POPULAR INC
Form 10-Q
November 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

[X] **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2011

Commission File Number: 001-34084

POPULAR, INC.
(Exact name of registrant as specifies in its charter)

Puerto Rico	**66-0667416**
(State or other jurisdiction of	(IRS Employer Identification Number)
Incorporation or organization)	
Popular Center Building **209 Muñoz Rivera Avenue** **Hato Rey, Puerto Rico**	**00918**
(Address of principal executive offices)	(Zip code)

(787) 765-9800
(Registrant s telephone number, including area code)

NOT APPLICABLE
(Former name, former address and former fiscal year, if change since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[X] Yes [ ] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

[X] Yes [ ] No

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

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

[ ] Yes [X] No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: Common Stock, $0.01 par value, 1,025,101,209 shares outstanding as of October 28, 2011.

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Forward-Looking Information

The information included in this Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may relate to Popular, Inc. s (the Corporation , Popular , we, us , our) financial condition, results of operations, pla objectives, future performance and business, including, but not limited to, statements with respect to the adequacy of the allowance for loan losses, delinquency trends, market risk and the impact of interest rate changes, capital markets conditions, capital adequacy and liquidity, and the effect of legal proceedings and new accounting standards on the Corporation s financial condition and results of operations. All statements contained herein that are not clearly historical in nature are forward-looking, and the words anticipate, believe, continues, expect, estimate, intend, project and similar expressions and future or conditional verbs suc would, should, could, might, can, may, or similar expressions are generally intended to identify forward-looking statements.

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

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

- the rate of growth in the economy and employment levels, as well as general business and economic conditions;
- changes in interest rates, as well as the magnitude of such changes;
- the fiscal and monetary policies of the federal government and its agencies;
- changes in federal bank regulatory and supervisory policies, including required levels of capital;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) on our businesses, business practices and cost of operations;
- regulatory approvals that may be necessary to undertake certain actions or consummate strategic transactions such as acquisitions and dispositions;
- the relative strength or weakness of the consumer and commercial credit sectors and of the real estate markets in Puerto Rico and the other markets in which borrowers are located;
- the performance of the stock and bond markets;
- competition in the financial services industry;
- additional Federal Deposit Insurance Corporation (FDIC) assessments; and
- possible legislative, tax or regulatory changes.

Other possible events or factors that could cause results or performance to differ materially from those expressed in these forward-looking statements include the following: negative economic conditions that adversely affect the general economy, housing prices, the job market, consumer confidence and spending habits which may affect, among other things, the level of non-performing assets, charge-offs and provision expense; changes in interest rates and market liquidity which may reduce interest margins, impact funding sources and affect our ability to originate and distribute financial products in the primary and secondary markets; adverse movements and volatility in debt and equity capital markets; changes in market rates and prices which may adversely impact the value of financial assets and liabilities; liabilities resulting from litigation and regulatory investigations; changes in accounting standards, rules and interpretations; increased competition; our ability to grow our core businesses; decisions to downsize, sell or close units or otherwise change our business mix; and management s ability to identify and manage these and other risks. Moreover, the outcome of legal proceedings, as discussed in Part II, Item I. Legal Proceedings, is inherently uncertain and depends on judicial interpretations of law and the findings of regulators, judges and juries. Investors should refer to the Corporation s Annual Report on Form 10-K for the year ended December 31, 2010 as well as Part II, Item 1A of this Form 10-Q for a discussion of such factors and certain risks and uncertainties to which the Corporation is subject.

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

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ITEM 1. FINANCIAL STATEMENTS

POPULAR, INC.

CONSOLIDATED STATEMENTS OF CONDITION (UNAUDITED)

(In thousands, except share information)	September 30, 2011	December 31, 2010	September 30, 2010
Assets			
Cash and due from banks	$ 567,141	$ 452,373	$ 580,811
Money market investments:			
Federal funds sold	16,179	16,110	-
Securities purchased under agreements to resell	216,939	165,851	290,456
Time deposits with other banks	1,036,021	797,334	1,733,493
Total money market investments	1,269,139	979,295	2,023,949
Trading account securities, at fair value:			
Pledged securities with creditors right to repledge	197,840	492,183	434,637
Other trading securities	75,099	54,530	48,555
Investment securities available-for-sale, at fair value:			
Pledged securities with creditors right to repledge	1,696,581	2,031,123	2,048,258
Other investment securities available-for-sale	3,529,948	3,205,729	3,693,225
Investment securities held-to-maturity, at amortized cost (fair value at September 30, 2011 - $135,011; December 31, 2010 - $120,873; September 30, 2010 - $214,803)	128,546	122,354	214,152
Other investment securities, at lower of cost or realizable value (realizable value at September 30, 2011 - $175,102; December 31, 2010 - $165,233; September 30, 2010 $159,622)	173,569	163,513	158,309
Loans held-for-sale, at lower of cost or fair value	368,777	893,938	115,088
Loans held-in-portfolio:			
Loans not covered under loss sharing agreements with the FDIC	20,775,237	20,834,276	22,248,112
Loans covered under loss sharing agreements with the FDIC	4,512,423	4,836,882	4,953,195
Less Unearned income	101,351	106,241	106,685
Allowance for loan losses	772,921	793,225	1,243,994
Total loans held-in-portfolio, net	24,413,388	24,771,692	25,850,628
FDIC loss share asset	1,798,339	2,318,183	2,324,978
Premises and equipment, net	536,529	545,453	531,849
Other real estate not covered under loss sharing agreements with the FDIC	175,785	161,496	168,823
Other real estate covered under loss sharing agreements with the FDIC	75,339	57,565	56,368
Accrued income receivable	134,263	150,658	160,167
Mortgage servicing assets, at fair value	157,226	166,907	165,947
Other assets	2,168,529	1,449,887	1,443,158
Goodwill	648,353	647,387	645,944
Other intangible assets	64,212	58,696	60,438
Total assets	$ 38,178,603	$ 38,722,962	$ 40,725,284
Liabilities and Stockholders Equity			
Liabilities:			
Deposits:			
Non-interest bearing	$ 5,527,450	$ 4,939,321	$ 5,371,439
Interest bearing	22,425,890	21,822,879	22,368,605

Total deposits	27,953,340	26,762,200	27,740,044
Federal funds purchased and assets sold under agreements to repurchase	2,601,606	2,412,550	2,358,139
Other short-term borrowings	166,200	364,222	191,342
Notes payable	2,550,745	4,170,183	5,145,152
Other liabilities	894,111	1,213,276	1,170,476
Total liabilities	34,166,002	34,922,431	36,605,153
Commitments and contingencies (See note 19)			
Stockholders equity:			
Preferred stock, 30,000,000 shares authorized; 2,006,391 shares issued and outstanding in all periods presented (aggregated liquidation preference value of $50,160)	50,160	50,160	50,160
Common stock, $0.01 par value; 1,700,000,000 shares authorized in all periods presented; 1,024,870,255 shares issued at September 30, 2011 (December 31, 2010 1,022,929,158 ; September 30, 2010 1,022,878,228) and 1,024,475,398 outstanding at September 30, 2011 (December 31, 2010 1,022,727,802 ; September 30, 2010 1,022,686,418)	10,249	10,229	10,229
Surplus	4,099,379	4,094,005	4,094,302
Accumulated deficit	(201,770)	(347,328)	(119,877)
Treasury stock at cost, 394,857 shares at September 30, 2011 (December 31, 2010 201,356 shares; September 30, 2010 191,810 shares)	(992)	(574)	(545)
Accumulated other comprehensive income (loss), net of tax of ($50,836) (December 31, 2010 ($55,616); September 30, 2010 ($16,856))	55,575	(5,961)	85,862
Total stockholders equity	4,012,601	3,800,531	4,120,131
Total liabilities and stockholders equity	$ 38,178,603	$ 38,722,962	$ 40,725,284

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(In thousands, except per share information)	Quarter ended September 30, 2011	Quarter ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Interest income:				
Loans	$ 428,999	$ 455,631	$ 1,294,834	$ 1,231,290
Money market investments	886	1,391	2,759	4,326
Investment securities	51,085	57,277	157,183	185,118
Trading account securities	10,788	7,136	29,332	20,313
Total interest income	491,758	521,435	1,484,108	1,441,047
Interest expense:				
Deposits	65,868	86,330	213,419	269,919
Short-term borrowings	13,744	14,945	41,478	45,756
Long-term debt	42,835	63,382	141,999	185,082
Total interest expense	122,447	164,657	396,896	500,757
Net interest income	369,311	356,778	1,087,212	940,290
Provision for loan losses	176,276	215,013	395,912	657,471
Net interest income after provision for loan losses	193,035	141,765	691,300	282,819
Service charges on deposit accounts	46,346	48,608	138,778	149,865
Other service fees	62,664	100,822	179,623	305,867
Net gain on sale and valuation adjustments of investment securities	8,134	3,732	8,044	4,210
Trading account profit	2,912	5,860	3,287	8,101
Net gain on sale of loans, including valuation adjustments on loans held-for-sale	20,294	4,250	14,756	14,396
Adjustments (expense) to indemnity reserves on loans sold	(10,285)	(5,823)	(29,587)	(37,502)
FDIC loss share (expense) income	(5,361)	(7,668)	49,344	(22,705)
Fair value change in equity appreciation instrument	-	10,641	8,323	35,035
Gain on sale of processing and technology business	-	640,802	-	640,802
Other operating (loss) income	(2,314)	24,670	38,350	84,518
Total non-interest income	122,390	825,894	410,918	1,182,587
Operating expenses:				
Personnel costs	111,724	141,205	328,823	400,169
Net occupancy expenses	25,885	28,425	76,428	86,359
Equipment expenses	10,517	25,432	33,314	74,231

Other taxes		12,391		13,872		38,986		38,635
Professional fees		48,756		48,224		144,923		109,498
Communications		6,800		9,514		21,198		31,628
Business promotion		14,650		11,260		35,842		29,759
FDIC deposit insurance		23,285		17,183		68,640		49,894
Loss on early extinguishment of debt		109		25,448		8,637		26,426
Other real estate owned (OREO) expenses		3,234		6,997		11,885		26,322
Other operating expenses		22,541		41,570		63,555		101,034
Amortization of intangibles		2,463		2,411		6,973		6,915
Total operating expenses		282,355		371,541		839,204		980,870
Income before income tax		33,070		596,118		263,014		484,536
Income tax expense		5,537		102,032		114,664		119,994
Net Income	$	27,533	$	494,086	$	148,350	$	364,542
Net Income Applicable to Common Stock	$	26,602	$	494,086	$	145,558	$	172,875
Net Income per Common Share Basic	$	0.03	$	0.48	$	0.14	$	0.21
Net Income per Common Share Diluted	$	0.03	$	0.48	$	0.14	$	0.21
Dividends Declared per Common Share		-		-		-		-

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

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(UNAUDITED)

(In thousands)	Common stock, including treasury stock	Preferred stock	Surplus	Accumulated deficit	Accumulated other comprehensive (loss) income	Total
Balance at December 31, 2009	$ 6,380	$ 50,160	$ 2,804,238	$ (292,752)	$ (29,209)	$ 2,538,817
Net loss				364,542		364,542
Issuance of stock	-	1,150,000 [1]	-			1,150,000
Issuance of common stock upon conversion of preferred stock	3,834 [1]	(1,150,000)[1]	1,337,833 [1]			191,667
Issuance costs			(47,769)[2]			(47,769)
Deemed dividend on preferred stock				(191,667)		(191,667)
Common stock purchases	(530)					(530)
Other comprehensive income, net of tax					115,071	115,071
Balance at September 30, 2010	$ 9,684	$ 50,160	$ 4,094,302	$ (119,877)	$ 85,862	$ 4,120,131
Balance at December 31, 2010	$ 9,655	$ 50,160	$ 4,094,005	$ (347,328)	$ (5,961)	$ 3,800,531
Net income				148,350		148,350
Issuance of stock	20		5,374			5,394
Dividends declared:						
Preferred stock				(2,792)		(2,792)
Common stock purchases	(418)					(418)
Other comprehensive income, net of tax					61,536	61,536
Balance at September 30, 2011	$ 9,257	$ 50,160	$ 4,099,379	$ (201,770)	$ 55,575	$ 4,012,601

[1] Issuance and subsequent conversion of depositary shares representing interests in shares of contingent convertible non-cumulative preferred stock, Series D, into common stock.

[2] Issuance costs related to issuance and conversion of depository shares (Preferred Stock - Series D).

Disclosure of changes in number of shares:	September 30, 2011	December 31, 2010	September 30, 2010
Preferred Stock:			
Balance at beginning of year	2,006,391	2,006,391	2,006,391
Issuance of stock	-	1,150,000 [1]	1,150,000 [1]
Conversion of stock	-	(1,150,000)[1]	(1,150,000)[1]
Balance at end of the period	2,006,391	2,006,391	2,006,391

Common Stock Issued:			
Balance at beginning of year	1,022,929,158	639,544,895	639,544,895
Issuance of stock	1,941,097	50,930	-
Issuance of stock upon conversion of preferred stock	-	383,333,333 [1]	383,333,333 [1]
Balance at end of the period	1,024,870,255	1,022,929,158	1,022,878,228
Treasury stock	(394,857)	(201,356)	(191,810)
Common Stock Outstanding	1,024,475,398	1,022,727,802	1,022,686,418

[1] Issuance of 46,000,000 in depositary shares; converted into 383,333,333 common shares (full conversion of depositary 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.

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

	Quarter ended, September 30,		Nine months ended, September 30,	
(In thousands)	2011	2010	2011	2010
Net income	$ 27,533	$ 494,086	$ 148,350	$ 364,542
Other comprehensive income before tax:				
Foreign currency translation adjustment	(222)	1,017	(1,950)	440
Reclassification adjustment for losses included in net income	-	4,967	10,084	4,967
Adjustment of pension and postretirement benefit plans	-	-	-	2,736
Amortization of net losses	3,243	1,971	9,730	5,994
Amortization of prior service cost	(240)	(262)	(720)	(785)
Unrealized holding gains on securities available-for-sale arising during the period	29,021	7,438	59,822	124,350
Reclassification adjustment for gains included in net income	(8,134)	(3,717)	(8,044)	(3,701)
Unrealized net losses on cash flow hedges	(1,671)	(623)	(1,237)	(2,163)
Reclassification adjustment for (gains) losses included in net income	(485)	1,509	(1,369)	341
Other comprehensive income before tax	21,512	12,300	66,316	132,179
Income tax expense	(708)	(888)	(4,780)	(17,108)
Total other comprehensive income, net of tax	20,804	11,412	61,536	115,071
Comprehensive income, net of tax	$ 48,337	$ 505,498	$ 209,886	$ 479,613

Tax effect allocated to each component of other comprehensive income:

	Quarter ended September 30,		Nine months ended, September 30,	
(In thousands)	2011	2010	2011	2010
Underfunding of pension and postretirement benefit plans	$ -	$ -	$ -	$ -
Amortization of net losses	(821)	(803)	(2,464)	(2,411)
Amortization of prior service cost	(72)	(79)	(216)	(236)
Unrealized holding gains on securities available-for-sale arising during the period	(1,611)	(217)	(4,101)	(15,724)
Reclassification adjustment for gains included in net income	1,233	556	1,219	552
Unrealized net losses on cash flow hedges	417	244	286	844
Reclassification adjustment for (gains) losses included in net income	146	(589)	496	(133)
Income tax expense	$ (708)	$ (888)	$ (4,780)	$ (17,108)

Disclosure of accumulated other comprehensive income (loss):

(In thousands)	September 30, 2011	December 31, 2010	September 30, 2010
Foreign currency translation adjustment	$ (28,017)	$ (36,151)	$ (35,269)
Underfunding of pension and postretirement benefit plans	(201,925)	(210,935)	(119,841)
Tax effect	78,175	80,855	45,919
Net of tax amount	(123,750)	(130,080)	(73,922)
Unrealized holding gains on securities available-for-sale	236,352	184,574	224,739
Tax effect	(27,756)	(24,874)	(29,306)
Net of tax amount	208,596	159,700	195,433
Unrealized gains (losses) on cash flow hedges	(1,671)	935	(623)
Tax effect	417	(365)	243
Net of tax amount	(1,254)	570	(380)
Accumulated other comprehensive income (loss)	$ 55,575	$ (5,961)	$ 85,862

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In thousands)	Nine months ended September 30, 2011	2010
Cash flows from operating activities:		
Net income	$ 148,350	$ 364,542
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	395,912	657,471
Amortization of intangibles	6,973	6,915
Depreciation and amortization of premises and equipment	34,864	47,084
Net (accretion of discounts) amortization of premiums and deferred fees	(97,668)	(156,056)
Impairment losses on net assets to be disposed of	6,085	-
Fair value adjustments of mortgage servicing rights	26,373	19,959
Fair value change in equity appreciation instrument	(8,323)	(35,035)
FDIC loss share (income) expense	(49,344)	22,705
FDIC deposit insurance expense	68,640	49,894
Adjustments (expense) to indemnity reserves on loans sold	29,587	37,502
Losses (earnings) from investments under the equity method	11,250	(16,144)
Deferred income tax expense	44,608	9,351
(Gain) loss on:		
Disposition of premises and equipment	(2,019)	(1,993)
Early extinguishment of debt	-	26,426
Sale and valuation adjustments of investment securities	(8,044)	(4,210)
Sale of loans, including valuation adjustments on loans held-for-sale	(14,756)	(14,396)
Sale of equity method investment	(16,907)	-
Sale of processing and technology business, net of transaction costs	-	(616,186)
Acquisitions of loans held-for-sale	(253,401)	(213,897)
Proceeds from sale of loans held-for-sale	101,549	57,831
Net disbursements on loans held-for-sale	(617,591)	(494,312)
Net (increase) decrease in:		
Trading securities	492,882	565,611
Accrued income receivable	14,924	1,806
Other assets	(25,576)	(44,380)
Net increase (decrease) in:		
Interest payable	(7,344)	(34,559)
Pension and other postretirement benefit obligation	(128,802)	1,825
Other liabilities	(109,155)	74,461
Total adjustments	(105,283)	(52,327)
Net cash provided by operating activities	43,067	312,215
Cash flows from investing activities:		
Net increase in money market investments	(289,844)	(924,913)
Purchases of investment securities:		
Available-for-sale	(1,198,613)	(688,678)
Held-to-maturity	(65,358)	(52,198)
Other	(116,582)	(44,021)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:		
Available-for-sale	979,868	1,329,390
Held-to-maturity	54,617	51,067
Other	104,231	108,470
Proceeds from sale of investment securities:		

Available-for-sale	35,099	396,676
Other	2,294	-
Net repayments on loans	1,013,103	1,292,935
Proceeds from sale of loans	290,119	15,908
Acquisition of loan portfolios	(985,675)	(130,488)
Payments received from FDIC under loss sharing agreements	561,111	-
Cash (paid) acquired related to business acquisitions	(500)	261,311
Net proceeds from sale of equity method investment	31,503	-
Net proceeds from sale of processing and technology businesses	-	642,322
Mortgage servicing rights purchased	(1,251)	(598)
Acquisition of premises and equipment	(37,868)	(40,336)
Proceeds from sale of:		
Premises and equipment	12,314	13,503
Foreclosed assets	133,017	120,412
Net cash provided by investing activities	521,585	2,350,762
Cash flows from financing activities:		
Net increase (decrease) in:		
Deposits	1,192,652	(574,739)
Federal funds purchased and assets sold under agreements to repurchase	189,056	(274,651)
Other short-term borrowings	(198,022)	184,016
Prepayment penalties paid on cancellation of debt	-	(25,475)

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Payments of notes payable	(2,055,254)	(3,281,449)
Proceeds from issuance of notes payable	419,500	111,101
Proceeds from issuance of common stock	5,394	-
Net proceeds from issuance of depositary shares	-	1,102,231
Dividends paid	(2,792)	-
Treasury stock acquired	(418)	(530)
Net cash used in financing activities	(449,884)	(2,759,496)
Net increase (decrease) in cash and due from banks	114,768	(96,519)
Cash and due from banks at beginning of period	452,373	677,330
Cash and due from banks at end of period	$ 567,141	$ 580,811

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

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Notes to Consolidated Financial Statements (Unaudited)

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Note 1 Summary of significant accounting policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of Popular, Inc. and its subsidiaries (the Corporation). All significant 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 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 condition. The results of operations of companies or assets acquired are included only from the dates of acquisition.

Unconsolidated investments, in which there is at least 20% ownership, are generally accounted for by the equity method. These investments are included in other assets and the Corporation s proportionate share of income or loss is included in other operating income. 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 Corporation s interest is so minor that it 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.

The consolidated interim financial statements have been prepared without audit. The consolidated statement of condition data at December 31, 2010 was derived from audited financial statements. The unaudited interim financial statements are, in the opinion of management, a fair statement of the results for the periods reported and include all necessary adjustments, all of a normal recurring nature, for a fair statement of such results.

Certain reclassifications have been made to the 2010 consolidated financial statements and notes to the financial statements to conform with the 2011 presentation.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted from the unaudited financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, these financial statements should be read in conjunction with the audited consolidated financial statements of the Corporation for the year ended December 31, 2010, included in the Corporation s 2010 Annual Report (the 2010 Annual Report). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

Use of Estimates in the Preparation of Financial Statements

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

Nature of Operations

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 continental United States, 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 auto and equipment leasing and financing, mortgage loans, investment banking, broker-dealer and insurance services through specialized subsidiaries. In the United States, the Corporation operates Banco Popular North America (BPNA), including its wholly-owned subsidiary E-LOAN, Inc. (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, its branches in Illinois, Florida and California operate under a new assumed business name, Popular Community Bank. Note 29 to the consolidated financial statements presents information about the Corporation s business segments. The Corporation has a 49% interest in EVERTEC, which provides transaction processing services throughout the Caribbean and Latin America, including servicing many of Popular s system infrastructures and transaction processing businesses.

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On April 30, 2010, BPPR acquired certain assets and assumed certain deposits and liabilities of Westernbank Puerto Rico (Westernbank) from the Federal Deposit Insurance Corporation (the FDIC). The transaction is referred to herein as the Westernbank FDIC-assisted transaction . Refer to the Corporation s 2010 Annual Report for information on this business combination. Assets subject to loss sharing agreements with the FDIC, including loans and other real estate owned, are labeled covered on the consolidated statements of condition and applicable notes to the consolidated financial statements. Loans acquired in the Westernbank FDIC-assisted transaction, except for credit cards, and other real estate owned are considered covered because the Corporation will be reimbursed for 80% of any future losses on these assets subject to the terms of the FDIC loss sharing agreements.

Note 2 New Accounting Pronouncements

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

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

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

ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption was permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity s financial statements for the most recent annual or interim period 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 goodwill impairment and will not have an impact on the Corporation s consolidated financial statements.

FASB Accounting Standards Update 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (ASU 2011-05)

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

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The amendments of this guidance are effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2011. ASU 2011-05 should be applied retrospectively. Early adoption is permitted.

The provisions of this guidance impact presentation disclosure only and will not have an impact on the Corporation s consolidated financial statements.

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

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

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

The Corporation will be evaluating the potential impact, if any, that the adoption of this guidance will have on its consolidated financial statements.

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

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

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

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

The Corporation will be evaluating the potential impact, if any, that the adoption of this guidance will have on its consolidated financial statements.

FASB Accounting Standards Update 2011-02, Receivables (Topic 310): A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring (ASU 2011-02)

The FASB issued ASU 2011-02 in April 2011. This ASU clarifies which loan modifications constitute troubled debt restructurings. It is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings.

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The new guidance will require creditors to evaluate modifications and restructurings of receivables using a more principles-based approach. This update clarifies the existing guidance on whether (1) the creditor has granted a concession and (2) whether the debtor is experiencing financial difficulties. Specifically, ASU 2011-02 (1) provides additional guidance on determining whether a creditor has granted a concession, including guidance on collection of all amounts due, receipt of additional collateral or guarantees from the debtor, and restructuring the debt at a below-market rate; (2) includes examples for creditors to determine whether an insignificant delay in payment is considered a concession; (3) prohibits creditors from using the borrower s effective rate test in ASC Subtopic 470-50 to evaluate whether a concession has been granted to the borrower; (4) adds factors for creditors to use to determine whether the debtor is experiencing financial difficulties; and (5) ends the deferral of the additional disclosures about TDR activities required by ASU 2010-20 and requires public companies to begin providing these disclosures in the period of adoption.

For public companies, the new guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption. Early application is permitted. For purposes of measuring impairment for receivables that are newly considered impaired under the new guidance, an entity should apply the amendments prospectively in the first period of adoption and disclose the total amount of receivables and the allowance for credit losses as of the end of the period of adoption.

The Corporation adopted this guidance in the third quarter of 2011. Refer to note 9 to the consolidated financial statements for the impact of the adoption of this ASU and the new disclosure requirements.

FASB Accounting Standards Update 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations (ASU 2010-29)

The FASB issued ASU 2010-29 in December 2010. The amendments in ASU 2010-29 affect any public entity that enters into business combinations that are material on an individual or aggregate basis. This ASU specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. This guidance impacts disclosures only and has not had an impact on the Corporation s consolidated statements of condition or results of operations at September 30, 2011.

FASB Accounting Standards Update 2010-28, Intangibles - Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (ASU 2010-28)

The amendments in ASU 2010-28, issued in December 2010, modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The adoption of this guidance did not have an impact on the Corporation s consolidated financial statements as of and for the nine months ended September 30, 2011.

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Note 3 Related party transactions with affiliated company

On September 30, 2010, the Corporation completed the sale of a 51% majority interest in EVERTEC, Inc. (EVERTEC) to an unrelated third-party, including the Corporation s merchant acquiring and processing and technology businesses (the EVERTEC transaction), and retained a 49% ownership interest in Carib Holdings, the holding company of EVERTEC. EVERTEC continues to provide various processing and information technology services to the Corporation and its subsidiaries and gives BPPR access to the ATH network owned and operated by EVERTEC. The investment in EVERTEC was initially recorded at a fair value of $177 million at September 30, 2010, which was determined based on the third-party buyer s enterprise value of EVERTEC as determined in an orderly transaction between market participants, 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. Refer to the Corporation s 2010 Annual Report for details on this sale to an unrelated third-party.

The Corporation s investment in EVERTEC, including the impact of intra-entity eliminations, amounted to $ 197 million at September 30, 2011 (December 31, 2010 - $ 197 million; September 30, 2010 - $ 193 million), and is included as part of other assets in the consolidated statements of condition. The Corporation did not receive any capital distributions from EVERTEC during the period from January 1, 2011 through September 30, 2011.

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

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

The following tables present the impact of transactions and service payments between the Corporation and EVERTEC (as an affiliate) and their impact on the results of operations for the quarter and nine months ended September 30, 2011. Items that represent expenses to the Corporation are presented with parenthesis. For consolidation purposes, the Corporation eliminates 49% 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 49% 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. The 51% 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.

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

The Corporation had the following financial condition accounts outstanding with EVERTEC at September 30, 2011, December 31, 2010 and September 30, 2010. The 51% majority interest represents the share of transactions with the affiliate that is not eliminated in the consolidation of the Corporation s statement of condition.

(In thousands)	At September 30, 2011 100%	At September 30, 2011 51% majority interest	At December 31, 2010 100%	At December 31, 2010 51% majority interest	At September 30, 2010 100%	At September 30, 2010 51% majority interest
Loans	$ 53,123	$ 27,093	$ 58,126	$ 29,644	$ 58,200	$ 29,682
Investment securities	35,000	17,850	35,000	17,850	35,000	17,850
Deposits	57,965	29,562	38,761	19,768	48,014	24,487
Accounts receivables (Other assets)	3,526	1,798	3,922	2,000	5,128	2,615
Accounts payable (Other liabilities)	16,037	8,179	17,416	8,882	16,095	8,208

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

Furthermore, under the terms of the sale of EVERTEC, the Corporation was required for a period of twelve months following September 30, 2010 to sell its equity interests in Serfinsa and Consorcio de Tarjetas Dominicanas, S.A (CONTADO) to EVERTEC, subject to complying with certain rights of first refusal in favor of the Serfinsa and CONTADO shareholders. During the nine months ended September 30, 2011, the Corporation sold its equity interest in CONTADO to CONTADO shareholders and EVERTEC and recognized a gain of $16.7 million, net of tax, upon the sale. The Corporation s investment in CONTADO, accounted for under the equity method, amounted to $16 million at December 31, 2010. During the nine months ended September 30, 2011, the Corporation sold its equity investment in Serfinsa and recognized a gain of approximately $212 thousand, net of tax. The Corporation s investment in Serfinsa, accounted for under the equity method, amounted to $1.8 million at December 31, 2010.

Note 4- Restrictions on cash and due from banks and certain securities

The Corporation s subsidiary banks 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 were approximately $832 million at September 30, 2011 (December 31, 2010 - $835 million; September 30, 2010 - $828 million). Cash and due from banks, as well as other short-term, highly liquid securities, are used to cover the required average reserve balances.

As required by the Puerto Rico International Banking Center Law, at September 30, 2011, December 31, 2010 and September 30, 2010, the Corporation maintained separately for its two international banking entities (IBEs), $0.6 million in time deposits, equally split for the two IBEs, which were considered restricted assets.

At September 30, 2011, the Corporation maintained restricted cash of $2 million to support a letter of credit. The cash is being held in an interest-bearing money market account (December 31, 2010 - $5 million; September 30, 2010 - $6 million).

At September 30, 2011 and December 31, 2010, the Corporation maintained restricted cash of $1 million that represents funds deposited in an escrow account which are guaranteeing possible liens or encumbrances over the title of insured properties (September 30, 2010 - $2 million).

At September 30, 2011, the Corporation maintained restricted cash of $48 million in money market account related to the note issued to the FDIC (December 31, 2010 - $33 million; September 30, 2010 - $36 million).

At September 30, 2011, the Corporation maintained restricted cash of $14 million to comply with the requirements of the credit card networks (December 31, 2010 and September 30, 2010 - $12 million).

At September 30, 2011, the Corporation maintained restricted cash of $6 million in money market account as a guarantee required by a Puerto Rico municipality.

Note 5 Pledged assets

Certain securities, loans and other real estate owned were pledged to secure public and trust deposits, assets sold under agreements to repurchase, other borrowings and credit facilities available, derivative positions, and loan servicing agreements. The classification and carrying amount of the Corporation s pledged assets, in which the secured parties are not permitted to sell or repledge the collateral, were as follows:

(In thousands)	September 30, 2011	December 31, 2010	September 30, 2010
Investment securities available-for-sale, at fair value	$ 2,166,488	$ 1,867,249	$ 2,102,699
Investment securities held-to-maturity, at amortized cost	37,312	25,770	125,770
Loans held-for-sale measured at lower of cost or fair value	1,330	2,862	2,291
Loans held-in-portfolio covered under loss sharing agreements with the FDIC	4,455,894	4,787,002	4,883,935
Loans held-in-portfolio not covered under loss sharing agreements with the FDIC	10,150,838	9,695,200	8,728,674
Other real estate covered under loss sharing agreements with the FDIC	75,339	57,565	56,368
Total pledged assets	$ 16,887,201	$ 16,435,648	$ 15,899,737

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

At September 30, 2011, investment securities available-for-sale and held-to-maturity totaling $ 1.6 billion, and loans of $ 0.4 billion, served as collateral to secure public funds (December 31, 2010 - $ 1.3 billion and $ 0.5 million, respectively; September 30, 2010 - $ 1.7 billion and $ 0.2 billion, respectively).

At September 30, 2011, the Corporation s banking subsidiaries had short-term and long-term credit facilities authorized with the Federal Home Loan Bank system (the FHLB) aggregating $2.1 billion (December 31, 2010 - $1.6 billion; September 30, 2010- $1.7 billion). Refer to Note 15 to the consolidated financial statements for borrowings outstanding under these credit facilities. At September 30, 2011, the credit facilities authorized with the FHLB were collateralized by $ 4.7 billion in loans held-in-portfolio (December 31, 2010 - $ 3.8 billion; September 30, 2010 - $ 3.7 billion). Also, BPPR had a borrowing capacity at the Fed discount window of $2.5 billion (December 31, 2010 - $2.7 billion; September 30, 2010 - $2.7 billion), which remained unused as of such date. The amount available under this credit facility is dependent upon the balance of loans and securities pledged as collateral. At September 30, 2011, the credit facilities with the Fed discount window were collateralized by $ 3.9 billion in loans held-in-portfolio (December 31, 2010-$ 4.2 billion; September 30, 2010 -$ 4.3 billion). These pledged assets are included in the above table and were not reclassified and separately reported in the consolidated statement of condition.

In addition, at September 30, 2011, securities sold but not yet delivered amounting to $294 million were pledged to secure repurchase agreements.

Loans held-in-portfolio and other real estate owned that are covered by loss sharing agreements with the FDIC amounting to $ 4.5 billion at September 30, 2011 (December 31, 2010 - $ 4.8 billion; September 30, 2010- $ 4.9 billion), serve as collateral to secure the note issued to the FDIC. Refer to Note 15 to the consolidated financial statements for descriptive information on the note issued to the FDIC.

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Note 6 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 September 30, 2011, December 31, 2010 and September 30, 2010.

	At September 30, 2011				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
U.S. Treasury securities					
After 1 to 5 years	$ 35,157	$ 3,741	$ -	$ 38,898	3.35 %
Total U.S. Treasury securities	35,157	3,741	-	38,898	3.35
Obligations of U.S. Government sponsored entities					
Within 1 year	35,002	46	-	35,048	4.72
After 1 to 5 years	814,760	33,273	-	848,033	3.30
After 5 to 10 years	76,020	596	-	76,616	2.59
After 10 years	25,000	-	12	24,988	2.50
Total obligations of U.S. Government sponsored entities	950,782	33,915	12	984,685	3.27
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	845	9	-	854	4.73
After 1 to 5 years	17,438	300	7	17,731	4.40
After 5 to 10 years	2,055	27	-	2,082	5.30
After 10 years	35,431	338	-	35,769	5.59
Total obligations of Puerto Rico, States and political subdivisions	55,769	674	7	56,436	5.19
Collateralized mortgage obligations - federal agencies					
After 1 to 5 years	1,924	67	-	1,991	4.71
After 5 to 10 years	68,395	1,383	-	69,778	2.54
After 10 years	1,626,945	58,372	439	1,684,878	2.88
Total collateralized mortgage obligations - federal agencies	1,697,264	59,822	439	1,756,647	2.87
Collateralized mortgage obligations - private label					
After 5 to 10 years	6,588	1	341	6,248	0.76
After 10 years	64,910	-	5,908	59,002	2.33
Total collateralized mortgage obligations - private label	71,498	1	6,249	65,250	2.19
Mortgage-backed securities					
Within 1 year	646	41	-	687	6.05
After 1 to 5 years	9,739	339	-	10,078	3.99
After 5 to 10 years	146,075	11,018	1	157,092	4.73
After 10 years	1,991,862	132,582	60	2,124,384	4.25
Total mortgage -backed securities	2,148,322	143,980	61	2,292,241	4.28
Equity securities (without contractual maturity)	6,594	312	835	6,071	2.96
Other					

After 5 to 10 years	17,850	1,400	-	19,250	10.99
After 10 years	6,941	110	-	7,051	3.62
Total other	24,791	1,510	-	26,301	8.93
Total investment securities available-for-sale	$ 4,990,177	$ 243,955	$ 7,603	$ 5,226,529	3.60 %

(In thousands)	At December 31, 2010 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
U.S. Treasury securities					
After 1 to 5 years	$ 7,001	$ 122	$ -	$ 7,123	1.50 %
After 5 to 10 years	28,676	2,337	-	31,013	3.81
Total U.S. Treasury securities	35,677	2,459	-	38,136	3.36
Obligations of U.S. Government sponsored entities					
Within 1 year	153,738	2,043	-	155,781	3.39
After 1 to 5 years	1,000,955	53,681	661	1,053,975	3.72
After 5 to 10 years	1,512	36	-	1,548	6.30
Total obligations of U.S. Government sponsored entities	1,156,205	55,760	661	1,211,304	3.68
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	10,404	19	-	10,423	3.92
After 1 to 5 years	15,853	279	5	16,127	4.52
After 5 to 10 years	20,765	43	194	20,614	5.07
After 10 years	5,505	52	19	5,538	5.28
Total obligations of Puerto Rico, States and political subdivisions	52,527	393	218	52,702	4.70
Collateralized mortgage obligations - federal agencies					
Within 1 year	77	1	-	78	3.88
After 1 to 5 years	1,846	105	-	1,951	4.77
After 5 to 10 years	107,186	1,507	936	107,757	2.50
After 10 years	1,096,271	32,248	11	1,128,508	2.87
Total collateralized mortgage obligations - federal agencies	1,205,380	33,861	947	1,238,294	2.84
Collateralized mortgage obligations - private label					
After 5 to 10 years	10,208	31	158	10,081	1.20
After 10 years	79,311	78	4,532	74,857	2.29
Total collateralized mortgage obligations - private label	89,519	109	4,690	84,938	2.17
Mortgage-backed securities					
Within 1 year	2,983	101	-	3,084	3.62
After 1 to 5 years	15,738	649	3	16,384	3.98
After 5 to 10 years	170,662	10,580	3	181,239	4.71
After 10 years	2,289,210	86,870	632	2,375,448	4.26
Total mortgage-backed securities	2,478,593	98,200	638	2,576,155	4.29
Equity securities (without contractual maturity)	8,722	855	102	9,475	3.43
Other					
After 5 to 10 years	17,850	262	-	18,112	10.98
After 10 years	7,805	-	69	7,736	3.62
Total other	25,655	262	69	25,848	8.74
Total investment securities available-for-sale	$ 5,052,278	$ 191,899	$ 7,325	$ 5,236,852	3.78 %

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(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
	At September 30, 2010				
U.S. Treasury securities					
After 1 to 5 years	$ 6,998	$ 166	$ -	$ 7,164	1.50 %
After 5 to 10 years	28,850	3,409	-	32,259	3.81
Total U.S. Treasury securities	35,848	3,575	-	39,423	3.36
Obligations of U.S. Government sponsored entities					
Within 1 year	288,588	2,980	-	291,568	3.45
After 1 to 5 years	1,011,751	65,003	-	1,076,754	3.77
After 5 to 10 years	1,518	51	-	1,569	6.26
After 10 years	26,890	179	-	27,069	5.68
Total obligations of U.S. Government sponsored entities	1,328,747	68,213	-	1,396,960	3.74
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	10,140	18	-	10,158	3.90
After 1 to 5 years	15,858	375	6	16,227	4.52
After 5 to 10 years	21,225	70	71	21,224	5.07
After 10 years	5,560	155	-	5,715	5.29
Total obligations of Puerto Rico, States and political subdivisions	52,783	618	77	53,324	4.70
Collateralized mortgage obligations - federal agencies					
Within 1 year	118	2	-	120	4.24
After 1 to 5 years	3,020	105	-	3,125	5.56
After 5 to 10 years	87,668	1,643	-	89,311	2.56
After 10 years	1,215,779	38,744	38	1,254,485	2.89
Total collateralized mortgage obligations - federal agencies	1,306,585	40,494	38	1,347,041	2.87
Collateralized mortgage obligations - private label					
After 5 to 10 years	13,612	86	444	13,254	1.71
After 10 years	85,796	202	3,862	82,136	2.32
Total collateralized mortgage obligations - private label	99,408	288	4,306	95,390	2.24
Mortgage-backed securities					
Within 1 year	3,494	75	-	3,569	3.78
After 1 to 5 years	18,557	719	-	19,276	4.02
After 5 to 10 years	182,930	12,349	2	195,277	4.71
After 10 years	2,461,567	103,118	156	2,564,529	4.29
Total mortgage-backed securities	2,666,548	116,261	158	2,782,651	4.32
Equity securities (without contractual maturity)	8,975	379	510	8,844	3.47
Other					
After 5 to 10 years	17,850	-	-	17,850	11.00
Total other	17,850	-	-	17,850	11.00
Total investment securities available-for-sale	$ 5,516,744	$ 229,828	$ 5,089	$ 5,741,483	3.82 %

The weighted average yield on investment securities available-for-sale is based on amortized cost; therefore, it does not give effect to changes in fair value.

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

Proceeds from the sale of investment securities available-for-sale for the nine months ended September 30, 2011 amounted to $ 35.1 million, with net realized gains of $8.4 million. This compares with proceeds of $ 396.7 million for the nine months ended September 30, 2010, with net realized gains of $3.7 million.

The following tables present the Corporation s fair value and gross unrealized losses of investment securities available-for-sale, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2011, December 31, 2010 and September 30, 2010.

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	00000000	00000000	00000000	00000000	00000000	00000000
	At September 30, 2011					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Obligations of U.S. Government sponsored entities	$ 24,988	$ 12	$ -	$ -	$ 24,988	$ 12
Obligations of Puerto Rico, States and political subdivisions	2,081	3	190	4	2,271	7
Collateralized mortgage obligations - federal agencies	225,941	430	3,427	9	229,368	439
Collateralized mortgage obligations - private label	22,076	852	43,122	5,397	65,198	6,249
Mortgage-backed securities	5,315	24	1,473	37	6,788	61
Equity securities	2,551	827	3	8	2,554	835
Total investment securities available-for-sale in an unrealized loss position	$ 282,952	$ 2,148	$ 48,215	$ 5,455	$ 331,167	$ 7,603

	At December 31, 2010					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Obligations of U.S. Government sponsored entities	$ 24,284	$ 661	$ -	$ -	$ 24,284	$ 661
Obligations of Puerto Rico, States and political subdivisions	19,357	213	303	5	19,660	218
Collateralized mortgage obligations - federal agencies	40,212	945	2,505	2	42,717	947
Collateralized mortgage obligations - private label	21,231	292	52,302	4,398	73,533	4,690
Mortgage-backed securities	33,261	406	9,257	232	42,518	638
Equity securities	3	8	43	94	46	102
Other	7,736	69	-	-	7,736	69
Total investment securities available-for-sale in an unrealized loss position	$ 146,084	$ 2,594	$ 64,410	$ 4,731	$ 210,494	$ 7,325

	At September 30, 2010					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair Value	Gross Unrealized	Fair Value	Gross Unrealized	Fair	Gross Unrealized

		Losses		Losses	Value	Losses
Obligations of Puerto Rico, States and political subdivisions	$ 18,234	$ 71	$ 302	$ 6	$ 18,536	$ 77
Collateralized mortgage obligations - federal agencies	13,880	35	6,402	3	20,282	38
Collateralized mortgage obligations - private label	1,551	94	68,032	4,212	69,583	4,306
Mortgage-backed securities	8,915	123	1,240	35	10,155	158
Equity securities	3	8	3,846	502	3,849	510
Total investment securities available-for-sale in an unrealized loss position	$ 42,583	$ 331	$ 79,822	$ 4,758	$ 122,405	$ 5,089

Management evaluates investment securities for other-than-temporary (OTTI) declines in fair value on a quarterly basis. Once a decline in value is determined to be other-than-temporary, the value of a debt security is reduced and a corresponding charge to earnings is recognized for anticipated credit losses. Also, for equity securities that are considered other-than-temporarily impaired, the excess of the security s carrying value over its fair value at the evaluation date is accounted for as a loss in the results of operations. The OTTI analysis requires management to consider various factors, which include, but are not limited to: (1) the length of time and the extent to which fair value has been less than the amortized cost basis, (2) the financial condition of the issuer or issuers, (3) actual collateral attributes, (4) the payment structure of the debt security and the likelihood of the issuer being able to make payments, (5) any rating changes by a rating agency, (6) adverse conditions specifically related to the security, industry, or a geographic area, and (7) management s intent to sell the debt security or whether it is more likely than not that the Corporation would be required to sell the debt security before a forecasted recovery occurs.

At September 30, 2011, management performed its quarterly analysis of all debt securities in an unrealized loss position. Based on the analyses performed, management concluded that no individual debt security was other-than-temporarily impaired as of such date. At September 30, 2011, the Corporation did not have the intent to sell debt securities in an unrealized loss position and it is not more likely than not that the Corporation will have to sell the investment securities prior to recovery of their amortized cost basis. Also, management evaluated the Corporation s portfolio of equity securities at September 30, 2011. During the quarter ended September 30, 2011, the Corporation recorded $340 thousand in losses on certain equity securities considered other-than-temporary impairment. Management has the intent and ability to hold the investments in equity securities that are at a loss position at September 30, 2011, for a reasonable period of time for a forecasted recovery of fair value up to (or beyond) the cost of these investments.

The unrealized losses associated with Collateralized mortgage obligations private label (private-label CMO) are primarily related to securities backed by residential mortgages. In addition to verifying the credit ratings for the private-label CMOs, management analyzed the underlying mortgage loan collateral for these bonds. Various statistics or metrics were reviewed for each private-label CMO, including among others, the weighted average loan-to-value, FICO score, and delinquency and foreclosure rates of the underlying assets in the securities. At September 30, 2011, there were no sub-prime securities in the Corporation s private-label CMOs portfolios. For private-label CMOs with unrealized losses at September 30, 2011, credit impairment was assessed using a cash flow model that estimates the cash flows on the underlying mortgages, using the security-specific collateral and transaction structure. The model estimates cash flows from the underlying mortgage loans and distributes those cash flows to various tranches of securities, considering the transaction structure and any subordination and credit enhancements that exist in that structure. The cash flow model incorporates actual cash flows through the current period and then projects the expected cash flows using a number of assumptions, including default rates, loss severity and prepayment rates. Management s assessment also considered tests using more stressful parameters. Based on the assessments, management concluded that the tranches of the private-label CMOs held by the Corporation were not other-than-temporarily impaired at September 30, 2011, thus management expects to recover the amortized cost basis of the securities.

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

	September 30, 2011		December 31, 2010		September 30, 2010	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
FNMA	$ 1,083,086	$ 1,123,813	$ 757,812	$ 789,838	$ 792,291	$ 826,042
FHLB	588,987	617,701	1,003,395	1,056,549	1,173,877	1,238,487
Freddie Mac	996,940	1,029,346	637,644	654,495	602,440	620,384

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Note 7 Investment securities held-to-maturity

The following tables present the amortized cost, gross unrealized gains and losses, approximate fair value, weighted average yield and contractual maturities of investment securities held-to-maturity at September 30, 2011, December 31, 2010 and September 30, 2010.

	At September 30, 2011				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
U.S. Treasury securities					
Within 1 year	$ 12,365	$ 2	$ -	$ 12,367	0.09%
Total U.S. Treasury securities	12,365	2	-	12,367	0.09
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	2,275	15	-	2,290	5.59
After 1 to 5 years	16,174	436	-	16,610	4.22
After 5 to 10 years	18,511	189	140	18,560	5.99
After 10 years	52,559	6,507	1,165	57,901	4.11
Total obligations of Puerto Rico, States and political subdivisions	89,519	7,147	1,305	95,361	4.56
Collateralized mortgage obligations - private label					
After 10 years	162	-	9	153	5.45
Total collateralized mortgage obligations - private label	162	-	9	153	5.45
Other					
Within 1 year	1,250	-	-	1,250	1.28
After 1 to 5 years	25,250	630	-	25,880	3.47
Total other	26,500	630	-	27,130	3.37
Total investment securities held-to-maturity	$ 128,546	$ 7,779	$ 1,314	$ 135,011	3.89%

	At December 31, 2010				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
U.S. Treasury securities					
Within 1 year	$ 25,873	$ -	$ 1	$ 25,872	0.11%
Total U.S. Treasury securities	25,873	-	1	25,872	0.11

Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	2,150	6	-	2,156	5.33
After 1 to 5 years	15,529	333	-	15,862	4.10
After 5 to 10 years	17,594	115	268	17,441	5.96
After 10 years	56,702	-	1,649	55,053	4.25
Total obligations of Puerto Rico, States and political subdivisions	91,975	454	1,917	90,512	4.58
Collateralized mortgage obligations - private label					
After 10 years	176	-	10	166	5.45
Total collateralized mortgage obligations - private label	176	-	10	166	5.45
Other					
Within 1 year	4,080	-	-	4,080	1.15
After 1 to 5 years	250	-	7	243	1.20
Total other	4,330	-	7	4,323	1.15
Total investment securities held-to-maturity	$ 122,354	$ 454	$ 1,935	$ 120,873	3.51%

	At September 30, 2010				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
U.S. Treasury securities					
Within 1 year	$ 25,812	$ 2	$ -	$ 25,814	0.21 %
Total U.S. Treasury securities	25,812	2	-	25,814	0.21
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	7,150	14	-	7,164	2.15
After 1 to 5 years	110,528	620	-	111,148	5.52
After 5 to 10 years	17,595	506	52	18,049	5.96
After 10 years	49,300	231	652	48,879	4.20
Total obligations of Puerto Rico, States and political subdivisions	184,573	1,371	704	185,240	5.08
Collateralized mortgage obligations - private label					
After 10 years	192	-	11	181	5.21
Total collateralized mortgage obligations - private label	192	-	11	181	5.21
Other					
Within 1 year	3,075	-	-	3,075	1.33
After 1 to 5 years	500	-	7	493	1.00
Total other	3,575	-	7	3,568	1.28
Total investment securities held-to-maturity	$ 214,152	$ 1,373	$ 722	$ 214,803	4.43 %

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

The following tables present the Corporation s fair value and gross unrealized losses of investment securities held-to-maturity, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2011, December 31, 2010 and September 30, 2010:

	At September 30, 2011					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Obligations of Puerto Rico, States and political subdivisions	$ 18,078	$ 399	$ 30,234	$ 906	$ 48,312	$ 1,305
Collateralized mortgage obligations - private label	-	-	153	9	153	9
Total investment securities held-to-maturity in an unrealized loss position	$ 18,078	$ 399	$ 30,387	$ 915	$ 48,465	$ 1,314

	At December 31, 2010					
	Less than 12 months		12 months or more		Total	

(In thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasury securities	$ 25,872	$ 1	$ -	$ -	$ 25,872	$ 1
Obligations of Puerto Rico, States and political subdivisions	51,995	1,915	773	2	52,768	1,917
Collateralized mortgage obligations- private label	-	-	166	10	166	10
Other	243	7	-	-	243	7
Total investment securities held-to-maturity in an unrealized loss position	$ 78,110	$ 1,923	$ 939	$ 12	$ 79,049	$ 1,935

	At September 30, 2010					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Obligations of Puerto Rico, States and political subdivisions	$ -	$ -	$ 31,126	$ 704	$ 31,126	$ 704
Collateralized mortgage obligations - private label	-	-	181	11	181	11
Other	243	7	-	-	243	7
Total investment securities held-to-maturity in an unrealized loss position	$ 243	$ 7	$ 31,307	$ 715	$ 31,550	$ 722

As indicated in Note 6 to these consolidated financial statements, management evaluates investment securities for OTTI declines in fair value on a quarterly basis.

The Obligations of Puerto Rico, States and political subdivisions classified as held-to-maturity at September 30, 2011 are primarily associated with securities issued by municipalities of Puerto Rico and are generally not rated by a credit rating agency. The Corporation performs periodic credit quality reviews on these issuers. The decline in fair value at September 30, 2011 was attributable to changes in interest rates and not credit quality, thus no other-than-temporary decline in value was necessary to be recorded in these held-to-maturity securities at September 30, 2011. At September 30, 2011, the Corporation does not have the intent to sell securities held-to-maturity and it is not more likely than not that the Corporation will have to sell these investment securities prior to recovery of their amortized cost basis.

Note 8 Loans

The risks of the Westernbank FDIC-assisted transaction acquired loans are significantly different from those loans not covered under the FDIC loss sharing agreements because of the loss protection provided by the FDIC. Accordingly, the Corporation presents loans subject to the loss sharing agreements as covered loans in the information below and loans that are not subject to the FDIC loss sharing agreements as non-covered loans .

For a summary of the accounting policy related to loans, interest recognition and allowance for loan losses refer to the summary of significant accounting policies included in Note 2 to the consolidated financial statements included in the Corporation s 2010 Annual Report. As indicated in Note 2 to these consolidated financial statements, during the third quarter of 2011, the Corporation adopted ASU 2011-02, which clarifies which loan modifications constitute troubled debt restructurings. The impact of this adoption is included in Note 9 Allowance for Loan Losses.

The following tables present the composition of loans held-in-portfolio (HIP), net of unearned income, at September 30, 2011 and December 31, 2010.

(In thousands)	Non-covered loans at September 30, 2011	Covered loans at September 30, 2011	Total loans HIP at September 30, 2011
Commercial real estate	$ 6,737,547	$ 2,338,298	$ 9,075,845
Commercial and industrial	3,851,372	235,778	4,087,150
Construction	358,060	599,990	958,050
Mortgage	5,466,503	1,217,434	6,683,937
Lease financing	571,068	-	571,068
Consumer:			
Credit cards	1,230,171	-	1,230,171
Home equity lines of credit	577,109	-	577,109
Personal	1,135,110	-	1,135,110
Auto	505,423	-	505,423
Other	241,523	120,923	362,446
Total loans held-in-portfolio[a]	$ 20,673,886	$ 4,512,423	$ 25,186,309

[a] Loans held-in-portfolio at September 30, 2011 are net of $101 million in unearned income and exclude $369 million in loans held-for-sale.

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(In thousands)	Non-covered loans at December 31, 2010	Covered loans at December 31, 2010	Total loans HIP at December 31, 2010
Commercial real estate	$ 7,006,676	$ 2,463,549	$ 9,470,225
Commercial and industrial	4,386,809	303,632	4,690,441
Construction	500,851	640,492	1,141,343
Mortgage	4,524,722	1,259,459	5,784,181
Lease financing	602,993	-	602,993
Consumer:			
Credit cards	1,132,308	-	1,132,308
Home equity lines of credit	568,353	-	568,353
Personal	1,236,067	-	1,236,067
Auto	503,757	-	503,757
Other	265,499	169,750	435,249
Total loans held-in-portfolio[a]	$ 20,728,035	$ 4,836,882	$ 25,564,917

[a] Loans held-in-portfolio at December 31, 2010 are net of $106 million in unearned income and exclude $894 million in loans held-for-sale.

The following table provides a breakdown of loans held-for-sale (LHFS) at September 30, 2011 and December 31, 2010 by main categories.

(In thousands)	September 30, 2011	December 31, 2010
Commercial	$ 24,191	$ 60,528
Construction	234,336	412,744
Mortgage	110,250	420,666
Total	$ 368,777	$ 893,938

During the quarter and nine months ended September 30, 2011, the Corporation recorded purchases of mortgage loans amounting to $177 million and $1.1 billion, respectively. In addition, during the quarter and nine months ended September 30, 2011, the Corporation recorded purchases of credit cards relationships with balances of approximately $130 million. There were no significant purchases of commercial and construction loans during 2011.

The Corporation sold approximately $34 million and $295 million of residential mortgage loans during the quarter and nine months ended September 30, 2011, respectively. Also, the Corporation securitized approximately $194 million and $667 million of mortgage loans to Government National Mortgage Association (GNMA) mortgage-backed securities during the quarter and nine months ended September 30, 2011, respectively. Furthermore, the Corporation securitized approximately $42 million and $163 million of mortgage loans in Federal National Mortgage Association (FNMA) mortgage-backed securities during the quarter and nine months ended September 30, 2011, respectively.

During the third quarter of 2011, the Corporation transferred $27 million of commercial and construction loans held-in-portfolio to loans to held-for-sale at a value of $14 million. This resulted in a write-down at the time of transfer of $12.7 million. Also, during the quarter ended September 30, 2011, these loans as well as other construction and commercial loans held-for sale with a combined book value of $128 million were sold to a newly created joint venture in which the Corporation holds a minority interest. Refer to Note 20 to the consolidated financial statements for details of this transaction. Besides this sale, the Corporation sold commercial and construction loans with a book value of approximately $13 million during the quarter and $27 million during the nine months ended September 30, 2011.

Non-covered loans

The following tables present non-covered loans held-in-portfolio that are in non-performing status and accruing loans past due 90 days or more by loan class at September 30, 2011 and December 31, 2010. Accruing loans past due 90 days or more consist primarily of credit cards, FHA / VA and other insured mortgage loans, 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 (but not the obligation) to repurchase, even

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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. However, residential conventional loans purchased from other financial institutions, which are in the process of foreclosure, are classified as non-performing mortgage loans.

At September 30, 2011

	Puerto Rico		U.S. Mainland		Popular, Inc.	
(In thousands)	Non-accrual loans	Accruing loans past-due 90 days or more	Non-accrual loans	Accruing loans past-due 90 days or more	Non-accrual loans	Accruing loans past-due 90 days or more
Commercial real estate	$ 464,669	$ -	$ 172,189	$ -	$ 636,858	$ -
Commercial and industrial	188,268	504	47,455	-	235,723	504
Construction	64,971	-	122,943	-	187,914	-
Mortgage	580,563	290,904	37,160	-	617,723	290,904
Leasing	3,966	-	228	-	4,194	-
Consumer:						
Credit cards	-	25,461	-	-	-	25,461
Home equity lines of credit	-	121	12,464	-	12,464	121
Personal	20,123	-	1,641	-	21,764	-
Auto	6,487	-	61	-	6,548	-
Other	7,871	652	612	-	8,483	652
Total[a]	$ 1,336,918	$ 317,642	$ 394,753	$ -	$ 1,731,671	$ 317,642

[a] For purposes of this table non-performing loans exclude $ 260 million in non-performing loans held-for-sale.

At December 31, 2010

	Puerto Rico		U.S. Mainland		Popular, Inc.	
(In thousands)	Non-accrual loans	Accruing loans past-due 90 days or more	Non-accrual loans	Accruing loans past-due 90 days or more	Non-accrual loans	Accruing loans past-due 90 days or more
Commercial real estate	$ 370,677	$ -	$ 182,456	$ -	$ 553,133	$ -
Commercial and industrial	114,792	-	57,102	-	171,894	-
Construction	64,678	-	173,876	-	238,554	-
Mortgage	518,446	292,387	23,587	-	542,033	292,387

Leasing	5,674	-	263	-	5,937	-
Consumer:						
Credit cards	-	33,514	-	-	-	33,514
Home equity lines of credit	-	-	17,562	-	17,562	-
Personal	22,816	-	5,369	-	28,185	-
Auto	7,528	-	135	-	7,663	-
Other	6,892	1,442	-	-	6,892	1,442
Total[a]	$ 1,111,503	$ 327,343	$ 460,350	$ -	$ 1,571,853	$ 327,343

[a] For purposes of this table non-performing loans exclude $ 672 million in non-performing loans held-for-sale.

At September 30, 2011 non-covered loans held-in-portfolio on which the accrual of interest income had been discontinued amounted to $1.7 billion (December 31, 2010 - $1.6 billion). Non-accruing loans at September 30, 2011 include $49 million in consumer loans (December 31, 2010 - $60 million).

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The following tables present loans by past due status at September 30, 2011 and December 31, 2010 for non-covered loans held-in-portfolio (net of unearned income).

	$000,000,000	$000,000,000	$000,000,000	$000,000,000	$000,000,000	$000,000,000
	September 30, 2011					
	Puerto Rico					
	Past Due					
(In thousands)	30-59 Days	60-89 Days	90 Days or More	Total Past Due	Current	Loans held-in-portfolio Puerto Rico
Commercial real estate	$ 52,570	$ 11,414	$ 464,669	$ 528,653	$ 3,084,112	$ 3,612,765
Commercial and industrial	51,885	32,168	188,772	272,825	2,527,899	2,800,724
Construction	8,056	854	64,971	73,881	90,033	163,914
Mortgage	213,752	116,984	871,467	1,202,203	3,431,137	4,633,340
Leasing	8,857	2,062	3,966	14,885	538,240	553,125
Consumer:						
Credit cards	16,021	11,141	25,461	52,623	1,163,482	1,216,105
Home equity lines of credit	694	204	121	1,019	20,848	21,867
Personal	18,985	10,702	20,123	49,810	934,489	984,299
Auto	22,103	5,422	6,487	34,012	468,353	502,365
Other	2,861	1,181	8,523	12,565	227,294	239,859
Total	$ 395,784	$ 192,132	$ 1,654,560	$ 2,242,476	$ 12,485,887	$ 14,728,363

	September 30, 2011					
	U.S. Mainland					
	Past Due					
(In thousands)	30-59 Days	60-89 Days	90 Days or More	Total Past Due	Current	Loans held-in-portfolio U.S. Mainland
Commercial real estate	$ 32,504	$ 7,756	$ 172,189	$ 212,449	$ 2,912,333	$ 3,124,782
Commercial and industrial	13,767	5,692	47,455	66,914	983,734	1,050,648
Construction	-	-	122,943	122,943	71,203	194,146
Mortgage	13,692	11,991	37,160	62,843	770,320	833,163
Leasing	321	48	228	597	17,346	17,943
Consumer:						
Credit cards	386	316	-	702	13,364	14,066
Home equity lines of credit	5,976	4,416	12,464	22,856	532,386	555,242
Personal	501	2,098	1,641	4,240	146,571	150,811
Auto	101	27	61	189	2,869	3,058
Other	32	13	612	657	1,007	1,664
Total	$ 67,280	$ 32,357	$ 394,753	$ 494,390	$ 5,451,133	$ 5,945,523

September 30, 2011

Popular, Inc.

(In thousands)	Past Due 30-59 Days	60-89 Days	90 Days or More	Total Past Due	Current	Loans held-in-portfolio Popular, Inc.
Commercial real estate	$ 85,074	$ 19,170	$ 636,858	$ 741,102	$ 5,996,445	$ 6,737,547
Commercial and industrial	65,652	37,860	236,227	339,739	3,511,633	3,851,372
Construction	8,056	854	187,914	196,824	161,236	358,060
Mortgage	227,444	128,975	908,627	1,265,046	4,201,457	5,466,503
Leasing	9,178	2,110	4,194	15,482	555,586	571,068
Consumer:						
Credit cards	16,407	11,457	25,461	53,325	1,176,846	1,230,171
Home equity lines of credit	6,670	4,620	12,585	23,875	553,234	577,109
Personal	19,486	12,800	21,764	54,050	1,081,060	1,135,110
Auto	22,204	5,449	6,548	34,201	471,222	505,423
Other	2,893	1,194	9,135	13,222	228,301	241,523
Total	$ 463,064	$ 224,489	$ 2,049,313	$ 2,736,866	$ 17,937,020	$ 20,673,886

December 31, 2010

Puerto Rico

(In thousands)	Past Due 30-59 Days	60-89 Days	90 Days or More	Total Past Due	Current	Loans held-in-portfolio Puerto Rico
Commercial real estate	$ 47,064	$ 25,547	$ 370,677	$ 443,288	$ 3,412,310	$ 3,855,598
Commercial and industrial	34,703	23,695	114,792	173,190	2,688,228	2,861,418
Construction	6,356	3,000	64,678	74,034	94,322	168,356
Mortgage	188,468	83,789	810,833	1,083,090	2,566,610	3,649,700
Leasing	10,737	2,274	5,674	18,685	554,102	572,787
Consumer:						
Credit cards	16,073	12,758	33,514	62,345	1,054,081	1,116,426
Personal	21,004	11,830	22,816	55,650	965,610	1,021,260
Auto	22,076	5,301	7,528	34,905	459,745	494,650
Other	3,799	1,318	8,334	13,451	252,048	265,499
Total	$ 350,280	$ 169,512	$ 1,438,846	$ 1,958,638	$ 12,047,056	$ 14,005,694

December 31, 2010