

POPULAR INC
Form 10-Q
November 12, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2013**

Commission File Number: 001-34084

POPULAR, INC.

(Exact name of registrant as specified in its charter)

Puerto Rico
(State or other jurisdiction of
Incorporation or organization)

66-0667416
(IRS Employer
Identification Number)

Popular Center Building

209 Muñoz Rivera Avenue

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

00918
(Zip code)

(787) 765-9800

(Registrant's telephone number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, \$0.01 par value, 103,349,416 shares outstanding as of November 4, 2013.

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Forward-Looking Information

The information included in this Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may relate to Popular, Inc.'s (the Corporation, Popular, we, us, our) financial condition, results of operations, plans, objectives, future performance of the 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 and future or conditional verbs such as will, would, should, could, might, can, may, or similar expressions generally intended to identify forward-looking statements.

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

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

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

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

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

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

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

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

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

the performance of the stock and bond markets;

competition in the financial services industry;

additional Federal Deposit Insurance Corporation (FDIC) assessments;

the resolution of our dispute with the FDIC under our loss share agreement entered into in connection with the Westernbank-FDIC assisted transaction; and

possible legislative, tax or regulatory changes.

Other possible events or factors that could cause results or performance to differ materially from those expressed in these forward-looking statements include the following: negative economic conditions that adversely affect the general economy, housing prices, the job market, consumer confidence and spending habits which may affect, among other things, the level of non-performing assets, charge-offs and provision expense; changes in interest rates and market liquidity which may reduce interest margins, impact funding sources and affect our ability to originate and distribute financial products in the primary and secondary markets; adverse movements and volatility in debt and equity capital markets; changes in market rates and prices which may adversely impact the value of financial assets and liabilities; liabilities resulting from litigation and regulatory investigations; changes in accounting standards, rules and interpretations; increased competition; our ability to grow our core businesses; decisions to downsize, sell or close units or otherwise change our business mix; and management's ability to identify and manage these and other risks. Moreover, the outcome of legal proceedings, as discussed in Part II, Item I. Legal Proceedings, is inherently uncertain and depends on judicial interpretations of law and the findings of regulators, judges and juries. Investors should refer to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2012 as well as Part II, Item 1A of this Form 10-Q for a discussion of such factors and certain risks and uncertainties to which the Corporation is subject.

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

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

(In thousands, except share information)	September 30, 2013	December 31, 2012
Assets:		
Cash and due from banks	\$ 368,590	\$ 439,363
Money market investments:		
Federal funds sold		33,515
Securities purchased under agreements to resell	222,396	213,462
Time deposits with other banks	739,392	838,603
Total money market investments	961,788	1,085,580
Trading account securities, at fair value:		
Pledged securities with creditors right to repledge	311,597	271,624
Other trading securities	27,251	42,901
Investment securities available-for-sale, at fair value:		
Pledged securities with creditors right to repledge	1,374,939	1,603,693
Other investment securities available-for-sale	3,761,679	3,480,508
Investment securities held-to-maturity, at amortized cost (fair value 2013 - \$119,249; 2012 - \$144,233)	140,355	142,817
Other investment securities, at lower of cost or realizable value (realizable value 2013 - \$201,349; 2012 - \$187,501)	198,864	185,443
Loans held-for-sale, at lower of cost or fair value	124,532	354,468
Loans held-in-portfolio:		
Loans not covered under loss sharing agreements with the FDIC	21,520,054	21,080,005
Loans covered under loss sharing agreements with the FDIC	3,076,009	3,755,972
Less - Unearned income	92,871	96,813
Allowance for loan losses	642,928	730,607
Total loans held-in-portfolio, net	23,860,264	24,008,557
FDIC loss share asset	1,324,711	1,399,098
Premises and equipment, net	519,623	535,793
Other real estate not covered under loss sharing agreements with the FDIC	135,502	266,844
Other real estate covered under loss sharing agreements with the FDIC	159,968	139,058
Accrued income receivable	122,881	125,728
Mortgage servicing assets, at fair value	161,445	154,430
Other assets	1,803,478	1,569,578
Goodwill	647,757	647,757

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Other intangible assets	46,892	54,295
Total assets	\$ 36,052,116	\$ 36,507,535
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 5,762,554	\$ 5,794,629
Interest bearing	20,632,500	21,205,984
Total deposits	26,395,054	27,000,613
Federal funds purchased and assets sold under agreements to repurchase	1,793,208	2,016,752
Other short-term borrowings	826,200	636,200
Notes payable	1,544,696	1,777,721
Other liabilities	1,099,073	966,249
Total liabilities	31,658,231	32,397,535
Commitments and contingencies (See Note 21)		
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; 103,365,275 shares issued (2012 - 103,193,303) and 103,327,146 shares outstanding (2012 - 103,169,806)	1,034	1,032
Surplus	4,155,244	4,150,294
Retained earnings	445,330	11,826
Treasury stock - at cost, 38,129 shares (2012 - 23,497)	(877)	(444)
Accumulated other comprehensive loss, net of tax	(257,006)	(102,868)
Total stockholders equity	4,393,885	4,110,000
Total liabilities and stockholders equity	\$ 36,052,116	\$ 36,507,535

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

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

(In thousands, except per share information)	Quarters ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Interest income:				
Loans	\$ 392,195	\$ 387,949	\$ 1,173,046	\$ 1,166,393
Money market investments	848	862	2,632	2,774
Investment securities	33,561	40,412	107,490	130,212
Trading account securities	5,242	5,815	16,212	17,669
Total interest income	431,846	435,038	1,299,380	1,317,048
Interest expense:				
Deposits	31,848	43,022	105,968	143,297
Short-term borrowings	9,564	9,876	29,113	36,503
Long-term debt	36,228	37,701	108,061	112,032
Total interest expense	77,640	90,599	243,142	291,832
Net interest income	354,206	344,439	1,056,238	1,025,216
Provision for loan losses - non-covered loans	55,230	83,589	485,438	247,846
Provision for loan losses - covered loans	17,433	22,619	60,489	78,284
Net interest income after provision for loan losses	281,543	238,231	510,311	699,086
Service charges on deposit accounts	43,096	45,858	130,755	138,577
Other service fees	58,584	57,954	173,559	172,582
Mortgage banking activities	18,896	21,847	57,281	60,418
Net gain (loss) and valuation adjustments on investment securities		64	5,856	(285)
Trading account (loss) profit	(6,607)	5,443	(11,936)	6,040
Net gain (loss) on sale of loans, including valuation adjustments on loans held-for-sale	3,454	(1,205)	(54,532)	(30,459)
Adjustments (expense) to indemnity reserves on loans sold	(2,387)	(8,717)	(30,162)	(17,990)
FDIC loss share (expense) income	(14,866)	(6,707)	(44,887)	(19,387)
Other operating income	191,789	16,837	393,445	71,236
Total non-interest income	291,959	131,374	619,379	380,732
Operating expenses:				
Personnel costs	116,839	111,550	347,507	349,377

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Net occupancy expenses	24,711	23,615	72,292	71,143
Equipment expenses	11,768	11,447	35,561	33,688
Other taxes	17,749	12,666	44,623	38,178
Professional fees	72,039	70,952	212,500	206,692
Communications	6,558	6,500	20,034	20,276
Business promotion	14,982	14,924	43,461	44,754
FDIC deposit insurance	16,100	24,173	44,883	72,006
Loss on early extinguishment of debt	3,388	43	3,388	25,184
Other real estate owned (OREO) expenses	17,175	5,896	69,678	22,441
Other operating expenses	22,822	22,786	68,553	73,456
Amortization of intangibles	2,468	2,481	7,403	7,605
Total operating expenses	326,599	307,033	969,883	964,800
Income before income tax	246,903	62,572	159,807	115,018
Income tax expense (benefit)	17,768	15,384	(276,489)	(46,317)
Net Income	\$ 229,135	\$ 47,188	\$ 436,296	\$ 161,335
Net Income Applicable to Common Stock	\$ 228,204	\$ 46,257	\$ 433,504	\$ 158,543
Net Income per Common Share - Basic	\$ 2.22	\$ 0.45	\$ 4.22	\$ 1.55
Net Income per Common Share - Diluted	\$ 2.22	\$ 0.45	\$ 4.21	\$ 1.55