	86,389	73,224	Other assets	13,756	10,549	–	–	–
Bifurcated embedded options	83,620	82,154	–	–	–	Interest bearing deposits	11,037	8,075
Total derivatives not designated as hedging instruments:	\$989,920	\$1,645,243		\$41,904	\$61,881		\$42,064	\$65,521
Total derivative assets and liabilities	\$1,270,920	\$1,782,544		\$41,935	\$61,887		\$42,585	\$66,700

Cash Flow Hedges

The Corporation utilizes forward contracts to hedge the sale of mortgage-backed securities with duration terms over one month. Interest rate forwards are contracts for the delayed delivery of securities, which the seller agrees to deliver on a specified future date at a specified price or yield. These forward contracts are hedging a forecasted transaction and thus qualify

for cash flow hedge accounting. Changes in the fair value of the derivatives are recorded in other comprehensive income (loss). The amount included in accumulated other comprehensive income (loss) corresponding to these forward contracts is expected to be reclassified to earnings in the next twelve months. These contracts have a maximum remaining maturity of 78 days at December 31, 2012.

For cash flow hedges, net gains (losses) on derivative contracts that are reclassified from accumulated other comprehensive income (loss) to current period earnings are included in the line item in which the hedged item is recorded and during the period in which the forecasted transaction impacts earnings, as presented in the tables below.

Year ended December 31, 2012				
<i>(In thousands)</i>	Amount of net gain (loss) recognized in OCI on derivatives (effective portion)	Classification in the statement of operations of the net gain (loss) reclassified from AOCI into income (effective portion, ineffective portion, and amount excluded from effectiveness testing)	Amount of net gain (loss) reclassified from AOCI into income (effective portion)	Amount of net gain (loss) recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing)
Forward contracts	\$(13,509)	Trading account profit	\$(14,119)	\$(44)
Total	\$(13,509)		\$(14,119)	\$(44)

Year ended December 31, 2011				
<i>(In thousands)</i>	Amount of net gain (loss) recognized in OCI on derivatives (effective portion)	Classification in the statement of operations of the net gain (loss) reclassified from AOCI into income (effective portion, ineffective portion, and amount excluded from effectiveness testing)	Amount of net gain (loss) reclassified from AOCI into income (effective portion)	Amount of net gain (loss) recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing)
Forward contracts	\$(11,678)	Trading account profit	\$(9,686)	\$(116)
Total	\$(11,678)		\$(9,686)	\$(116)

Year ended December 31, 2010				
<i>(In thousands)</i>	Amount of net gain (loss) recognized in OCI on derivatives (effective portion)	Classification in the statement of operations of the net gain (loss) reclassified from AOCI into income (effective portion, ineffective portion, and amount excluded from effectiveness testing)	Amount of net gain (loss) reclassified from AOCI into income (effective portion)	Amount of net gain (loss) recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing)
Forward contracts	\$(6,697)	Trading account profit	\$(6,433)	\$-
Total	\$(6,697)		\$(6,433)	\$-

Fair Value Hedges

At December 31, 2012 and 2011, there were no derivatives designated as fair value hedges.

Non-Hedging Activities

For the year ended December 31, 2012, the Corporation recognized a loss of \$ 4.8 million (2011 – loss of \$ 33.0 million; 2010 – loss of \$ 9.4 million) related to its non-hedging derivatives, as detailed in the table below.

<i>(In thousands)</i>	Classification of Net Gain (Loss) Recognized in Income on Derivatives	Amount of Net Gain (Loss) Recognized in Income on Derivatives		
		Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Forward contracts	Trading account profit	\$(8,046)	\$(32,517)	\$(10,172)
Interest rate swaps	Other operating income	2,953	(1,382)	(910)
Foreign currency forward contracts	Other operating income	31	23	10
Foreign currency forward contracts	Interest expense	(5)	3	3
Indexed options on deposits	Interest expense	1,965	(20)	1,247
Bifurcated embedded options	Interest expense	(1,735)	920	408
Total		\$(4,837)	\$(32,973)	\$ (9,414)

Forward Contracts

The Corporation has forward contracts to sell mortgage-backed securities, which are accounted for as trading derivatives. Changes in their fair value are recognized in trading account profit (loss).

Interest Rates Swaps and Foreign Currency and Exchange Rate Commitments

In addition to using derivative instruments as part of its interest rate risk management strategy, the Corporation also utilizes derivatives, such as interest rate swaps and foreign exchange forward contracts, in its capacity as an intermediary on behalf of its customers. The Corporation minimizes its market risk and credit risk by taking offsetting positions under the same terms and conditions with credit limit approvals and monitoring procedures. Market value changes on these swaps and other derivatives are recognized in earnings in the period of change.

Interest Rate Caps and Floors

The Corporation enters into interest rate caps and floors as an intermediary on behalf of its customers and simultaneously takes offsetting positions under the same terms and conditions, thus minimizing its market and credit risks.

Index and Embedded Options

The Corporation offers certain customers' deposits whose return are tied to the performance of the Standard and Poor's ("S&P 500") stock market indexes, and other deposits whose returns are tied to other stock market indexes or other equity securities performance. The Corporation bifurcated the related options embedded within these customers' deposits from the host contract in accordance with ASC 815-15. In order to limit the Corporation's exposure to changes in these indexes, the Corporation purchases index options which returns are tied to the same indexes from major broker dealer companies in the over the counter market. Accordingly, the embedded options and the related index options are marked-to-market through earnings.

Note 30 – Related party transactions

The Corporation grants loans to its directors, executive officers and certain related individuals or organizations in the ordinary course of business. The movement and balance of these loans were as follows:

<u>(In thousands)</u>	<u>Executive Officers</u>	<u>Directors</u>	<u>Total</u>
Balance at December 31, 2010	\$3,481	\$96,045	\$99,526
New loans	2,769	28,266	31,035
Payments	(725)	(24,223)	(24,948)
Other changes	(65)	–	(65)
Balance at December 31, 2011	\$5,460	\$100,088	\$105,548
New loans	311	51,623	51,934
Payments	(786)	(36,667)	(37,453)
Other changes	(38)	(6,837)	(6,875)
Balance at December 31, 2012	\$4,947	\$108,207	\$113,154

The amounts reported as "other changes" include items such as changes in the status of those who are considered related parties and loans sold.

At December 31, 2012, the Corporation's banking subsidiaries held deposits from related parties, excluding EVERTEC, amounting to \$ 23 million (2011 - \$ 36 million).

From time to time, the Corporation, in the ordinary course of business, obtains services from related parties or makes contributions to non-profit organizations that have some association with the Corporation. Management believes the terms of such arrangements are consistent with arrangements entered into with independent third parties.

During 2012, the Corporation engaged, in the ordinary course of business, the legal services of certain law firms in Puerto Rico, in which the Secretary of the Board of Directors of Popular, Inc. and immediate family members of one executive officer of the Corporation acted as senior counsel or as partner. The fees paid to these law firms for the year 2012 amounted to approximately \$1.9 million (2011 - \$3 million).

For the year ended December 31, 2012, the Corporation made contributions of approximately \$0.6 million to Banco Popular Foundations, which are not-for-profit corporations dedicated to philanthropic work (2011 - \$0.6 million).

In August 2009, BPPR sold part of the real estate assets and related construction permits of a residential construction project to a limited liability company (the "LLC") for \$13.5 million. The LLC is controlled by two family members of an executive officer of the Corporation, one which is a director of the Corporation. BPPR provided a loan facility, consisting of a term loan and a revolving line of credit, to finance the acquisition and completion of the residential construction project. The loan was collateralized by the real estate acquired. On September 28, 2012, the loans were sold by the Bank to an unaffiliated third party for \$6.6 million. The outstanding unpaid principal balance of the loans on the date of sale was \$17.8 million.

As of December 31, 2012, an entity controlled by a director and one family member had a \$2.5 million commercial line of credit with BPPR, which had an outstanding balance of \$2.2 million as of such date. The facility was secured by a combination of securities and real estate property. The line of credit was repaid in its entirety and cancelled in January 2013.

A director of the Corporation and entities controlled by him has a series of loan relationships with BPPR, which were restructured in March 2012. The aggregate amount of the credit facilities restructured approximated \$1.8 million, of which approximately \$1.5 million was outstanding at the time of the restructuring. As part of the restructuring, certain lines of credit were converted to term loans. The modified credit facilities are considered troubled debt restructurings because of the approved term extensions which could be viewed as an accommodation to a borrower to ensure continued compliance with its obligations. During 2012, one of the credit facilities with an outstanding balance of \$0.3 million was paid in full. As of December 31, 2012 the term loans had an aggregate outstanding balance of \$1.2 million.

In October 2007, a corporation, in which a family member of a director owns a 50% equity interest, obtained a \$3.9 million loan from BPPR to acquire a parcel of property on which it intended to develop a residential project in Puerto Rico. Certain of the director's family members personally guaranteed the loan. The borrower also obtained a \$250,000 unsecured line of credit from BPPR. The project was never constructed as a result of a series of legal challenges regarding the zoning approvals and went into default. BPPR commenced foreclosure and collection proceedings against both the borrower and the guarantors in April 2010. At December 31, 2012, the loan was classified as held-for-sale and was not accruing interest. At December 31, 2012, the carrying value of the loan amounted to \$2.0 million.

In June 2006, family members of a director of the Corporation, obtained an \$828,000 mortgage loan from Popular Mortgage, Inc., secured by a residential property. The director was not a director of the Corporation at the time the loan was made. In March, 2012 the loan was restructured under the Corporation's loss mitigation program. The client is current under modified payment terms. The balance due on the loan at December 31, 2012 was approximately \$0.9 million.

In November 2007, family members of an executive officer and member of the Board of Directors of the Corporation, obtained a \$1.35 million mortgage loan from Popular Mortgage, secured by a residential property. The borrowers became delinquent on their payments commencing in September 2009 and after exhausting various collection and loss mitigation efforts BPPR commenced foreclosure procedures in October 2011, which are ongoing. The balance due on the loan at December 31, 2012, including

accumulated interest, was approximately \$1.7 million. At December 31, 2012, the Corporation had recorded a loss of approximately \$500,000 on this loan.

The Corporation has had loan transactions with the Corporation's directors and officers, and with their associates, and proposes to continue such transactions in the ordinary course of its business, on substantially the same terms, including interest rates and collateral, as those prevailing for comparable loan transactions with third parties, except as disclosed above. Except as discussed above, the extensions of credit have not involved and do not currently involve more than normal risks of collection or present other unfavorable features.

Sale of Processing and Technology Business and Related party transactions with EVERTEC, as an affiliate

In 2010, the Corporation entered into a merger agreement, dated as of June 30, 2010, to sell a 51% interest in EVERTEC, including the merchant acquiring business of BPPR (the "EVERTEC transaction"), to funds managed by Apollo Management, L.P. ("Apollo"), an unrelated third-party, in a leveraged buyout.

On September 30, 2010, the Corporation completed the EVERTEC transaction. Following the consummation of the EVERTEC transaction, EVERTEC is now a wholly-owned subsidiary of Carib Holdings, Inc., a newly formed entity that is operated as a joint venture, with Apollo and the Corporation initially owning 51% and 49%, respectively, subject to pro rata dilution for certain issuances of capital stock to EVERTEC management. In connection with the leveraged buyout, EVERTEC issued financing in the form of unsecured senior notes and a participation in a syndicated loan (senior secured credit facility). As of December 31, 2012, the Corporation's holds a 48.5% interest in the holding company of Evertec.

The equity value of the Corporation's retained interest in the former subsidiary, as determined in an orderly transaction between market participants, takes into consideration the buyer's enterprise value of EVERTEC reduced by the debt incurred, net of debt issue costs, utilized as part of the sale transaction. Prospectively, the investment in EVERTEC is accounted for under the equity method and evaluated for impairment if events or circumstances indicate that a decrease in value of the investment has occurred that is other-than-temporary.

As part of the EVERTEC transaction, on September 30, 2010, the Corporation entered into certain ancillary agreements pursuant to which, among other things, EVERTEC provides 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 by providing various services, in each case for initial terms of fifteen years.

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 year

ended December 31, 2012, the Corporation received net capital distributions of \$155 million from its investments in EVERTEC's holding company, which included \$5 million in dividend distributions.

<i>(In thousands)</i>	December 31, 2012	December 31, 2011
Equity investment in EVERTEC	\$73,916	\$191,072
Intra-company eliminations (detailed in next table)	27,209	11,944
Equity investment in EVERTEC, considering intra-company eliminations	<u>\$101,125</u>	<u>\$203,016</u>

The Corporation had the following financial condition accounts outstanding with EVERTEC at December 31, 2012 and 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 December 31, 2012 (2011 - 51%).

<i>(In thousands)</i>	At December 31, 2012			At December 31, 2011		
	100%	Popular's 48.5% interest (eliminations)	51.5% majority interest	100%	Popular's 49% interest (eliminations)	51% majority interest
Loans	\$53,589	\$25,980	\$27,609	\$53,215	\$26,075	\$27,140
Investment securities	35,000	16,968	18,032	35,000	17,150	17,850
Deposits	19,968	9,680	10,288	54,288	26,601	27,687
Accounts receivables (Other assets)	4,085	1,980	2,105	5,132	2,515	2,617
Accounts payable (Other liabilities)	16,582	8,039	8,543	14,684	7,195	7,489
Net total	<u>\$56,124</u>	<u>\$27,209</u>	<u>\$28,915</u>	<u>\$24,375</u>	<u>\$11,944</u>	<u>\$12,431</u>

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 year ended December 31, 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 years ended December 31, 2012 (2011 - 49%).

<i>(In thousands)</i>	December 31,	
	2012	2011
Share of income from the equity investment in EVERTEC	\$ 38,274	\$ 13,936
Intra-company eliminations considered in other operating income (detailed in next table)	(53,449)	(52,218)
Share of loss from the equity investment in EVERTEC, net of eliminations	<u>\$(15,175)</u>	<u>\$(38,282)</u>

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 years ended December 31, 2012 and 2011. Items that represent expenses to the Corporation are presented with parenthesis. For consolidation purposes, for the year ended December 31, 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 (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 years ended December 31, 2012 (2011 - 51%).

<i>(In thousands)</i>	December 31, 2012			December 31, 2011			Category
	100%	Popular's 48.5% interest (eliminations)	51% majority interest	100%	Popular's 49% interest (eliminations)	51% majority interest	
Interest income on loan to EVERTEC	\$ 3,373	\$ 1,621	\$ 1,752	\$ 3,619	\$ 1,773	\$ 1,846	Interest income
Interest income on investment securities issued by EVERTEC	3,850	1,851	1,999	3,850	1,887	1,963	Interest income
Interest expense on deposits ATH and credit cards	(267)	(127)	(140)	(627)	(307)	(320)	Interest expense
interchange income from services to EVERTEC	25,188	12,090	13,098	27,300	13,377	13,923	Other service fees
Processing fees on services provided by EVERTEC	(150,677)	(72,435)	(78,242)	(149,156)	(73,086)	(76,070)	Professional fees
Rental income charged to EVERTEC	6,647	3,193	3,454	7,063	3,461	3,602	Net occupancy
Transition services provided to EVERTEC	751	358	393	1,382	677	705	Other operating expenses
Total	\$(111,135)	\$(53,449)	\$(57,686)	\$(106,569)	\$(52,218)	\$(54,351)	

Prior to the EVERTEC sale transaction on September 30, 2010, EVERTEC had certain performance bonds outstanding, which were guaranteed by the Corporation under a general indemnity agreement between the Corporation and the insurance companies issuing the bonds. The Corporation agreed to maintain, for a 5-year period following September 30, 2010, the guarantee of the performance bonds. The EVERTEC's performance bonds guaranteed by the Corporation amounted to approximately \$ 1.0 million at December 31, 2012 (2011 - \$ 15.0 million). Also, EVERTEC had an existing letter of credit issued by BPPR, which amounted to \$ 2.9 million at December 31, 2012 and 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 28 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 year ended December 31, 2012.

<i>(In thousands)</i>	December 31, 2012		
	100%	Popular's 24.9% interest (eliminations)	75.1% majority interest
Interest income on loan to PRLP 2011 Holdings, LLC	\$2,688	\$669	\$2,019

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

<i>(In thousands)</i>	At December 31, 2012			At December 31, 2011		
		Popular's 24.9% interest (eliminations)	75.1% majority interest		Popular's 24.9% interest (eliminations)	75.1% majority interest
	100%			100%		
Loans	\$60,040	\$14,950	\$45,090	\$86,167	\$21,456	\$64,711
Deposits (non-interest bearing)	7,103	1,769	5,334	64	16	48
Accrued interest receivable	163	41	122	–	–	–
Net total	\$53,100	\$13,222	\$39,878	\$86,103	\$21,440	\$64,663

Note 31 – 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.

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 December 31, 2012 and 2011 and on a nonrecurring basis in periods subsequent to initial recognition for the years ended December 31, 2012, 2011, and 2010:

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

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

Year ended December 31, 2012

<i>(In thousands)</i>	Level 1	Level 2	Level 3	Total	Write-downs
NONRECURRING FAIR VALUE MEASUREMENTS					
Assets					
Loans [1]	\$—	\$—	\$ 10,445	\$ 10,445	\$ (23,972)
Loans held-for-sale [2]	—	—	93,429	93,429	(43,937)
Other real estate owned [3]	—	—	111,425	111,425	(32,783)
Other foreclosed assets [3]	—	—	128	128	(360)
Long-lived assets held-for-sale [4]	—	—	—	—	(123)
Total assets measured at fair value on a nonrecurring basis	\$—	\$—	\$215,427	\$215,427	\$ (101,175)

[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 \$8 million at December 31, 2012.

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

Year ended December 31, 2011

<i>(In thousands)</i>	Level 1	Level 2	Level 3	Total	Write-downs
NONRECURRING FAIR VALUE MEASUREMENTS					
Assets					
Loans [1]	\$—	\$—	\$ 95,978	\$ 95,978	\$ (5,863)
Loans held-for-sale [2]	—	—	83,915	83,915	(30,094)
Other real estate owned [3]	—	—	91,432	91,432	(22,923)
Other foreclosed assets [3]	—	—	377	377	(708)
Total assets measured at fair value on a nonrecurring basis	\$—	\$—	\$271,702	\$271,702	\$ (59,588)

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

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

[3] Represents the fair value of foreclosed real estate and other collateral owned that were written down to their fair value. Costs to sell excluded from the reported fair value amount were \$5 million at December 31, 2011.

Year ended December 31, 2010

<i>(In thousands)</i>	Level 1	Level 2	Level 3	Total	Write-downs
NONRECURRING FAIR VALUE MEASUREMENTS					
Assets					
Loans [1]	\$—	\$—	\$204,427	\$204,427	\$ (13,971)
Loans held-for-sale [2]	—	—	671,223	671,223	(342,035)
Other real estate owned [3]	—	—	45,454	45,454	(28,334)
Other foreclosed assets [3]	—	—	73	73	(855)
Total assets measured at fair value on a nonrecurring basis	\$—	\$—	\$921,177	\$921,177	\$ (385,195)

[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 \$3 million at December 31, 2010.

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended December 31, 2012, 2011, and 2010.

Year ended December 31, 2012

<i>(In thousands)</i>	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	(6)	30	680	(123)	(17,406)	(16,825)	(12,600)	(12,600)
Gains (losses) included in OCI	66	—	—	—	—	66	—	—
Purchases	—	608	6,499	2,116	20,726	29,949	—	—
Sales	—	(250)	(9,824)	(1,834)	(103)	(12,011)	—	—
Settlements	(425)	(697)	(2,104)	(1,955)	(110)	(5,291)	360	360
Transfers into Level 3	—	—	2,405	—	—	2,405	—	—
Transfers out of Level 3	—	—	(7,616)	—	—	(7,616)	—	—
Balance at December 31, 2012	\$7,070	\$2,499	\$11,817	\$ 2,240	\$154,430	\$178,056	\$(112,002)	\$(112,002)
Changes in unrealized gains (losses) included in earnings relating to assets still held at December 31, 2012	\$ —	\$ 23	\$ (165)	\$ (333)	\$ 8,130	\$ 7,655	\$ (13,347)	\$ (13,347)

Year ended December 31, 2011

<i>(In thousands)</i>	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)
Initial fair value on acquisition	—	—	—	—	—	—	(688)	(688)
Gains (losses) included in earnings	(7)	21	108	459	(37,061)	(36,480)	(6,080)	(6,080)
Gains (losses) included in OCI	(18)	—	—	—	—	(18)	—	—
Purchases	—	752	13,395	3,263	21,703	39,113	—	—
Sales	—	(341)	(9,956)	(2,449)	—	(12,746)	—	—
Settlements	(299)	(370)	(2,008)	(47)	(226)	(2,950)	—	—
Balance at December 31, 2011	\$ 7,435	\$2,808	\$ 21,777	\$ 4,036	\$151,323	\$ 187,379	\$(99,762)	\$(99,762)
Changes in unrealized gains (losses) included in earnings relating to assets still held at December 31, 2011	\$ —	\$ 7	\$ 133	\$ 698	\$(20,188)	\$(19,350)	\$(6,380)	\$(6,380)

Year ended December 31, 2010

<i>(In thousands)</i>	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, 2010	\$ 34,122	\$2,787	\$ 223,766	\$ 3,488	\$169,747	\$ 433,910	\$ —	\$ —
Initial fair value on acquisition	—	—	—	—	—	—	(89,139)	(89,139)
Gains (losses) included in earnings	(8)	1	3,737	(438)	(22,859)	(19,567)	(3,855)	(3,855)
Gains (losses) included in OCI	744	—	—	—	—	744	—	—
Issuances	2,502	—	101	—	—	2,603	—	—
Purchases	—	715	23,451	706	20,019	44,891	—	—
Sales	—	(302)	(48,928)	(896)	—	(50,126)	—	—
Settlements	(2,305)	(455)	(11,542)	(50)	—	(14,352)	—	—
Transfers out of Level 3	(27,296)	—	(170,347)	—	—	(197,643)	—	—
Balance at December 31, 2010	\$ 7,759	\$2,746	\$ 20,238	\$ 2,810	\$166,907	\$ 200,460	\$(92,994)	\$(92,994)
Changes in unrealized gains (losses) included in earnings relating to assets still held at December 31, 2010	\$ —	\$ (5)	\$ 178	\$ (450)	\$(5,963)	\$(6,240)	\$(3,855)	\$(3,855)

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 year ended December 31, 2012. The transfers from Level 2 to Level 3 of trading mortgage-backed securities were the result of a change in valuation technique to a matrix pricing model, based on indicative prices provided by brokers. The transfers from Level 3 to Level 2 of trading mortgage-backed securities resulted from observable market data becoming available for these securities. There were no transfers in and/or out of Level 2 and Level 3 for financial instruments measured at fair value on a recurring basis during the year ended December 31, 2011.

There were \$198 million in transfers from Level 3 to Level 2 for financial instruments measured at fair value on a recurring basis during the year ended December 31, 2010. These transfers of certain exempt FNMA and GNMA mortgage-backed securities were the result of a change in valuation methodology from an internally-developed matrix pricing to pricing them based on a bond's theoretical value from similar bonds defined by credit quality and market sector. Their fair value incorporates an option adjusted spread. 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 1 during 2012, 2011, and 2010.

Gains and losses (realized and unrealized) included in earnings for the years ended December 31, 2012, 2011, and 2010 for Level 3 assets and liabilities included in the previous tables are reported in the consolidated statement of operations as follows:

<i>(In thousands)</i>	2012		2011		2010	
	Total gains (losses) included in earnings	Changes in unrealized gains (losses) relating to assets still held at reporting date	Total gains (losses) included in earnings	Changes in unrealized gains (losses) relating to assets still held at reporting date	Total gains (losses) included in earnings	Changes in unrealized gains (losses) relating to assets still held at reporting date
Interest income	\$ (6)	\$ –	\$ (7)	\$ –	\$ (8)	\$ –
FDIC loss share (expense) income	(13,178)	(13,178)	(6,304)	(6,304)	(3,855)	(3,855)
Other service fees	(17,406)	8,130	(37,061)	(20,188)	(22,859)	(5,963)
Trading account (loss) profit	587	(475)	588	838	3,300	(277)
Other operating income	578	(169)	224	(76)	–	–
Total	\$(29,425)	\$ (5,692)	\$(42,560)	\$(25,730)	\$(23,422)	\$(10,095)

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.

<i>(In thousands)</i>	Fair Value at December 31, 2012	Valuation Technique	Unobservable Inputs	Weighted Average (Range)
Collateralized mortgage obligations - trading	\$ 2,499	Discounted cash flow model	Weighted average life Yield Constant prepayment rate	2.3 years (0.2 - 5.1 years) 3.7% (0.6% - 4.7%) 27.8% (26.2% - 30.1%)
Other - trading	\$ 1,136	Discounted cash flow model	Weighted average life Yield Constant prepayment rate	5.4 years 11.4% 10.8%
Mortgage servicing rights	\$ 154,430	Discounted cash flow model	Prepayment speed Weighted average life Discount rate	9.6% (4.3% - 26.0%) 10.4 years (3.8 - 23.2 years) 12.0% (10.0 - 17.5%)
Contingent consideration	\$(112,002)	Discounted cash flow model	Credit loss rate on covered loans Risk premium component of discount rate	20.3% (0.0% - 85.7%) 4.9%
Loans held-for-sale	\$ 93,429 [1]	Discounted cash flow model	Weighted average life Net loss rate	2.0 years 58.1%
Other real estate owned	\$ 56,567 [2]	External Appraisal	Haircut applied on external appraisals	24.4% (5.0% - 40.0%)

[1] Loans held-for-sale fair valued based on unadjusted third-party sources were excluded from this table.

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

The significant unobservable inputs used in the fair value measurement of the Corporation's collateralized mortgage obligations and interest-only collateralized mortgage obligation (reported as "other"), which are classified in the "trading" category, are yield, constant prepayment rate, and weighted average life. Significant increases (decreases) in any of those inputs in isolation would result in significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the constant prepayment rate will generate a directionally opposite change in the weighted average life. For example, as the average life is reduced by a higher constant

prepayment rate, a lower yield will be realized, and when there is a reduction in the constant prepayment rate, the average life of these collateralized mortgage obligations will extend, thus resulting in a higher yield. These particular financial instruments are valued internally by the Corporation's investment banking and broker-dealer unit utilizing internal valuation techniques. The unobservable inputs incorporated into the internal discounted cash flow models used to derive the fair value of collateralized mortgage obligations and interest-only collateralized mortgage obligation (reported as "other"), which are classified in the "trading" category, are

reviewed by the Corporation's Corporate Treasury unit on a quarterly basis. In the case of Level 3 financial instruments which fair value is based on broker quotes, the Corporation's Corporate Treasury unit reviews the inputs used by the broker-dealers for reasonableness utilizing information available from other published sources and validates that the fair value measurements were developed in accordance with ASC Topic 820. The Corporate Treasury unit also substantiates the inputs used by validating the prices with other broker-dealers, whenever possible.

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

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 and debentures from a not-for-profit organization (included as "other" in the "available-for-sale" category): Given that the quoted prices are for similar instruments, these securities are classified as Level 2.
- Corporate securities, commercial paper, mutual funds, and other equity securities (included as "other" in the "trading account securities" category): Quoted prices for

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

Mortgage servicing rights

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

Derivatives

Interest rate swaps, interest rate caps and indexed options are traded in over-the-counter active markets. These derivatives are indexed to an observable interest rate benchmark, such as LIBOR or equity indexes, and are priced using an income approach based on present value and option pricing models using observable inputs. Other derivatives are liquid and have quoted prices, 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 12 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 32 – 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 December 31, 2012 and 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 31.

Cash and due from banks

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

Money market investments

Investments in money market instruments include highly liquid instruments with an average maturity of three months or less. For this reason, they carry a low risk of changes in value as a result of changes in interest rates, and the carrying amount approximates their fair value. Money market investments include federal funds sold, securities purchased under agreements to resell, time deposits with other banks, and cash balances, including those held at the Federal Reserve. These money market investments are classified as Level 2, except for cash balances which generate interest, including those held at the Federal Reserve, which are classified as Level 1.

Investment securities held-to-maturity

- Obligations of Puerto Rico, States and political subdivisions: Municipal bonds include Puerto Rico public municipalities debt and bonds collateralized by second mortgages under the Home Purchase Stimulus Program. Puerto Rico public municipalities debt was valued internally based on benchmark treasury notes and a credit spread derived from comparable Puerto Rico government trades and recent issuances. Puerto Rico public municipalities debt is classified as Level 3. Given that the fair value of municipal bonds collateralized by second mortgages was based on internal yield and prepayment speed assumptions, these municipal bonds are classified as Level 3.
- Agency collateralized mortgage obligation: The fair value of the agency collateralized mortgage obligation ("CMO"), which is guaranteed by GNMA, was based on internal yield and prepayment speed assumptions. This agency CMO is classified as Level 3.
- Other: Other securities include foreign and corporate debt. Given that the fair value was based on quoted prices for similar instruments, foreign debt is classified as Level 2. The fair value of corporate debt, which is collateralized by municipal bonds of Puerto Rico, was internally derived from benchmark treasury notes and a credit spread based on comparable Puerto Rico government trades, similar securities, and/or recent issuances. Corporate debt is classified as Level 3.

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 22 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.

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.

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.

<i>(In thousands)</i>	December 31, 2012					December 31, 2011	
	Carrying amount	Level 1	Level 2	Level 3	Fair value	Carrying amount	Fair value
Financial Assets:							
Cash and due from banks	\$439,363	\$439,363	\$ –	\$ –	\$439,363	\$535,282	\$535,282
Money market investments	1,085,580	839,007	246,573	–	1,085,580	1,376,174	1,376,174
Trading account securities, excluding derivatives [1]	314,515	–	297,959	16,556	314,515	436,330	436,330
Investment securities available-for-sale [1]	5,084,201	3,827	5,073,304	7,070	5,084,201	5,009,823	5,009,823
Investment securities held-to-maturity:							
Obligations of Puerto Rico, States and political subdivisions	116,177	–	–	117,558	117,558	98,973	98,770
Collateralized mortgage obligation-federal agency	140	–	–	144	144	160	151
Other	26,500	–	1,500	25,031	26,531	26,250	26,333
Total investment securities held-to-maturity	\$142,817	\$ –	\$1,500	\$142,733	\$144,233	\$125,383	\$125,254
Other investment securities:							
FHLB stock	\$89,451	\$ –	\$89,451	\$ –	\$89,451	\$84,133	\$84,133
FRB stock	79,878	–	79,878	–	79,878	79,648	79,648
Trust preferred securities	14,197	–	13,197	1,000	14,197	14,197	14,197
Other investments	1,917	–	–	3,975	3,975	1,902	3,605
Total other investment securities	\$185,443	\$ –	\$182,526	\$4,975	\$187,501	\$179,880	\$181,583
Loans held-for-sale	\$354,468	\$ –	\$4,779	\$376,582	\$381,361	\$363,093	\$390,783
Loans not covered under loss sharing agreement with the FDIC	20,361,491	–	–	17,424,038	17,424,038	19,912,233	16,753,889
Loans covered under loss sharing agreements with the FDIC	3,647,066	–	–	3,925,440	3,925,440	4,223,758	4,663,327
FDIC loss share asset	1,399,098	–	–	1,241,579	1,241,579	1,915,128	1,755,295
Mortgage servicing rights	154,430	–	–	154,430	154,430	151,323	151,323
Derivatives	41,935	–	41,935	–	41,935	61,887	61,887

(In thousands)	December 31, 2012					December 31, 2011	
	Carrying amount	Level 1	Level 2	Level 3	Fair value	Carrying amount	Fair value
Financial Liabilities:							
Deposits:							
Demand deposits	\$18,089,904	\$-	\$18,089,904	\$-	\$18,089,904	\$17,232,087	\$17,232,087
Time deposits	8,910,709	-	8,994,363	-	8,994,363	10,710,040	10,825,256
Total deposits	\$27,000,613	\$-	\$27,084,267	\$-	\$27,084,267	\$27,942,127	\$28,057,343
Assets sold under agreements to repurchase:							
Securities sold under agreements to repurchase							
Structured repurchase agreements	\$1,378,562	\$-	\$1,385,237	\$-	\$1,385,237	\$1,102,907	\$1,107,314
	638,190	-	720,620	-	720,620	1,038,190	1,166,488
Total assets sold under agreements to repurchase	\$2,016,752	\$-	\$2,105,857	\$-	\$2,105,857	\$2,141,097	\$2,273,802
Other short-term borrowings [2]	\$636,200	\$-	\$636,200	\$-	\$636,200	\$296,200	\$296,200
Notes payable:							
FHLB advances	\$577,490	\$-	\$608,313	\$-	\$608,313	\$642,568	\$673,505
Medium-term notes	236,753	-	243,351	3,843	247,194	278,897	282,898
Junior subordinated deferrable interest debentures (related to trust preferred securities)	439,800	-	363,659	-	363,659	439,800	284,238
Junior subordinated deferrable interest debentures (Troubled Asset Relief Program)	499,470	-	-	824,458	824,458	470,037	457,120
Others	24,208	-	-	24,208	24,208	25,070	25,070
Total notes payable	\$1,777,721	\$-	\$1,215,323	\$852,509	\$2,067,832	\$1,856,372	\$1,722,831
Derivatives	\$42,585	\$-	\$42,585	\$-	\$42,585	\$66,700	\$66,700
Contingent consideration	\$112,002	\$-	\$-	\$112,002	\$112,002	\$99,762	\$99,762
(In thousands)							
	Notional amount	Level 1	Level 2	Level 3	Fair value	Notional amount	Fair value
Commitments to extend credit	\$6,774,990	\$-	\$-	\$2,858	\$2,858	\$6,695,956	\$2,062
Letters of credit	148,153	-	-	1,544	1,544	136,341	2,339

[1] Refer to Note 31 to the consolidated financial statements for the fair value by class of financial asset and its hierarchy level.

[2] Refer to Note 20 to the consolidated financial statements for the composition of short-term borrowings.

Note 33 – Employee benefits

Pension and benefit restoration plans

Certain employees of BPPR are covered by non-contributory defined benefit pension plans. Pension benefits are based on age, years of credited service, and final average compensation.

BPPR's non-contributory, defined benefit retirement plan is currently closed to new hires and to employees who at December 31, 2005 were under 30 years of age or were credited with less than 10 years of benefit service. Effective May 1, 2009, the accrual of the benefits under the BPPR retirement plan (the "P.R. Plans") were frozen to all participants. Pursuant to the amendment, the retirement plan participants will not receive any additional credit for compensation earned and service performed after April 30, 2009 for purposes of calculating benefits under the retirement plan. The retirement plan's benefit formula is based on a percentage of average final compensation and years of service. Normal retirement age under the retirement plans is age 65 with 5 years of service.

Pension costs are funded in accordance with minimum funding standards under the Employee Retirement Income Security Act of 1974 ("ERISA"). Benefits under the BPPR retirement plan are subject to the U.S. and PR Internal Revenue Code limits on compensation and benefits. Benefits under restoration plans restore benefits to selected employees that are limited under the retirement plan due to U.S. and PR Internal Revenue Code limits and a compensation definition that excludes amounts deferred pursuant to nonqualified arrangements. The freeze applied to the restoration plan as well.

In October 2011, the Corporation implemented a voluntary retirement program for retirement-eligible participants of the pension plan. Under the voluntary retirement program, a participant who elected to retire as of February 1, 2012 was provided a benefit equal to one-year of their current base pay rate. Approximately, 958 participants were eligible for the voluntary retirement program and 369 participants retired under the program. Participants could elect to receive their

program benefit in the form of a lump sum on February 1, 2012 or as an immediate annuity commencing on such date. The pension plan benefit obligation reflects the retirement for all employees who accepted the voluntary retirement program.

During the third quarter of 2010, the Corporation amended the pension benefits as a result of the EVERTEC sale described in Note 30 to the consolidated financial statements. As a result of such amendment, the EVERTEC employees that were not eligible for retirement at the time of sale may become eligible for subsidized retirement benefits provided they reach retirement age while working with the acquiring institution.

During 2010, the Corporation settled its U.S.A. non-contributory, defined benefit retirement plan (the "U.S. Plan"), which had been frozen since 2007. The U.S. retirement plan assets were distributed to plan participants during the fourth quarter of 2010.

The Corporation's funding policy is to make annual contributions to the plans, when necessary, in amounts which fully provide for all benefits as they become due under the plans.

The Corporation's pension fund investment strategy is to invest in a prudent manner for the exclusive purpose of providing benefits to participants. A well defined internal structure has been established to develop and implement a risk-controlled investment strategy that is targeted to produce a total return that, when combined with the bank's contributions to the fund, will maintain the fund's ability to meet all required benefit obligations. Risk is controlled through diversification of asset types, such as investments in domestic and international equities and fixed income.

Equity investments include various types of stock and index funds. Also, this category includes Popular, Inc.'s common stock. Fixed income investments include U.S. Government securities and other U.S. agencies' obligations, corporate bonds, mortgage loans, mortgage-backed securities and index funds, among others. A designated committee periodically reviews the performance of the pension plans' investments and assets allocation. The Trustee and the money managers are allowed to exercise investment discretion, subject to limitations established by the pension plans' investment policies. The plans forbid money managers to enter into derivative transactions, unless approved by the Trustee.

The overall expected long-term rate-of-return-on-assets assumption reflects the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the plan assets, with consideration given to the distribution of the investments by asset class and historical rates of return for each individual asset class. This process is reevaluated at least on an annual basis and if market, actuarial and economic conditions change, adjustments to the rate of return may come into place.

The plans' target allocation based on market value for years 2012 and 2011, by asset category, is summarized in the table below.

	Minimum allotment	Maximum allotment
Equity	—%	70%
Debt securities	—%	100%
Cash and cash equivalents	—%	100%

The following table presents the composition of the assets of the pension and benefit restoration plans.

<i>(In thousands)</i>	2012	2011
Investments, at fair value:		
Allocated share of Master Trust net assets	\$649,702	\$574,673
Popular, Inc. common stock	5,708	3,817
Private equity investment	714	937
Total investments	656,124	579,427
Cash and cash equivalents	7	96
Total assets	\$656,131	\$579,523

Certain assets of the plans are maintained, for investment purposes only in a Master Trust (the "Master Trust"). Neither the pension or benefit restoration plan has any interest in the specific assets of the Master Trust, but maintains beneficial interests in such assets. The Master Trust is managed by the Trust Division of BPPR and by several investment managers.

At December 31, 2012, the pension and restoration plans' interest in the net assets of the Master Trust was 100% (2011 – approximately 91.0%).

The following table sets forth by level, within the fair value hierarchy, the plans' assets at fair value at December 31, 2012 and 2011, excluding the plans' interest in the Master Trust because that information is presented in a separate table.

<i>(In thousands)</i>	2012				2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Equity securities	\$5,708	\$—	\$—	\$5,708	\$3,817	\$—	\$—	\$3,817
Private equity investments	—	—	714	714	—	—	937	937
Cash and cash equivalents	7	—	—	7	96	—	—	96
Total assets, excluding interest in Master Trust	\$5,715	\$—	\$714	\$6,429	\$3,913	\$—	\$937	\$4,850

Following is a description of the plans' valuation methodologies used for assets measured at fair value:

- Equity securities - Equity securities with quoted market prices obtained from an active exchange market are classified as Level 1.
- Private equity investments - Private equity investments include an investment in a private equity fund. This fund

value is recorded at the net asset value (NAV) of the fund which is affected by the changes of the fair value of the investments held in the fund. This fund is classified as Level 3.

- Cash and cash equivalents - The carrying amount of cash and cash equivalents are reasonable estimates of their fair value since they are available on demand or due to their short-term maturity.

The following table presents the changes in Level 3 assets measured at fair value.

<i>(In thousands)</i>	2012	2011
Balance at beginning of year	\$937	\$836
Actual return on plan assets:		
Change in unrealized (loss) gain relating to instruments still held at the reporting date	(223)	101
Balance at end of year	\$714	\$937

Master Trust

The following table presents the investments held in the Master Trust at December 31, 2012 and 2011, broken down by level within the fair value hierarchy.

<i>(In thousands)</i>	2012				2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Obligations of the U.S. Government and its agencies	\$—	\$162,542	\$—	\$162,542	\$—	\$182,892	\$—	\$182,892
Corporate bonds and debentures	—	43,006	—	43,006	—	44,463	—	44,463
Equity securities	262,961	—	—	262,961	239,754	—	—	239,754
Index fund - equity	31,133	—	—	31,133	39,897	—	—	39,897
Index fund - fixed income	—	2,548	—	2,548	—	2,396	—	2,396
Foreign equity fund	—	86,947	—	86,947	—	59,699	—	59,699
Foreign index fund	—	19,847	—	19,847	—	24,676	—	24,676
Commodity fund	—	19,088	—	19,088	—	14,568	—	14,568
Mortgage-backed securities	—	10,479	—	10,479	—	10,570	—	10,570
Private equity investments	—	—	714	714	—	—	937	937
Cash and cash equivalents	16,766	—	—	16,766	10,490	—	—	10,490
Accrued investment income	—	—	1,420	1,420	—	—	1,574	1,574
Total assets	\$310,860	\$344,457	\$2,134	\$657,451	\$290,141	\$339,264	\$2,511	\$631,916

The closing prices reported in the active markets in which the securities are traded are used to value the investments in the Master Trust.

Following is a description of the Master Trust's valuation methodologies used for investments measured at fair value:

- Obligations of U.S. Government and its agencies - The fair value of Obligations of U.S. Government and agencies obligations is based on an active exchange market and is based on quoted market prices for similar securities. These securities are classified as Level 2. U.S. agency structured notes are priced based on a bond's theoretical value from similar bonds defined by credit quality and market sector and for which the fair value incorporates an option adjusted spread in deriving their fair value. These securities are classified as Level 2.
- Corporate bonds and debentures - Corporate bonds and debentures are valued at fair value at the closing price reported in the active market in which the bond is traded. These securities are classified as Level 2.
- Equity securities - Equity securities with quoted market prices obtained from an active exchange market and high liquidity are classified as Level 1.
- Investments in index funds - Equity with quoted market prices obtained from an active exchange market and high liquidity are classified as Level 1.
- Investments in index funds - Fixed income, foreign equity, foreign index and commodity funds are valued at the net asset value (NAV) of shares held by the plan at year end. These securities are classified as Level 2.
- Mortgage-backed securities - Certain agency mortgage and other asset backed securities ("MBS") are priced based on a bond's theoretical value 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.
- Private equity investments - Private equity investments include an investment in a private equity fund. The fund value is recorded at its net asset value (NAV) which is affected by the changes in the fair market value of the investments held in the fund. This fund is classified as Level 3.
- Cash and cash equivalents - The carrying amount of cash and cash equivalents is a reasonable estimate of the fair value since it is available on demand.
- Accrued investment income - Given the short-term nature of these assets, their carrying amount approximates fair value. Since there is a lack of observable inputs related to instrument specific attributes, these are reported as Level 3.

The preceding valuation methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents the changes in the Master Trust's Level 3 assets measured at fair value for the years ended December 31, 2012 and 2011.

<i>(In thousands)</i>	2012	2011
Balance at beginning of year	\$2,511	\$2,491
Actual return on plan assets:		
Change in unrealized (loss) gain relating to instruments still held at the reporting date	(223)	101
Settlements	(154)	(81)
Balance at end of year	\$2,134	\$2,511

There were no transfers in and/or out of Level 3 for financial instruments measured at fair value on a recurring basis during the years ended December 31, 2012 and 2011. There were no transfers in and/or out of Level 1 and Level 2 during the years ended December 31, 2012 and 2011.

Information on the shares of common stock held by the pension and restoration plans is provided in the table that follows.

	2012	2011
Shares of Popular, Inc. common stock	274,572	274,572
Fair value of shares of Popular, Inc. common stock	\$5,708,352	\$3,816,551
Dividends paid on shares of Popular, Inc. common stock held by the plan	\$-	\$-

The following table sets forth the aggregate status of the plans and the amounts recognized in the consolidated financial statements at December 31, 2012 and 2011.

<i>(In thousands)</i>	Pension plans		Benefit restoration plans	
	2012	2011	2012	2011
Change in benefit obligation:				
Benefit obligation at beginning of year	\$706,449	\$603,254	\$36,439	\$30,301
Interest cost	29,981	31,139	1,572	1,581
Termination benefit loss	—	15,559	—	—
Actuarial loss	64,103	87,403	3,287	5,695
Benefits paid	(48,928)	(30,906)	(1,247)	(1,138)
Benefit obligation at end of year	\$751,605	\$706,449	\$40,051	\$36,439
Change in fair value of plan assets:				
Fair value of plan assets at beginning of year	\$551,141	\$442,566	\$28,382	\$22,012
Actual return on plan assets	65,302	14,929	3,430	757
Employer contributions	58,000	124,552	51	6,751
Benefits paid	(48,928)	(30,906)	(1,247)	(1,138)
Fair value of plan assets at end of year	\$625,515	\$551,141	\$30,616	\$28,382
Amounts recognized in accumulated other comprehensive loss:				
Net loss	\$297,765	\$281,431	\$15,055	\$14,387
Accumulated other comprehensive loss (AOCL)	\$297,765	\$281,431	\$15,055	\$14,387
Reconciliation of net liabilities:				
Net liabilities at beginning of year	\$(155,308)	\$(160,688)	\$(8,057)	\$(8,289)
Amount recognized in AOCL at beginning of year, pre-tax	281,431	176,910	14,387	8,237
Amount prepaid (accrued) at beginning of year	126,123	16,222	6,330	(52)
Net periodic benefit (cost) credit	(12,444)	908	(761)	(369)
Additional benefit cost	—	(15,559)	—	—
Contributions	58,000	124,552	51	6,751
Amount prepaid at end of year	171,679	126,123	5,620	6,330
Amount recognized in AOCL	(297,765)	(281,431)	(15,055)	(14,387)
Net liabilities at end of year	\$(126,086)	\$(155,308)	\$(9,435)	\$(8,057)

The table below presents a breakdown of the plans' liabilities at December 31, 2012 and 2011.

<i>(In thousands)</i>	Pension plans		Benefit restoration plans	
	2012	2011	2012	2011
Current liabilities	\$—	\$—	\$51	\$50
Non-current liabilities	126,086	155,308	9,384	8,007

The following table presents the change in accumulated other comprehensive loss ("AOCL"), pre-tax, for the years ended December 31, 2012 and 2011.

<i>(In thousands)</i>	Pension plans		Benefit restoration plans	
	2012	2011	2012	2011
Accumulated other comprehensive loss at beginning of year	\$281,431	\$176,910	\$14,387	\$8,237
Increase (decrease) in AOCL:				
Recognized during the year:				
Amortization of actuarial losses	(21,703)	(11,314)	(1,294)	(591)
Occurring during the year:				
Net actuarial losses	38,037	115,835	1,962	6,741
Total increase in AOCL	16,334	104,521	668	6,150
Accumulated other comprehensive loss at end of year	\$297,765	\$281,431	\$15,055	\$14,387

The following table presents the amounts in accumulated other comprehensive loss that are expected to be recognized as components of net periodic benefit cost during 2013.

<i>(In thousands)</i>	Pension plans	Benefit restoration plans
Net loss	\$21,452	\$1,330

The following table presents information for plans with an accumulated benefit obligation in excess of plan assets.

<i>(In thousands)</i>	Pension plans		Benefit restoration plans	
	2012	2011	2012	2011
Projected benefit obligation	\$751,605	\$706,449	\$40,051	\$36,439
Accumulated benefit obligation	751,605	706,449	40,051	36,439
Fair value of plan assets	625,515	551,141	30,616	28,382

The actuarial assumptions used to determine the benefit obligations were as follows:

	2012	2011
Discount rate	3.80%	4.40%
Rate of compensation increase - weighted average	-	-

The following table presents the actuarial assumptions used to determine the components of net periodic benefit cost.

	Pension plans			Benefit restoration plans		
	2012	2011	2010	2012	2011	2010
Discount rate	4.40%	5.30%	5.90%	4.40%	5.30%	5.90%
Expected return on plan assets	7.60%	8.00%	8.00%	7.60%	8.00%	8.00%

The following table presents the components of net periodic benefit cost.

<i>(In thousands)</i>	Pension plans			Benefit restoration plans		
	2012	2011	2010	2012	2011	2010
Interest cost	\$29,981	\$31,139	\$31,513	\$1,572	\$1,581	\$1,537
Expected return on plan assets	(39,240)	(43,361)	(30,862)	(2,105)	(1,803)	(1,614)
Recognized net actuarial loss	21,703	11,314	8,745	1,294	591	397
Net periodic benefit (credit) cost	12,444	(908)	9,396	761	369	320
Settlement loss	-	-	4,229	-	-	-
Termination benefit loss	-	15,559	-	-	-	-
Total benefit cost	\$12,444	\$14,651	\$13,625	\$761	\$369	\$320

The Corporation expects to pay the following contributions to the benefit plans during 2013.

<i>(In thousands)</i>	2013
Pension plan	\$-
Benefit restoration plans	\$51

Benefit payments projected to be made from the pension and benefit restoration plans are presented in the table below.

<i>(In thousands)</i>	Pension plan	Benefit restoration plans
2013	\$36,729	\$1,516
2014	35,959	1,643
2015	36,254	1,883
2016	36,849	1,992
2017	37,558	2,095
2018 - 2022	196,475	11,388

Postretirement health care benefits

In addition to providing pension benefits, BPPR provides certain health care benefits for certain retired employees. Regular employees of BPPR, hired before February 1, 2000, may become eligible for health care benefits, provided they reach retirement age while working for BPPR. Certain employees who elected to retire as of February 1, 2012 under the voluntary retirement program were also eligible to receive postretirement health care benefits. During 2010, the Corporation amended the postretirement benefits as a result of the EVERTEC sale described in Note 30 to the consolidated financial statements. As a result of such amendment, the EVERTEC employees may become eligible for health care benefits provided they reach retirement age while working with the acquiring institution.

The following table presents the status of the Corporation's unfunded postretirement health care benefit plan and the related amounts recognized in the consolidated financial statements at December 31, 2012 and 2011.

<i>(In thousands)</i>	2012	2011
Change in benefit obligation:		
Benefit obligation at beginning of the year	\$180,989	\$164,313
Service cost	2,190	2,016
Interest cost	7,801	8,543
Temporary deviation loss	-	437
Benefits paid	(7,348)	(6,108)
Actuarial (gain) loss	(21)	\$11,788
Benefit obligation end of year	\$183,611	180,989
Amounts recognized in accumulated other comprehensive loss:		
Net prior service cost	\$-	\$(200)
Net loss	35,486	37,669
Accumulated other comprehensive loss	\$35,486	\$37,469
Reconciliation of net liability:		
Net liability at beginning of year	\$(180,989)	\$(164,313)
Amount recognized in accumulated other comprehensive loss at beginning of year, pre-tax	37,469	25,788
Amount accrued at beginning of year	(143,520)	(138,525)
Additional benefit cost	-	(437)
Net periodic benefit cost	(11,953)	(10,666)
Contributions	7,348	6,108
Amount accrued at end of year	(148,125)	(143,520)
Amount recognized in accumulated other comprehensive loss	(35,486)	(37,469)
Net liability at end of year	\$(183,611)	\$(180,989)

The table below presents a breakdown of the liability associated with the postretirement health care benefit plan.

<i>(In thousands)</i>	2012	2011
Current liabilities	\$6,811	\$6,939
Non-current liabilities	176,800	174,050

The following table presents the changes in accumulated other comprehensive loss (income), pre-tax, for the postretirement health care benefit plan.

<i>(In thousands)</i>	2012	2011
Accumulated other comprehensive loss at beginning of year	\$37,469	\$25,788
Increase (decrease) in accumulated other comprehensive loss:		
Recognized during the year:		
Prior service credit	200	961
Amortization of actuarial losses	(2,162)	(1,068)
Occurring during the year:		
Net actuarial (gains) losses	(21)	11,788
Total increase in accumulated other comprehensive loss	(1,983)	11,681
Accumulated other comprehensive loss at end of year	\$35,486	\$37,469

The following table presents the amounts in accumulated other comprehensive loss that are expected to be recognized as components of net periodic benefit cost for the postretirement health care benefit plan during 2013.

<i>(In thousands)</i>	2013
Net prior service credit	\$-
Net loss	\$1,892

The following table presents the components of net periodic postretirement health care benefit cost.

<i>(In thousands)</i>	2012	2011	2010
Service cost	\$2,190	\$2,016	\$1,727
Interest cost	7,801	8,543	6,434
Amortization of prior service credit	(200)	(961)	(1,046)
Recognized net actuarial loss (gain)	2,162	1,068	(1,175)
Net periodic benefit cost	11,953	10,666	5,940
Temporary deviation loss	-	437	86
Termination benefit loss	-	-	671
Total benefit cost	\$11,953	\$11,103	\$6,697

The following tables present the discount rate and assumed health care cost trend rates used to determine the benefit obligation and the net periodic benefit cost for the postretirement health care benefit plan.

To determine benefit obligation:	2012	2011	
Discount rate	3.80%	4.40%	
Initial health care cost trend rates:			
Medicare Advantage plans	6.50%	25.00%	
All other plans	6.50	7.00	
Ultimate health care cost trend rate	5.00%	5.00%	
Year that the ultimate trend rate is reached	2016	2016	
To determine net periodic benefit cost:	2012	2011	2010
Discount rate	4.40%	5.30%	5.90%
Initial health care cost trend rates:			
Medicare Advantage plans	25.00%	25.00%	7.00%
All other plans	7.00	6.50	7.00
Ultimate health care cost trend rate	5.00%	5.00%	5.00%
Year that the ultimate trend rate is reached	2016	2014	2014

Assumed health care trend rates generally have a significant effect on the amounts reported for a health care plan. The following table presents the effects of changes in the assumed health care cost trend rates.

Note 34 – Net income (loss) per common share

The following table sets forth the computation of net income (loss) per common share (“EPS”), basic and diluted, for the years ended December 31, 2012, 2011 and 2010:

<i>(In thousands, except per share information)</i>	2012	2011	2010
Net income	\$245,275	\$151,325	\$137,401
Preferred stock dividends	(3,723)	(3,723)	(310)
Deemed dividend on preferred stock [1]	–	–	(191,667)
Net income (loss) applicable to common stock	\$241,552	\$147,602	\$(54,576)
Average common shares outstanding	102,429,755	102,179,393	88,515,404
Average potential dilutive common shares	223,855	110,103	–
Average common shares outstanding - assuming dilution	102,653,610	102,289,496	88,515,404
Basic and dilutive EPS [2]	\$2.35	\$1.44	\$(0.62)

[1] Non-cash beneficial conversion, resulting from the conversion of contingently convertible perpetual non-cumulative preferred stock into shares of the Corporation’s common stock. The beneficial conversion was recorded as a deemed dividend to the preferred stockholders reducing retained earnings, with a corresponding offset to surplus (paid in capital), and thus did not affect total stockholders’ equity or the book value of the common stock.

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

Potential common shares consist of common stock issuable under the assumed exercise of stock options and restricted stock awards using the treasury stock method. This method assumes that the potential common shares are issued and the proceeds from exercise, in addition to the amount of compensation cost attributed to future services, are used to purchase common stock at the exercise date. The difference between the number of potential shares issued and the shares purchased is added as incremental shares to the actual number of shares outstanding to compute diluted earnings per share. Warrants, stock options, and restricted stock awards that result

<i>(In thousands)</i>	1-percentage point increase	1-percentage point decrease
Effect on total service cost and interest cost components	\$389	\$(435)
Effect on postretirement benefit obligation	\$8,247	\$(8,735)

The Corporation expects to contribute \$6.8 million to the postretirement benefit plan in 2013 to fund current benefit payment requirements.

Benefit payments projected to be made on the postretirement health care benefit plan are presented in the following table.

<i>(In thousands)</i>	
2013	\$6,811
2014	6,949
2015	7,091
2016	7,352
2017	7,703
2018 - 2022	43,223

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 year ended December 31, 2012, there were 165,342 weighted average antidilutive stock options outstanding (2011 – 209,288; 2010 – 247,142). Additionally, the Corporation has outstanding a warrant issued to the U.S. Treasury to purchase 2,093,284 shares of common stock, which have an antidilutive effect at December 31, 2012.

Note 35 – Rental expense and commitments

At December 31, 2012, the Corporation was obligated under a number of non-cancelable leases for land, buildings, and equipment which require rentals as follows:

Year	Minimum payments [1]
	(In thousands)
2013	\$34,853
2014	33,013
2015	32,065
2016	28,793
2017	23,445
Later years	162,462
	<u>\$314,631</u>

[1] Minimum payments have not been reduced by minimum non-cancelable sublease rentals due in the future of \$0.5 million at December 31, 2012.

Total rental expense for all operating leases, except those with terms of a month or less that were not renewed, for the year ended December 31, 2012 was \$44.3 million (2011 - \$49.9 million; 2010 - \$60.7 million), which is included in net occupancy, equipment and communication expenses, according to their nature.

Note 36 – Other service fees

The following table presents the major categories of other service fees for the years ended December 31, 2012, 2011 and 2010.

(In thousands)	2012	2011	2010
Debit card fees	\$36,787	\$49,459	\$100,639
Insurance fees	53,825	54,390	49,768
Credit card fees and discounts	57,551	49,049	84,786
Sale and administration of investment products	37,766	34,388	37,783
Mortgage servicing fees, net of fair value adjustments	30,770	12,098	24,801
Trust fees	16,353	15,333	14,216
Processing fees	6,330	6,839	45,055
Other fees	17,163	18,164	20,456
<u>Total other service fees</u>	<u>\$256,545</u>	<u>\$239,720</u>	<u>\$377,504</u>

Note 37 – 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)	Year ended December 31,		
	2012	2011	2010
(Amortization) accretion of loss share indemnification asset	\$(129,676)	\$(10,855)	\$73,487
80% mirror accounting on credit impairment losses [1]	58,187	110,457	–
80% mirror accounting on reimbursable expenses	29,234	5,093	–
80% mirror accounting on discount accretion for loans and unfunded commitments accounted for under ASC 310-20	(969)	(33,221)	(95,383)
Change in true-up payment obligation	(13,178)	(6,304)	(3,855)
Other	191	1,621	–
<u>Total FDIC loss share (expense) income</u>	<u>\$(56,211)</u>	<u>\$66,791</u>	<u>\$(25,751)</u>

[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.

Note 38 – 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	remaining life of options outstanding in years	exercise price of options exercisable
\$159.95 - \$185.00	56,386	\$167.84	0.20	\$167.84
\$192.50 - \$272.00	104,600	\$252.29	1.50	\$252.29
\$159.95 - \$272.00	160,986	\$222.71	1.04	\$222.71

There was no intrinsic value of options outstanding at December 31, 2012, 2011 and 2010.

The stock options exercisable at December 31, 2012 totaled 160,986 (2011 - 206,946; 2010 - 227,518). There was no intrinsic value of options exercisable at December 31, 2012, 2011 and 2010.

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

(Not in thousands)	Options outstanding	Weighted-average exercise price
Outstanding at January 1, 2010	255,267	\$206.44
Granted	—	—
Exercised	—	—
Forfeited	—	—
Expired	(27,749)	204.27
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	(45,960)	155.68
Outstanding at December 31, 2012	160,986	\$222.71

There was no stock option expense recognized for the years ended December 31, 2012, 2011 and 2010.

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.

<i>(Not in thousands)</i>	Restricted stock	Weighted-average grant date fair value
Non-vested at January 1, 2010	13,852	\$236.20
Granted	152,541	27.00
Vested	(34,088)	78.70
Forfeited	(19,131)	32.40
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	(96,353)	37.61
Forfeited	(13,785)	26.59
Non-vested at December 31, 2012	491,223	\$20.59

During the year ended December 31, 2012, 359,427 shares of restricted stock (2011 - 155,945; 2010 - 152,541) were awarded to management under the Incentive Plan, from which 253,170 shares (2011 - 111,045; 2010 - 130,503) were awarded to management consistent with the requirements of the TARP Interim Final Rule.

Beginning in 2007, the Corporation authorized the issuance of performance shares, in addition to restricted shares, under the Incentive Plan. The performance share awards consist of the opportunity to receive shares of Popular Inc.'s common stock provided that the Corporation achieves certain performance goals during a three-year performance cycle. The compensation cost associated with the performance shares is recorded ratably over a three-year performance period. The performance shares are granted at the end of the three-year period and vest at grant date, except when the participant's employment is terminated by the Corporation without cause. In such case, the participant would receive a pro-rata amount of shares calculated as if the Corporation would have met the performance goal for the performance period. During the years ended December 31, 2012 and 2011, no performance shares were granted under this plan (2010 - 4,286).

During the year ended December 31, 2012, the Corporation recognized \$4.3 million of restricted stock expense related to management incentive awards, with a tax benefit of \$1.1 million (2011 - \$2.2 million, with a tax benefit of \$0.5 million; 2010 - \$1.0 million, with a tax benefit of \$0.4 million). During the year ended December 31, 2012, the fair market value of the restricted stock vested was \$2.7 million at grant date and \$1.6 million at vesting date. This triggers a shortfall of \$0.3 million that was recorded as an additional income tax expense at the applicable income tax rate. No additional income tax expense was recorded for the U.S. employees due to the valuation allowance of the deferred tax asset. There was no performance share expense recognized for the years ended December 31, 2012 and 2011 (2010 - \$0.5 million, with a tax benefit of \$0.2

million). The total unrecognized compensation cost related to non-vested restricted stock awards and performance shares to members of management at December 31, 2012 was \$5.3 million and is expected to be recognized over a weighted-average period of 2.1 years.

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

<i>(Not in thousands)</i>	Restricted stock	Weighted-average grant date fair value
Nonvested at January 1, 2010	-	-
Granted	30,590	\$29.50
Vested	(30,590)	29.50
Forfeited	-	-
Non-vested at December 31, 2010	-	-
Granted	30,163	\$26.72
Vested	(30,163)	26.72
Forfeited	-	-
Non-vested at December 31, 2011	-	-
Granted	41,174	\$16.37
Vested	(41,174)	16.37
Forfeited	-	-
Non-vested at December 31, 2012	-	-

During the year ended December 31, 2012, the Corporation granted 41,174 shares of restricted stock to members of the Board of Directors of Popular, Inc., which became vested at grant date (2011 - 30,163; 2010 - 30,590). During this period, the Corporation recognized \$0.4 million of restricted stock expense related to these restricted stock grants, with a tax benefit of \$0.1 million (2011 - \$0.5 million, with a tax benefit of \$0.1 million; 2010 - \$0.5 million, with a tax benefit of \$0.2 million). The fair value at vesting date of the restricted stock vested during the year ended December 31, 2012 for directors was \$0.6 million.

Note 39 - Income taxes

The components of income tax (benefit) expense for the years ended December 31, are summarized in the following table.

<i>(In thousands)</i>	2012	2011	2010
Current income tax expense:			
Puerto Rico	\$108,090	\$107,343	\$119,729
Federal and States	998	1,722	628
Subtotal	109,088	109,065	120,357
Deferred income tax (benefit) expense:			
Puerto Rico	(138,632)	(99,636)	(510)
Federal and States	3,141	2,211	(11,617)
Adjustment for enacted changes in income tax laws	-	103,287	-
Subtotal	(135,491)	5,862	(12,127)
Total income tax (benefit) expense	\$(26,403)	\$114,927	\$108,230

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

<i>(In thousands)</i>	2012		2011		2010	
	Amount	% of pre-tax income	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax at statutory rates	\$65,662	30%	\$79,876	30%	\$100,586	41%
Benefit of net tax exempt interest income	(25,540)	(12)	(31,379)	(12)	(7,799)	(3)
Effect of income subject to preferential tax rate [1]	(78,132)	(36)	(1,852)	(1)	(143,844)	(59)
Deferred tax asset valuation allowance	166	—	7,192	3	143,754	59
Non-deductible expenses	23,093	11	21,756	8	28,130	11
Difference in tax rates due to multiple jurisdictions	(6,034)	(3)	(8,555)	(3)	13,908	6
Initial adjustment in deferred tax due to change in tax rate	—	—	103,287	39	—	—
Recognition of tax benefits from previous years [2]	—	—	(53,615)	(20)	—	—
Unrecognized tax benefits	(8,985)	(4)	(5,160)	(2)	—	—
Others	3,367	2	3,377	1	(26,505)	(11)
Income tax (benefit) expense	\$(26,403)	(12)%	\$114,927	43%	\$108,230	44%

[1] Includes the impact of the Closing Agreement with the P.R. Treasury signed in June 2012 and income from investments in subsidiaries subject to preferential tax rates.

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

The results for the year ended December 31, 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.

The results for the year ended December 31, 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 resulted 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.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Significant components of the Corporation's deferred tax assets and liabilities at December 31 were as follows:

<i>(In thousands)</i>	2012	2011
Deferred tax assets:		
Tax credits available for carryforward	\$2,666	\$3,459
Net operating loss and other carryforward available	1,201,174	1,174,488
Postretirement and pension benefits	97,276	104,663
Deferred loan origination fees	6,579	6,788
Allowance for loan losses	592,664	605,105
Deferred gains	10,528	11,763
Accelerated depreciation	6,699	5,527
Intercompany deferred gains	3,891	4,344
Other temporary differences	31,864	27,341
Total gross deferred tax assets	1,953,341	1,943,478
Deferred tax liabilities:		
Differences between the assigned values and the tax basis of assets and liabilities recognized in purchase business combinations	37,281	32,293
Difference in outside basis between financial and tax reporting on sale of a business	6,400	20,721
FDIC-assisted transaction	53,351	142,000
Unrealized net gain on trading and available-for-sale securities	51,002	73,991
Deferred loan origination costs	3,459	4,277
Other temporary differences	10,142	6,187
Total gross deferred tax liabilities	161,635	279,469
Valuation allowance	1,260,542	1,259,358
Net deferred tax asset	\$531,164	\$404,651

The net deferred tax asset shown in the table above at December 31, 2012 is reflected in the consolidated statements of financial condition as \$ 541 million in net deferred tax assets (in the "other assets" caption) (2011 - \$ 430 million in deferred tax asset in the "other assets" caption) and \$10 million in deferred tax liabilities (in the "other liabilities" caption) (2011 - \$25 million in deferred tax liabilities in the "other liabilities" caption), reflecting the aggregate deferred tax assets or liabilities of individual tax-paying subsidiaries of the Corporation.

At December 31, 2012, the Corporation had total tax credits of \$ 2.7 million that will reduce the regular income tax liability in future years expiring in annual installments through the year 2015.

Included as part of the other carryforwards available are \$36.3 million related to contributions to Banco Popular de Puerto Rico qualified pension plan and \$2.4 million of other net operating loss carryforwards ("NOLs") that have no expiration date. Additionally, the deferred tax asset related to the NOLs outstanding at December 31, 2012 expires as follows:

<i>(In thousands)</i>	
2013	\$1,447
2016	7,263
2017	8,542
2018	15,505
2019	230
2021	76
2022	971
2023	1,248
2027	65,165
2028	510,675
2029	195,014
2030	193,707
2031	136,657
2032	25,914
	\$1,162,414

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 December 31, 2012 taking into account taxable income adjusted by temporary differences. For purposes of assessing the realization of the deferred tax assets in the U.S. mainland operations, this cumulative taxable loss position is considered significant negative evidence, which evaluated along with of all sources of taxable income available to realize the deferred tax asset, has caused management to conclude that it is more-likely-than-not that the Corporation will not be able to fully

realize the deferred tax assets in the future. At December 31, 2012, the Corporation recorded a valuation allowance of \$1.3 billion on the deferred tax assets of its U.S. operations (December 31, 2011 - \$1.3 billion).

At December 31, 2012, the Corporation's net deferred tax assets related to its Puerto Rico operations amounted to \$558 million. The Corporation's Puerto Rico banking operations are no longer in a cumulative loss position. These operations show a cumulative income position for the three-year period ended December 31, 2012 taking into account taxable income exclusive of reversing temporary differences (adjusted taxable income). The sustained profitability during the years 2011 and 2012 is considered a strong piece of objectively verifiable positive evidence for the evaluation of the deferred tax asset valuation allowance. Based on this evidence and its estimate of adjusted taxable income for future years, the Corporation has concluded that it is more likely than not that the net deferred tax asset of the Puerto Rico operations will be realized.

Under the Puerto Rico Internal Revenue Code, the Corporation and its subsidiaries are treated as separate taxable entities and are not entitled to file consolidated tax returns. The Code provides a dividends-received deduction of 100% on dividends received from "controlled" subsidiaries subject to taxation in Puerto Rico and 85% on dividends received from other taxable domestic corporations.

The Corporation's federal income tax provision (benefit) for 2012 was \$4.4 million (2011 - \$1.1 million; 2010 - \$(8.9) million). The intercompany settlement of taxes paid is based on tax sharing agreements which generally allocate taxes to each entity based on a separate return basis.

The following table presents a reconciliation of unrecognized tax benefits.

(In millions)

Balance at January 1, 2011	\$26.3
Additions for tax positions related to 2011	3.7
Additions for tax positions taken in prior years	2.1
Reduction as a result of lapse of statute of limitations	(6.0)
Reduction as a result of settlements	(6.6)
Balance at December 31, 2011	\$19.5
Additions for tax positions related to 2012	1.1
Reduction for tax positions of current year	(0.2)
Reduction as a result of lapse of statute of limitations	(6.3)
Reduction for tax positions of prior years	(0.7)
Balance at December 31, 2012	\$13.4

At December 31, 2012, the related accrued interest approximated \$4.3 million (2011 - \$5.5 million). The interest expense recognized during 2012 was \$0.2 million (2011 - \$0.3 million). Management determined that, as of December 31, 2012 and 2011, there was no need to accrue for the payment of penalties. The Corporation's policy is to report interest related to unrecognized tax benefits in income tax expense, while the penalties, if any, are reported in other operating expenses in the consolidated statements of operations.

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 \$16.9 million at December 31, 2012 (2011 - \$24.2 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 statute of limitations, 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. As of December 31, 2012, the following years remain subject to examination: U.S. Federal jurisdiction - 2009 through 2012 and Puerto Rico - 2008 through 2012. The Corporation anticipates a reduction in the total amount of unrecognized tax benefits within the next 12 months, which could amount to approximately \$10 million.

Note 40 - Supplemental disclosure on the consolidated statements of cash flows

Additional disclosures on cash flow information and non-cash activities for the years ended December 31, 2012, 2011 and 2010 are listed in the following table:

<i>(In thousands)</i>	2012	2011	2010
Income taxes paid	\$189,468	\$171,818	\$41,052
Interest paid	388,250	517,980	682,943
Non-cash activities:			
Loans transferred to other real estate	\$294,993	\$229,064	\$183,901
Loans transferred to other property	25,685	26,148	37,383
Total loans transferred to foreclosed assets	320,678	255,212	221,284
Transfers from loans held-in-portfolio to loans held-for-sale	141,412	121,225	1,020,889
Transfers from loans held-for-sale to loans held-in-portfolio	10,325	28,535	12,388
Loans securitized into investment securities [1]	1,330,743	1,101,800	817,528
Net write-downs (recoveries) related to loans transferred to loans held-for-sale	34	(1,101)	327,207
Trades receivables from brokers and counterparties	137,542	69,535	23,055
Recognition of mortgage servicing rights on securitizations or asset transfers	18,495	19,971	15,326
Gain on retained interest (sale of EVERTEC)	-	-	93,970
Loans sold to a joint venture in exchange for an acquisition loan and an equity interest in the joint venture	-	102,353	-
Conversion of preferred stock to common stock:			
Preferred stock converted	-	-	(1,150,000)
Common stock issued	-	-	1,341,667

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

For the year ended December 31, 2010 the changes in operating assets and liabilities included in the reconciliation of net income to net cash provided by operating activities, as well as the changes in assets and liabilities presented in the investing and financing sections are net of the effect of the assets acquired and liabilities assumed from the Westernbank FDIC-assisted transaction. The cash received in the transaction, which amounted to \$261 million, is presented in the investing activities section of the Consolidated Statements of Cash Flows as “Cash acquired related to business acquisitions”.

Note 41 - 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 December 31, 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. Effective December 31, 2012, Popular Mortgage, which was a wholly-owned subsidiary of BPPR prior to that date, was merged with and into BPPR as part of an internal reorganization. The Corporation's mortgage origination business will continue to be conducted under the brand name Popular Mortgage.
- 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.

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

December 31, 2012			
(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	\$1,198,541	\$281,686	\$-
Provision for loan losses	356,496	52,041	-
Non-interest income	402,086	56,864	-
Amortization of intangibles	7,351	2,721	-
Depreciation expense	37,321	8,157	-
Loss on early extinguishment of debt	25,196	-	-
Other operating expenses	903,677	225,893	-
Income tax (benefit) expense	(20,245)	3,745	-
Net income	\$290,831	\$45,993	\$-
Segment assets	\$27,600,235	\$8,651,790	\$(31,792)

December 31, 2012				
(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	\$1,480,227	\$(108,222)	\$614	\$1,372,619
Provision for loan losses	408,537	404	-	408,941
Non-interest income	458,950	77,912	(70,520)	466,342
Amortization of intangibles	10,072	-	-	10,072
Depreciation expense	45,478	1,258	-	46,736
Loss on early extinguishment of debt	25,196	-	-	25,196
Other operating expenses	1,129,570	69,863	(70,289)	1,129,144
Income tax benefit	(16,500)	(9,945)	42	(26,403)
Net income (loss)	\$336,824	\$(91,890)	\$341	\$245,275
Segment assets	\$36,220,233	\$5,308,327	\$(5,021,025)	\$36,507,535

December 31, 2011			
(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	\$1,240,700	\$295,602	\$-
Provision for loan losses	487,238	88,482	-
Non-interest income	488,459	74,896	-
Amortization of intangibles	6,933	2,721	-
Depreciation expense	37,180	7,665	-
Loss on early extinguishment of debt	693	-	-
Other operating expenses	845,821	237,967	-
Income tax expense	119,819	3,745	-
Net income	\$231,475	\$29,918	\$-
Segment assets	\$28,423,064	\$8,581,209	\$(26,447)

December 31, 2011				
(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	\$1,536,302	\$(105,267)	\$957	\$1,431,992
Provision for loan losses	575,720	-	-	575,720
Non-interest income	563,355	66,473	(69,551)	560,277
Amortization of intangibles	9,654	-	-	9,654
Depreciation expense	44,845	1,601	-	46,446
Loss on early extinguishment of debt	693	8,000	-	8,693
Other operating expenses	1,083,788	71,586	(69,870)	1,085,504
Income tax expense (benefit)	123,564	(9,145)	508	114,927
Net income (loss)	\$261,393	\$(110,836)	\$768	\$151,325
Segment assets	\$36,977,826	\$5,348,638	\$(4,978,032)	\$37,348,432

December 31, 2010			
(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	\$1,095,932	\$309,985	\$—
Provision for loan losses	609,630	402,250	—
Non-interest income	448,301	54,570	—
Amortization of intangibles	5,449	3,181	—
Depreciation expense	38,364	9,109	—
Loss on early extinguishment of debt	1,171	21,866	—
Other operating expenses	815,947	264,110	—
Income tax expense	27,120	4,318	—
Net income (loss)	\$46,552	\$(340,279)	\$—
Segment assets	\$29,429,358	\$8,973,984	\$(28,662)

December 31, 2010				
(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (loss)	\$1,405,917	\$(111,747)	\$695	\$1,294,865
Provision for loan losses	1,011,880	—	—	1,011,880
Non-interest income	502,871	912,555	(127,233)	1,288,193
Amortization of intangibles	8,630	543	—	9,173
Depreciation expense	47,473	11,388	—	58,861
Loss on early extinguishment of debt	23,037	15,750	—	38,787
Other operating expenses	1,080,057	263,270	(124,601)	1,218,726
Income tax expense	31,438	76,995	(203)	108,230
Net (loss) income	\$(293,727)	\$432,862	\$(1,734)	\$137,401
Segment assets	\$38,374,680	\$5,583,501	\$(5,143,183)	\$38,814,998

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

December 31, 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	\$423,798	\$762,857	\$11,882	\$4	\$1,198,541
Provision for loan losses	149,597	206,899	—	—	356,496
Non-interest income	20,095	269,190	112,949	(148)	402,086
Amortization of intangibles	13	6,833	505	—	7,351
Depreciation expense	16,840	19,522	959	—	37,321
Loss on early extinguishment of debt	8,037	17,159	—	—	25,196
Other operating expenses	279,358	555,797	68,670	(148)	903,677
Income tax (benefit) expense	(33,068)	(1,460)	14,281	2	(20,245)
Net income	\$23,116	\$227,297	\$40,416	\$2	\$290,831
Segment assets	\$12,770,793	\$19,668,009	\$632,676	\$(5,471,243)	\$27,600,235

December 31, 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	\$501,946	\$727,050	\$11,600	\$104	\$1,240,700
Provision for loan losses	356,905	130,333	—	—	487,238
Non-interest income	173,764	209,100	105,632	(37)	488,459
Amortization of intangibles	103	6,175	655	—	6,933
Depreciation expense	16,928	19,297	955	—	37,180
Loss on early extinguishment of debt	693	—	—	—	693
Other operating expenses	257,830	523,423	64,759	(191)	845,821
Income tax expense	38,332	67,678	13,707	102	119,819
Net income	\$4,919	\$189,244	\$37,156	\$156	\$231,475
Segment assets	\$13,643,862	\$20,035,526	\$1,225,247	\$(6,481,571)	\$28,423,064

December 31, 2010					
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	\$443,242	\$643,076	\$9,392	\$222	\$1,095,932
Provision for loan losses	464,214	145,416	—	—	609,630
Non-interest income	133,674	211,242	103,552	(167)	448,301
Amortization of intangibles	558	4,313	578	—	5,449
Depreciation expense	16,760	20,464	1,140	—	38,364
Loss on early extinguishment of debt	1,171	—	—	—	1,171
Other operating expenses	272,755	477,859	65,619	(286)	815,947
Income tax (benefit) expense	(68,791)	79,206	16,575	130	27,120
Net (loss) income	\$(109,751)	\$127,060	\$29,032	\$211	\$46,552
Segment assets	\$15,625,030	\$21,483,403	\$462,771	\$(8,141,846)	\$29,429,358

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

December 31, 2012				
Banco Popular North America				
(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	\$278,228	\$3,458	\$-	\$281,686
Provision for loan losses	36,841	15,200	-	52,041
Non-interest income	53,749	3,115	-	56,864
Amortization of intangibles	2,721	-	-	2,721
Depreciation expense	8,157	-	-	8,157
Other operating expenses	223,069	2,824	-	225,893
Income tax expense	3,745	-	-	3,745
Net income (loss)	\$57,444	\$(11,451)	\$-	\$45,993
Segment assets	\$9,378,779	\$367,362	\$(1,094,351)	\$8,651,790

December 31, 2011				
Banco Popular North America				
(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	\$294,224	\$1,378	\$-	\$295,602
Provision for loan losses	61,753	26,729	-	88,482
Non-interest income	69,269	5,627	-	74,896
Amortization of intangibles	2,721	-	-	2,721
Depreciation expense	7,665	-	-	7,665
Other operating expenses	229,998	7,969	-	237,967
Income tax expense	3,745	-	-	3,745
Net income (loss)	\$57,611	\$(27,693)	\$-	\$29,918
Segment assets	\$9,289,507	\$418,436	\$(1,126,734)	\$8,581,209

December 31, 2010				
Banco Popular North America				
(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	\$305,893	\$4,148	\$(56)	\$309,985
Provision for loan losses	400,077	2,173	-	402,250
Non-interest income (loss)	73,032	(18,462)	-	54,570
Amortization of intangibles	3,181	-	-	3,181
Depreciation expense	8,539	570	-	9,109
Loss on early extinguishment of debt	21,866	-	-	21,866
Other operating expenses	256,855	7,255	-	264,110
Income tax expense	1,589	2,729	-	4,318
Net loss	\$(313,182)	\$(27,041)	\$(56)	\$(340,279)
Segment assets	\$9,632,188	\$490,845	\$(1,149,049)	\$8,973,984

Geographic Information

(In thousands)	2012	2011	2010
Revenues: [1]			
Puerto Rico	\$1,423,912	\$1,551,518	\$2,138,629
United States	316,906	347,460	339,664
Other	98,143	93,291	104,765
Total consolidated revenues	\$1,838,961	\$1,992,269	\$2,583,058

[1] Total revenues include net interest income, service charges on deposit accounts, other service fees, net (loss) gain on sale and valuation adjustments of investment securities, trading account (loss) 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, gain on sale of processing and technology business and other operating income.

Selected Balance Sheet Information

(In thousands)	2012	2011	2010
Puerto Rico			
Total assets	\$26,582,248	\$27,410,644	\$28,556,279
Loans	18,484,977	18,594,751	18,729,654
Deposits	19,984,830	20,696,606	19,149,753
United States			
Total assets	\$8,816,143	\$8,708,709	\$9,087,737
Loans	5,852,705	5,845,359	6,978,007
Deposits	6,049,168	6,151,959	6,566,710
Other			
Total assets	\$1,109,144	\$1,229,079	\$1,170,982
Loans	755,950	874,282	751,194
Deposits [1]	966,615	1,093,562	1,045,737

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

Note 42 – 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 December 31, 2012.

On February 6, 2013, EVERTEC filed a registration statement with the Securities and Exchange Commission (the “SEC”) to register an offering of \$100 million in capital through an initial public offering (“IPO”) of its common stock. The amount offered is subject to change prior to the time that the registration statement is declared effective by the SEC and EVERTEC may decide not to proceed with an IPO. In connection with the proposed offering, the Corporation may sell a portion of its currently owned shares of EVERTEC. As of February 28, 2013, the specific number of shares to be sold has not yet been determined. If the Corporation sells a portion of its currently owned shares of EVERTEC, it is expected that it will record a net gain on the sale of these shares. Regardless of whether the Corporation sells any of its currently owned shares in an IPO, its interest in EVERTEC would be reduced as a result of this transaction. There can be no assurances whether EVERTEC will continue to pursue an IPO or whether the Corporation will sell any of its currently owned shares in an IPO, or if an IPO is consummated that the Corporation will receive any proceeds or record a gain in connection with the transaction.

Note 43 – Popular, Inc. (holding company only) financial information

The following condensed financial information presents the financial position of Popular, Inc. Holding Company only at

December 31, 2012 and 2011, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2012.

Condensed Statements of Condition

<i>(In thousands)</i>	December 31,	
	2012	2011
ASSETS		
Cash and due from banks (includes \$915 due from bank subsidiary (2011 - \$6,172))	\$1,103	\$6,365
Money market investments (2011 - includes \$24,061 due from bank subsidiary)	18,574	42,239
Trading account securities	1,259	–
Investment securities available-for-sale, at fair value (includes \$38,675 in securities from affiliate at fair value (2011 - \$35,700)) [1]	42,383	35,700
Investment securities held-to-maturity, at amortized cost (includes \$185,000 in subordinated notes from BPPR)	185,000	185,000
Other investment securities, at lower of cost or realizable value (includes \$9,725 in common securities from statutory trusts) [2]	10,850	10,850
Investment in BPPR and subsidiaries, at equity	2,809,521	2,626,951
Investment in Popular North America and subsidiaries, at equity	1,244,732	1,146,676
Investment in other non-bank subsidiaries, at equity	231,704	213,660
Advances to subsidiaries	230,300	193,900
Loans to affiliates [1]	53,589	53,214
Other loans	2,191	2,501
Less - Allowance for loan losses	241	8
Premises and equipment	2,495	2,533
Investment in equity method investees [1]	93,128	195,193
Other assets (includes \$2,007 due from subsidiaries and affiliate (2011 - \$3,237)) [1]	21,876	24,750
Total assets	\$4,948,464	\$4,739,524
LIABILITIES AND STOCKHOLDERS' EQUITY		
Notes payable	\$790,282	\$760,849
Other liabilities (includes \$1,558 due to subsidiaries and affiliate (2011 - \$2,023)) [1]	48,182	59,922
Stockholders' equity	4,110,000	3,918,753
Total liabilities and stockholders' equity	\$4,948,464	\$4,739,524

[1] Refer to Note 30 to the consolidated financial statements for the effect of eliminations on transactions with EVERTEC, Inc. (affiliate).

[2] Refer to Note 22 to the consolidated financial statements for information on the statutory trusts.

Condensed Statements of Operations

<i>(In thousands)</i>	Year ended December 31,		
	2012	2011	2010
Income:			
Dividends from subsidiaries	\$5,000	\$20,000	\$168,100
Interest income (includes \$22,891 due from subsidiaries and affiliates (2011 - \$24,800; 2010 - \$30,543)) [1]	23,038	25,145	31,261
Gain on sale of processing and technology business	—	—	640,802
Earnings from investments in equity method investees [1]	40,505	14,186	3,402
Other operating income (loss)	1,461	8,959	(120)
Trading account profit	214	—	—
Total income	70,218	68,290	843,445
Expenses:			
Interest expense	95,898	94,615	111,809
Provision for loan losses	404	—	—
Loss on early extinguishment of debt	—	8,000	15,750
Operating expenses (include expenses for services provided by subsidiaries and affiliate of \$9,487 (2011 - \$8,459; 2010 - \$7,339)), net of reimbursement by subsidiaries for services provided by parent of \$58,577 (2011 - \$56,671; 2010 - \$49,556)	1,705	1,066	35,923
Total expenses	98,007	103,681	163,482
(Loss) income before income taxes and equity in undistributed earnings (losses) of subsidiaries	(27,789)	(35,391)	679,963
Income taxes	1,702	2,786	80,444
(Loss) income before equity in undistributed earnings (losses) of subsidiaries	(29,491)	(38,177)	599,519
Equity in undistributed earnings (losses) of subsidiaries	274,766	189,502	(462,118)
Net income	\$245,275	\$151,325	\$137,401
Comprehensive income, net of tax	\$184,955	\$114,738	\$160,649

Condensed Statements of Cash Flows

<i>(In thousands)</i>	Year ended December 31,		
	2012	2011	2010
Cash flows from operating activities:			
Net income	\$245,275	\$151,325	\$137,401
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Equity in undistributed (earnings) losses of subsidiaries and dividends from subsidiaries	(274,766)	(189,502)	462,118
Provision for loan losses	404	—	—
Net accretion of discounts and amortization of premiums and deferred fees	29,058	25,042	21,282
Earnings from investments under the equity method	(40,505)	(14,186)	(3,402)
Deferred income tax (benefit) expense	(14,109)	13,965	8,831
(Gain) loss on:			
Sale of equity method investments	—	(5,493)	—
Sale of processing and technology business, net of transaction costs	—	—	(616,186)
Net (increase) decrease in:			
Trading securities	(1,259)	—	—
Other assets	9,351	7,563	7,263
Net increase (decrease) in:			
Interest payable	—	(3,467)	(528)
Other liabilities	2,581	(84,434)	42,578
Total adjustments	(289,245)	(250,512)	(78,044)
Net cash (used in) provided by operating activities	(43,970)	(99,187)	59,357
Cash flows from investing activities:			
Net decrease (increase) in money market investments	23,665	(42,237)	49
Purchases of investment securities:			
Available-for-sale	—	—	(35,000)
Held-to-maturity	—	(37,093)	(52,796)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:			
Held-to-maturity	—	62,980	297,747
Capital contribution to subsidiaries	(103,500)	—	(1,345,000)
Net (increase) decrease in advances to subsidiaries and affiliates	(36,400)	226,546	(366,394)
Net repayments (disbursements) on other loans	138	(131)	(56)
Return of capital from equity method investments	150,194	—	—
Net proceeds from sale of equity method investments	—	(10,690)	—
Net proceeds from sale of processing and technology business	—	—	617,976
Acquisition of premises and equipment	(691)	(594)	(890)
Proceeds from sale of:			
Premises and equipment	73	135	183
Foreclosed assets	—	—	74
Net cash provided by (used in) investing activities	33,479	198,916	(884,107)
Cash flows from financing activities:			
Net increase (decrease) in:			
Other short-term borrowings	—	—	(24,225)
Payments of notes payable and subordinated notes	—	(100,000)	(250,000)
Proceeds from issuance of common stock	9,402	7,690	153
Net proceeds from issuance of depositary shares	—	—	1,100,155
Dividends paid	(3,723)	(3,723)	(310)
Treasury stock acquired	(450)	(483)	(559)
Return of capital	—	1,514	—
Net cash provided by (used in) financing activities	5,229	(95,002)	825,214
Net (decrease) increase in cash and due from banks	(5,262)	4,727	464
Cash and due from banks at beginning of period	6,365	1,638	1,174
Cash and due from banks at end of period	\$1,103	\$6,365	\$1,638

Popular, Inc. (parent company only) received net capital distributions from its direct equity method investees amounting to \$155 million for the year ended December 31, 2012, which included dividend distributions of \$5 million.

Notes payable represent junior subordinated debentures issued by the Corporation that are associated to capital securities issued by the Popular Capital Trust I, Popular Capital Trust II and Popular Capital Trust III. Refer to Note 22 for a description of significant provisions related to these junior subordinated debentures. The following table presents the aggregate amounts by contractual maturities of notes payable at December 31, 2012:

<u>Year</u>	<u>(In thousands)</u>
2013	\$–
2014	–
2015	–
2016	–
2017	–
Later years	290,812
No stated maturity	936,000
Subtotal	1,226,812
Less: Discount	(436,530)
Total	\$790,282

Note 44 – 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 December 31, 2012 and 2011, and the results of their operations and cash flows for periods ended December 31, 2012, 2011 and 2010.

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 December 31, 2012, BPPR could have declared a dividend of approximately \$404 million (December 31, 2011 - \$243 million). However, on July 25, 2011, PIHC and BPPR entered into a Memorandum of Understanding with the Federal Reserve Bank of New York and the Office of the Commissioner of Financial Institutions of Puerto Rico that requires the approval of these entities prior to the payment of any dividends by BPPR to PIHC. BPNA could not declare any dividends without the approval of the Federal Reserve Board.

Condensed Consolidating Statement of Financial Condition

At December 31, 2012

<i>(In thousands)</i>	Popular Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Assets:					
Cash and due from banks	\$1,103	\$624	\$439,552	\$(1,916)	\$439,363
Money market investments	18,574	867	1,067,006	(867)	1,085,580
Trading account securities, at fair value	1,259	—	313,266	—	314,525
Investment securities available-for-sale, at fair value	42,383	—	5,058,786	(16,968)	5,084,201
Investment securities held-to-maturity, at amortized cost	185,000	—	142,817	(185,000)	142,817
Other investment securities, at lower of cost or realizable value	10,850	4,492	170,101	—	185,443
Investment in subsidiaries	4,285,957	1,653,636	—	(5,939,593)	—
Loans held-for-sale, at lower of cost or fair value	—	—	354,468	—	354,468
Loans held-in-portfolio:					
Loans not covered under loss sharing agreements with the FDIC	286,080	—	21,050,205	(256,280)	21,080,005
Loans covered under loss sharing agreements with the FDIC	—	—	3,755,972	—	3,755,972
Less - Unearned income	—	—	96,813	—	96,813
Allowance for loan losses	241	—	730,366	—	730,607
Total loans held-in-portfolio, net	285,839	—	23,978,998	(256,280)	24,008,557
FDIC loss share asset	—	—	1,399,098	—	1,399,098
Premises and equipment, net	2,495	115	533,183	—	535,793
Other real estate not covered under loss sharing agreements with the FDIC	—	—	266,844	—	266,844
Other real estate covered under loss sharing agreements with the FDIC	—	—	139,058	—	139,058
Accrued income receivable	1,675	112	124,266	(325)	125,728
Mortgage servicing assets, at fair value	—	—	154,430	—	154,430
Other assets	112,775	12,614	1,457,852	(13,663)	1,569,578
Goodwill	—	—	647,757	—	647,757
Other intangible assets	554	—	53,741	—	54,295
Total assets	\$4,948,464	\$1,672,460	\$36,301,223	\$(6,414,612)	\$36,507,535
Liabilities and Stockholders' Equity					
Liabilities:					
Deposits:					
Non-interest bearing	\$—	\$—	\$5,796,992	\$(2,363)	\$5,794,629
Interest bearing	—	—	21,216,085	(10,101)	21,205,984
Total deposits	—	—	27,013,077	(12,464)	27,000,613
Assets sold under agreements to repurchase	—	—	2,016,752	—	2,016,752
Other short-term borrowings	—	—	866,500	(230,300)	636,200
Notes payable	790,282	385,609	601,830	—	1,777,721
Subordinated notes	—	—	185,000	(185,000)	—
Other liabilities	48,182	42,120	923,138	(47,191)	966,249
Total liabilities	838,464	427,729	31,606,297	(474,955)	32,397,535
Stockholders' equity:					
Preferred stock	50,160	—	—	—	50,160
Common stock	1,032	2	55,628	(55,630)	1,032
Surplus	4,141,767	4,206,708	5,859,926	(10,058,107)	4,150,294
Retained earnings (accumulated deficit)	20,353	(3,012,365)	(1,114,802)	4,118,640	11,826
Treasury stock, at cost	(444)	—	—	—	(444)
Accumulated other comprehensive (loss) income, net of tax	(102,868)	50,386	(105,826)	55,440	(102,868)
Total stockholders' equity	4,110,000	1,244,731	4,694,926	(5,939,657)	4,110,000
Total liabilities and stockholders' equity	\$4,948,464	\$1,672,460	\$36,301,223	\$(6,414,612)	\$36,507,535

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
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 Consolidating Statement of Operations

(In thousands)	Year ended December 31, 2012				
	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Interest and Dividend Income:					
Dividend income from subsidiaries	\$5,000	\$—	\$—	\$(5,000)	\$—
Loans	6,733	—	1,556,677	(5,013)	1,558,397
Money market investments	14	25	3,707	(43)	3,703
Investment securities	16,291	322	163,179	(13,011)	166,781
Trading account securities	—	—	22,824	—	22,824
Total interest and dividend income	28,038	347	1,746,387	(23,067)	1,751,705
Interest Expense:					
Deposits	—	—	184,241	(152)	184,089
Short-term borrowings	6	151	50,058	(3,410)	46,805
Long-term debt	95,892	32,183	31,765	(11,648)	148,192
Total interest expense	95,898	32,334	266,064	(15,210)	379,086
Net interest (expense) income	(67,860)	(31,987)	1,480,323	(7,857)	1,372,619
Provision for loan losses- non-covered loans	404	—	333,698	—	334,102
Provision for loan losses- covered loans	—	—	74,839	—	74,839
Net interest (expense) income after provision for loan losses	(68,264)	(31,987)	1,071,786	(7,857)	963,678
Service charges on deposit accounts	—	—	183,026	—	183,026
Other service fees	—	—	271,859	(15,314)	256,545
Net loss on sale and valuation adjustments of investment securities	—	—	(1,707)	—	(1,707)
Trading account profit (loss)	214	—	(17,896)	—	(17,682)
Net gain on sale of loans, including valuation adjustments on loans held-for-sale	—	—	48,765	—	48,765
Adjustments (expense) to indemnity reserves on loans sold	—	—	(21,198)	—	(21,198)
FDIC loss share expense	—	—	(56,211)	—	(56,211)
Other operating income	41,966	707	85,580	(53,449)	74,804
Total non-interest income	42,180	707	492,218	(68,763)	466,342
Operating Expenses:					
Personnel costs	29,779	—	435,923	—	465,702
Net occupancy expenses	3,434	3	93,822	3,193	100,452
Equipment expenses	3,831	—	41,459	—	45,290
Other taxes	2,209	—	47,911	—	50,120
Professional fees	11,042	42	273,997	(73,191)	211,890
Communications	464	—	26,370	—	26,834
Business promotion	1,823	—	59,753	—	61,576
FDIC deposit insurance	—	—	85,697	—	85,697
Loss on early extinguishment of debt	—	—	25,196	—	25,196
Other real estate owned (OREO) expenses	—	—	23,520	—	23,520
Other operating expenses	(50,877)	441	157,242	(2,007)	104,799
Amortization of intangibles	—	—	10,072	—	10,072
Total operating expenses	1,705	486	1,280,962	(72,005)	1,211,148
(Loss) income before income tax and equity in earnings of subsidiaries	(27,789)	(31,766)	283,042	(4,615)	218,872
Income tax expense (benefit)	1,702	—	(28,147)	42	(26,403)
(Loss) income before equity in earnings of subsidiaries	(29,491)	(31,766)	311,189	(4,657)	245,275
Equity in undistributed earnings of subsidiaries	274,766	32,883	—	(307,649)	—
Net Income	\$245,275	\$1,117	\$311,189	\$(312,306)	\$245,275
Comprehensive income (loss), net of tax	\$184,955	\$(5,444)	\$248,507	\$(243,063)	\$184,955

Condensed Consolidating Statement of Operations

(In thousands)	Year ended December 31, 2011				
	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	\$ 20,000	\$ —	\$ —	\$ (20,000)	\$ —
Loans	8,913	—	1,692,065	(6,621)	1,694,357
Money market investments	8	4	3,646	(62)	3,596
Investment securities	16,224	322	200,279	(12,884)	203,941
Trading account securities	—	—	35,607	—	35,607
Total interest income	45,145	326	1,931,597	(39,567)	1,937,501
Interest Expense:					
Deposits	—	—	269,798	(311)	269,487
Short-term borrowings	50	883	59,230	(4,905)	55,258
Long-term debt	94,565	31,438	66,409	(11,648)	180,764
Total interest expense	94,615	32,321	395,437	(16,864)	505,509
Net interest (expense) income	(49,470)	(31,995)	1,536,160	(22,703)	1,431,992
Provision for loan losses- non-covered loans	—	—	430,085	—	430,085
Provision for loan losses- covered loans	—	—	145,635	—	145,635
Net interest (expense) income after provision for loan losses	(49,470)	(31,995)	960,440	(22,703)	856,272
Service charges on deposit accounts	—	—	184,940	—	184,940
Other service fees	—	—	255,668	(15,948)	239,720
Net gain on sale and valuation adjustments of investment securities	—	—	10,844	—	10,844
Trading account profit	—	—	5,897	—	5,897
Net gain on sale of loans, including valuation adjustments on loans held-for-sale	—	—	30,891	—	30,891
Adjustments (expense) to indemnity reserves on loans sold	—	—	(33,068)	—	(33,068)
FDIC loss share income	—	—	66,791	—	66,791
Fair value change in equity appreciation instrument	—	—	8,323	—	8,323
Other operating income (loss)	23,145	(499)	75,065	(51,772)	45,939
Total non-interest income (loss)	23,145	(499)	605,351	(67,720)	560,277
Operating Expenses:					
Personnel costs	28,524	—	424,846	—	453,370
Net occupancy expenses	3,396	3	95,459	3,461	102,319
Equipment expenses	3,210	—	40,630	—	43,840
Other taxes	2,269	—	49,616	—	51,885
Professional fees	10,820	11	256,994	(72,883)	194,942
Communications	421	10	26,684	—	27,115
Business promotion	1,894	—	53,173	—	55,067
FDIC deposit insurance	—	—	93,728	—	93,728
Loss on early extinguishment of debt	8,000	—	693	—	8,693
Other real estate owned (OREO) expenses	—	—	21,778	—	21,778
Other operating expenses	(49,468)	443	139,209	(2,278)	87,906
Amortization of intangibles	—	—	9,654	—	9,654
Total operating expenses	9,066	467	1,212,464	(71,700)	1,150,297
(Loss) income before income tax and equity in earnings of subsidiaries	(35,391)	(32,961)	353,327	(18,723)	266,252
Income tax expense (benefit)	2,786	(955)	112,588	508	114,927
(Loss) income before equity in earnings of subsidiaries	(38,177)	(32,006)	240,739	(19,231)	151,325
Equity in undistributed earnings of subsidiaries	189,502	19,206	—	(208,708)	—
Net Income (Loss)	\$151,325	\$(12,800)	\$ 240,739	\$(227,939)	\$ 151,325
Comprehensive income, net of tax	\$114,738	\$ 18,812	\$ 203,779	\$(222,591)	\$ 114,738

Condensed Consolidating Statement of Operations

(In thousands)	Year ended December 31, 2010				
	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	\$ 168,100	\$ —	\$ —	\$(168,100)	\$ —
Loans	7,627	—	1,675,477	(6,370)	1,676,734
Money market investments	55	2	5,383	(56)	5,384
Investment securities	23,579	322	235,552	(21,243)	238,210
Trading account securities	—	—	27,918	—	27,918
Total interest and dividend income	199,361	324	1,944,330	(195,769)	1,948,246
Interest Expense:					
Deposits	—	—	350,928	(47)	350,881
Short-term borrowings	46	510	65,550	(5,828)	60,278
Long-term debt	111,763	30,586	121,309	(21,436)	242,222
Total interest expense	111,809	31,096	537,787	(27,311)	653,381
Net interest income (expense)	87,552	(30,772)	1,406,543	(168,458)	1,294,865
Provision for loan losses- non-covered loans	—	—	1,011,880	—	1,011,880
Net interest income (expense) after provision for loan losses	87,552	(30,772)	394,663	(168,458)	282,985
Service charges on deposit accounts	—	—	195,803	—	195,803
Other service fees	—	—	382,350	(4,846)	377,504
Net gain on sale and valuation adjustments of investment securities	—	—	3,992	—	3,992
Trading account profit	—	—	16,404	—	16,404
Net gain on sale of loans, including valuation adjustments on loans held-for-sale	—	—	15,874	—	15,874
Adjustments (expense) to indemnity reserves on loans sold	—	—	(72,013)	—	(72,013)
FDIC loss share expense	—	—	(25,751)	—	(25,751)
Fair value change in equity appreciation instrument	—	—	42,555	—	42,555
Gain on sale of processing and technology business	640,802	—	—	—	640,802
Other operating income (loss)	3,282	(3,980)	112,353	(18,632)	93,023
Total non-interest income (loss)	644,084	(3,980)	671,567	(23,478)	1,288,193
Operating Expenses:					
Personnel costs	22,575	—	492,022	(399)	514,198
Net occupancy expenses	2,941	3	112,274	985	116,203
Equipment expenses	2,887	—	82,964	—	85,851
Other taxes	1,816	—	48,792	—	50,608
Professional fees	31,590	11	154,369	(19,865)	166,105
Communications	481	14	38,410	—	38,905
Business promotion	1,275	—	45,396	—	46,671
FDIC deposit insurance	—	—	67,644	—	67,644
Loss on early extinguishment of debt	15,750	—	23,037	—	38,787
Other real estate owned (OREO) expenses	19	—	46,770	—	46,789
Other operating expenses	(27,661)	432	173,591	(1,749)	144,613
Amortization of intangibles	—	—	9,173	—	9,173
Total operating expenses	51,673	460	1,294,442	(21,028)	1,325,547
Income (loss) before income tax and equity in losses of subsidiaries	679,963	(35,212)	(228,212)	(170,908)	245,631
Income tax expense (benefit)	80,444	(296)	28,344	(262)	108,230
Income (loss) before equity in losses of subsidiaries	599,519	(34,916)	(256,556)	(170,646)	137,401
Equity in undistributed losses of subsidiaries	(462,118)	(338,246)	—	800,364	—
Net Income (Loss)	\$ 137,401	\$(373,162)	\$ (256,556)	\$ 629,718	\$ 137,401
Comprehensive income (loss), net of tax	\$ 160,649	\$(357,611)	\$ (233,531)	\$(591,142)	\$ 160,649

Condensed Consolidating Statement of Cash Flows

(In thousands)	Year ended December 31, 2012				
	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Cash flows from operating activities:					
Net income	\$245,275	\$1,117	\$311,189	\$(312,306)	\$245,275
Adjustments to reconcile net income to net cash (used in) provided by operating activities:					
Equity in undistributed earnings of subsidiaries	(274,766)	(32,883)	–	307,649	–
Provision for loan losses	404	–	408,537	–	408,941
Amortization of intangibles	–	–	10,072	–	10,072
Depreciation and amortization of premises and equipment	653	3	46,080	–	46,736
Net accretion of discounts and amortization of premiums and deferred fees	29,058	112	(66,582)	(487)	(37,899)
Fair value adjustments on mortgage servicing rights	–	–	17,406	–	17,406
FDIC loss share expense	–	–	56,211	–	56,211
Amortization of prepaid FDIC assessment	–	–	32,778	–	32,778
Adjustments (expense) to indemnity reserves on loans sold	–	–	21,198	–	21,198
Earnings from investments under the equity method	(40,505)	(706)	(32,267)	–	(73,478)
Deferred income tax benefit	(14,109)	–	(121,424)	42	(135,491)
Loss (gain) on:					
Disposition of premises and equipment	2	–	(8,621)	–	(8,619)
Sale and valuation adjustments of investment securities	–	–	1,707	–	1,707
Sale of loans, including valuation adjustments on loans held for sale	–	–	(48,765)	–	(48,765)
Sale of other assets	–	–	(2,545)	–	(2,545)
Acquisitions of loans held-for-sale	–	–	(417,108)	–	(417,108)
Proceeds from sale of loans held-for-sale	–	–	325,014	–	325,014
Net disbursements on loans held-for-sale	–	–	(1,233,240)	–	(1,233,240)
Net (increase) decrease in:					
Trading securities	(1,259)	–	1,389,169	–	1,387,910
Accrued income receivable	(163)	–	(405)	49	(519)
Other assets	8,859	313	(16,483)	(16,590)	(23,901)
Net increase (decrease) in:					
Interest payable	–	(126)	(9,091)	53	(9,164)
Pension and other postretirement benefits obligations	–	–	(40,241)	–	(40,241)
Other liabilities	2,581	(25)	(473)	(235)	1,848
Total adjustments	(289,245)	(33,312)	310,927	290,481	278,851
Net cash (used in) provided by operating activities	(43,970)	(32,195)	622,116	(21,825)	524,126
Cash flows from investing activities:					
Net decrease (increase) in money market investments	23,665	(315)	290,990	(23,746)	290,594
Purchases of investment securities:					
Available-for-sale	–	–	(1,843,922)	–	(1,843,922)
Held-to-maturity	–	–	(25,792)	–	(25,792)
Other	–	–	(212,419)	–	(212,419)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:					
Available-for-sale	–	–	1,636,723	–	1,636,723
Held-to-maturity	–	–	9,751	–	9,751
Other	–	–	206,856	–	206,856
Proceeds from sale of investment securities:					
Available for sale	–	–	52,058	–	52,058
Net (disbursements) repayments on loans	(36,262)	–	628,963	36,305	629,006
Proceeds from sale of loans	–	–	68,396	–	68,396
Acquisition of loan portfolios	–	–	(1,357,628)	–	(1,357,628)
Payments received from FDIC under loss sharing agreements	–	–	462,016	–	462,016
Return of capital from equity method investments	150,194	1,002	–	–	151,196
Capital contribution to subsidiary	(103,500)	–	–	103,500	–
Mortgage servicing rights purchased	–	–	(2,231)	–	(2,231)
Acquisition of premises and equipment	(691)	–	(54,208)	–	(54,899)
Proceeds from sale of:					
Premises and equipment	73	–	19,768	–	19,841
Other productive assets	–	–	1,026	–	1,026
Foreclosed assets	–	–	206,070	–	206,070
Net cash provided by investing activities	33,479	687	86,417	116,059	236,642
Cash flows from financing activities:					
Net increase (decrease) in:					
Deposits	–	–	(991,097)	21,501	(969,596)
Federal funds purchased and assets sold under agreements to repurchase	–	–	(148,405)	24,060	(124,345)
Other short-term borrowings	–	(30,500)	406,900	(36,400)	340,000
Payments of notes payable	–	(41,800)	(173,098)	–	(214,898)
Proceeds from issuance of notes payable	–	–	106,923	–	106,923
Proceeds from issuance of common stock	9,402	–	–	–	9,402
Dividends paid to parent company	–	–	(5,000)	5,000	–
Dividends paid	(3,723)	–	–	–	(3,723)
Treasury stock acquired	(450)	–	–	–	(450)
Capital contribution from parent	–	103,500	–	(103,500)	–
Net cash provided by (used in) financing activities	5,229	31,200	(803,777)	(89,339)	(856,687)
Net decrease in cash and due from banks	(5,262)	(308)	(95,244)	4,895	(95,919)
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	\$1,103	\$624	\$439,552	\$(1,916)	\$439,363

Condensed Consolidating Statement of Cash Flows

	Year ended December 31, 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 (loss)	\$151,325	\$(12,800)	\$240,739	\$(227,939)	\$151,325
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:					
Equity in undistributed earnings of subsidiaries	(189,502)	(19,206)	–	208,708	–
Provision for loan losses	–	–	575,720	–	575,720
Amortization of intangibles	–	–	9,654	–	9,654
Depreciation and amortization of premises and equipment	750	3	45,693	–	46,446
Net accretion of discounts and amortization of premiums and deferred fees	25,042	176	(137,614)	(650)	(113,046)
Impairment losses on net assets to be disposed of	–	–	4,255	–	4,255
Fair value adjustments on mortgage servicing rights	–	–	37,061	–	37,061
Fair value change in equity appreciation instrument	–	–	(8,323)	–	(8,323)
FDIC loss share income	–	–	(66,791)	–	(66,791)
Amortization of prepaid FDIC assessment	–	–	93,728	–	93,728
Adjustments (expense) to indemnity reserves on loans sold	–	–	33,068	–	33,068
(Earnings) losses from investments under the equity method	(14,186)	500	(20,083)	–	(33,769)
Deferred income tax expense (benefit)	13,965	(932)	(7,679)	508	5,862
Loss (gain) on:					
Disposition of premises and equipment	7	–	(5,533)	–	(5,526)
Sale and valuation adjustments of investment securities	–	–	(10,844)	–	(10,844)
Sale of loans, including valuation adjustments on loans held for sale	–	–	(30,891)	–	(30,891)
Sale of equity method investments	(5,493)	–	(11,414)	–	(16,907)
Acquisitions of loans held-for-sale	–	–	(346,004)	–	(346,004)
Proceeds from sale of loans held-for-sale	–	–	165,335	–	165,335
Net disbursements on loans held-for-sale	–	–	(793,094)	–	(793,094)
Net (increase) decrease in:					
Trading securities	–	–	1,143,029	–	1,143,029
Accrued income receivable	(2)	–	25,240	211	25,449
Other assets	6,808	2,316	6,085	7,120	22,329
Net increase (decrease) in:					
Interest payable	(3,467)	(56)	(8,949)	1	(12,471)
Pension and other postretirement benefits obligations	–	–	(11,288)	–	(11,288)
Other liabilities	(84,434)	(2,354)	(2,901)	2,055	(87,634)
Total adjustments	(250,512)	(19,553)	577,460	217,953	525,348
Net cash (used in) provided by operating activities	(99,187)	(32,353)	818,199	(9,986)	676,673
Cash flows from investing activities:					
Net increase in money market investments	(42,237)	(291)	(378,703)	24,352	(396,879)
Purchases of investment securities:					
Available-for-sale	–	–	(1,357,080)	–	(1,357,080)
Held-to-maturity	(37,093)	–	(37,445)	–	(74,538)
Other	–	–	(172,775)	–	(172,775)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:					
Available-for-sale	–	–	1,360,386	–	1,360,386
Held-to-maturity	62,980	–	4,256	–	67,236
Other	–	–	154,114	–	154,114
Proceeds from sale of investment securities:					
Available for sale	–	–	262,443	–	262,443
Other	–	–	5,094	–	5,094
Net repayments on loans	226,415	–	1,130,350	(220,707)	1,136,058
Proceeds from sale of loans	–	–	293,109	–	293,109
Acquisition of loan portfolios	–	–	(1,131,388)	–	(1,131,388)
Payments received from FDIC under loss sharing agreements	–	–	561,111	–	561,111
Cash paid related to business acquisitions	–	–	(855)	–	(855)
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	–	–	(1,732)	–	(1,732)
Acquisition of premises and equipment	(594)	–	(49,449)	–	(50,043)
Proceeds from sale of:					
Premises and equipment	135	–	14,804	–	14,939
Foreclosed assets	–	–	198,490	–	198,490
Net cash provided by (used in) investing activities	198,916	(291)	859,923	(159,355)	899,193
Cash flows from financing activities:					
Net increase (decrease) in:					
Deposits	–	–	1,192,089	(12,146)	1,179,943
Federal funds purchased and assets sold under agreements to repurchase	–	–	(247,393)	(24,060)	(271,453)
Other short-term borrowings	–	(2,000)	(284,322)	218,300	(68,022)
Payments of notes payable	(100,000)	(3,000)	(2,666,477)	–	(2,769,477)
Proceeds from issuance of notes payable	–	–	432,568	–	432,568
Proceeds from issuance of common stock	7,690	–	–	–	7,690
Dividends paid to parent company	–	–	(20,000)	20,000	–
Dividends paid	(3,723)	–	–	–	(3,723)
Treasury stock acquired	(483)	–	–	–	(483)
Return of capital	1,514	–	(1,514)	–	–
Capital contribution from parent	–	37,000	–	(37,000)	–
Net cash (used in) provided by financing activities	(95,002)	32,000	(1,595,049)	165,094	(1,492,957)
Net increase (decrease) in cash and due from banks	4,727	(644)	83,073	(4,247)	82,909
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	\$6,365	\$932	\$534,796	\$(6,811)	\$535,282

Condensed Consolidating Statement of Cash Flows

(In thousands)	Year ended December 31, 2010				
	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)	\$137,401	\$(373,162)	\$(256,556)	\$629,718	\$137,401
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Equity in undistributed losses of subsidiaries	462,118	338,246	–	(800,364)	–
Provision for loan losses	–	–	1,011,880	–	1,011,880
Amortization of intangibles	–	–	9,173	–	9,173
Depreciation and amortization of premises and equipment	785	3	58,073	–	58,861
Net accretion of discounts and amortization of premiums and deferred fees	21,282	275	(275,786)	(650)	(254,879)
Fair value adjustments of mortgage servicing rights	–	–	22,859	–	22,859
Fair value change in equity appreciation instrument	–	–	(42,555)	–	(42,555)
FDIC loss share expense	–	–	25,751	–	25,751
Amortization of prepaid FDIC assessment	–	–	67,644	–	67,644
Adjustments (expense) to indemnity reserves on loans sold	–	–	72,013	–	72,013
(Earnings) losses from investments under the equity method	(3,402)	3,981	(24,161)	–	(23,582)
Deferred income tax expense (benefit)	8,831	–	(23,392)	2,434	(12,127)
Loss (gain) on:					
Disposition of premises and equipment	2	–	(1,814)	–	(1,812)
Sale and valuation adjustment of investment securities	–	–	(3,992)	–	(3,992)
Sale of loans, including valuation adjustments on loans held for sale	–	–	(15,874)	–	(15,874)
Sale of processing and technology business, net of transaction costs	(616,186)	–	–	–	(616,186)
Acquisitions of loans held-for-sale	–	–	(307,629)	–	(307,629)
Proceeds from sale of loans held-for-sale	–	–	81,370	–	81,370
Net disbursements on loans held-for-sale	–	–	(735,095)	–	(735,095)
Net (increase) decrease in:					
Trading securities	–	–	721,398	–	721,398
Accrued income receivable	(1,390)	20	12,614	71	11,315
Other assets	7,866	2,077	30,469	(30,252)	10,160
Net increase (decrease) in:					
Interest payable	(528)	81	(29,071)	(44)	(29,562)
Pension and other postretirement benefits obligations	–	–	(11,060)	–	(11,060)
Other liabilities	42,578	1,540	(59,220)	2,789	(12,313)
Total adjustments	(78,044)	346,223	583,595	(826,016)	25,758
Net cash provided by (used in) operating activities	59,357	(26,939)	327,039	(196,298)	163,159
Cash flows from investing activities:					
Net decrease (increase) in money market investments	49	(23)	119,692	23	119,741
Purchases of investment securities:					
Available-for-sale	(35,000)	–	(746,192)	17,150	(764,042)
Held-to-maturity	(52,796)	–	(44,392)	–	(97,188)
Other	–	–	(64,591)	–	(64,591)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:					
Available-for-sale	–	–	1,865,879	–	1,865,879
Held-to-maturity	297,747	–	135,382	(245,000)	188,129
Other	–	–	123,836	–	123,836
Proceeds from sale of investment securities:					
Available for sale	–	–	397,086	–	397,086
Net (disbursements) repayments on loans	(366,450)	–	1,592,070	313,626	1,539,246
Proceeds from sale of loans	–	–	34,011	–	34,011
Acquisition of loan portfolios	–	–	(256,406)	–	(256,406)
Cash received from business acquisitions	–	–	261,311	–	261,311
Net proceeds from sale of processing and technology business	617,976	–	24,346	–	642,322
Capital contribution to subsidiary	(1,345,000)	(745,000)	(745,000)	2,835,000	–
Mortgage servicing rights purchased	–	–	(1,041)	–	(1,041)
Acquisition of premises and equipment	(890)	–	(65,965)	–	(66,855)
Proceeds from sale of:					
Premises and equipment	183	–	14,277	–	14,460
Foreclosed assets	74	–	141,162	–	141,236
Net cash (used in) provided by investing activities	(884,107)	(745,023)	2,785,465	2,920,799	4,077,134
Cash flows from financing activities:					
Net increase (decrease) in:					
Deposits	–	–	(1,590,435)	36,949	(1,553,486)
Federal funds purchased and assets sold under agreements to repurchase	–	–	(163,840)	(56,400)	(220,240)
Other short-term borrowings	(24,225)	31,800	636,696	(287,375)	356,896
Payments of notes payable	(250,000)	(4,000)	(4,253,578)	247,000	(4,260,578)
Proceeds from issuance of notes payable	–	–	110,870	231	111,101
Proceeds from issuance of common stock	153	–	–	–	153
Net proceeds from issuance of depository shares	1,100,155	–	–	1,618	1,101,773
Dividends paid to parent company	–	–	(168,100)	168,100	–
Dividends paid	(310)	–	–	–	(310)
Treasury stock acquired	(559)	–	–	–	(559)
Capital contribution from parent	–	745,000	2,090,000	(2,835,000)	–
Net cash provided by (used in) financing activities	825,214	772,800	(3,338,387)	(2,724,877)	(4,465,250)
Net increase (decrease) in cash and due from banks	464	838	(225,883)	(376)	(224,957)
Cash and due from banks at beginning of period	1,174	738	677,606	(2,188)	677,330
Cash and due from banks at end of period	\$1,638	\$1,576	\$451,723	\$(2,564)	\$452,373

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