Enstar Group LTD
Form 8-K
December 06, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
Date of report (Date of earliest event reported): November 29, 2018

Enstar Group Limited
(Exact name of registrant as specified in its charter)

Bermuda	001-33289	N/A
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

P.O. Box HM 2267, Windsor Place, 3rd Floor 22 Queen Street, Hamilton HM JX Bermuda	N/A
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (441) 292-3645

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

o Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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Item 8.01. Other Events.

On November 29, 2018, Enstar completed the previously announced transaction to invest an aggregate of $200 million in Evergreen Parent L.P. ("Evergreen"), an entity formed by private equity funds managed by Stone Point Capital LLC and the Karfunkel-Zyskind Family. Following the receipt of all regulatory approvals, Evergreen completed the acquisition on November 29, 2018 of the approximately 45% of the issued and outstanding shares of common stock of AmTrust Financial Services, Inc. ("AmTrust") that the Karfunkel-Zyskind Family and certain of its affiliates and related parties did not previously own or control. Following the closings, Enstar subsidiaries collectively own approximately 7.4% of the capital units of Evergreen, and AmTrust is a wholly-owned subsidiary of Evergreen.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ENSTAR GROUP LIMITED

Date: December 6, 2018 By: /s/ Guy Bowker
Guy Bowker
Chief Financial Officer

="bottom"> 3,196

Income tax benefit (expense)

702 (914) 1,413 (959)

Total net of tax

$(1,098) $2,131 $(2,211) $2,237

Total reclassification adjustments, net of tax

$(1,815) $(1,076) $(11,364) $(5,288)

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Note 23 Guarantees

At June 30, 2014 the Corporation recorded a liability of $0.5 million (December 31, 2013 - $0.4 million), which represents the unamortized balance of the obligations undertaken in issuing the guarantees under the standby letters of credit. Management does not anticipate any material losses related to these instruments.

From time to time, the Corporation securitized mortgage loans into guaranteed mortgage-backed securities subject to limited, and in certain instances, lifetime credit recourse on the loans that serve as collateral for the mortgage-backed securities. The Corporation has not sold any mortgage loans subject to credit recourse since 2009. At June 30, 2014 the Corporation serviced $ 2.3 billion (December 31, 2013 - $ 2.5 billion) in residential mortgage loans subject to credit recourse provisions, principally loans associated with FNMA and FHLMC residential mortgage loan securitization programs. In the event of any customer default, pursuant to the credit recourse provided, the Corporation is required to repurchase the loan or reimburse the third party investor for the incurred loss. The maximum potential amount of future payments that the Corporation would be required to make under the recourse arrangements in the event of nonperformance by the borrowers is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. During the quarter and six months ended June 30, 2014, the Corporation repurchased approximately $ 21 million and $ 48 million, respectively, of unpaid principal balance in mortgage loans subject to the credit recourse provisions (June 30, 2013 - $ 36 million and $ 66 million, respectively). In the event of nonperformance by the borrower, the Corporation has rights to the underlying collateral securing the mortgage loan. The Corporation suffers ultimate losses on these loans when the proceeds from a foreclosure sale of the property underlying a defaulted mortgage loan are less than the outstanding principal balance of the loan plus any uncollected interest advanced and the costs of holding and disposing the related property. At June 30, 2014 the Corporation s liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to $ 48 million (December 31, 2013 - $ 41 million).

The following table shows the changes in the Corporation s liability of estimated losses related to loans serviced with credit recourse provisions during the quarters and six month periods ended June 30, 2014 and 2013.

	Quarters ended June 30,		Six months ended June 30,	
(In thousands)	2014	2013	2014	2013
Balance as of beginning of period	$ 45,809	$ 47,983	$ 41,463	$ 51,673
Provision for recourse liability	7,984	6,688	19,026	10,785
Net charge-offs / terminations	(5,901)	(8,779)	(12,597)	(16,566)
Balance as of end of period	$ 47,892	$ 45,892	$ 47,892	$ 45,892

The estimated losses to be absorbed under the credit recourse arrangements are recorded as a liability when the loans are sold or credit recourse is assumed as part of acquired servicing rights, and are updated by accruing or reversing expense (categorized in the line item adjustments (expense) to indemnity reserves on loans sold in the consolidated statements of operations) throughout the life of the loan, as necessary, when additional relevant information becomes available. The methodology used to estimate the recourse liability is a function of the recourse arrangements given and considers a variety of factors, which include actual defaults and historical loss experience, foreclosure rate, estimated future defaults and the probability that a loan would be delinquent. Statistical methods are used to estimate the recourse liability. Expected loss rates are applied to different loan segmentations. The expected loss, which represents the amount expected to be lost on a given loan, considers the probability of default and loss severity. The probability of default represents the probability that a loan in good standing would become 90 days delinquent within the following twelve-month period. Regression analysis quantifies the relationship between the default event and loan-specific characteristics, including credit scores, loan-to-value ratios, and loan aging, among others.

When the Corporation sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. The Corporation s mortgage operations in Puerto Rico group conforming mortgage loans into pools which are exchanged for FNMA and GNMA mortgage-backed securities, which are generally sold to private investors, or are sold directly to FNMA or other private investors for cash. As required under the government agency programs, quality review procedures are performed by the Corporation to ensure that asset guideline qualifications are met. To the extent the loans do not meet specified characteristics, the Corporation may be required to repurchase such loans or indemnify for losses and bear any subsequent loss related to the loans. Repurchases under BPPR s representation and warranty arrangements for the six months ended June 30, 2014 approximated $ 2.2 million, in unpaid principal balance, with losses amounting to $ 1.6 million, and $ 3.0 million and $ 0.5 million, respectively, for the same period of 2013.

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A substantial amount of these loans reinstate to performing status or have mortgage insurance, and thus the ultimate losses on the loans are not deemed significant.

During the quarter ended June 30, 2013, the Corporation established a reserve for certain specific representations and warranties made in connection with BPPR s sale of non-performing mortgage loans. The purchaser s sole remedy under the indemnity clause is to seek monetary damages from BPPR, for a maximum of $16.3 million. BPPR recognized a reserve of approximately $3.0 million, representing its best estimate of the loss that would be incurred in connection with this indemnification. BPPR s obligations under this clause end one year after the closing except to any claim asserted prior to such termination date. The reserve balance has been maintained to cover claims received from the purchaser, which are currently being evaluated.

During the quarter ended March 31, 2013, the Corporation established a reserve for certain specific representations and warranties made in connection with BPPR s sale of commercial and construction loans, and commercial and single family real estate owned. The purchaser s sole remedy under the indemnity clause is to seek monetary damages from BPPR, for a maximum of $18.0 million. BPPR is not required to repurchase any of the assets. BPPR recognized a reserve of approximately $10.7 million, representing its best estimate of the loss that would be incurred in connection with this indemnification. During the quarter ended March 31, 2014, the Corporation released $2.0 million based on an evaluation of claims received under this clause.

The following table presents the changes in the Corporation s liability for estimated losses associated with indemnifications and representations and warranties related to loans sold by BPPR for the quarters and six months ended June 30, 2014 and 2013.

	Quarters ended June 30,		Six months ended June 30,	
(In thousands)	2014	2013	2014	2013
Balance as of beginning of period	$ 23,731	$ 17,603	$ 26,261	$ 7,587
Additions for new sales		3,047		13,747
Provision (reversal) for representation and warranties	(1,647)	415	(2,663)	125
Net charge-offs / terminations	(504)	(106)	(2,018)	(500)
Balance as of end of period	$ 21,580	$ 20,959	$ 21,580	$ 20,959

In addition, at June 30, 2014, the Corporation has reserves for customary representations and warranties related to loans sold by its U.S. subsidiary E-LOAN prior to 2009. These loans were sold to investors on a servicing released basis subject to certain representation and warranties. Although the risk of loss or default was generally assumed by the investors, the Corporation made certain representations relating to borrower creditworthiness, loan documentation and collateral, which if not correct, may result in requiring the Corporation to repurchase the loans or indemnify investors for any related losses associated with these loans. At June 30, 2014, the Corporation s reserve for estimated losses from such representation and warranty arrangements amounted to $ 5 million, which was included as part of other liabilities in the consolidated statement of financial condition (December 31, 2013 - $ 7 million). E-LOAN is no longer originating and selling loans since the subsidiary ceased these activities in 2008 and most of the outstanding agreements with major counterparties were settled during 2010 and 2011.

Servicing agreements relating to the mortgage-backed securities programs of FNMA and GNMA, and to mortgage loans sold or serviced to certain other investors, including FHLMC, require the Corporation to advance funds to make scheduled payments of principal, interest, taxes and insurance, if such payments have not been received from the borrowers. At June 30, 2014, the Corporation serviced $ 16.1 billion in mortgage loans for third-parties, including the loans serviced with credit recourse (December 31, 2013 - $ 16.3 billion). The Corporation generally recovers funds advanced pursuant to these arrangements from the mortgage owner, from liquidation proceeds when the mortgage loan is foreclosed or, in the case of FHA/VA loans, under the applicable FHA and VA insurance and guarantees programs. However, in the meantime, the Corporation must absorb the cost of the funds it advances during the time the advance is outstanding. The Corporation must also bear the costs of attempting to collect on delinquent and defaulted mortgage loans. In addition, if a defaulted loan is not cured, the mortgage loan would be canceled as part of the foreclosure proceedings and the Corporation would not receive any future servicing income with respect to that loan. At June 30, 2014, the outstanding balance of funds advanced by the Corporation under such mortgage loan servicing agreements was approximately $24 million (December 31, 2013 - $29 million). To the extent the mortgage loans underlying the Corporation s servicing portfolio experience increased delinquencies, the Corporation would be required to dedicate additional cash resources to comply with its obligation to advance funds as well as incur additional administrative costs related to increases in collection efforts.

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Popular, Inc. Holding Company (PIHC) fully and unconditionally guarantees certain borrowing obligations issued by certain of its wholly-owned consolidated subsidiaries amounting to $ 0.2 billion at June 30, 2014 (December 31, 2013 - $ 0.2 billion). In addition, at June 30, 2014 and December 31, 2013, PIHC fully and unconditionally guaranteed on a subordinated basis $ 1.4 billion of capital securities (trust preferred securities) issued by wholly-owned issuing trust entities to the extent set forth in the applicable guarantee agreement. Refer to Note 20 to the consolidated financial statements for further information on the trust preferred securities.

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Note 24 Commitments and contingencies

Off-balance sheet risk

The Corporation is a party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financial needs of its customers. These financial instruments include loan commitments, letters of credit, and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition.

The Corporation s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit and financial guarantees written is represented by the contractual notional amounts of those instruments. The Corporation uses the same credit policies in making these commitments and conditional obligations as it does for those reflected on the consolidated statements of financial condition.

Financial instruments with off-balance sheet credit risk, whose contract amounts represent potential credit risk as of the end of the periods presented were as follows:

(In thousands)	June 30, 2014	December 31, 2013
Commitments to extend credit:		
Credit card lines	$ 4,559,678	$ 4,594,676
Commercial lines of credit	2,095,220	2,569,377
Other unused credit commitments	287,027	326,874
Commercial letters of credit	4,621	3,059
Standby letters of credit	47,762	78,948
Commitments to originate or fund mortgage loans	32,707	47,722

Balances for the financial instruments presented in the above table as of June 30, 2014 are presented excluding discontinued operations.

At June 30, 2014, the Corporation maintained a reserve of approximately $6 million for potential losses associated with unfunded loan commitments related to commercial and consumer lines of credit (December 31, 2013 - $7 million).

Other commitments

At June 30, 2014, the Corporation also maintained other non-credit commitments for $10 million, primarily for the acquisition of other investments (December 31, 2013 - $10 million).

Business concentration

Since the Corporation s business activities are currently concentrated primarily in Puerto Rico, its results of operations and financial condition are dependent upon the general trends of the Puerto Rico economy and, in particular, the residential and commercial real estate markets. The concentration of the Corporation s operations in Puerto Rico exposes it to greater risk than other banking companies with a wider geographic base. Its asset and revenue composition by geographical area is presented in Note 36 to the consolidated financial statements.

At June 30, 2014, the Corporation s direct exposure to the Puerto Rico government and its instrumentalities and municipalities amounted to $833 million, of which approximately $709 million is outstanding ($1.2 billion and $950 million at December 31, 2013). Of the amount outstanding, $570 million consists of loans and $139 million are securities ($789 million and $161 million at December 31, 2013). Of this amount, $272 million represents obligations from the Government of Puerto Rico and public corporations that are either collateralized loans or obligations that have a specific source of income or revenues identified for their repayment ($527 million at December 31, 2013). Some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services or products, such as public utilities. Public corporations have varying degrees of independence from the central Government and many receive appropriations or other payments from it. The remaining $437 million represents obligations from various municipalities in Puerto Rico for which, in most cases, the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment ($423 million at December 31, 2013). These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all of its general obligation bonds and loans. These loans have seniority to the payment of operating cost and expenses of the municipality.

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In addition, at June 30, 2014, the Corporation had $360 million in indirect exposure to loans or securities that are payable by non-governmental entities, but which carry a government guarantee to cover any shortfall in collateral in the event of borrower default ($360 million at December 31, 2013). These included $279 million in residential mortgage loans that are guaranteed by the Puerto Rico Housing Finance Authority (December 31, 2013 - $274 million). These mortgage loans are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default. Also, the Corporation had $48 million in Puerto Rico pass-through housing bonds backed by FNMA, GNMA or residential loans CMO s, and $33 million of industrial development notes ($52 million and $34 million at December 31, 2013).

Other contingencies

As indicated in Note 11 to the consolidated financial statements, as part of the loss sharing agreements related to the Westernbank FDIC-assisted transaction, the Corporation agreed to make a true-up payment to the FDIC on the date that is 45 days following the last day of the final shared loss month, or upon the final disposition of all covered assets under the loss sharing agreements in the event losses on the loss sharing agreements fail to reach expected levels. The fair value of the true-up payment obligation was estimated at $128 million at June 30, 2014 (December 31, 2013 - $128 million).

Legal Proceedings

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

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

In certain cases, exposure to loss exists in excess of the accrual to the extent such loss is reasonably possible, but not probable. Management believes and estimates that the aggregate range of reasonably possible losses (with respect to those matters where such limits may be determined, in excess of amounts accrued), for current legal proceedings ranges from $0 to approximately $43.5 million as of June 30, 2014. For certain other cases, management cannot reasonably estimate the possible loss at this time. Any estimate involves significant judgment, given the varying stages of the proceedings (including the fact that many of them are currently in preliminary stages), the existence of multiple defendants in several of the current proceedings whose share of liability has yet to be determined, the numerous unresolved issues in many of the proceedings, and the inherent uncertainty of the various potential outcomes of such proceedings. Accordingly, management s estimate will change from time-to-time, and actual losses may be more or less than the current estimate.

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

Corporation s consolidated financial position in a particular period.

Ongoing Class Action Litigation

Banco Popular de Puerto Rico and Banco Popular North America are currently defendants in various class action lawsuits:

On November 21, 2012, BPNA was served with a putative class action complaint captioned *Valle v. Popular Community Bank* filed in the New York State Supreme Court (New York County). Plaintiffs, existing BPNA customers, allege among other things that BPNA has engaged in unfair and deceptive acts and trade practices relative to the assessment of overdraft fees and payment processing on consumer deposit accounts. The complaint further alleges that BPNA improperly disclosed its consumer overdraft policies and, additionally, that the overdraft rates and fees assessed by BPNA violate New York s usury laws. The complaint seeks unspecified damages, including punitive damages, interest, disbursements, and attorneys fees and costs. BPNA removed the case to federal court (S.D.N.Y.), and plaintiffs subsequently filed a motion to remand the action to state court, which the Court has granted on August 6, 2013. A motion to dismiss was filed on September 9, 2013. On October 25, 2013, plaintiffs filed an amended complaint seeking to limit the putative class to New York account holders. A motion to dismiss the amended complaint was filed in February 2014 and is currently pending resolution. The parties are currently engaged in class certification-related discovery.

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Between December 2013 and January 2014, BPPR, BPNA and Popular, Inc., along with two executive officers, were served with a putative class action complaint captioned *Quiles et al. v. Banco Popular de Puerto Rico et al.* Plaintiffs essentially allege that they and others, who have been employed by the Defendants as bank tellers and other similarly titled positions, were generally paid only for scheduled work time, rather than all time actually worked. The Complaint seeks to maintain a collective action under the Fair Labor Standards Act on behalf of all individuals who were employed or are currently employed by the Defendants in Puerto Rico, the Virgin Islands, New York, New Jersey, Florida, California, and Illinois as hourly paid, non-exempt, bank tellers or other similarly titled positions at any time during the past three years and alleges the following claims under the Fair Labor Standards Act against all Defendants: (i) failure to pay overtime premiums; and (ii) that the failure to pay was willful. Similar claims are brought under Puerto Rico law on behalf of all individuals who were employed or are currently employed by BPPR in Puerto Rico as hourly paid, non-exempt, bank tellers or other similarly titled positions at any time during the past three years. On January 31, 2014, the Popular defendants filed an answer to the complaint. On February 24, 2014, the parties reached an agreement to dismiss the complaint against BPNA and the named BPNA executive officer without prejudice. The parties are currently engaged in class certification-related discovery.

On May 5, 2014, a putative class action captioned *Nora Fernandez, et al. v. UBS, et al.* was filed in the United States District Court for the Southern District of New York on behalf of investors in 23 Puerto Rico closed-end investment companies against various UBS entities, Banco Popular de Puerto Rico and Popular Securities. UBS Financial Services Incorporated of Puerto Rico is the sponsor and co-sponsor of all 23 funds, while Banco Popular de Puerto Rico was co-sponsor, together with UBS, of nine funds. The plaintiffs allege breach of fiduciary duties, aiding and abetting breach of fiduciary duty and breach of contract against all defendants. The complaint seeks unspecified damages, including disgorgement of fees and attorneys fees. On May 30, 2014, plaintiffs requested the voluntary dismissal of their class action in the SDNY and on that same date, they filed a virtually identical complaint in the US District Court for the District of Puerto Rico (USDC-PR) and requested that the case be consolidated with the matter of *In re: UBS Financial Services Securities Litigation*, a class action currently pending before the USDC-PR in which neither BPPR nor Popular Securities are parties. Recently, the UBS defendants filed an opposition to the consolidation request and demanded that the case be transferred back to the SDNY on the ground that the relevant agreements between the parties contain a clear and unambiguous choice of forum clause, with New York as the selected forum. The Popular defendants joined this motion. The motion remains pending to date.

On May 6, 2014, a putative class action captioned *David Alvarez, et al. v. Banco Popular North America* was filed in the Superior Court of the State of California for the County of Los Angeles. Plaintiffs generally assert that BPNA has engaged in purported violations of §2954.8(a) of the California Civil Code and §17200 et seq. of the California Business Professions Code, which allegedly require financial institutions that make loans secured by certain types of real property located within the state of California to pay interest to borrowers on impound account deposits at a statutory rate of not less than two percent (2%). Plaintiffs maintain that BPNA has not paid interest on such deposits and demand that BPNA be enjoined from engaging in further violations of these provisions and pay an unspecified amount of damages sufficient to repay the unpaid interest on these deposits. PHH Corporation, which acquired the loans at issue in this complaint, has tentatively agreed to indemnify and tender a defense on behalf of BPNA. The court recently entered an order staying all substantive activity, including any responsive pleading, until the initial conference scheduled for August 22, 2014.

Other Matters

The declines in Puerto Rico municipal bonds and closed-end investment companies that invest primarily in Puerto Rico municipal obligations since August 2013 have led to regulatory inquiries, customer complaints and arbitrations for most broker-dealers in Puerto Rico, including Popular Securities LLC, a wholly owned subsidiary of the Corporation (Popular Securities). Popular Securities has received customer complaints and is named as a respondent (among other broker-dealers) in arbitration proceedings with aggregate claimed damages of approximately $71.5 million, including one arbitration with claimed damages of $60 million in which two other Puerto Rico broker-dealers are co-defendants, in connection with customers who own such securities. The proceedings are in their early stages and it is the view of the Corporation that Popular Securities has meritorious defenses to the claims asserted.

In addition, the Financial Industry Regulatory Authority (FINRA) has notified Popular Securities that it is conducting an examination of broker-dealers in Puerto Rico, including Popular Securities, with respect to the sale of Puerto Rico municipal bonds and closed-end investment companies that invest primarily in Puerto Rico municipal obligations. As a self-regulatory agency, FINRA may impose monetary penalties, issue cease-and-desist orders and or require restitution of customer losses. An adverse result in any of the matters described above could materially and adversely affect the Corporation s broker-dealer subsidiary.

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Other Significant Proceedings

As described under Note 11 FDIC loss share asset and true-up payment obligation , in connection with the Westernbank FDIC-assisted transaction, on April 30, 2010, BPPR entered into loss share agreements with the FDIC with respect to the covered loans and other real estate owned that it acquired in the transaction. Pursuant to the terms of the loss share agreements, the FDIC s obligation to reimburse BPPR for losses with respect to covered assets begins with the first dollar of loss incurred. The FDIC reimburses BPPR for 80% of losses with respect to covered assets, and BPPR reimburses the FDIC for 80% of recoveries with respect to losses for which the FDIC paid 80% reimbursement under those loss share agreements. The loss share agreements contain specific terms and conditions regarding the management of the covered assets that BPPR must follow in order to receive reimbursement for losses from the FDIC. BPPR believes that it has complied with such terms and conditions. The loss share agreement applicable to the commercial late stage real-estate-collateral-dependent loans described below provides for loss sharing by the FDIC through the quarter ending June 30, 2015 and for reimbursement to the FDIC through the quarter ending June 30, 2018.

For the quarters ended June 30, 2010 through March 31, 2012, BPPR received reimbursement for loss-share claims submitted to the FDIC, including charge-offs for certain commercial late stage real-estate-collateral-dependent loans and OREO calculated in accordance with BPPR s charge-off policy for non-covered assets. When BPPR submitted its shared-loss claim in connection with the June 30, 2012 quarter, however, the FDIC refused to reimburse BPPR for a portion of the claim because of a difference related to the methodology for the computation of charge-offs for certain commercial late stage real-estate-collateral-dependent loans and OREO. In accordance with the terms of the commercial loss share agreement, BPPR applied a methodology for charge-offs for late stage real-estate-collateral-dependent loans that conforms to its regulatory supervisory criteria and is calculated in accordance with BPPR s charge-off policy for non-covered assets. The FDIC has stated that it believes that BPPR should use a different methodology for those charge-offs. Notwithstanding the FDIC s refusal to reimburse BPPR for certain shared-loss claims, BPPR has continued to calculate shared-loss claims for quarters subsequent to June 30, 2012 in accordance with its charge off policy for non-covered assets. As of June 30, 2014, BPPR had unreimbursed shared-loss claims of $369.4 million under the commercial loss share agreement with the FDIC. On July 25, 2014, BPPR received a payment of $66.3 million related to reimbursable shared-loss claims from the FDIC. After giving effect to this payment, BPPR has unreimbursed shared-loss claims amounting to $303.1 million. If the reimbursement amount for these claims were calculated in accordance with the FDIC s preferred methodology for late stage real-estate-collateral-dependent loans, the amount of such claims would be reduced by approximately $156.6 million.

BPPR s loss share agreements with the FDIC specify that disputes can be submitted to arbitration before a review board under the commercial arbitration rules of the American Arbitration Association. On July 31, 2013, BPPR filed a statement of claim with the American Arbitration Association requesting that the review board determine certain matters relating to the loss-share claims under the commercial loss share agreement with the FDIC, including that the review board award BPPR the amounts owed under its unpaid quarterly certificates. The statement of claim includes requests for reimbursement of certain valuation adjustments for discounts to appraised values, costs to sell troubled assets and other items. The review board is comprised of one arbitrator appointed by BPPR, one arbitrator appointed by the FDIC and a third arbitrator selected by agreement of those arbitrators. The arbitration hearing date has been set for October 2014.

To the extent that we are not able to successfully resolve this matter through the arbitration process described above, a material difference could result in the timing and amount of charge-offs recorded by us and the amount of charge-offs reimbursed by the FDIC under the commercial loss share agreement. That could require us to make a material adjustment to the value of our loss share assets and the related true up payment obligation to the FDIC, and could have a material adverse effect on our financial results for the period in which such adjustment is taken.

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Note 25 Non-consolidated variable interest entities

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

Also, the Corporation is involved with various special purpose entities mainly in guaranteed mortgage securitization transactions, including GNMA, FNMA and FHLMC. These special purpose entities are deemed to be VIEs since they lack equity investments at risk. The Corporation s continuing involvement in these guaranteed loan securitizations includes owning certain beneficial interests in the form of securities as well as the servicing rights retained. The Corporation is not required to provide additional financial support to any of the variable interest entities to which it has transferred the financial assets. The mortgage-backed securities, to the extent retained, are classified in the Corporation s consolidated statements of financial condition as available-for-sale or trading securities. The Corporation concluded that, essentially, these entities (FNMA, GNMA, and FHLMC) control the design of their respective VIEs, dictate the quality and nature of the collateral, require the underlying insurance, set the servicing standards via the servicing guides and can change them at will, and can remove a primary servicer with cause, and without cause in the case of FNMA and FHLMC. Moreover, through their guarantee obligations, agencies (FNMA, GNMA, and FHLMC) have the obligation to absorb losses that could be potentially significant to the VIE.

ASU 2009-17 requires that an ongoing primary beneficiary assessment should be made to determine whether the Corporation is the primary beneficiary of any of the VIEs it is involved with. The conclusion on the assessment of these trusts and guaranteed mortgage securitization transactions has not changed since their initial evaluation. The Corporation concluded that it is still not the primary beneficiary of these VIEs, and therefore, these VIEs are not required to be consolidated in the Corporation s financial statements at June 30, 2014.

The Corporation holds variable interests in these VIEs in the form of agency mortgage-backed securities and collateralized mortgage obligations, including those securities originated by the Corporation and those acquired from third parties. Additionally, the Corporation holds agency mortgage-backed securities, agency collateralized mortgage obligations and private label collateralized mortgage obligations issued by third party VIEs in which it has no other form of continuing involvement. Refer to Note 27 to the consolidated financial statements for additional information on the debt securities outstanding at June 30, 2014 and December 31, 2013, which are classified as available-for-sale and trading securities in the Corporation s consolidated statements of financial condition. In addition, the Corporation may retain the right to service the transferred loans in those government-sponsored special purpose entities (SPEs) and may also purchase the right to service loans in other government-sponsored SPEs that were transferred to those SPEs by a third-party. Pursuant to ASC Subtopic 810-10, the servicing fees that the Corporation receives for its servicing role are considered variable interests in the VIEs since the servicing fees are subordinated to the principal and interest that first needs to be paid to the mortgage-backed securities investors and to the guaranty fees that need to be paid to the federal agencies.

The following table presents the carrying amount and classification of the assets related to the Corporation s variable interests in non-consolidated VIEs and the maximum exposure to loss as a result of the Corporation s involvement as servicer with non-consolidated VIEs at June 30, 2014 and December 31, 2013.

(In thousands)	June 30, 2014	December 31, 2013
Assets		
Servicing assets:		
Mortgage servicing rights	$ 108,418	$ 113,437
Total servicing assets	$ 108,418	$ 113,437
Other assets:		
Servicing advances	$ 2,075	$ 1,416
Total other assets	$ 2,075	$ 1,416
Total assets	$ 110,493	$ 114,853
Maximum exposure to loss	$ 110,493	$ 114,853

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The size of the non-consolidated VIEs, in which the Corporation has a variable interest in the form of servicing fees, measured as the total unpaid principal balance of the loans, amounted to $9 billion at June 30, 2014 (December 31, 2013 - $9.2 billion).

Maximum exposure to loss represents the maximum loss, under a worst case scenario, that would be incurred by the Corporation, as servicer for the VIEs, assuming all loans serviced are delinquent and that the value of the Corporation s interests and any associated collateral declines to zero, without any consideration of recovery. The Corporation determined that the maximum exposure to loss includes the fair value of the MSRs and the assumption that the servicing advances at June 30, 2014 and December 31, 2013, will not be recovered. The agency debt securities are not included as part of the maximum exposure to loss since they are guaranteed by the related agencies.

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

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

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

The Corporation has determined that PRLP 2011 Holdings, LLC is a VIE but the Corporation is not the primary beneficiary. All decisions are made by CPG (or an affiliate thereof) (the Manager), except for certain limited material decisions which would require the unanimous consent of all members. The Manager is authorized to execute and deliver on behalf of the joint venture any and all documents, contracts, certificates, agreements and instruments, and to take any action deemed necessary in the benefit of the joint venture. Also, the Manager delegates the day-to-day management and servicing of the loans to CPG Island Servicing, LLC, an affiliate of CPG, which contracted Archon, an affiliate of Goldman Sachs, to act as sub-servicer, but it has the responsibility to oversee such servicing responsibilities.

The Corporation holds variable interests in this VIE in the form of the 24.9% equity interest (the Investment in PRLP 2011 Holdings, LLC) and the financing provided to the joint venture. The equity interest is accounted for under the equity method of accounting pursuant to ASC Subtopic 323-10.

The initial fair value of the Corporation s equity interest in the joint venture was determined based on the fair value of the loans and real estate owned transferred to the joint venture of $148 million which represented the purchase price of the loans agreed by the parties and was an arm s-length transaction between market participants in accordance with ASC Topic 820, reduced by the acquisition loan provided by BPPR to the joint venture, for a total net equity of $63 million. Accordingly, the 24.9% equity interest held by the Corporation was valued at $16 million. Thus, the fair value of the equity interest is considered a Level 2 fair value measurement since the inputs were based on observable market inputs.

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The following table presents the carrying amount and classification of the assets and liabilities related to the Corporation s variable interests in the non-consolidated VIE, PRLP 2011 Holdings, LLC, and its maximum exposure to loss at June 30, 2014 and December 31, 2013.

(In thousands)	June 30, 2014	December 31, 2013
Assets		
Loans held-in-portfolio:		
Acquisition loan	$	$ 3,233
Advances under the working capital line	518	390
Advances under the advance facility	7,392	16,024
Total loans held-in-portfolio	$ 7,910	$ 19,647
Accrued interest receivable	$ 30	$ 65
Other assets:		
Investment in PRLP 2011 Holdings LLC	$ 24,818	$ 26,596
Total assets	$ 32,758	$ 46,308
Deposits	$ (3,596)	$ (3,621)
Total liabilities	$ (3,596)	$ (3,621)
Total net assets	$ 29,162	$ 42,687
Maximum exposure to loss	$ 29,162	$ 42,687

The Corporation determined that the maximum exposure to loss under a worst case scenario at June 30, 2014 would be not recovering the carrying amount of the acquisition loan, the advances on the advance facility and working capital line, if any, and the equity interest held by the Corporation, net of the deposits.

On March 25, 2013, BPPR completed a sale of assets with a book value of $509.0 million, of which $500.6 million were in non-performing status, comprised of commercial and construction loans, and commercial and single family real estate owned, with a combined unpaid principal balance on loans and appraised value of other real estate owned of approximately $987.0 million to a newly created joint venture, PR Asset Portfolio 2013-1 International, LLC. The joint venture is majority owned by Caribbean Property Group LLC (CPG) and certain affiliates of Perella Weinberg Partners Asset Based Value Strategy. The joint venture was created for the limited purpose of acquiring the loans from BPPR; servicing the loans through a third-party servicer; ultimately working out, resolving and/or foreclosing the loans; and indirectly owning, operating, constructing, developing, leasing and selling any real properties acquired by the joint venture through deed in lieu of foreclosure, foreclosure, or by resolution of any loan.

BPPR provided financing to the joint venture for the acquisition of the assets in an amount equal to the sum of 57% of the purchase price of the assets, and closing costs, for a total acquisition loan of $182.4 million (the acquisition loan). The acquisition loan has a 5-year maturity and bears a variable interest at 30-day LIBOR plus 300 basis points and is secured by a pledge of all of the acquiring entity s assets. In addition, BPPR provided the joint venture with a non-revolving advance facility (the advance facility) of $35.0 million to cover unfunded commitments and costs-to-complete related to certain construction projects, and a revolving working capital line (the working capital line) of $30.0 million to fund certain operating expenses of the joint venture. Cash proceeds received by the joint venture are first used to cover debt service payments for the acquisition loan, advance facility, and the working capital line described above which must be paid in full before proceeds can be used for other purposes. The distributable cash proceeds are determined based on a pro-rata basis in accordance with the respective equity ownership percentages. BPPR s equity interest in the joint venture ranks pari-passu with those of other parties involved. As part of the transaction executed in March 2013, BPPR received $92.3 million in cash and a 24.9% equity interest in the joint venture. The Corporation is not required to provide any other financial support to the joint venture.

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

The Corporation has determined that PR Asset Portfolio 2013-1 International, LLC is a VIE but the Corporation is not the primary beneficiary. All decisions are made by CPG (or an affiliate thereof) (the Manager), except for certain limited material decisions which would require the unanimous consent of all members. The Manager is authorized to execute and deliver on behalf of the joint

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venture any and all documents, contracts, certificates, agreements and instruments, and to take any action deemed necessary in the benefit of the joint venture. Also, the Manager delegates the day-to-day management and servicing of the loans to PR Asset Portfolio Servicing International, LLC, an affiliate of CPG.

The initial fair value of the Corporation s equity interest in the joint venture was determined based on the fair value of the loans and real estate owned transferred to the joint venture of $306 million which represented the purchase price of the loans agreed by the parties and was an arm s-length transaction between market participants in accordance with ASC Topic 820, reduced by the acquisition loan provided by BPPR to the joint venture, for a total net equity of $124 million. Accordingly, the 24.9% equity interest held by the Corporation was valued at $31 million. Thus, the fair value of the equity interest is considered a Level 2 fair value measurement since the inputs were based on observable market inputs.

The Corporation holds variable interests in this VIE in the form of the 24.9% equity interest (the Investment in PR Asset Portfolio 2013-1 International, LLC) and the financing provided to the joint venture. The equity interest is accounted for under the equity method of accounting pursuant to ASC Subtopic 323-10.

The following table presents the carrying amount and classification of the assets and liabilities related to the Corporation s variable interests in the non-consolidated VIE, PR Asset Portfolio 2013-1 International, LLC, and its maximum exposure to loss at June 30, 2014 and December 31, 2013.

(In thousands)	June 30, 2014	December 31, 2013
Assets		
Loans held-in-portfolio:		
Acquisition loan	$ 122,536	$ 157,660
Advances under the working capital line	1,099	1,196
Advances under the advance facility	6,968	1,427
Total loans held-in-portfolio	$ 130,603	$ 160,283
Accrued interest receivable	$ 362	$ 436
Other assets:		
Investment in PR Asset Portfolio 2013-1 International, LLC	$ 32,079	$ 30,478
Total assets	$ 163,044	$ 191,197
Deposits	$ (20,871)	$ (20,808)
Total liabilities	$ (20,871)	$ (20,808)
Total net assets	$ 142,173	$ 170,389
Maximum exposure to loss	$ 142,173	$ 170,389

The Corporation determined that the maximum exposure to loss under a worst case scenario at June 30, 2014 would be not recovering the carrying amount of the acquisition loan, the advances on the advance facility and working capital line, if any, and the equity interest held by the Corporation, net of the deposits.

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Note 26 Related party transactions with affiliated company / joint venture

EVERTEC

The Corporation has an investment in EVERTEC, Inc. (EVERTEC), which provides various processing and information technology services to the Corporation and its subsidiaries and gives BPPR access to the ATH network owned and operated by EVERTEC. As of June 30, 2014, the Corporation s stake in EVERTEC is of 14.8%. The investment in EVERTEC is accounted for under the equity method and is evaluated for impairment if events or circumstances indicate that a decrease in value of the investment has occurred that is other than temporary. Refer to Note 31 Related party transactions to the consolidated financial statements included in the Corporation s 2013 Annual Report for details.

The Corporation received $ 2.3 million in dividend distributions during the six months ended June 30, 2014 from its investments in EVERTEC s holding company and none during the six months ended June 30, 2013. The Corporation s equity in EVERTEC is presented in the table which follows and is included as part of other assets in the consolidated statements of financial condition.

(In thousands)	June 30, 2014	December 31, 2013
Equity investment in EVERTEC	$ 22,159	$ 19,931

The Corporation had the following financial condition balances outstanding with EVERTEC at June 30, 2014 and December 31, 2013. Items that represent liabilities to the Corporation are presented with parenthesis.

(In thousands)	June 30, 2014	December 31, 2013
Accounts receivable (Other assets)	3,730	8,634
Deposits	(16,971)	(14,289)
Accounts payable (Other liabilities)	(16,594)	(15,862)
Net total	$ (29,835)	$ (21,517)

The Corporation s proportionate share of income or loss from EVERTEC is included in other operating income in the consolidated statements of operations. The following table presents the Corporation s proportionate share of EVERTEC s income (loss) and changes in stockholders equity for the quarters and six months ended June 30, 2014 and 2013.

(In thousands)	Quarter ended June 30, 2014	Six months ended June 30, 2014
Share of income from the investment in EVERTEC	$ 2,553	$ 5,332
Share of other changes in EVERTEC s stockholders equity	83	321

Share of EVERTEC s changes in equity recognized in income	$ 2,636	$ 5,653

(In thousands)	Quarter ended June 30, 2013	Six months ended June 30, 2013
Share of loss from the investment in EVERTEC	(18,652)	(17,545)
Share of other changes in EVERTEC s stockholders equity	37,722	36,067
Share of EVERTEC s changes in equity recognized in income	$ 19,070	$ 18,522

The following tables present the transactions and service payments between the Corporation and EVERTEC (as an affiliate) and their impact on the results of operations for the quarters and six months ended June 30, 2014 and 2013. Items that represent expenses to the Corporation are presented with parenthesis.

(In thousands)	Quarter ended June 30, 2014	Six months ended June 30, 2014	Category
Interest expense on deposits	(19)	(39)	Interest expense
ATH and credit cards interchange income from services to EVERTEC	6,709	13,128	Other service fees
Rental income charged to EVERTEC	1,750	3,427	Net occupancy
Processing fees on services provided by EVERTEC	(38,877)	(77,639)	Professional fees
Other services provided to EVERTEC	233	454	Other operating expenses
Total	$ (30,204)	$ (60,669)	

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(In thousands)	Quarter ended June 30, 2013	Six months ended June 30, 2013	Category
Interest income on loan to EVERTEC	$ 1,638	$ 2,491	Interest income
Interest income on investment securities issued by EVERTEC	306	1,269	Interest income
Interest expense on deposits	(30)	(57)	Interest expense
ATH and credit cards interchange income from services to EVERTEC	6,364	12,389	Other service fees
Debt prepayment penalty paid by EVERTEC	5,856	5,856	Net gain (loss) and valuation adjustments on investment securities
Consulting agreements fees paid by EVERTEC	9,854	9,854	Other operating income
Rental income charged to EVERTEC	1,683	3,364	Net occupancy
Processing fees on services provided by EVERTEC	(38,399)	(76,275)	Professional fees
Other services provided to EVERTEC	226	430	Other operating expenses
Total	$ (12,502)	$ (40,679)	

EVERTEC has a letter of credit issued by BPPR, for an amount of $ 3.6 million at June 30, 2014 (December 31, 2013 - $ 3.6 million). The Corporation also agreed to maintain outstanding this letter of credit for a 5-year period which expires on September 30, 2015. 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.

PRLP 2011 Holdings LLC

As indicated in Note 25 to the consolidated financial statements, the Corporation holds a 24.9% equity interest in PRLP 2011 Holdings LLC and currently provides certain financing to the joint venture as well as holds certain deposits from the entity.

The Corporation s equity in PRLP 2011 Holdings, LLC is presented in the table which follows and is included as part of other assets in the consolidated statements of financial condition.

(In thousands)	June 30, 2014	December 31, 2013
Equity investment in PRLP 2011 Holdings, LLC	$ 24,818	$ 26,596

The Corporation had the following financial condition balances outstanding with PRLP 2011 Holdings, LLC at June 30, 2014 and December 31, 2013.

(In thousands)	June 30, 2014	December 31, 2013
Loans	$ 7,910	$ 19,647
Accrued interest receivable	30	65
Deposits (non-interest bearing)	(3,596)	(3,621)
Net total	$ 4,344	$ 16,091

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The Corporation s proportionate share of income or loss from PRLP 2011 Holdings, LLC is included in other operating income in the consolidated statements of operations. The following table presents the Corporation s proportionate share of income (loss) from PRLP 2011 Holdings, LLC for the quarters ended June 30, 2014 and 2013.

(In thousands)	Quarter ended June 30, 2014	Six months ended June 30, 2014
Share of loss from the equity investment in PRLP 2011 Holdings, LLC	$ (32)	$ (1,778)

(In thousands)	Quarter ended June 30, 2013	Six months ended June 30, 2013
Share of income from the equity investment in PRLP 2011 Holdings, LLC	$ 733	$ 2,730

The following table presents transactions between the Corporation and PRLP 2011 Holdings, LLC and their impact on the Corporation s results of operations for the quarters and six months ended June 30, 2014 and 2013.

(In thousands)	Quarter ended June 30, 2014	Six months ended June 30, 2014	Category
Interest income on loan to PRLP 2011 Holdings, LLC	$ 99	$ 271	Interest income

(In thousands)	Quarter ended June 30, 2013	Six months ended June 30, 2013	Category
Interest income on loan to PRLP 2011 Holdings, LLC	$ 277	$ 674	Interest income

PR Asset Portfolio 2013-1 International, LLC

As indicated in Note 25 to the consolidated financial statements, effective March 2013 the Corporation holds a 24.9% equity interest in PR Asset Portfolio 2013-1 International, LLC and currently provides certain financing to the joint venture as well as holds certain deposits from the entity.

The Corporation s equity in PR Asset Portfolio 2013-1 International, LLC is presented in the table which follows and is included as part of other assets in the consolidated statements of financial condition.

(In thousands)	June 30, 2014	December 31, 2013

Equity investment in PR Asset Portfolio 2013-1 International, LLC	$ 32,079	$ 30,478

The Corporation had the following financial condition balances outstanding with PR Asset Portfolio 2013-1 International, LLC, at June 30, 2014 and December 31, 2013.

(In thousands)	June 30, 2014	December 31, 2013
Loans	$ 130,603	$ 160,283
Accrued interest receivable	362	436
Deposits	(20,871)	(20,808)
Net total	$ 110,094	$ 139,911

The Corporation s proportionate share of income or loss from PR Asset Portfolio 2013-1 International, LLC is included in other operating income in the consolidated statements of operations. The following table presents the Corporation s proportionate share of income (loss) from PR Asset Portfolio 2013-1 International, LLC for the quarter and six months ended June 30, 2014 and 2013.

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(In thousands)	Quarter ended June 30, 2014	Six months ended June 30, 2014
Share of income from the equity investment in PR Asset Portfolio 2013-1 International, LLC	$ 161	$ 1,450

(In thousands)	Quarter ended June 30, 2013	Six months ended June 30, 2013
Share of loss from the equity investment in PR Asset Portfolio 2013-1 International, LLC	$ (2,303)	$ (2,303)

The following table presents transactions between the Corporation and PR Asset Portfolio 2013-1 International, LLC and their impact on the Corporation s results of operations for the quarter ended June 30, 2014 and 2013.

(In thousands)	Quarter ended June 30, 2014	Six months ended June 30, 2014	Category
Interest income on loan to PR Asset Portfolio 2013-1 International, LLC	$ 1,082	$ 2,344	Interest income
Servicing fee paid by PR Asset Portfolio 2013-1 International, LLC		70	Other service fees
Total	$ 1,082	$ 2,414	

(In thousands)	Quarter ended June 30, 2013	Six months ended June 30, 2013	Category
Interest income on loan to PR Asset Portfolio 2013-1 International, LLC	$ 116	$ 116	Interest income
Servicing fee paid by PR Asset Portfolio 2013-1 International, LLC	45	45	Other service fees
Total	$ 161	$ 161	

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Note 27 Fair value measurement

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

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

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

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

The Corporation maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Fair value is based upon quoted market prices when available. If listed prices or quotes are not available, the Corporation employs internally-developed models that primarily use market-based inputs including yield curves, interest rates, volatilities, and credit curves, among others. Valuation adjustments are limited to those necessary to ensure that the financial instrument s fair value is adequately representative of the price that would be received or paid in the marketplace. These adjustments include amounts that reflect counterparty credit quality, the Corporation s credit standing, constraints on liquidity and unobservable parameters that are applied consistently. There have been no changes in the Corporation s methodologies used to estimate the fair value of assets and liabilities since December 31, 2013. Refer to the Critical Accounting Policies / Estimates in the 2012 Annual Report for additional information on the accounting guidance and the Corporation s policies or procedures related to fair value measurements.

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

Fair Value on a Recurring and Nonrecurring Basis

The following fair value hierarchy tables present information about the Corporation s assets and liabilities measured at fair value on a recurring basis at June 30, 2014 and December 31, 2013 and on a nonrecurring basis in periods subsequent to initial recognition for the six months ended June 30, 2014 and 2013:

At June 30, 2014

(In thousands)	Level 1	Level 2	Level 3	Total
RECURRING FAIR VALUE MEASUREMENTS				
Assets				
Investment securities available-for-sale:				
U.S. Treasury securities	$	$ 27,729	$	$ 27,729
Obligations of U.S. Government sponsored entities		2,217,230		2,217,230
Obligations of Puerto Rico, States and political subdivisions		69,171		69,171
Collateralized mortgage obligations federal agencies		2,303,472		2,303,472
Collateralized mortgage obligations private label		130		130
Mortgage-backed securities		1,013,879	6,169	1,020,048
Equity securities	213	4,130		4,343
Other		11,869		11,869
Total investment securities available-for-sale	$ 213	$ 5,647,610	$ 6,169	$ 5,653,992
Trading account securities, excluding derivatives:				
Obligations of Puerto Rico, States and political subdivisions	$	$ 8,197	$	$ 8,197

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Collateralized mortgage obligations		351	1,494	1,845
Mortgage-backed securities federal agencies		309,280	7,802	317,082
Other		17,389	1,283	18,672
Total trading account securities	$	$ 335,217	$ 10,579	$ 345,796
Mortgage servicing rights	$	$	$ 151,951	$ 151,951
Derivatives		27,586		27,586
Total assets measured at fair value on a recurring basis	$ 213	$ 6,010,413	$ 168,699	$ 6,179,325
Liabilities				
Derivatives	$	$ (25,611)	$	$ (25,611)
Contingent consideration			(127,551)	(127,551)
Total liabilities measured at fair value on a recurring basis	$	$ (25,611)	$ (127,551)	$ (153,162)

At December 31, 2013

(In thousands)	Level 1	Level 2	Level 3	Total
RECURRING FAIR VALUE MEASUREMENTS				
Assets				
Investment securities available-for-sale:				
U.S. Treasury securities	$	$ 28,482	$	$ 28,482
Obligations of U.S. Government sponsored entities		1,629,205		1,629,205
Obligations of Puerto Rico, States and political subdivisions		66,377		66,377
Collateralized mortgage obligations federal agencies		2,418,296		2,418,296
Collateralized mortgage obligations private label		513		513
Mortgage-backed securities		1,129,118	6,523	1,135,641
Equity securities	412	3,704		4,116
Other		12,170		12,170
Total investment securities available-for-sale	$ 412	$ 5,287,865	$ 6,523	$ 5,294,800
Trading account securities, excluding derivatives:				
Obligations of Puerto Rico, States and political subdivisions	$	$ 7,586	$	$ 7,586
Collateralized mortgage obligations		426	1,423	1,849
Mortgage-backed securities federal agencies		302,952	9,799	312,751
Other		15,545	1,929	17,474

Total trading account securities	$	$ 326,509	$ 13,151	$ 339,660
Mortgage servicing rights	$	$	$ 161,099	$ 161,099
Derivatives		34,793		34,793
Total assets measured at fair value on a recurring basis	$ 412	$ 5,649,167	$ 180,773	$ 5,830,352
Liabilities				
Derivatives	$	$ (32,378)	$	$ (32,378)
Contingent consideration			(128,299)	(128,299)
Total liabilities measured at fair value on a recurring basis	$	$ (32,378)	$ (128,299)	$ (160,677)

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	Six months ended June 30, 2014				
(In thousands)	Level 1	Level 2	Level 3	Total	
NONRECURRING FAIR VALUE MEASUREMENTS					
Assets					Write-downs
Loans[1]	$	$	$ 77,279	$ 77,279	$ (18,232)
Loans held-for-sale[2]					(38)
Other real estate owned[3]		4,200	35,959	40,159	(14,276)
Other foreclosed assets[3]			817	817	(733)
Total assets measured at fair value on a nonrecurring basis	$	$ 4,200	$ 114,055	$ 118,255	$ (33,279)

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

[2] Relates to lower of cost or fair value adjustments on loans held-for-sale and loans transferred from loans held-in-portfolio to loans held-for-sale. Costs to sell are excluded from the reported fair value amount.

[3] Represents the fair value of foreclosed real estate and other collateral owned that were written down to their fair value. Costs to sell are excluded from the reported fair value amount.

	Six months ended June 30, 2013				
(In thousands)	Level 1	Level 2	Level 3	Total	
NONRECURRING FAIR VALUE MEASUREMENTS					
Assets					Write-downs
Loans[1]	$	$	$ 40,801	$ 40,801	$ (22,048)
Loans held-for-sale[2]					(364,820)
Other real estate owned[3]		14,788	44,405	59,193	(22,164)
Other foreclosed assets[3]			230	230	(69)
Total assets measured at fair value on a nonrecurring basis	$	$ 14,788	$ 85,436	$ 100,224	$ (409,101)

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

[2] Relates to lower of cost or fair value adjustments on loans held-for-sale and loans transferred from loans held-in-portfolio to loans held-for-sale. Costs to sell are excluded from the reported fair value amount.

[3]

Represents the fair value of foreclosed real estate and other collateral owned that were written down to their fair value. Costs to sell are excluded from the reported fair value amount.

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the quarters and six months ended June 30, 2014 and 2013.

	Quarter ended June 30, 2014							
(In thousands)	MBS classified as investment securities available-for-sale	CMOs classified as trading account securities	MBS classified as trading account securities	Other securities classified as trading account securities	Mortgage servicing rights	Total assets	Contingent consideration	Total liabilities
Balance at March 31, 2014	$ 6,379	$ 1,561	$ 8,301	$ 1,715	$ 156,529	$ 174,485	$ (126,345)	$ (126,345)
Gains (losses) included in earnings	(1)	(1)	(75)	(432)	(7,740)	(8,249)	(1,206)	(1,206)
Gains (losses) included in OCI	(39)					(39)		
Additions			500		3,164	3,664		
Settlements	(170)	(66)	(924)		(2)	(1,162)		
Balance at June 30, 2014	$ 6,169	$ 1,494	$ 7,802	$ 1,283	$ 151,951	$ 168,699	$ (127,551)	$ (127,551)
Changes in unrealized gains (losses) included in earnings relating to assets still held at June 30, 2014	$	$ (1)	$ (41)	$ (394)	$ (2,818)	$ (3,254)	$ (1,206)	$ (1,206)

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(In thousands)	Six months ended June 30, 2014 MBS classified as investment securities available-for-sale	CMOs classified as trading account securities	MBS classified as trading account securities	Other securities classified as trading account securities	Mortgage servicing rights	Total assets	Contingent consideration	Total liabilities
Balance at January 1, 2014	$ 6,523	$ 1,423	$ 9,799	$ 1,929	$ 161,099	$ 180,773	$ (128,299)	$ (128,299)
Gains (losses) included in earnings	(3)	(11)	(114)	(646)	(15,836)	(16,610)	(38)	(38)
Gains (losses) included in OCI	(81)					(81)		
Additions		263	651		6,692	7,606		
Sales			(1,109)			(1,109)		
Settlements	(270)	(181)	(1,425)		(4)	(1,880)	786	786
Balance at June 30, 2014	$ 6,169	$ 1,494	$ 7,802	$ 1,283	$ 151,951	$ 168,699	$ (127,551)	$ (127,551)
Changes in unrealized gains (losses) included in earnings relating to assets still held at June 30, 2014	$	$ (8)	$ (65)	$ (530)	$ (5,842)	$ (6,445)	$ (38)	$ (38)

(In thousands)	Quarter ended June 30, 2013 MBS classified as investment securities available-for-sale	CMOs classified as trading account securities	MBS classified as trading account securities	Other securities classified as trading account securities	Mortgage servicing rights	Total assets	Contingent consideration	Total liabilities
Balance at March 31, 2013	$ 7,043	$ 2,025	$ 10,937	$ 2,143	$ 153,949	$ 176,097	$ (118,777)	$ (118,777)
Gains (losses) included in earnings	(2)	(3)	(83)	(101)	(5,126)	(5,315)	(476)	(476)
Gains (losses) included in OCI	(85)					(85)		
Additions		20	231		5,050	5,301		
Sales		(324)				(324)		
Settlements	(200)	(65)	(750)		(429)	(1,444)		
Balance at June 30, 2013	$ 6,756	$ 1,653	$ 10,335	$ 2,042	$ 153,444	$ 174,230	$ (119,253)	$ (119,253)

Changes in unrealized gains (losses) included in earnings relating to assets still held at June 30, 2013	$	$ 1	$ (14)	$ 48	$ 2,569	$ 2,604	$ (476)	$ (476)

(In thousands)	Six months ended June 30, 2013 MBS classified as investment securities available-for-sale	CMOs classified as trading account securities	MBS classified as trading account securities	Other securities classified as trading account securities	Mortgage servicing rights	Total assets	Contingent consideration	Total liabilities
Balance at January 1, 2013	$ 7,070	$ 2,499	$ 11,818	$ 2,240	$ 154,430	$ 178,057	$ (112,002)	$ (112,002)
Gains (losses) included in earnings	(3)	1	(174)	(198)	(10,741)	(11,115)	(7,251)	(7,251)
Gains (losses) included in OCI	(86)					(86)		
Additions		25	258		10,197	10,480		
Sales		(699)				(699)		
Settlements	(225)	(173)	(1,567)		(442)	(2,407)		
Balance at June 30, 2013	$ 6,756	$ 1,653	$ 10,335	$ 2,042	$ 153,444	$ 174,230	$ (119,253)	$ (119,253)
Changes in unrealized gains (losses) included in earnings relating to assets still held at June 30, 2013	$	$ 3	$ (45)	$ (7)	$ 4,013	$ 3,964	$ (7,251)	$ (7,251)

There were no transfers in and / or out of Level 1, Level 2, or Level 3 for financial instruments measured at fair value on a recurring basis during the quarters and six months ended June 30, 2014 and 2013.

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Gains and losses (realized and unrealized) included in earnings for the quarter and six months ended June 30, 2014 and 2013 for Level 3 assets and liabilities included in the previous tables are reported in the consolidated statement of operations as follows:

	Quarter ended June 30, 2014		Six months ended June 30, 2014	
(In thousands)	Total gains (losses) included in earnings	Changes in unrealized gains (losses) relating to assets still held at reporting date	Total gains (losses) included in earnings	Changes in unrealized gains (losses) relating to assets still held at reporting date
Interest income	$ (1)	$	$ (3)	$
FDIC loss share (expense) income	(1,206)	(1,206)	(38)	(38)
Mortgage banking activities	(7,740)	(2,818)	(15,836)	(5,842)
Trading account profit (loss)	(508)	(436)	(771)	(603)
Total	$ (9,455)	$ (4,460)	$ (16,648)	$ (6,483)

	Quarter ended June 30, 2013		Six months ended June 30, 2013	
(In thousands)	Total gains (losses) included in earnings	Changes in unrealized gains (losses) relating to assets still held at reporting date	Total gains (losses) included in earnings	Changes in unrealized gains (losses) relating to assets still held at reporting date
Interest income	$ (2)	$	$ (3)	$
FDIC loss share (expense) income	(476)	(476)	(7,251)	(7,251)
Mortgage banking activities	(5,126)	2,569	(10,741)	4,013
Trading account profit (loss)	(187)	35	(371)	(49)
Total	$ (5,791)	$ 2,128	$ (18,366)	$ (3,287)

The following table includes quantitative information about significant unobservable inputs used to derive the fair value of Level 3 instruments, excluding those instruments for which the unobservable inputs were not developed by the Corporation such as prices of prior transactions and/or unadjusted third-party pricing sources.

In thousands)	Fair value at June 30, 2014	Valuation technique	Unobservable inputs	Weighted average (range)
CMO s - trading	$ 1,494	Discounted cash flow model	Weighted average life	2.3 years (0.7 - 5.1 years)

				Yield	3.9% (1.5% - 4.7%)
				Constant prepayment rate	23.8% (19.5% - 26.2%)
Other - trading	$ 842		Discounted cash flow model	Weighted average life	5.5 years
				Yield	12.2%
				Constant prepayment rate	10.8%
Mortgage servicing rights	$ 151,951		Discounted cash flow model	Prepayment speed	8.3% (5.7% - 23.9%)
				Weighted average life	12.0 years (4.2 - 17.7 years)
				Discount rate	11.3% (9.5% - 15.0%)
Contingent consideration	$ (127,551)		Discounted cash flow model	Credit loss rate on covered loans	8.5% (0.0% - 100.0%)
				Risk premium component of discount rate	5.0%
Loans held-in-portfolio	$ 76,619	[1]	External appraisal	Haircut applied on external appraisals	15.7% (15.0% - 35.0%)
Other real estate owned	$ 15,006	[2]	External appraisal	Haircut applied on external appraisals	11.6% (5.0% -35.0%)

[1] Loans held-in-portfolio in which haircuts were not applied to external appraisals were excluded from this table.
[2] Other real estate owned in which haircuts were not applied to external appraisals were excluded from this table.

The significant unobservable inputs used in the fair value measurement of the Corporation s collateralized mortgage obligations and interest-only collateralized mortgage obligation (reported as other), which are classified in the trading category, are yield, constant prepayment rate, and weighted average life. Significant increases (decreases) in any of those inputs in isolation would

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result in significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the constant prepayment rate will generate a directionally opposite change in the weighted average life. For example, as the average life is reduced by a higher constant prepayment rate, a lower yield will be realized, and when there is a reduction in the constant prepayment rate, the average life of these collateralized mortgage obligations will extend, thus resulting in a higher yield. These particular financial instruments are valued internally by the Corporation s investment banking and broker-dealer unit utilizing internal valuation techniques. The unobservable inputs incorporated into the internal discounted cash flow models used to derive the fair value of collateralized mortgage obligations and interest-only collateralized mortgage obligation (reported as other), which are classified in the trading category, are reviewed by the Corporation s Corporate Treasury unit on a quarterly basis. In the case of Level 3 financial instruments which fair value is based on broker quotes, the Corporation s Corporate Treasury unit reviews the inputs used by the broker-dealers for reasonableness utilizing information available from other published sources and validates that the fair value measurements were developed in accordance with ASC Topic 820. The Corporate Treasury unit also substantiates the inputs used by validating the prices with other broker-dealers, whenever possible.

The significant unobservable inputs used in the fair value measurement of the Corporation s mortgage servicing rights are constant prepayment rates and discount rates. Increases in interest rates may result in lower prepayments. Discount rates vary according to products and / or portfolios depending on the perceived risk. Increases in discount rates result in a lower fair value measurement. The Corporation s Corporate Comptroller s unit is responsible for determining the fair value of MSRs, which is based on discounted cash flow methods based on assumptions developed by an external service provider, except for prepayment speeds, which are adjusted internally for the local market based on historical experience. The Corporation s Corporate Treasury unit validates the economic assumptions developed by the external service provider on a quarterly basis. In addition, an analytical review of prepayment speeds is performed quarterly by the Corporate Comptroller s unit. Significant variances in prepayment speeds are investigated by the Corporate Treasury unit. The Corporation s MSR Committee analyzes changes in fair value measurements of MSRs and approves the valuation assumptions at each reporting period. Changes in valuation assumptions must also be approved by the MSR Committee. The fair value of MSRs are compared with those of the external service provider on a quarterly basis in order to validate if the fair values are within the materiality thresholds established by management to monitor and investigate material deviations. Back-testing is performed to compare projected cash flows with actual historical data to ascertain the reasonability of the projected net cash flow results.

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Note 28 Fair value of financial instruments

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

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

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

The fair values reflected herein have been determined based on the prevailing interest rate environment at June 30, 2014 and December 31, 2013, as applicable. In different interest rate environments, fair value estimates can differ significantly, especially for certain fixed rate financial instruments. In addition, the fair values presented do not attempt to estimate the value of the Corporation s fee generating businesses and anticipated future business activities, that is, they do not represent the Corporation s value as a going concern. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation.

Following is a description of the Corporation s valuation methodologies and inputs used to estimate the fair values for each class of financial assets and liabilities not measured at fair value, but for which the fair value is disclosed. The disclosure requirements exclude certain financial instruments and all non-financial instruments. Accordingly, the aggregate fair value amounts of the financial instruments disclosed do not represent management s estimate of the underlying value of the Corporation. For a description of the valuation methodologies and inputs used to estimate the fair value for each class of financial assets and liabilities measured at fair value, refer to Note 27.

Cash and due from banks

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

Money market investments

Investments in money market instruments include highly liquid instruments with an average maturity of three months or less. For this reason, they carry a low risk of changes in value as a result of changes in interest rates, and the carrying amount approximates their fair value. Money market investments include federal funds sold, securities purchased under agreements to resell, time deposits with other banks, and cash balances, including those held at the Federal Reserve. These money market investments are classified as Level 2, except for cash balances which generate interest, including those held at the Federal Reserve, which are classified as Level 1.

Investment securities held-to-maturity

Obligations of Puerto Rico, States and political subdivisions: Municipal bonds include Puerto Rico public municipalities debt and bonds collateralized by second mortgages under the Home Purchase Stimulus Program. Puerto Rico public municipalities debt was valued internally based on benchmark treasury notes and a credit spread derived from comparable Puerto Rico government trades and recent issuances. Puerto Rico public municipalities debt is classified as Level 3. Given that the fair value of municipal bonds collateralized by second mortgages was based on internal yield and prepayment speed assumptions, these municipal bonds are classified as Level 3.

Agency collateralized mortgage obligation: The fair value of the agency collateralized mortgage obligation (CMO), which is guaranteed by GNMA, was based on internal yield and prepayment speed assumptions. This agency CMO is classified as Level 3.

Other: Other securities include foreign and corporate debt. Given that the fair value was based on quoted prices for similar instruments, foreign debt is classified as Level 2. The fair value of corporate debt, which is collateralized by municipal bonds of Puerto Rico, was internally derived from benchmark treasury notes and a credit spread based on comparable Puerto Rico government trades, similar securities, and/or recent issuances. Corporate debt is classified as Level 3.

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Other investment securities

Federal Home Loan Bank capital stock: Federal Home Loan Bank (FHLB) capital stock represents an equity interest in the FHLB of New York. It does not have a readily determinable fair value because its ownership is restricted and it lacks a market. Since the excess stock is repurchased by the FHLB at its par value, the carrying amount of FHLB capital stock approximates fair value. Thus, these stocks are classified as Level 2.

Federal Reserve Bank capital stock: Federal Reserve Bank (FRB) capital stock represents an equity interest in the FRB of New York. It does not have a readily determinable fair value because its ownership is restricted and it lacks a market. Since the canceled stock is repurchased by the FRB for the amount of the cash subscription paid, the carrying amount of FRB capital stock approximates fair value. Thus, these stocks are classified as Level 2.

Trust preferred securities: These securities represent the equity-method investment in the common stock of these trusts. Book value is the same as fair value for these securities since the fair value of the junior subordinated debentures is the same amount as the fair value of the trust preferred securities issued to the public. The equity-method investment in the common stock of these trusts is classified as Level 2, except for that of Popular Capital Trust III (Troubled Asset Relief Program) which is classified as Level 3. Refer to Note 20 for additional information on these trust preferred securities.

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

Loans held-for-sale

The fair value of certain impaired loans held-for-sale was based on a discounted cash flow model that assumes that no principal payments are received prior to the effective average maturity date, that the outstanding unpaid principal balance is reduced by a monthly net loss rate, and that the remaining unpaid principal balance is received as a lump sum principal payment at the effective average maturity date. The remaining unpaid principal balance expected to be received, which is based on the prior 12-month cash payment experience of these loans and their expected collateral recovery, was discounted using the interest rate currently offered to clients for the origination of comparable loans. These loans were classified as Level 3. As of June 30, 2014, no loans were valued under this methodology. For loans held-for-sale originated with the intent to sell in the secondary market, its fair value was determined using similar characteristics of loans and secondary market prices assuming the conversion to mortgage-backed securities. Given that the valuation methodology uses internal assumptions based on loan level data, these loans are classified as Level 3. The fair value of certain other loans held-for-sale is based on bids received from potential buyers; binding offers; or external appraisals, net of internal adjustments and estimated costs to sell. Loans held-for-sale based on binding offers are classified as Level 2. Loans held-for-sale based on indicative offers and/or external appraisals are classified as Level 3.

Loans held-in-portfolio

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

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FDIC loss share asset

Fair value of the FDIC loss share asset was estimated using projected net losses related to the loss sharing agreements, which are expected to be reimbursed by the FDIC. The projected net losses were discounted using the U.S. Government agency curve. The loss share asset is classified as Level 3.

Deposits

Demand deposits: The fair value of demand deposits, which have no stated maturity, was calculated based on the amount payable on demand as of the respective dates. These demand deposits include non-interest bearing demand deposits, savings, NOW, and money market accounts. Thus, these deposits are classified as Level 2.

Time deposits: The fair value of time deposits was calculated based on the discounted value of contractual cash flows using interest rates being offered on time deposits with similar maturities. The non-performance risk was determined using internally-developed models that consider, where applicable, the collateral held, amounts insured, the remaining term, and the credit premium of the institution. For certain 5-year certificates of deposit in which customers may withdraw their money anytime with no penalties or charges, the fair value of these certificates of deposit incorporate an early cancellation estimate based on historical experience. Time deposits are classified as Level 2.

Assets sold under agreements to repurchase

Securities sold under agreements to repurchase (structured and non-structured): Securities sold under agreements to repurchase with short-term maturities approximate fair value because of the short-term nature of those instruments. Resell and repurchase agreements with long-term maturities were valued using discounted cash flows based on the three-month LIBOR. In determining the non-performance credit risk valuation adjustment, the collateralization levels of these long-term securities sold under agreements to repurchase were considered. In the case of callable structured repurchase agreements, the callable feature is not considered when determining the fair value of those repurchase agreements, since there is a remote possibility, based on forward rates, that the investor will call back these agreements before maturity since it is not expected that the interest rates would rise more than the specified interest rate of these agreements. Securities sold under agreements to repurchase (structured and non-structured) are classified as Level 2.

Other short-term borrowings

The carrying amount of other short-term borrowings approximate fair value because of the short-term maturity of those instruments or because they carry interest rates which approximate market. Thus, these other short-term borrowings are classified as Level 2.

Notes payable

FHLB advances: The fair value of FHLB advances was based on the discounted value of contractual cash flows over their contractual term. In determining the non-performance credit risk valuation adjustment, the collateralization levels of these advances were considered. These advances are classified as Level 2.

Medium-term notes: The fair value of publicly-traded medium-term notes was determined using recent trades of similar transactions. Publicly-traded medium-term notes are classified as Level 2. The fair value of non-publicly traded debt was based on remaining contractual cash outflows, discounted at a rate commensurate with the non-performance credit risk of the Corporation, which is subjective in nature. Non-publicly traded debt is classified as Level 3.

Junior subordinated deferrable interest debentures (related to trust preferred securities): The fair value of junior subordinated interest debentures was determined using recent trades of similar transactions. Thus, these junior subordinated deferrable interest debentures are classified as Level 2.

Junior subordinated deferrable interest debentures (Troubled Asset Relief Program): The fair value of junior subordinated deferrable interest debentures was based on the discounted value of contractual cash flows over their contractual term. The discount rate was based on the rate at which a similar security was priced in the open market. Thus, these junior subordinated deferrable interest debentures are classified as Level 3.

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Others: The other category includes capital lease obligations. Generally accepted accounting principles do not require a fair valuation of capital lease obligations, therefore; it is included at its carrying amount. Capital lease obligations are classified as Level 3.

Commitments to extend credit and letters of credit

Commitments to extend credit were valued using the fees currently charged to enter into similar agreements. For those commitments where a future stream of fees is charged, the fair value was estimated by discounting the projected cash flows of fees on commitments. Since the fair value of commitments to extend credit varies depending on the undrawn amount of the credit facility, fees are subject to constant change, and cash flows are dependent on the creditworthiness of borrowers, commitments to extend credit are classified as Level 3. The fair value of letters of credit was based on fees currently charged on similar agreements. Given that the fair value of letters of credit constantly vary due to fees being subject to constant change and whether the fees are received depends on the creditworthiness of the account parties, letters of credit are classified as Level 3.

The following tables present the carrying or notional amounts, as applicable, and estimated fair values for financial instruments with their corresponding level in the fair value hierarchy.

	June 30, 2014				
(In thousands)	Carrying amount	Level 1	Level 2	Level 3	Fair value
Financial Assets:					
Cash and due from banks	$ 362,572	$ 362,572	$	$	$ 362,572
Money market investments	1,666,944	1,474,592	192,352		1,666,944
Trading account securities, excluding derivatives[1]	345,796		335,217	10,579	345,796
Investment securities available-for-sale[1]	5,653,992	213	5,647,610	6,169	5,653,992
Investment securities held-to-maturity:					
Obligations of Puerto Rico, States and political subdivisions	112,676			101,906	101,906
Collateralized mortgage obligation-federal agency	104			96	96
Other	1,500		1,499		1,499
Total investment securities held-to-maturity	$ 114,280	$	$ 1,499	$ 102,002	$ 103,501
Other investment securities:					
FHLB stock	$ 64,021	$	$ 64,021	$	$ 64,021
FRB stock	87,981		87,981		87,981
Trust preferred securities	14,197		13,197	1,000	14,197
Other investments	1,926			4,501	4,501
Total other investment securities	$ 168,125	$	$ 165,199	$ 5,501	$ 170,700
Loans held-for-sale	$ 97,010	$	$ 5,361	$ 94,765	$ 100,126

Loans not covered under loss sharing agreement with the FDIC	19,108,978		17,879,517	17,879,517
Loans covered under loss sharing agreements with the FDIC	2,637,437		3,127,324	3,127,324
FDIC loss share asset	751,553		627,360	627,360
Mortgage servicing rights	151,951		151,951	151,951
Derivatives	27,586	27,586		27,586

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	June 30, 2014				
(In thousands)	Carrying amount	Level 1	Level 2	Level 3	Fair value
Financial Liabilities:					
Deposits:					
Demand deposits	$ 17,232,379	$	$ 17,232,379	$	$ 17,232,379
Time deposits	7,668,773		7,709,103		7,709,103
Total deposits	$ 24,901,152	$	$ 24,941,482	$	$ 24,941,482
Assets sold under agreements to repurchase:					
Securities sold under agreements to repurchase	$ 1,407,771	$	$ 1,411,777	$	$ 1,411,777
Structured repurchase agreements	666,905		714,897		714,897
Total assets sold under agreements to repurchase	$ 2,074,676	$	$ 2,126,674	$	$ 2,126,674
Other short-term borrowings[2]	$ 31,200	$	$ 31,200	$	$ 31,200
Notes payable:					
FHLB advances	510,514		526,054		526,054
Medium-term notes	682			707	707
Unsecured senior debt securities	450,000		457,313		457,313
Junior subordinated deferrable interest debentures (related to trust preferred securities)	439,800		371,762		371,762
Junior subordinated deferrable interest debentures (Troubled Asset Relief Program)	936,000			936,000	936,000
Others	23,093			23,093	23,093
Total notes payable	$ 2,360,089	$	$ 1,355,129	$ 959,800	$ 2,314,929
Derivatives	$ 25,611	$	$ 25,611	$	$ 25,611
Contingent consideration	$ 127,551	$	$	$ 127,551	$ 127,551

(In thousands)	Notional amount	Level 1	Level 2	Level 3	Fair value
Commitments to extend credit	$ 6,941,925	$	$	$ 1,983	$ 1,983
Letters of credit	52,383			837	837

[1] Refer to Note 27 to the consolidated financial statements for the fair value by class of financial asset and its hierarchy level.

[2] Refer to Note 18 to the consolidated financial statements for the composition of short-term borrowings.

	December 31, 2013				
(In thousands)	Carrying amount	Level 1	Level 2	Level 3	Fair value

Financial Assets:					
Cash and due from banks	$ 423,211	$ 423,211	$	$	$ 423,211
Money market investments	858,453	677,033	181,420		858,453
Trading account securities, excluding derivatives[1]	339,660		326,509	13,151	339,660
Investment securities available-for-sale[1]	5,294,800	412	5,287,865	6,523	5,294,800
Investment securities held-to-maturity:					
Obligations of Puerto Rico, States and political subdivisions	113,881			94,712	94,712
Collateralized mortgage obligation-federal agency	115			122	122
Other	26,500		1,500	24,354	25,854

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Total investment securities held-to-maturity	$ 140,496	$	$ 1,500	$ 119,188	$ 120,688
Other investment securities:					
FHLB stock	$ 85,245	$	$ 85,245	$	$ 85,245
FRB stock	80,385		80,385		80,385
Trust preferred securities	14,197		13,197	1,000	14,197
Other investments	1,925			4,699	4,699
Total other investment securities	$ 181,752	$	$ 178,827	$ 5,699	$ 184,526
Loans held-for-sale	$ 110,426	$	$ 3,155	$ 109,405	$ 112,560
Loans not covered under loss sharing agreement with the FDIC	21,073,403			19,070,337	19,070,337
Loans covered under loss sharing agreements with the FDIC	2,882,335			3,404,128	3,404,128
FDIC loss share asset	948,608			837,131	837,131
Mortgage servicing rights	161,099			161,099	161,099
Derivatives	34,793		34,793		34,793

	December 31, 2013				
(In thousands)	Carrying amount	Level 1	Level 2	Level 3	Fair value
Financial Liabilities:					
Deposits:					
Demand deposits	$ 18,399,793	$	$ 18,399,793	$	$ 18,399,793
Time deposits	8,311,352		8,367,410		8,367,410
Total deposits	$ 26,711,145	$	$ 26,767,203	$	$ 26,767,203
Assets sold under agreements to repurchase:					
Securities sold under agreements to repurchase	$ 1,021,102	$	$ 1,025,628	$	$ 1,025,628
Structured repurchase agreements	638,190		694,422		694,422
Total assets sold under agreements to repurchase	$ 1,659,292	$	$ 1,720,050	$	$ 1,720,050
Other short-term borrowings[2]	$ 401,200	$	$ 401,200	$	$ 401,200
Notes payable:					
FHLB advances	589,229		604,976		604,976
Medium-term notes	689			716	716
Junior subordinated deferrable interest debentures (related to trust preferred securities)	439,800		348,222		348,222
Junior subordinated deferrable interest debentures (Troubled Asset Relief Program)	531,540			1,006,638	1,006,638
Others	23,496			23,496	23,496

Total notes payable	$	1,584,754	$		$	953,198	$	1,030,850	$	1,984,048
Derivatives	$	32,378	$		$	32,378	$		$	32,378
Contingent consideration	$	128,299	$		$		$	128,299	$	128,299

(In thousands)		Notional amount		Level 1		Level 2		Level 3		Fair value
Commitments to extend credit	$	7,490,927	$		$		$	2,571	$	2,571
Letters of credit		82,007						901		901

[1] Refer to Note 27 to the consolidated financial statements for the fair value by class of financial asset and its hierarchy level.
[2] Refer to Note 18 to the consolidated financial statements for the composition of short-term borrowings.

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Note 29 Net (loss) income per common share

The following table sets forth the computation of net (loss) income per common share (EPS), basic and diluted, for the quarters and six months ended June 30, 2014 and 2013:

(In thousands, except per share information)	Quarter ended June 30, 2014	Quarter ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Net (loss) income from continuing operations	$ (329,585)	$ 312,170	$ (263,081)	$ 182,127
Net (loss) income from discontinued operations	(181,729)	15,298	(161,824)	25,034
Preferred stock dividends	(931)	(931)	(1,862)	(1,861)
Deemed dividend on preferred stock				
Net (loss) income applicable to common stock	$ (512,245)	$ 326,537	$ (426,767)	$ 205,300
Average common shares outstanding	102,781,438	102,620,295	102,790,545	102,642,329
Average potential dilutive common shares		297,052		315,407
Average common shares outstanding assuming dilution	102,781,438	102,917,347	102,790,545	102,957,736
Basic EPS from continuing operations	$ (3.21)	$ 3.03	$ (2.58)	$ 1.76
Basic EPS from discontinued operations	$ (1.77)	$ 0.15	$ (1.57)	$ 0.24
Total Basic EPS	$ (4.98)	$ 3.18	$ (4.15)	$ 2.00
Diluted EPS from continuing operations	$ (3.21)	$ 3.02	$ (2.58)	$ 1.75
Diluted EPS from discontinued operations	$ (1.77)	$ 0.15	$ (1.57)	$ 0.24
Total Diluted EPS	$ (4.98)	$ 3.17	$ (4.15)	$ 1.99

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

For the quarter and six months ended June 30, 2014, there were 44,797 and 45,621 weighted average antidilutive stock options outstanding, respectively (June 30, 2013 103,291 and 104,266). Additionally as of June 30, 2014, the Corporation had outstanding a warrant issued to the U.S. Treasury to purchase 2,093,284 shares of common stock, which had an antidilutive effect at June 30, 2014. As discussed in Note 21, Stockholder s Equity, this warrant was repurchased on July 23, 2014. Also for the quarter and six months ended June 30, 2014, the Corporation has 518,976 unvested restricted stocks outstanding that were antidilutive.

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Note 30 Other service fees

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

	Quarters ended June 30,		Six months ended June 30,	
(In thousands)	2014	2013	2014	2013
Debit card fees	$ 11,000	$ 10,395	$ 21,544	$ 20,460
Insurance fees	12,406	11,550	24,125	23,157
Credit card fees	16,985	16,265	33,068	31,819
Sale and administration of investment products	7,456	10,243	13,913	18,960
Trust fees	4,566	4,154	9,029	8,612
Other fees	4,055	4,672	7,607	9,215
Total other services fees	$ 56,468	$ 57,279	$ 109,286	$ 112,223

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Note 31 FDIC loss share (expense) income

The caption of FDIC loss share (expense) income in the consolidated statements of operations consists of the following major categories:

	Quarters ended June 30,		Six months ended June 30,	
(In thousands)	2014	2013	2014	2013
Amortization of loss share indemnification asset	$ (72,095)	$ (38,557)	$ (121,041)	$ (78,761)
80% mirror accounting on credit impairment losses[1]	10,372	25,338	25,462	39,383
80% mirror accounting on reimbursable expenses	11,085	12,131	23,830	19,914
80% mirror accounting on recoveries on covered assets, including rental income on OREOs, subject to reimbursement to the FDIC	(3,557)	(2,168)	(7,949)	(3,269)
80% mirror accounting on amortization of contingent liability on unfunded commitments		(193)		(386)
Change in true-up payment obligation	(1,206)	(476)	(38)	(7,251)
Other	140	170	269	349
Total FDIC loss share (expense) income	$ (55,261)	$ (3,755)	$ (79,467)	$ (30,021)

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

During the second quarter of 2014, the Corporation revised its analysis of expected cash flows which resulted in a net decrease of approximately $102.9 million in estimated credit losses, which was driven mainly by commercial loan pools. Though this will have a positive impact on the Corporation s interest accretion in future periods, the carrying value of the indemnification asset was amortized to reflect lower levels of expected losses. This amortization is recognized over the shorter of the remaining life of the loan pools, which had an average life of approximately six years, or the indemnification asset, which as of June 30, 2014 is one year for commercial, construction and consumer loans and of six years for single-family residential mortgage loans.

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Note 32 Pension and postretirement benefits

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

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

	Pension Plan		Benefit Restoration Plans	
	Quarters ended June 30,		Quarters ended June 30,	
(In thousands)	2014	2013	2014	2013
Interest Cost	$ 7,461	$ 6,966	$ 415	$ 373
Expected return on plan assets	(11,630)	(10,804)	(606)	(542)
Amortization of net loss	2,018	5,363	108	333
Total net periodic pension cost (benefit)	$ (2,151)	$ 1,525	$ (83)	$ 164

	Pension Plans Six months ended June 30,		Benefit Restoration Plans Six months ended June 30,	
(In thousands)	2014	2013	2014	2013
Interest Cost	$ 14,922	$ 13,932	$ 829	$ 746
Expected return on plan assets	(23,261)	(21,608)	(1,211)	(1,083)
Amortization of net loss	4,036	10,726	216	666
Total net periodic pension cost (benefit)	$ (4,303)	$ 3,050	$ (166)	$ 329

During the quarter ended June 30, 2014 the Corporation made a contribution to the benefit restoration plans of $13 thousand. The total contributions expected to be paid during the year 2014 for the pension and benefit restoration plans amount to approximately $51 thousand.

The Corporation also provides certain postretirement health care benefits for retired employees of certain subsidiaries. The table that follows presents the components of net periodic postretirement benefit cost.

	Postretirement Benefit Plan			
	Quarters ended June 30,		Six months ended June 30,	
(In thousands)	2014	2013	2014	2013
Service cost	$ 364	$ 564	$ 729	$ 1,128
Interest cost	1,712	1,712	3,423	3,424
Amortization of prior service cost	(950)		(1,900)	
Amortization of net loss		473		946

Total net periodic postretirement benefit cost	$ 1,126	$ 2,749	$ 2,252	$ 5,498

Contributions made to the postretirement benefit plan for the quarter ended June 30, 2014 amounted to approximately $1.6 million. The total contributions expected to be paid during the year 2014 for the postretirement benefit plan amount to approximately $6.2 million.

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Note 33 Stock-based compensation

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

Stock Option Plan

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

(Not in thousands)

Exercise price per share	Options outstanding	Weighted-average exercise price of options outstanding	Weighted-average remaining life of options outstanding in years	Options exercisable (fully vested)	Weighted-average exercise price of options exercisable
$ 272.00	44,797	$ 272.00	0.63	44,797	$ 272.00

There was no intrinsic value of options outstanding and exercisable at June 30, 2014 and 2013.

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

(Not in thousands)	Options Outstanding	Weighted-Average Exercise Price
Outstanding at December 31, 2012	160,986	$ 222.71
Granted		
Exercised		
Forfeited		
Expired	(60,549)	171.42
Outstanding at December 31, 2013	100,437	$ 253.64
Granted		
Exercised		
Forfeited		
Expired	(55,640)	238.85

Outstanding at June 30, 2014	44,797	$	272.00

There was no stock option expense recognized for the quarters and six months ended June 30, 2014 and 2013.

Incentive Plan

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

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

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

(Not in thousands)	Restricted Stock	Weighted-Average Grant Date Fair Value	
Non-vested at December 31, 2012	491,223	$	20.59
Granted	229,131		28.20
Vested	(131,324)		31.23
Forfeited	(3,783)		24.63
Non-vested at December 31, 2013	585,247	$	21.16
Granted	235,112		29.56
Vested	(295,267)		18.57
Forfeited	(6,116)		30.87
Non-vested at June 30, 2014	518,976	$	26.32

During the quarter ended June 30, 2014 and 2013, 129,329 shares of restricted stock (June 30, 2013 125,072) were awarded to management under the Incentive Plan, from which 56,549 shares (June 30, 2013 61,245) were awarded to management consistent with the requirements of the TARP Interim Final Rule. For the six-month period ended June 30, 2014, 235,112 shares of restricted stock (June 30, 2013 229,131) were awarded to management under the Incentive Plan, from which 162,332 shares (June 30, 2013 165,304) were awarded to management consistent with the requirements of the TARP Interim Final Rule.

During the quarter ended June 30, 2014, the Corporation recognized $ 1.7 million of restricted stock expense related to management incentive awards, with a tax benefit of $ 0.3 million (June 30, 2013 - $ 1.3 million, with a tax benefit of $ 0.4 million). For the six-month period ended June 30, 2014, the Corporation recognized $ 3.0 million of restricted stock expense related to management incentive awards, with a tax benefit of $ 0.5 million (June 30, 2013 - $ 2.5 million, with a tax benefit of $ 0.8 million). For the six-month period ended June 30, 2014, the fair market value of the restricted stock vested was $5.4 million at grant date and $8.6 million at vesting date. This triggers a windfall, net of shortfalls, of $1.2 million of which $0.4 million was recorded as a windfall pool in additional paid in capital. No windfall pool was recorded for the remaining $0.8 million due to the valuation allowance of the deferred tax asset. The total unrecognized compensation cost related to non-vested restricted stock awards and performance shares to members of management at June 30, 2014 was $ 10.2 million and is expected to be recognized over a weighted-average period of 2 years.

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

(Not in thousands)	Restricted Stock	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2012		$
Granted	20,930	29.43
Vested	(20,930)	29.43
Forfeited		
Non-vested at December 31, 2013		$
Granted	18,733	30.16
Vested	(18,733)	30.16
Forfeited		
Non-vested at June 30, 2014		$

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During the quarter ended June 30, 2014, the Corporation granted 15,648 shares of restricted stock to members of the Board of Directors of Popular, Inc., which became vested at grant date (June 30, 2013 14,782). During this period, the Corporation recognized $0.1 million of restricted stock expense related to these restricted stock grants, with a tax benefit of $15 thousand (June 30, 2013 - $0.1 million, with a tax benefit of $46 thousand). For the six-month period ended June 30, 2014, the Corporation granted 18,733 shares of restricted stock to members of the Board of Directors of Popular, Inc., which became vested at grant date (June 30, 2013 17,186). During this period, the Corporation recognized $0.3 million of restricted stock expense related to these restricted stock grants, with a tax benefit of $29 thousand (June 30, 2013 - $0.2 million, with a tax benefit of $91 thousand). The fair value at vesting date of the restricted stock vested during the six months ended June 30, 2014 for directors was $ 0.6 million.

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Note 34 Income taxes

The reason for the difference between the income tax expense (benefit) applicable to income before provision for income taxes and the amount computed by applying the statutory tax rate in Puerto Rico, were as follows:

	Quarters ended			
	June 30, 2014		June 30, 2013	
(In thousands)	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax at statutory rates	$ (130,147)	39 %	$ 29,168	39 %
Net benefit of net tax exempt interest income	(13,558)	4	(10,325)	(14)
Deferred tax asset valuation allowance	(7,211)	2	(2,958)	(4)
Non-deductible expenses	169,810	(50)	7,946	11
Difference in tax rates due to multiple jurisdictions	(4,293)	1	(2,588)	(3)
Initial adjustment in deferred tax due to change in tax rate			(215,600)	(288)
Effect of income subject to preferential tax rate[1]	(20,833)	6	(47,322)	(63)
Others	2,108	(1)	4,299	5
Income tax benefit	$ (4,124)	1%	$ (237,380)	(317)%

[1] For 2014, includes the impact of the Closing Agreement with the P.R. Treasury signed in June 2014.

	Six months ended			
	June 30, 2014		June 30, 2013	
(In thousands)	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax at statutory rates	$ (95,138)	39 %	$ (43,731)	39 %
Net benefit of net tax exempt interest income	(24,944)	10	(19,876)	18
Deferred tax asset valuation allowance	(14,183)	6	(2,975)	3
Non-deductible expenses	178,129	(73)	15,759	(14)
Difference in tax rates due to multiple jurisdictions	(10,488)	4	(5,948)	5
Initial adjustment in deferred tax due to change in tax rate			(197,467)	176
Effect of income subject to preferential tax rate[1]	(18,555)	8	(45,313)	40
Others	4,319	(2)	5,294	(5)

Income tax expense (benefit)	$ 19,140	(8)%	$ (294,257)	262 %

[1] For 2014, includes the impact of the Closing Agreement with the P.R. Treasury signed in June 2014.

Income tax benefit amounted to $4.1 million for the quarter ended June 30, 2014, compared with $237.4 million for the same quarter of 2013. The decrease in income tax benefit was primarily due to the recognition during the second quarter of 2013 of $215.6 million in income tax benefit and a corresponding increase in the net deferred tax asset of the Puerto Rico operations as the result of the increase in the marginal tax rate from 30% to 39% per Act Number 40 of the Puerto Rico Internal Revenue Code applicable to taxable years beginning after December 31, 2012.

During the second quarter of 2014, the Corporation entered into a Closing Agreement with the Puerto Rico Department of Treasury. The Agreement, among other matters, was related to the income tax treatment of certain charge-offs related to the loans acquired from Westernbank as part of the FDIC assisted transaction in the year 2010. As a result of the Closing Agreement, the Corporation recorded a tax benefit of $23.4 million due to a reduction in the deferred tax liability associated with the Westernbank loan portfolio. Additionally, in connection with this Closing Agreement, the Corporation made an estimated tax payment of $45 million which will be used as a credit to offset future income tax liabilities. This benefit was partially offset by the negative impact of the deferred tax asset valuation allowance of $9.2 million recorded at the Holding Company, due to the difference in the tax treatment of the interest expense related to the TARP funds and the newly issued senior notes as explained below.

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Income tax expense amounted to $19.1 million for the six months ended June 30, 2014, compared with an income tax benefit of $294.3 million for the same period of 2013. The increase in income tax expense was primarily due to the recognition during the year 2013 of a tax benefit and a corresponding increase in the net deferred tax asset of the Puerto Rico operations as result of the increase in the marginal tax rate from 30% to 39% as mention above. In addition, during 2013 the income tax benefit increased due to the loss generated on the Puerto Rico operations by the sale of non-performing assets net of the gain realized on the sale of EVERTEC s common stocks.

On July 1, 2014, the Government of Puerto Rico approved an amendment to the Internal Revenue Code, which among other things, changed the income tax rate for capital gains from 15% to 20%. As a result, the Corporation expects to recognize an income tax expense of approximately $20.0 million during the third quarter of 2014, mainly related to the deferred tax liability associated with the portfolio acquired from Westernbank.

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

(In thousands)	June 30, 2014	December 31, 2013
Deferred tax assets:		
Tax credits available for carryforward	$ 8,691	$ 8,195
Net operating loss and other carryforward available	1,248,497	1,269,523
Postretirement and pension benefits	47,578	51,742
Deferred loan origination fees	7,059	7,718
Allowance for loan losses	744,261	760,956
Deferred gains	8,695	9,313
Accelerated depreciation	7,753	7,577
Intercompany deferred gains	3,074	3,235
Other temporary differences	35,481	34,443
Total gross deferred tax assets	2,111,089	2,152,702
Deferred tax liabilities:		
Differences between the assigned values and the tax basis of assets and liabilities recognized in purchase business combinations	35,391	37,938
Difference in outside basis between financial and tax reporting on sale of a business	407	349
FDIC-assisted transaction	60,981	79,381
Unrealized net gain on trading and available-for-sale securities	20,760	3,822
Deferred loan origination costs	143	554
Other temporary differences	15,190	13,038
Total gross deferred tax liabilities	132,872	135,082
Valuation allowance	1,224,806	1,257,977
Net deferred tax asset	$ 753,411	$ 759,643

The net deferred tax asset shown in the table above at June 30, 2014 is reflected in the consolidated statements of financial condition as $789 million in net deferred tax assets in the Other assets caption (December 31, 2013 - $762 million) and $35 million in deferred tax liabilities in the Other liabilities caption (December 31, 2013 - $2 million), reflecting the aggregate deferred tax assets or liabilities of individual tax-paying subsidiaries of the Corporation.

A deferred tax asset should be reduced by a valuation allowance if based on the weight of all available evidence, it is more likely than not (a likelihood of more than 50%) that some portion or the entire deferred tax asset will not be realized. The valuation allowance should be sufficient to reduce the deferred tax asset to the amount that is more likely than not to be realized. The determination of whether a deferred tax asset is realizable is based on weighting all available evidence, including both positive and

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negative evidence. The realization of deferred tax assets, including carryforwards and deductible temporary differences, depends upon the existence of sufficient taxable income of the same character during the carryback or carryforward period. The analysis considers all sources of taxable income available to realize the deferred tax asset, including the future reversal of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in prior carryback years and tax-planning strategies.

The Corporation recorded a valuation allowance in the year 2008 since in consideration of the requirement of ASC 740 management considered that it is more likely than not that all of the U.S. operation deferred tax asset will not be realized. For purposes of assessing the realization of the deferred tax assets in the U.S. mainland management evaluates and weights all available positive and negative evidence. The Corporation s U.S. mainland operations is not in a cumulative loss position for the three-year period ended June 30, 2014 taking into account taxable income exclusive of reversing temporary differences. This represents positive evidence within management s evaluation. The book income for 2013 and the first six months of 2014 was significantly impacted by a reversal of the loan loss provision due to the improved credit quality of the loan portfolios. However, the U.S. mainland operations did not report taxable income for the years 2011, 2012 and 2013. Future realization of the deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character within the carryforward period available under the tax law. The lack of taxable income together with the uncertainties regarding future performance represents strong negative evidence within management s evaluation. This determination should be updated each quarter and adjusted as any changes arise. After weighting of all positive and negative evidence management concluded, as of the reporting date, that it is more likely than not that the Corporation will not be able to realize any portion of the deferred tax assets related to the U.S. mainland operations, considering the criteria of ASC Topic 740.

At June 30, 2014, the Corporation s net deferred tax asset related to its Puerto Rico operations amounted to $785 million net of the valuation allowance of $9.2 million recorded in the Holding Company.

The Corporation s Puerto Rico Banking operation is not in a cumulative loss position and has sustained profitability for the three year period ended June 30, 2014, exclusive of the loss generated on the sales of non-performing assets that took place in 2013 which is not a continuing condition of the operations. This is considered a strong piece of objectively verifiable positive evidence that out weights any negative evidence considered by management in the evaluation of the realization of the deferred tax asset. Based on this evidence and management s estimate of future taxable income, the Corporation has concluded that it is more likely than not that such net deferred tax asset of the Puerto Rico Banking operations will be realized.

The Holding Company operation is not in a cumulative loss position for the three year period ended June 30, 2014. However, after the payment of TARP, the interest expense that will be paid on the newly issued $450 million subordinated notes, bearing interest at 7%, will be tax deductible, contrary to the interest expense payable on the note issued to the U.S. Treasury under TARP. Based on this new fact pattern the Holding Company is expecting to have losses for income tax purposes exclusive of reversing temporary differences. Since as required by ASC 740 the historical information should be supplemented by all currently available information about future years, the expected losses in future years is considered by management a strong negative evidence that will suggest that income in future years will be insufficient to support the realization of all deferred tax asset. After weighting of all positive and negative evidence management concluded, as of the reporting date, that it is more likely than not that the Holding Company will not be able to realize any portion of the deferred tax assets, considering the criteria of ASC Topic 740. Accordingly, a full valuation allowance on the deferred tax asset of $9.2 million was recorded during the second quarter of 2014.

The reconciliation of unrecognized tax benefits was as follows:

(In millions)	2014	2013
Balance at January 1	$ 9.8	$ 13.4
Additions for tax positions January through March	0.3	0.2
Balance at March 31	$ 10.1	$ 13.6
Additions for tax positions April through June	0.2	0.3
Balance at June 30	$ 10.3	$ 13.9

At June 30, 2014, the total amount of interest recognized in the statement of financial condition approximated $4.0 million (December 31, 2013 - $3.6 million). The total interest expense recognized at June 2014 was $425 thousand (December 31, 2013 - $1.4 million). Management determined that at June 30, 2014 and December 31, 2013 there was no need to accrue for the payment of penalties. The Corporation s policy is to report interest related to unrecognized tax benefits in income tax expense, while the penalties, if any, are reported in other operating expenses in the consolidated statements of operations.

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After consideration of the effect on U.S. federal tax of unrecognized U.S. state tax benefits, the total amount of unrecognized tax benefits, including U.S. and Puerto Rico, that if recognized, would affect the Corporation s effective tax rate, was approximately $12.8 million at June 30, 2014 (December 31, 2013 - $11.9 million).

The amount of unrecognized tax benefits may increase or decrease in the future for various reasons including adding amounts for current tax year positions, expiration of open income tax returns due to the statutes of limitation, changes in management s judgment about the level of uncertainty, status of examinations, litigation and legislative activity and the addition or elimination of uncertain tax positions.

The Corporation and its subsidiaries file income tax returns in Puerto Rico, the U.S. federal jurisdiction, various U.S. states and political subdivisions, and foreign jurisdictions. At June 30, 2014, the following years remain subject to examination in the U.S. Federal jurisdiction: 2010 and thereafter; and in the Puerto Rico jurisdiction, 2009 and thereafter. The Corporation anticipates a reduction in the total amount of unrecognized tax benefits within the next 12 months, which could amount to approximately $7.8 million.

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Note 35 Supplemental disclosure on the consolidated statements of cash flows

Additional disclosures on cash flow information and non-cash activities for the six months ended June 30, 2014 and June 30, 2013 are listed in the following table:

(In thousands)	June 30, 2014	June 30, 2013
Non-cash activities:		
Loans transferred to other real estate	$ 82,338	$ 143,159
Loans transferred to other property	20,492	16,009
Total loans transferred to foreclosed assets	102,830	159,168
Transfers from loans held-in-portfolio to loans held-for-sale	1,868,420	438,640
Transfers from loans held-for-sale to loans held-in-portfolio	3,245	21,580
Loans securitized into investment securities[1]	472,891	846,327
Trades receivable from brokers and counterparties[2]	519,495	158,141
Trades payable to brokers and counterparties	45,893	72,007
Recognition of mortgage servicing rights on securitizations or asset transfers	6,692	10,152
Loans sold to a joint venture in exchange for an acquisition loan and an equity interest in the joint venture		194,514

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

[2] Includes $441 million of trades receivable as of June 30,2014, related to the issuance of $450 million in Senior Notes, which settled on July 1, 2014, net of debt issuance costs of $9 million.

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Note 36 Segment reporting

The Corporation s corporate structure consists of two reportable segments Banco Popular de Puerto Rico and Banco Popular North America. These reportable segments pertain only to the continuing operations of Popular, Inc. As previously indicated in Note 3 to the consolidated financial statements, the regional operations in California, Illinois and Central Florida were classified as discontinued operations in the second quarter of 2014.

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

Banco Popular de Puerto Rico:

Given that Banco Popular de Puerto Rico constitutes a significant portion of the Corporation s results of operations and total assets at June 30, 2014, additional disclosures are provided for the business areas included in this reportable segment, as described below:

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

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

Other financial services include the trust and asset management service units of BPPR, the brokerage and investment banking operations of Popular Securities, and the insurance agency and reinsurance businesses of Popular Insurance, Popular Insurance V.I., Popular Risk Services, and Popular Life Re. Most of the services that are provided by these subsidiaries generate profits based on fee income.

Banco Popular North America:

Banco Popular North America s reportable segment consists of the banking operations of BPNA, E-LOAN, Popular Equipment Finance, Inc. and Popular Insurance Agency, U.S.A. BPNA operates through a retail branch network in the U.S. mainland under the name of Popular Community Bank, while E-LOAN supports BPNA s deposit gathering through its online platform. All direct lending activities at E-LOAN were ceased during the fourth quarter of 2008. Popular Equipment Finance, Inc. also holds a running-off loan portfolio as this subsidiary ceased originating loans during 2009. Popular Insurance Agency, U.S.A. offers investment and insurance services across the BPNA branch network.

The Corporate group consists primarily of the holding companies: Popular, Inc., Popular North America, Popular International Bank and certain of the Corporation s investments accounted for under the equity method, including EVERTEC and Centro Financiero BHD, S.A. The Corporate group also includes the expenses of certain corporate areas that are identified as critical to the organization: Finance, Risk Management and Legal.

The accounting policies of the individual operating segments are the same as those of the Corporation. Transactions between reportable segments are primarily conducted at market rates, resulting in profits that are eliminated for reporting consolidated results of operations.

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The tables that follow present the results of operations and total assets by reportable segments:

2014

	For the quarter ended June 30, 2014		
(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	$ 334,079	$ 48,688	$
Provision (reversal of provision) for loan losses	86,432	(24,786)	
Non-interest income	38,505	18,187	
Amortization of intangibles	1,822	203	
Depreciation expense	9,824	1,663	
Other operating expenses	211,206	38,010	
Income tax (benefit) expense	(7,958)	846	
Net income	$ 71,258	$ 50,939	$
Segment assets	$ 27,646,859	$ 6,470,550	$ (18,199)

	For the quarter ended June 30, 2014			
(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	$ 382,767	$ (442,148)	$	$ (59,381)
Provision for loan losses	61,646	32		61,678
Non-interest income	56,692	7,348	(1,251)	62,789
Amortization of intangibles	2,025			2,025
Depreciation expense	11,487	168		11,655
Other operating expenses	249,216	13,226	(683)	261,759
Income tax (benefit) expense	(7,112)	3,209	(221)	(4,124)
Net income (loss)	$ 122,197	$ (451,435)	$ (347)	$ (329,585)
Segment assets	$ 34,099,210	$ 5,864,130	$ (5,203,820)	$ 34,759,520

	For the six months ended June 30, 2014		
(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	$ 661,949	$ 100,119	$
	166,269	(24,579)	

Provision (reversal of provision) for loan losses			
Non-interest income	106,594	28,789	
Amortization of intangibles	3,646	405	
Depreciation expense	19,322	3,384	
Other operating expenses	421,045	76,002	
Income tax expense	21,985	1,692	
Net income	$ 136,276	$ 72,004	$
Segment assets	$ 27,646,859	$ 6,470,550	$ (18,199)

For the six months ended June 30, 2014

(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	$ 762,068	$ (470,278)	$	$ 291,790
Provision for loan losses	141,690	(176)		141,514
Non-interest income	135,383	24,756	(1,318)	158,821
Amortization of intangibles	4,051			4,051
Depreciation expense	22,706	325		23,031
Other operating expenses	497,047	30,302	(1,393)	525,956
Income tax expense (benefit)	23,677	(4,567)	30	19,140
Net income (loss)	$ 208,280	$ (471,406)	$ 45	$ (263,081)
Segment assets	$ 34,099,210	$ 5,864,130	$ (5,203,820)	$ 34,759,520

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2013

For the quarter ended June 30, 2013

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	$ 314,748	$ 46,527	$
Provision (reversal of provision) for loan losses	255,944	(1,489)	
Non-interest income	103,331	8,108	
Amortization of intangibles	1,787	202	
Depreciation expense	10,306	2,023	
Other operating expenses	225,726	37,518	
Income tax (benefit) expense	(235,766)	936	
Net income	$ 160,082	$ 15,445	$

For the quarter ended June 30, 2013

(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	$ 361,275	$ (26,864)	$	$ 334,411
Provision for loan losses	254,455	20		254,475
Non-interest income	111,439	178,614	(1,335)	288,718
Amortization of intangibles	1,989			1,989
Depreciation expense	12,329	162		12,491
Other operating expenses	263,244	16,830	(690)	279,384
Income tax benefit	(234,830)	(2,258)	(292)	(237,380)
Net income	$ 175,527	$ 136,996	$ (353)	$ 312,170

For the six months ended June 30, 2013

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	$ 619,776	$ 92,876	$
Provision for loan losses	477,829	3,315	
Non-interest income	119,708	14,432	
Amortization of intangibles	3,575	404	
Depreciation expense	20,072	4,076	
Other operating expenses	475,361	74,642	
Income tax (benefit) expense	(288,631)	1,872	

Net income	$ 51,278	$ 22,999	$

For the six months ended June 30, 2013

(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	$ 712,652	$ (53,597)	$	$ 659,055
Provision (reversal of provision) for loan losses	481,144	(20)		481,124
Non-interest income	134,140	186,286	(1,398)	319,028
Amortization of intangibles	3,979			3,979
Depreciation expense	24,148	325		24,473
Other operating expenses	550,003	32,002	(1,368)	580,637
Income tax benefit	(286,759)	(7,391)	(107)	(294,257)
Net income	$ 74,277	$ 107,773	$ 77	$ 182,127

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

2014

For the quarter ended June 30, 2014

(In thousands)	Banco Popular de Puerto Rico Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$ 139,906	$ 192,019	$ 2,154	$	$ 334,079
Provision for loan losses	76,879	9,553			86,432
Non-interest income	(14,141)	28,415	24,249	(18)	38,505
Amortization of intangibles	1	1,709	112		1,822
Depreciation expense	4,124	5,418	282		9,824
Other operating expenses	58,326	136,619	16,279	(18)	211,206
Income tax (benefit) expense	(16,090)	4,774	3,358		(7,958)
Net income	$ 2,525	$ 62,361	$ 6,372	$	$ 71,258
Segment assets	$ 10,547,131	$ 18,538,311	$ 819,396	$ (2,257,979)	$ 27,646,859

For the six months ended June 30, 2014

(In thousands)	Banco Popular de Puerto Rico Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$ 276,366	$ 380,696	$ 4,887	$	$ 661,949
Provision for loan losses	108,068	58,201			166,269
Non-interest (expense) income	(6,457)	66,394	46,693	(36)	106,594
Amortization of intangibles	2	3,418	226		3,646
Depreciation expense	8,023	10,730	569		19,322
Other operating expenses	114,765	274,220	32,096	(36)	421,045
Income tax expense	1,918	13,602	6,465		21,985
Net income	$ 37,133	$ 86,919	$ 12,224	$	$ 136,276
Segment assets	$ 10,547,131	$ 18,538,311	$ 819,396	$ (2,257,979)	$ 27,646,859

2013

For the quarter ended June 30, 2013

Banco Popular de Puerto Rico

		Consumer	Other		Total Banco

(In thousands)	Commercial Banking	and Retail Banking	Financial Services	Eliminations	Popular de Puerto Rico
Net interest income	$ 118,716	$ 193,548	$ 2,484	$	$ 314,748
Provision for loan losses	(6,161)	262,105			255,944
Non-interest income	19,743	56,218	27,389	(19)	103,331
Amortization of intangibles	1	1,710	76		1,787
Depreciation expense	4,864	5,123	319		10,306
Other operating expenses	68,463	139,592	17,690	(19)	225,726
Income tax (benefit) expense	(36,883)	(202,573)	3,690		(235,766)
Net income	$ 108,175	$ 43,809	$ 8,098	$	$ 160,082

For the six months ended June 30, 2013

	Banco Popular de Puerto Rico				
(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$ 232,519	$ 382,701	$ 4,556	$	$ 619,776
Provision for loan losses	139,612	338,217			477,829
Non-interest (expense) income	(45,484)	114,436	50,791	(35)	119,708
Amortization of intangibles	2	3,419	154		3,575
Depreciation expense	8,840	10,614	618		20,072
Other operating expenses	147,296	293,877	34,223	(35)	475,361
Income tax (benefit) expense	(92,534)	(201,895)	5,798		(288,631)
Net (loss) income	$ (16,181)	$ 52,905	$ 14,554	$	$ 51,278

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

2014

For the quarter ended June 30, 2014
Banco Popular North America

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 47,966	$ 722	$	$ 48,688
(Reversal of) provision for loan losses	(21,759)	(3,027)		(24,786)
Non-interest income	16,772	1,415		18,187
Amortization of intangibles	203			203
Depreciation expense	1,663			1,663
Other operating expenses	37,339	671		38,010
Income tax expense	846			846
Net income	$ 46,446	$ 4,493	$	$ 50,939
Segment assets	$ 7,194,210	$ 279,938	$ (1,003,598)	$ 6,470,550

For the six months ended June 30, 2014
Banco Popular North America

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 98,712	$ 1,407	$	$ 100,119
(Reversal of provision) provision for loan losses	(21,767)	(2,812)		(24,579)
Non-interest income	27,265	1,524		28,789
Amortization of intangibles	405			405
Depreciation expense	3,384			3,384
Other operating expenses	74,797	1,205		76,002
Income tax expense (benefit)	1,692			1,692
Net income (loss)	$ 67,466	$ 4,538	$	$ 72,004
Segment assets	$ 7,194,210	$ 279,938	$ (1,003,598)	$ 6,470,550

2013

For the quarter ended June 30, 2013
Banco Popular North America

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 45,780	$ 747	$	$ 46,527
Provision (reversal of provision) for loan losses	(6,262)	4,773		(1,489)
Non-interest income (expense)	8,668	(560)		8,108
Amortization of intangibles	202			202
Depreciation expense	2,023			2,023
Other operating expenses	36,929	589		37,518
Income tax expense	936			936
Net income (loss)	$ 20,620	$ (5,175)	$	$ 15,445

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For the six months ended June 30, 2013 Banco Popular North America				
(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 91,228	$ 1,648	$	$ 92,876
(Reversal of provision) provision for loan losses	(1,187)	4,502		3,315
Non-interest income	16,130	(1,698)		14,432
Amortization of intangibles	404			404
Depreciation expense	4,076			4,076
Other operating expenses	73,374	1,268		74,642
Income tax expense	1,872			1,872
Net income (loss)	$ 28,819	$ (5,820)	$	$ 22,999

Geographic Information

	Quarter ended		Six months ended	
(In thousands)	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Revenues:[1]				
Puerto Rico	$ (80,277)	$ 551,826	$ 276,760	$ 837,640
United States	64,992	50,228	127,475	100,451
Other	18,693	21,075	46,376	39,992
Total consolidated revenues	$ 3,408	$ 623,129	$ 450,611	$ 978,083

[1] Total revenues include net interest income (expense), service charges on deposit accounts, other service fees, mortgage banking activities, net gain (loss) and valuation adjustments on investment securities, trading account (loss) profit, net (loss) gain on sale of loans and valuation adjustments on loans held-for-sale, adjustments to indemnity reserves on loans sold, FDIC loss share (expense) income and other operating income. For the quarter ended June 30, 2014, Puerto Rico recorded net interest expense of $119 million, which included the accelerated discount amortization of $414.1 million related to TARP funds.

Selected Balance Sheet Information:

(In thousands)	June 30, 2014	December 31, 2013
Puerto Rico		
Total assets	$ 26,906,427	$ 25,714,758
Loans	17,779,141	18,107,764
Deposits	20,075,901	19,730,408
United States		
Total assets	$ 8,526,806	$ 8,897,535
Loans	3,921,512	5,839,115

Deposits	3,802,948	6,007,159
Other		
Total assets	$ 1,154,669	$ 1,137,040
Loans	767,683	759,840
Deposits [1]	1,022,303	973,578

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

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Note 37 Subsequent events

Subsequent events are events and transactions that occur after the balance sheet date but before the financial statements are issued. The effects of subsequent events and transactions are recognized in the financial statements when they provide additional evidence about conditions that existed at the balance sheet date. The Corporation has evaluated events and transactions occurring subsequent to June 30, 2014.

On July 2, 2014, the Corporation completed the repayment of TARP funds to the U.S. Treasury through the repurchase of $935 million of trust capital securities issued to the U.S. Treasury under the TARP Capital Purchase Program. The Corporation funded the repurchase through a combination of available cash and approximately $400 million from the proceeds of the issuance of its $450 million aggregate principal amount of 7% Senior Notes due on 2019 which settled on July 1, 2014.

On July 23, 2014, the Corporation also completed the repurchase of the outstanding warrant initially issued to the U.S. Treasury under the TARP Capital Purchase Program in 2008 for a repurchase price of $3 million. The warrant represented the right to purchase 2,093,284 shares of the Corporation s common stock at an exercise price of $67 per share with an original term of 10 years. With the completion of this transaction, the Corporation completed its exit from the TARP Capital Purchase Program.

In connection with the repayment of TARP on July 2, 2014, the Corporation accelerated the related amortization of the $414.1 million of discount and deferred costs during the second quarter of 2014, related to the repayment of TARP funds, which is reflected as part of interest expense in the consolidated statement of operations.

On July 1, 2014, the Government of Puerto Rico approved an amendment to the Internal Revenue Code, which, among other things, changed the income tax rate for capital gains from 15% to 20%. As a result, the Corporation expects to recognize an income tax expense of approximately $20.0 million during the third quarter of 2014, mainly related to the deferred tax liability associated with the portfolio acquired from Westernbank.

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Note 38 Condensed consolidating financial information of guarantor and issuers of registered guaranteed securities

The following condensed consolidating financial information presents the financial position of Popular, Inc. Holding Company (PIHC) (parent only), Popular North America, Inc. (PNA) and all other subsidiaries of the Corporation at June 30, 2014 and December 31, 2013, and the results of their operations and cash flows for periods ended June 30, 2014 and 2013.

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

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

Popular International Bank, Inc. (PIBI) is a wholly-owned subsidiary of PIHC and is the holding company of its wholly-owned subsidiaries Popular Insurance V.I., Inc. In July 2013, the Corporation completed the sale of Tarjetas y Transacciones en Red Tranred, C.A., which was a wholly owned subsidiary of PIBI.

A potential source of income for PIHC consists of dividends from BPPR and BPNA. Under existing federal banking regulations any dividend from BPPR or BPNA to the PIHC could be made if the total of all dividends declared by each entity during the calendar year would not exceed the total of its net income for that year, as defined by the Federal Reserve Board, combined with its retained net income for the preceding two years, less any required transfers to surplus or to a fund for the retirement of any preferred stock. At June 30, 2014, BPPR could have declared a dividend of approximately $452 million (December 31, 2013 - $504 million). However, on July 25, 2011, PIHC and BPPR entered into a Memorandum of Understanding with the Federal Reserve Bank of New York and the Office of the Commissioner of Financial Institutions of Puerto Rico that requires the approval of these entities prior to the payment of any dividends by BPPR to PIHC. BPNA could not declare any dividends without the approval of the Federal Reserve Board.

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Condensed Consolidating Statement of Financial Condition (Unaudited)

	At June 30, 2014				
(In thousands)	Popular Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Assets:					
Cash and due from banks	$ 1,253	$ 612	$ 363,424	$ (2,717)	$ 362,572
Money market investments	19,734	599	1,648,210	(1,599)	1,666,944
Trading account securities, at fair value	1,577		344,246		345,823
Investment securities available-for-sale, at fair value	213		5,653,779		5,653,992
Investment securities held-to-maturity, at amortized cost			114,280		114,280
Other investment securities, at lower of cost or realizable value	10,850	4,492	152,783		168,125
Investment in subsidiaries	4,846,021	1,348,018		(6,194,039)	
Loans held-for-sale, at lower of cost or fair value			97,010		97,010
Loans held-in-portfolio:					
Loans not covered under loss sharing agreements with the FDIC	588,241		19,724,436	(586,443)	19,726,234
Loans covered under loss sharing agreements with the FDIC			2,736,102		2,736,102
Less Unearned income			91,010		91,010
Allowance for loan losses	37		624,874		624,911
Total loans held-in-portfolio, net	588,204		21,744,654	(586,443)	21,746,415
FDIC loss share asset			751,553		751,553
Premises and equipment, net	2,139		490,243		492,382
Other real estate not covered under loss sharing agreements with the FDIC			139,420		139,420
Other real estate covered under loss sharing agreements with the FDIC			155,805		155,805
Accrued income receivable	132	112	119,348	(72)	119,520
Mortgage servicing assets, at fair value			151,951		151,951
Other assets	506,637	25,815	1,775,648	(15,740)	2,292,360
Goodwill			461,247	(1)	461,246
Other intangible assets	554		39,568		40,122
Assets from discontinued operations			1,828,382		1,828,382
Total assets	$ 5,977,314	$ 1,379,648	$ 36,031,551	$ (6,800,611)	$ 36,587,902

Liabilities and Stockholders Equity					
Liabilities:					
Deposits:					
Non-interest bearing	$	$	$ 5,669,402	$ ($2,717)	$ 5,666,685
Interest bearing			19,236,066	($1,599)	19,234,467
Total deposits			24,905,468	(4,316)	24,901,152
Federal funds purchased and assets sold under agreements to repurchase			2,074,676		2,074,676
Other short-term borrowings		1,443	616,200	(586,443)	31,200
Notes payable	1,676,812	149,663	533,614		2,360,089
Other liabilities	40,061	7,219	849,241	(15,919)	880,602
Liabilities from discontinued operations			2,079,742		2,079,742
Total liabilities	1,716,873	158,325	31,058,941	(606,678)	32,327,461

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Stockholders equity:					
Preferred stock	50,160				50,160
Common stock	1,035	2	56,307	(56,309)	1,035
Surplus	4,165,089	4,269,208	5,907,664	(10,168,345)	4,173,616
Retained earnings (accumulated deficit)	176,190	(3,044,262)	(861,999)	3,897,734	167,663
Treasury stock, at cost	(1,742)				(1,742)
Accumulated other comprehensive loss, net of tax	(130,291)	(3,625)	(129,362)	132,987	(130,291)
Total stockholders equity	4,260,441	1,221,323	4,972,610	(6,193,933)	4,260,441
Total liabilities and stockholders equity	$ 5,977,314	$ 1,379,648	$ 36,031,551	$ (6,800,611)	$ 36,587,902

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Condensed Consolidating Statement of Financial Condition

	At December 31, 2013				
(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Assets:					
Cash and due from banks	$ 10,595	$ 616	$ 422,967	$ (10,967)	$ 423,211
Money market investments	18,721	4,804	839,732	(4,804)	858,453
Trading account securities, at fair value	1,353		338,390		339,743
Investment securities available-for-sale, at fair value	204		5,294,596		5,294,800
Investment securities held-to-maturity, at amortized cost			140,496		140,496
Other investment securities, at lower of cost or realizable value	10,850	4,492	166,410		181,752
Investment in subsidiaries	4,856,566	1,670,809		(6,527,375)	
Loans held-for-sale, at lower of cost or fair value			110,426		110,426
Loans held-in-portfolio:					
Loans not covered under loss sharing agreements with the FDIC	521,092		21,702,418	(519,500)	21,704,010
Loans covered under loss sharing agreements with the FDIC			2,984,427		2,984,427
Less Unearned income			92,144		92,144
Allowance for loan losses	304		640,251		640,555
Total loans held-in-portfolio, net	520,788		23,954,450	(519,500)	23,955,738
FDIC loss share asset			948,608		948,608
Premises and equipment, net	2,135		517,381		519,516
Other real estate not covered under loss sharing agreements with the FDIC			135,501		135,501
Other real estate covered under loss sharing agreements with the FDIC			168,007		168,007
Accrued income receivable	64	114	131,368	(10)	131,536
Mortgage servicing assets, at fair value			161,099		161,099
Other assets	66,577	19,407	1,642,760	(41,186)	1,687,558
Goodwill			647,757		647,757
Other intangible assets	554		44,578		45,132
Total assets	$ 5,488,407	$ 1,700,242	$ 35,664,526	$ (7,103,842)	$ 35,749,333

Liabilities and Stockholders Equity

Liabilities:					
Deposits:					
Non-interest bearing	$	$	$ 5,933,649	$ ($10,967)	$ 5,922,682
Interest bearing			20,793,267	($4,804)	20,788,463
Total deposits			26,726,916	(15,771)	26,711,145
Assets sold under agreements to repurchase			1,659,292		1,659,292
Other short-term borrowings			920,700	(519,500)	401,200
Notes payable	822,351	149,663	612,740		1,584,754
Other liabilities	39,906	39,245	728,899	(41,258)	766,792
Total liabilities	862,257	188,908	30,648,547	(576,529)	31,123,183
Stockholders equity:					
Preferred stock	50,160				50,160

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Common stock	1,034	2	56,079	(56,081)	1,034
Surplus	4,161,625	4,479,208	6,056,774	(10,527,455)	4,170,152
Retained earnings (accumulated deficit)	602,957	(2,940,509)	(907,972)	3,839,954	594,430
Treasury stock, at cost	(881)				(881)
Accumulated other comprehensive loss, net of tax	(188,745)	(27,367)	(188,902)	216,269	(188,745)
Total stockholders equity	4,626,150	1,511,334	5,015,979	(6,527,313)	4,626,150
Total liabilities and stockholders equity	$ 5,488,407	$ 1,700,242	$ 35,664,526	$ (7,103,842)	$ 35,749,333

Condensed Consolidating Statement of Operations (Unaudited)

	Quarter ended June 30, 2014				
(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Interest income:					
Loans	$ 498	$	$ 380,966	$ (478)	$ 380,986
Money market investments	5	2	1,131	(7)	1,131
Investment securities	165	81	33,743		33,989
Trading account securities			5,344		5,344
Total interest income	668	83	421,184	(485)	421,450
Interest expense:					
Deposits			26,226	(3)	26,223
Short-term borrowings		89	9,285	(482)	8,892
Long-term debt	440,133	2,706	2,877		445,716
Total interest expense	440,133	2,795	38,388	(485)	480,831
Net interest (expense) income	(439,465)	(2,712)	382,796		(59,381)
Provision for loan losses- non-covered loans	32		50,042		50,074
Provision for loan losses- covered loans			11,604		11,604
Net interest (expense) income after provision for loan losses	(439,497)	(2,712)	321,150		(121,059)
Service charges on deposit accounts			39,237		39,237
Other service fees			57,719	(1,251)	56,468
Mortgage banking activities			3,788		3,788

Net gain and valuation adjustments on					
Trading account profit	52		1,003		1,055
Net gain on sale of loans, including valuation adjustments on loans held-for-sale			9,659		9,659
Adjustments (expense) to indemnity reserves on loans sold			(7,454)		(7,454)
FDIC loss share (expense) income			(55,261)		(55,261)
Other operating income	3,108	(1,348)	13,537		15,297
Total non-interest income (expense)	3,160	(1,348)	62,228	(1,251)	62,789
Operating expenses:					
Personnel costs	8,201		90,899		99,100
Net occupancy expenses	1,013		19,254		20,267
Equipment expenses	1,079		10,965		12,044
Other taxes	176		13,367		13,543
Professional fees	2,266	(241)	65,053	(54)	67,024
Communications	122		6,303		6,425

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Business promotion	439		15,599		16,038
FDIC deposit insurance			10,480		10,480
Other real estate owned (OREO) expenses			3,410		3,410
Other operating expenses	(15,251)	108	36,280	(628)	20,509
Amortization of intangibles			2,025		2,025
Restructuring cost			4,574		4,574
Total operating expenses	(1,955)	(133)	278,209	(682)	275,439
(Loss) income before income tax and equity in earnings of subsidiaries	(434,382)	(3,927)	105,169	(569)	(333,709)
Income tax expense (benefit)	8,984		(12,887)	(221)	(4,124)
(Loss) income before equity in earnings of subsidiaries	(443,366)	(3,927)	118,056	(348)	(329,585)
Equity in undistributed earnings of subsidiaries	113,781	47,599		(161,380)	
(Loss) income from continuing operations	(329,585)	43,672	118,056	(161,728)	(329,585)
Loss from discontinued opeartions, net of tax			(181,729)		(181,729)
Equity in undistributed losses of discontinued operations	(181,729)	(181,729)		363,458	
Net loss	$ (511,314)	$ (138,057)	$ (63,673)	$ 201,730	$ (511,314)
Comprehensive loss, net of tax	$ (485,330)	$ (125,882)	$ (37,918)	$ 163,800	$ (485,330)

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Condensed Consolidating Statement of Operations

	Six months ended June 30, 2014				
(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Interest and dividend income:					
Loans	1,060		758,547	(1,019)	758,588
Money market investments	12	5	2,103	(16)	2,104
Investment securities	331	161	68,624		69,116
Trading account securities			10,601		10,601
Total interest and dividend income	1,403	166	839,875	(1,035)	840,409
Interest expense:					
Deposits			53,086	(5)	53,081
Short-term borrowings		306	18,656	(1,030)	17,932
Long-term debt	466,187	5,413	6,006		477,606
Total interest expense	466,187	5,719	77,748	(1,035)	548,619
Net interest (expense) income	(464,784)	(5,553)	762,127		291,790
Provision for loan losses- non-covered loans	(176)		104,372		104,196
Provision for loan losses- covered loans			37,318		37,318
Net interest (expense) income after provision for loan losses	(464,608)	(5,553)	620,437		150,276
Service charges on deposit accounts			78,596		78,596
Other service fees			110,604	(1,318)	109,286
Mortgage banking activities			7,466		7,466
Trading account profit (loss)	73		2,959		3,032
Net gain on sale of loans, including valuation adjustments on loans held-for-sale			14,052		14,052
Adjustments (expense) to indemnity reserves on loans sold			(17,801)		(17,801)
FDIC loss share expense			(79,467)		(79,467)
Other operating income	6,509	(687)	37,835		43,657
Total non-interest income	6,582	(687)	154,244	(1,318)	158,821
Operating expenses:					
Personnel costs	16,510		186,891		203,401
Net occupancy expenses	1,945		39,682		41,627
Equipment expenses	2,020		21,436		23,456
Other taxes	360		26,846		27,206

Professional fees	5,312	763	128,069	(121)	134,023
Communications	249		12,861		13,110
Business promotion	850		26,574		27,424
FDIC deposit insurance			21,458		21,458
Other real estate owned (OREO) expenses			9,850		9,850
Other operating expenses	(29,019)	217	72,931	(1,271)	42,858
Amortization of intangibles			4,051		4,051
Restructuring costs			4,574		4,574
Total operating expenses	(1,773)	980	555,223	(1,392)	553,038
(Loss) income before income tax and equity in earnings of subsidiaries	(456,253)	(7,220)	219,458	74	(243,941)
Income tax expense (benefit)	8,150		10,960	30	19,140
(Loss) income before equity in earnings of subsidiaries	(464,403)	(7,220)	208,498	44	(263,081)

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Equity in undistributed earnings of subsidiaries	201,322	65,291		(266,613)	
(Loss) income from continuing operations	(263,081)	58,071	208,498	(266,569)	(263,081)
Loss from discontinued operations, net of tax			(161,824)		(161,824)
Equity in undistributed losses of discontinued operations	(161,824)	(161,824)		323,648	
Net (loss) income	$ (424,905)	$ (103,753)	$ 46,674	$ 57,079	$ (424,905)
Comprehensive (loss) income, net of tax	$ (366,451)	$ (80,011)	$ 106,214	$ (26,203)	$ (366,451)

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Condensed Consolidating Statement of Operations (Unaudited)

	Quarter ended June 30, 2013				
(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Interest income:					
Loans	$ 1,917	$	$ 368,636	$ (255)	$ 370,298
Money market investments	48	1	828	(48)	829
Investment securities	3,397	80	35,542	(2,913)	36,106
Trading account securities			5,456		5,456
Total interest income	5,362	81	410,462	(3,216)	412,689
Interest expense:					
Deposits			32,445		32,445
Short-term borrowings			10,071	(304)	9,767
Long-term debt	25,099	7,238	6,641	(2,912)	36,066
Total interest expense	25,099	7,238	49,157	(3,216)	78,278
Net interest (expense) income	(19,737)	(7,157)	361,305		334,411
Provision for loan losses- non-covered loans	20		228,955		228,975
Provision for loan losses- covered loans			25,500		25,500
Net interest (expense) income after provision for loan losses	(19,757)	(7,157)	106,850		79,936
Service charges on deposit accounts			41,378		41,378
Other service fees			58,617	(1,338)	57,279
Mortgage banking activities			18,081		18,081
Net gain and valuation adjustments on investment securities	5,856				5,856
Trading account loss	(6)		(4,339)		(4,345)
Net gain on sale of loans, including valuation adjustments on loans held-for-sale			4,291		4,291
Adjustments (expense) to indemnity reserves on loans sold			(11,632)		(11,632)
FDIC loss share expense			(3,755)		(3,755)
Other operating income	166,002	287	15,277	(1)	181,565
Total non-interest income	171,852	287	117,918	(1,339)	288,718
Operating expenses:					

Personnel costs	7,761		98,598		106,359
Net occupancy expenses	918	1	20,140		21,059
Equipment expenses	984		10,501		11,485
Other taxes	84		15,141		15,225
Professional fees	3,383	23	63,663	(54)	67,015
Communications	110		6,285		6,395
Business promotion	439		14,918		15,357
FDIC deposit insurance			18,557		18,557
Other real estate owned (OREO) expenses			7,657		7,657
Other operating expenses	(12,734)	109	36,027	(636)	22,766
Amortization of intangibles			1,989		1,989
Total operating expenses	945	133	293,476	(690)	293,864

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Income (loss) before income tax and equity in earnings of subsidiaries	151,150	(7,003)	(68,708)	(649)	74,790
Income tax expense (benefit)	3,106		(240,194)	(292)	(237,380)
Income (loss) before equity in earnings of subsidiaries	148,044	(7,003)	171,486	(357)	312,170
Equity in undistributed earnings of subsidiaries	164,126	12,158		(176,284)	
Income from continuing operations	312,170	5,155	171,486	(176,641)	312,170
Income (loss) from discontinued operations, net of tax			15,298		15,298
Equity in undistributed earnings of discontinued operations	15,298	15,298		(30,596)	
Net income	$ 327,468	$ 20,453	$ 186,784	$ (207,237)	$ 327,468
Comprehensive income (loss), net of tax	$ 223,437	$ (24,121)	$ 86,748	$ (62,627)	$ 223,437

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Condensed Consolidating Statement of Operations

	Six months ended June 30, 2013				
(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Interest and dividend income:					
Loans	2,926		728,275	(387)	730,814
Money market investments	86	2	1,783	(87)	1,784
Investment securities	7,543	161	72,049	(5,824)	73,929
Trading account securities			10,970		10,970
Total interest and dividend income	10,555	163	813,077	(6,298)	817,497
Interest expense:					
Deposits			67,063	(2)	67,061
Short-term borrowings			20,020	(472)	19,548
Long-term debt	49,857	14,514	13,286	(5,824)	71,833
Total interest expense	49,857	14,514	100,369	(6,298)	158,442
Net interest (expense) income	(39,302)	(14,351)	712,708		659,055
Provision for loan losses- non-covered loans	(20)		438,088		438,068
Provision for loan losses- covered loans			43,056		43,056
Net interest (expense) income after provision for loan losses	(39,282)	(14,351)	231,564		177,931
Service charges on deposit accounts			82,539		82,539
Other service fees			113,622	(1,399)	112,223
Mortgage banking activities			38,378		38,378
Net gain and valuation adjustments on investment securities	5,856				5,856
Trading account profit (loss)	70		(5,399)		(5,329)
Net loss on sale of loans, including valuation adjustments on loans held-for-sale			(58,428)		(58,428)
Adjustments (expense) to indemnity reserves on loans sold			(27,775)		(27,775)
FDIC loss share expense			(30,021)		(30,021)
Other operating income	166,872	2,849	31,864		201,585
Total non-interest income	172,798	2,849	144,780	(1,399)	319,028

Operating expenses:

Personnel costs	15,140		198,800		213,940
Net occupancy expenses	1,746	2	39,803		41,551
Equipment expenses	2,064		21,041		23,105
Other taxes	167		26,586		26,753
Professional fees	5,694	45	129,128	(115)	134,752
Communications	203		12,743		12,946
Business promotion	869		27,073		27,942
FDIC deposit insurance			26,913		26,913
Other real estate owned (OREO) expenses			53,524		53,524
Other operating expenses	(25,349)	217	70,069	(1,253)	43,684
Amortization of intangibles			3,979		3,979
Total operating expenses	534	264	609,659	(1,368)	609,089
Income (loss) before income tax and equity in earnings of subsidiaries	132,982	(11,766)	(233,315)	(31)	(112,130)
Income tax expense (benefit)	3,621		(297,771)	(107)	(294,257)
Income (loss) before equity in earnings of subsidiaries	129,361	(11,766)	64,456	76	182,127

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Equity in undistributed earnings of subsidiaries	52,766	16,368		(69,134)	
Income from continuing operations	182,127	4,602	64,456	(69,058)	182,127
Income from discontinued operations, net of tax			25,034		25,034
Equity in undistributed earnings of discontinued operations	25,034	25,034		(50,068)	
Net Income	$ 207,161	$ 29,636	$ 89,490	$ (119,126)	$ 207,161
Comprehensive income (loss), net of tax	$ 83,990	$ (21,965)	$ (32,286)	$ 54,251	$ 83,990

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Condensed Consolidating Statement of Cash Flows (Unaudited)

	Six months ended June 30, 2014				
(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Cash flows from operating activities:					
Net (loss) income	$ (424,905)	$ (103,753)	$ 46,674	$ 57,079	$ (424,905)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:					
Equity in undistributed (earnings) losses of subsidiaries	(39,498)	96,533		(57,035)	
Provision for loan losses	(176)		134,926		134,750
Goodwill impairment losses			186,511		186,511
Amortization of intangibles			5,007		5,007
Depreciation and amortization of premises and equipment	325		23,507		23,832
Net accretion of discounts and amortization of premiums and deferred fees	404,461		(79,682)		324,779
Fair value adjustments on mortgage servicing rights			15,836		15,836
FDIC loss share expense			79,467		79,467
Adjustments (expense) to indemnity reserves on loans sold			17,801		17,801
(Earnings) losses from investments under the equity method	(6,509)	688	(18,534)		(24,355)
Deferred income tax expense (benefit)	8,150		(5,491)	30	2,689
Loss (gain) on:					
Disposition of premises and equipment	(1)		(2,550)		(2,551)
Sale of loans, including valuation adjustments on loans held for sale and mortgage banking activities			(42,413)		(42,413)
Sale of foreclosed assets, including write-downs			(2,035)		(2,035)
Acquisitions of loans held-for-sale			(159,727)		(159,727)
Proceeds from sale of loans held-for-sale			72,757		72,757
Net originations on loans held-for-sale			(338,672)		(338,672)
Net (increase) decrease in:					
Trading securities	(224)		460,016		459,792
Accrued income receivable	(68)	2	6,725	62	6,721
Other assets	9,592	(7,095)	(25,477)	(25,475)	(48,455)
Net increase (decrease) in:					

Interest payable	2,080	5	(1,390)	(62)	633
Pension and other postretirement benefits obligations			(3,096)		(3,096)
Other liabilities	(4,312)	(32,031)	41,202	25,401	30,260
Total adjustments	373,820	58,102	364,688	(57,079)	739,531
Net cash (used in) provided by operating activities	(51,085)	(45,651)	411,362		314,626
Cash flows from investing activities:					
Net (increase) decrease in money market investments	(1,014)	4,204	(808,477)	(3,204)	(808,491)
Purchases of investment securities:					
Available-for-sale			(1,079,586)		(1,079,586)
Other			(51,097)		(51,097)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:					
Available-for-sale			816,830		816,830
Held-to-maturity			27,029		27,029
Other			64,724		64,724
Net (originations) repayments on loans	(67,240)		473,634	66,942	473,336
Proceeds from sale of loans			87,983		87,983
Acquisition of loan portfolios			(289,292)		(289,292)
Net payments from FDIC under loss sharing agreements			110,618		110,618
Capital contribution to subsidiary	(100,000)			100,000	
Return of capital from wholly-owned subsidiaries	210,000	250,000		(460,000)	
Acquisition of premises and equipment	(352)		(19,981)		(20,333)

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Proceeds from sale of:					
Premises and equipment	24		8,607		8,631
Foreclosed assets			81,010		81,010
Net cash provided by (used in) investing activities	41,418	254,204	(577,998)	(296,262)	(578,638)
Cash flows from financing activities:					
Net increase (decrease) in:					
Deposits			241,260	11,455	252,715
Federal funds purchased and assets sold under agreements to repurchase			418,381		418,381
Other short-term borrowings		1,443	(304,500)	(66,943)	(370,000)
Payments of notes payable			(111,030)		(111,030)
Proceeds from issuance of notes payable			31,905		31,905
Proceeds from issuance of common stock	3,048				3,048
Dividends paid	(1,862)				(1,862)
Net payments for repurchase of common stock	(861)				(861)
Return of capital to parent company		(210,000)	(250,000)	460,000	
Capital contribution from parent			100,000	(100,000)	
Net cash provided by (used in) financing activities	325	(208,557)	126,016	304,512	222,296
Net decrease in cash and due from banks	(9,342)	(4)	(40,620)	8,250	(41,716)
Cash and due from banks at beginning of period	10,595	616	422,967	(10,967)	423,211
Cash and due from banks at end of period, including discontinued operations	1,253	612	382,347	(2,717)	381,495
Less: cash from discontinued operations			18,923		18,923
Cash and due from banks at end of period	$ 1,253	$ 612	$ 363,424	$ (2,717)	$ 362,572

The Condensed Consolidating Statements of Cash Flows include the cash flows from operating, investing and financing activities associated with discontinued operations.

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Condensed Consolidating Statement of Cash Flows (Unaudited)

	Six months ended June 30, 2013				
(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Cash flows from operating activities:					
Net income (loss)	$ 207,161	$ 29,636	$ 89,490	$ (119,126)	$ 207,161
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:					
Equity in undistributed earnings of subsidiaries	(77,800)	(41,402)		119,202	
Provision for loan losses	(20)		473,284		473,264
Amortization of intangibles			4,935		4,935
Depreciation and amortization of premises and equipment	323	2	24,684		25,009
Net accretion of discounts and amortization of premiums and deferred fees	14,989	38	(44,552)		(29,525)
Fair value adjustments on mortgage servicing rights			10,741		10,741
FDIC loss share expense			30,021		30,021
Adjustments (expense) to indemnity reserves on loans sold			27,775		27,775
Earnings from investments under the equity method	(20,297)	(2,849)	(11,068)		(34,214)
Deferred income tax benefit	(9,098)		(312,649)	(107)	(321,854)
(Gain) loss on:					
Disposition of premises and equipment			(2,347)		(2,347)
Sale of loans, including valuation adjustments on loans held for sale and mortgage banking activities			44,577		44,577
Sale of stock in equity method investee	(136,722)				(136,722)
Sale of foreclosed assets, including write-downs			35,006		35,006
Acquisitions of loans held-for-sale			(15,335)		(15,335)
Proceeds from sale of loans held-for-sale			119,003		119,003
Net originations on loans held-for-sale			(867,917)		(867,917)
Net (increase) decrease in:					
Trading securities	(166)		858,258		858,092
Accrued income receivable	1,583		(19,475)	(285)	(18,177)
Other assets	(3,505)	100	4,199	1,309	2,103
Net increase (decrease) in:					

Interest payable		(7)	(2,533)	(30)	(2,570)
Pension and other postretirement benefits obligations			3,786		3,786
Other liabilities	(2,165)	(9)	7,192	(963)	4,055
Total adjustments	(232,878)	(44,127)	367,585	119,126	209,706
Net cash (used in) provided by operating activities	(25,717)	(14,491)	457,075		416,867
Cash flows from investing activities:					
Net (increase) decrease in money market investments	(21,914)	(251)	13,755	22,051	13,641
Purchases of investment securities:					
Available-for-sale			(1,490,647)		(1,490,647)
Held-to-maturity					
Other			(116,731)		(116,731)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:					
Available-for-sale	35,000		1,343,311		1,378,311
Held-to-maturity			2,359		2,359
Other			83,592		83,592
Net (originations) repayments on loans	(137,255)		568,817	192,700	624,262
Proceeds from sale of loans			295,237		295,237
Acquisition of loan portfolios			(1,520,088)		(1,520,088)
Net payments to FDIC under loss sharing agreements			(107)		(107)
Return of capital from equity method investments		438			438

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Proceeds from sale of sale of stock in equity method investee	166,332				166,332
Capital contribution to subsidiary	(17,300)			17,300	
Mortgage servicing rights purchased			(45)		(45)
Acquisition of premises and equipment	(198)		(19,576)		(19,774)
Proceeds from sale of:					
Premises and equipment	28		5,863		5,891
Foreclosed assets			120,365		120,365
Net cash provided by (used in) investing activities	24,693	187	(713,895)	232,051	(456,964)
Cash flows from financing activities:					
Net increase (decrease) in:					
Deposits			(259,645)	(305)	(259,950)
Assets sold under agreements to repurchase			(322,247)	(21,800)	(344,047)
Other short-term borrowings			782,700	(192,700)	590,000
Payments of notes payable		(3,000)	(45,458)		(48,458)
Proceeds from issuance of notes payable			49,874		49,874
Proceeds from issuance of common stock	3,232				3,232
Dividends paid	(1,551)				(1,551)
Net payments for repurchase of common stock	(325)				(325)
Capital contribution from parent		17,300		(17,300)	
Net cash provided by (used in) financing activities	1,356	14,300	205,224	(232,105)	(11,225)
Net increase (decrease) in cash and due from banks	332	(4)	(51,596)	(54)	(51,322)
Cash and due from banks at beginning of period	1,103	624	439,552	(1,916)	439,363
Cash and due from banks at end of period	$ 1,435	$ 620	$ 387,956	$ (1,970)	$ 388,041

The Condensed Consolidating Statements of Cash Flows include the cash flows from operating, investing and financing activities associated with discontinued operations.

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

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

The Corporation is a diversified, publicly-owned financial holding company subject to the supervision and regulation of the Board of Governors of the Federal Reserve System. The Corporation has operations in Puerto Rico, the United States (U.S.) mainland, and the U.S. and British Virgin Islands. In Puerto Rico, the Corporation provides retail, including residential mortgage loan originations, and commercial banking services through its principal banking subsidiary, Banco Popular de Puerto Rico (BPPR), as well as investment banking, broker-dealer, auto and equipment leasing and financing, and insurance services through specialized subsidiaries. In the U.S. mainland, the Corporation operates Banco Popular North America (BPNA), including its wholly-owned subsidiary E-LOAN. BPNA focuses efforts and resources on the core community banking business. BPNA, under the name Popular Community Bank, operates branches in New York, California, Illinois, New Jersey and Florida. E-LOAN markets deposit accounts under its name for the benefit of BPNA. Note 36 to the consolidated financial statements presents information about the Corporation s business segments. As of June 30, 2014, the Corporation had a 14.8% interest in the holding company of EVERTEC, which provides transaction processing services throughout the Caribbean and Latin America, including servicing many of the Corporation s system infrastructures and transaction processing businesses. During the quarter ended June 30, 2014, the Corporation recorded $2.6 million in earnings from its investment in EVERTEC, which had a carrying amount of $22.2 million as of the end of the quarter. Also, the Corporation had a 15.8% stake in BHD Financial Group (BHD), one of the largest banking and financial services groups in the Dominican Republic. During the quarter ended June 30, 2014, the Corporation recorded $5.5 million in earnings from its investment in BHD, which had a carrying amount of $99.1 million, as of the end of the quarter.

OVERVIEW

For the quarter ended June 30, 2014, the Corporation recorded a net loss of $511.3 million compared with a net income of $327.5 million for the same quarter of the previous year. Net loss from continuing operations was $329.6 million for the second quarter of 2014, compared to a net income of $312.2 million for the same quarter of the previous year. The results for the quarter ended June 30, 2014 were impacted by the accelerated amortization of $414.1 million of discount and deferred costs related to the repayment of TARP funds, recognized as interest expense in the quarter, a goodwill impairment charge of $186.5 million related to the announced sales of the California, Central Florida and Illinois regions of Popular Community Bank (PCB) and income tax net positive adjustments of $14.5 million resulting from a closing agreement with the Puerto Rico Department of Treasury and the impact of the tax treatment of senior notes issued to partially fund the TARP repayment. Excluding the impact of these events, the adjusted net income for the quarter ended June 30, 2014 was $86.2 million.

Recent significant events

On July 2, 2014, the Corporation completed the repayment of TARP funds to the U.S. Treasury through the repurchase of $935 million of trust capital securities issued to the U.S. Treasury under the TARP Capital Purchase Program. The Corporation funded the repurchase through a combination of available cash and approximately $400 million from the proceeds of the issuance of its $450 million aggregate principal amount of 7% Senior Notes due on 2019 which settled on July 1, 2014.

On July 23, 2014, the Corporation also completed the repurchase of the outstanding warrant initially issued to the U.S. Treasury under the TARP Capital Purchase Program in 2008 for a repurchase price of $3.0 million. The warrant represented the right to purchase 2,093,284 shares of the Corporation s common stock at an exercise price of $67 per share with an original term of 10 years. With the completion of this transaction, the Corporation completed its exit from the TARP Capital Purchase Program.

In connection with the repayment of TARP on July 2, 2014, the Corporation accelerated the related amortization of the discount and deferred costs amounting to $414.1 million during the second quarter of 2014, which is reflected as part of interest expense in the consolidated statement of operations.

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On April 22, 2014, BPNA entered into definitive agreements to sell its California, Illinois and Central Florida regional operations to three different buyers. BPNA completed the sale of its Illinois regional operations on August 8, 2014. The remaining transactions are expected to be completed by the end of the fourth quarter of 2014. In connection with these transactions, the Corporation intends to centralize certain back office operations in Puerto Rico and New York. The decision to sell these businesses resulted in the discontinuance of each of these respective operations. During the quarter ended June 30, 2014, the Corporation recorded a non-cash goodwill impairment charge of $186.5 million, related to the goodwill asset allocated to these regions. This non-cash charge had no impact on the Corporation s tangible capital or regulatory capital ratios. The Corporation expects to realize a net premium estimated of approximately $24 million, before customary transaction costs, upon the closing of these transactions.

In connection with the reorganization plan, the Corporation estimates that it will incur in restructuring charges of approximately $54 million, comprised of $32 million in severance, retention and employee related costs and $22 million in operational set-up costs and lease cancelations, of which approximately $5 million were incurred during the second quarter of 2014. The remaining costs consisting of severance payments and other employee benefits, lease and other contract termination expenses will be recognized as they are incurred during the third and fourth quarter of 2014 and early 2015. Also, in early 2015, annual operating expenses are expected to be reduced by approximately $45 million, after the reorganization is complete.

Current and prior periods financial information covering income and expense amounts presented in this MD&A has been retrospectively adjusted for the impact of the discontinued operations for comparative purposes. The financial information for prior periods included in this MD&A does not reflect the reclassification of PCB s assets and liabilities to discontinued operations.

Financial highlights for the quarter ended June 30, 2014

Taxable equivalent net interest expense was $59.4 million for the second quarter of 2014, a decrease of 393.8 million from the same quarter of the prior year. Reported net interest margin for the quarter was (0.51)%. Excluding the impact of the accelerated amortization of TARP discount and deferred costs of $414.1 million, net interest income on a taxable equivalent basis was $375.0 million, an increase of $22.8 million from the same quarter of the previous year and the adjusted net interest margin was 4.94%, an increase of 23 basis points from the same quarter of the previous year. The increase in the adjusted net interest income was mainly related to higher yields from covered loans due to a decrease in expected credit losses and loan resolutions which resulted in higher accretion income; higher income from collections of commercial loans which were in non-accrual status; higher income from consumer loans due to the purchase of $90 million during the first quarter of 2014; lower deposit and borrowing costs due to the replacement of deposits at lower rates and the early repayment of senior notes of $233.2 million during the third quarter of 2013. Refer to the Net Interest Income section of this MD&A for a discussion of the major variances in net interest income, including yields and costs.

Non-covered, non-performing loans increased by $49.0 million, or 7%, when compared to December 31, 2013 driven in large part by a single $52 million commercial credit relationship that was placed in non-accrual status during the first quarter of 2014. The ratio of non-performing loans to loans held-in-portfolio, excluding covered loans, increased to 3.26% at June 30, 2014 from 2.77% at December 31, 2013, impacted by the reclassification of $1.8 billion in loans to discontinued operations, of which $9.5 million were in non-performing status. The Corporation s annualized net charge-offs to average non-covered loans held-in-portfolio ratio was 0.94% for the quarter ended June 30, 2014, down from 1.47% for the quarter ended June 30, 2013. Net charge-offs, excluding covered loans, for the quarter ended June 30, 2014 decreased by $32.9 million when compared to the quarter ended June 30, 2013. The decline is mostly driven by improvements in the credit performance of the loans portfolios particularly in the U.S. mainland and de-risking strategies taken by the Corporation to improve the risk profile of its portfolios. The non-performing loans bulk sale completed during the first and second quarters of 2013 added $362.6 million in write-downs at the BPPR operations, which are excluded from the above mentioned net charge-off metrics. The BPNA segment continued to reflect strong credit quality results for the second quarter of 2014. Nevertheless, challenging economic and fiscal conditions in Puerto Rico continued to influence credit quality results in the BPPR reportable segment.

The provision for loan losses for the quarter ended June 30, 2014 totalled $61.7 million, compared with $254.5 million for the same period in 2013, a decline of $192.8 million. The provision for the second quarter of 2013, includes an incremental provision of $169.2 million related to the bulk sale of non-performing mortgage loans completed during such

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quarter. Excluding the impact of this transaction, the provision for the second quarter of 2014 declined $23.6 million when compared with the same quarter of the previous year mainly due to reserve releases at BPNA. The provision for loan losses for the non-covered loan portfolio totalled $50.1 million, compared with $229.0 million for the same quarter in 2013, a decline of $178.9 million, mostly due to the above mentioned bulk loan sale of non-performing assets completed in the second quarter of 2013 and reserve releases at BPNA due to improved credit quality trends. The provision for covered loans totalled $11.6 million in the second quarter of 2014, compared with $25.5 million for the same quarter in 2013, a decrease of $13.9 million, mostly driven by lower impairment losses from the commercial portfolios.

Refer to the Credit Risk Management and Loan Quality section of this MD&A for an explanation of the main factors impacting the provision for loan losses and a detailed analysis of net charge-offs, non-performing assets, the allowance for loan losses and selected loan losses statistics.

Non-interest income for the quarter ended June 30, 2014 was $62.8 million, a decline of $225.9 million compared to the same quarter in the previous year. This decrease was mainly attributed to a the gain of $162.1 million recorded during the second quarter of 2013, related to EVERTEC s IPO, offset by the loss of $72.2 million related to the bulk sale of non-performing assets completed during such quarter. Furthermore, a higher amortization of the FDIC indemnification asset by $33.5 million, due to lower estimated credit losses, and lower income from mortgage banking activities by $14.3 million, contributed to the decline in non-interest income.

Refer to the Non-Interest Income section of this MD&A for additional information on the main variances that affected the non-interest income categories.

Operating expenses decreased by $18.4 million when compared to the second quarter of 2013 due mainly to the following main factors:

Lower FDIC deposit insurance expense due to improvements in asset quality and credit trends;

Lower personnel costs by $7.3 million, principally due to changes to actuarial assumptions in BPPR s pension obligations and lower hospital and life insurance expenses;

Lower OREO expenses by $4.2 million driven by lower maintenance costs as a result of properties sold

The above positive variances were offset by restructuring costs of $4.6 million incurred in connection with the reorganization of PCB. Refer to the Operating Expenses section of this MD&A for additional information

Income tax benefit for the second quarter of 2014 amounted to $4.1 million, compared to an income tax benefit of $237.4 million for the second quarter of 2013. The variance in income tax benefit is mainly due to the change in the statutory tax rate from 30% to 39% during the second quarter of 2013, which resulted in a tax benefit of approximately $215.6 million. During the second quarter of 2014 the Corporation recognized an income tax benefit of approximately $23.4 million due to a reduction in the deferred tax liability associated with the Westernbank loan portfolio as a result of a Closing Agreement entered into with the Puerto Rico Department of the Treasury (PR Treasury) during the quarter, offset by the negative impact of the deferred tax asset valuation allowance of approximately $9.2 million recorded at the Holding Company, due to the difference in the tax treatment of interest expense related to the TARP funds and the newly issued $450 million senior notes.

Total assets amounted to $36.6 billion at June 30, 2014, compared with $35.7 billion at December 31, 2013. The increase in total assets was attributed to:

An increase in money market investments of $808.5 million, mainly due to liquidity held in anticipation of the TARP repayment.

An increase in investment securities available-for-sale and held-to-maturity of $333.0 million due mainly to purchases of U.S. agency obligations at the BPPR segment; and

An increase in other assets of $604.8 million, mainly due to $450 million in trade receivable due to the issuance of senior notes raised near the end of the second quarter with a settlement date of July 1, 2014 to partially fund the repayment of the TARP funds.

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The above increases were offset by:

- A decrease in the FDIC loss share asset of $197.1 million due to amortization and collections;
- A decrease in the non-covered loans held-in-portfolio of $192.6 million, excluding the reclassification of $1.8 billion in loans to discontinued operations, mainly at BPPR due to the reduction in the public sector loans;
- A decrease in the covered loans portfolio of $248.3 million due to the continuation of loan resolutions and the normal portfolio run-off; and
- A decrease in goodwill of $186.5 million due to the impairment charge recognized in connection with the sale of the PCB regions.

The Corporation s total deposits increased by $248.3 million, excluding the reclassification of $2.1 billion to discontinued operations, mainly due an increase in demand deposits

The Corporation s borrowings amounted to $4.5 billion at June 30, 2014, compared with $3.6 billion at December 31, 2013. The increase was mainly due to the accelerated amortization of $414.1 million of discount and deferred costs related to the repayment of TARP funds, as well as the issuance of $450.0 million in senior notes.

Stockholders equity totalled $4.3 billion at June 30, 2014, compared with $4.6 billion at December 31, 2013. This decrease mainly resulted from the Corporation s net loss of $424.9 million for the six months ended June 30, 2014 offset by a decrease of $58.5 million in accumulated other comprehensive loss mainly due to net unrealized losses on investment securities available-for-sale. Capital ratios continued to be strong. The Corporation s Tier 1 risk-based capital ratio stood at 19.23% at June 30, 2014, while the tangible common equity ratio at June 30, 2014 was 10.28%. Refer to Table 17 for capital ratios and Tables 18 and 19 for Non-GAAP reconciliations.

Table 1 provides selected financial data and performance indicators for the June 30, 2014 and 2013.

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

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

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

The description of the Corporation s business contained in Item 1 of the Corporation s 2013 Annual Report, while not all inclusive, discusses additional information about the business of the Corporation and risk factors, many beyond the Corporation s control that, in addition to the other information in this Form 10-Q, readers should consider.

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

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Table 1 Financial Highlights

Financial Condition Highlights

(In thousands)	Ending balances at June 30, 2014	Ending balances at December 31, 2013	Variance	Average for the six months ended June 30, 2014	Average for the six months ended June 30, 2013	Variance
Money market investments	$ 1,666,944	$ 858,453	$ 808,491	$ 1,346,593	$ 1,040,941	$ 305,652
Investment and trading securities	6,282,220	5,956,791	325,429	6,356,622	5,916,145	440,477
Loans	22,468,336	24,706,719	(2,238,383)	22,583,201	22,933,979	(350,778)
Earning assets	30,417,500	31,521,963	(1,104,463)	30,286,417	29,891,065	395,352
Assets from discontinued operations	1,828,382		1,828,382	1,908,616	2,017,531	(108,915)
Total assets	36,587,902	35,749,333	838,569	36,216,256	34,414,687	1,801,569
Deposits*	24,901,152	26,711,145	(1,809,993)	24,659,911	24,682,910	(22,999)
Borrowings	4,465,965	3,645,246	820,719	3,740,430	4,488,408	(747,978)
Stockholders equity	4,260,441	4,626,150	(365,709)	4,781,976	4,003,228	778,748
Liabilities from discontinued operations	2,079,742		2,079,742	2,129,271	2,214,391	(85,120)

* Average deposits exclude average derivatives.

Operating Highlights

(In thousands, except per share information)	Quarters ended June 30, 2014	Quarters ended June 30, 2013	Variance	Six months ended June 30, 2014	Six months ended June 30, 2013	Variance
Net interest (expense) income	$ (59,381)	$ 334,411	$ (393,792)	$ 291,790	$ 659,055	$ (367,265)
Provision for loan losses non-covered loans	50,074	228,975	(178,901)	104,196	438,068	(333,872)
Provision for loan losses covered loans	11,604	25,500	(13,896)	37,318	43,056	(5,738)
Non-interest income	62,789	288,718	(225,929)	158,821	319,028	(160,207)
Operating expenses	275,439	293,864	(18,425)	553,038	609,089	(56,051)
(Loss) income from continuing operations before income tax	(333,709)	74,790	(408,499)	(243,941)	(112,130)	(131,811)
Income tax (benefit) expense	(4,124)	(237,380)	233,256	19,140	(294,257)	313,397
(Loss) income from continuing operations	$ (329,585)	$ 312,170	$ (641,755)	$ (263,081)	$ 182,127	$ (445,208)
(Loss) income from discontinued operations, net of tax	(181,729)	15,298	(197,027)	(161,824)	25,034	(186,858)

Net (loss) income	$ (511,314)	$ 327,468	$ (838,782)	$ (424,905)	$ 207,161	$ (632,066)
Net (loss) income applicable to common stock	$ (512,245)	$ 326,537	$ (838,782)	$ (426,767)	$ 205,300	$ (632,067)
Net (loss) income from continuing operations	$ (3.21)	$ 3.03	$ (6.24)	$ (2.58)	$ 1.76	$ (4.34)
Net (loss) income from discontinued operations	$ (1.77)	$ 0.15	$ (1.92)	$ (1.57)	$ 0.24	$ (1.81)
Net (loss) income per Common Share Basic	$ (4.98)	$ 3.18	$ (8.16)	$ (4.15)	$ 2.00	$ (6.15)
Net (loss) income from continuing operations	$ (3.21)	$ 3.02	$ (6.23)	$ (2.58)	$ 1.75	$ (4.33)
Net (loss) income from discontinued operations	$ (1.77)	$ 0.15	$ (1.92)	$ (1.57)	$ 0.24	$ (1.81)
Net (loss) income per Common Share Diluted	$ (4.98)	$ 3.17	$ (8.15)	$ (4.15)	$ 1.99	$ (6.14)

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Selected Statistical Information	Quarters ended June 30, 2014	2013	Six months ended June 30, 2014	2013
Common Stock Data				
Market price				
High	$ 34.18	$ 30.60	$ 34.18	$ 30.60
Low	28.93	26.88	25.50	21.70
End	34.18	30.37	34.18	30.37
Book value per common share at period end	40.69	40.13	40.69	40.13
Profitability Ratios				
Return on assets	(5.66)%	3.60 %	(2.37)%	1.15 %
Return on common equity	(43.04)	32.77	(18.19)	10.47
Net interest spread (taxable equivalent)	4.65	4.43	4.65	4.39
Net interest margin (taxable equivalent)	4.94	4.71	4.94	4.65
Capitalization Ratios				
Average equity to average assets	13.31 %	11.73 %	13.20 %	11.63 %
Tier I capital to risk-weighted assets	19.23	17.30	19.23	17.30
Total capital to risk-weighted assets	20.69	18.58	20.69	18.58
Leverage ratio	13.07	11.46	13.07	11.46

CRITICAL ACCOUNTING POLICIES / ESTIMATES

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

Management has discussed the development and selection of the critical accounting policies and estimates with the Corporation s Audit Committee. The Corporation has identified as critical accounting policies those related to: (i) Fair Value Measurement of Financial Instruments; (ii) Loans and Allowance for Loan Losses; (iii) Acquisition Accounting for Loans and Related Indemnification Asset; (iv) Income Taxes; (v) Goodwill, and (vi) Pension and Postretirement Benefit Obligations. For a summary of these critical accounting policies and estimates, refer to that particular section in the MD&A included in Popular, Inc. s 2013 Financial Review and Supplementary Information to Stockholders, incorporated by reference in Popular, Inc. s Annual Report on Form 10-K for the year ended December 31, 2013 (the 2013 Annual Report). Also, refer to Note 2 to the consolidated financial statements included in the 2013 Annual Report for a summary of the Corporation s significant accounting policies.

Allowance for loan losses

The Corporation follows a systematic methodology to establish and evaluate the adequacy of the allowance for loan losses to provide for inherent losses in the loan portfolio. This methodology includes the consideration of factors such as current economic conditions, portfolio risk characteristics, prior loss experience and results of periodic credit reviews of individual loans. The provision for loan losses charged to current operations is based on this methodology. Loan losses are charged and recoveries are credited to the allowance for loan losses.

The Corporation s assessment of the allowance for loan losses is determined in accordance with the guidance of loss contingencies in ASC Subtopic 450-20 and loan impairment guidance in ASC Section 310-10-35. Also, the Corporation determines the allowance for loan losses on purchased impaired loans and purchased loans accounted for under ASC Subtopic 310-30 by analogy, by evaluating decreases in expected cash flows after the acquisition date.

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

Base net loss rates, which are based on the moving average of annualized net loss rates computed over a 3-year historical loss period for the commercial and construction loan portfolios, and an 18-month period for the consumer and mortgage loan portfolios. The base net loss rates are applied by loan type and by legal entity.

Recent loss trend adjustment, which replaces the base loss rate with a 12-month average loss rate, when these trends are higher than the respective base loss rates. The objective of this adjustment is to allow for a more recent loss trend to be captured and reflected in the ALLL estimation process. As part of the annual review of the components of the ALLL models, as discussed in the following paragraphs and implemented as of June 30th 2014, the Corporation eliminated the use of caps in the recent loss trend adjustment for the consumer and mortgage portfolios, among other revisions. For the period ended December 31, 2013, the recent loss trend adjustment caps for the consumer and mortgage portfolios were triggered in only one portfolio segment within the Puerto Rico consumer portfolio. Management assessed the impact of the applicable cap through a review of qualitative factors that specifically considered the drivers of recent loss trends and changes to the portfolio composition. The related effect of the aforementioned cap was immaterial for the overall level of the Allowance for Loan and Lease Losses for the Puerto Rico Consumer portfolio.

For the period ended June 30, 2014, 28% (June 30, 2013 - 37%) of the ALLL for BPPR non-covered loan portfolios utilized the recent loss trend adjustment instead of the base loss. The effect of replacing the base loss with the recent loss trend adjustment was mainly concentrated in the commercial multi-family, commercial and industrial, personal and auto loan portfolios for 2014, and in the commercial multi-family, mortgage, and leasing portfolios for 2013.

For the period ended June 30, 2014, 23% (June 30, 2013 - 24%) of the ALLL for BPNA loan portfolios utilized the recent loss trend adjustment instead of the base loss. The effect of replacing the base loss with the recent loss trend adjustment was mainly concentrated in the commercial multi-family, commercial and industrial and legacy loan portfolios for 2014 and in the commercial multi-family, commercial real estate non-owner occupied and commercial and industrial portfolios for 2013.

For the period ended December 31, 2013, 27% (2012 - 32%) of the ALLL for BPPR non-covered loan portfolios utilized the recent loss trend adjustment instead of the base loss. The effect of replacing the base loss with the recent loss trend adjustment was mainly concentrated in the commercial multi-family, leasing, and auto loan portfolios for 2013, and in the commercial multi-family, commercial and industrial, construction, credit cards, and personal loan portfolios for 2012.

For the period ended December 31, 2013, 29% (2012 8%) of the ALLL for BPNA loan portfolios utilized the recent loss trend adjustment instead of the base loss. The effect of replacing the base loss with the recent loss trend adjustment was mainly concentrated in the commercial multi-family, commercial real estate non-owner occupied, commercial and industrial and legacy loan portfolios for 2013 and in the construction and legacy loan portfolios for 2012.

Environmental factors, which include credit and macroeconomic indicators such as unemployment rate, economic activity index and delinquency rates, adopted to account for current market conditions that are likely to cause estimated credit losses to differ from historical losses. The Corporation reflects the effect of these environmental factors on each loan group as an adjustment that, as appropriate, increases the historical loss rate applied to each group. Environmental factors provide updated perspective on credit and economic conditions. Regression analysis is used to select these indicators and quantify the effect on the general reserve of the allowance for loan losses.

During the second quarter of 2014, management completed the annual review of the components of the ALLL models. As part of this review management updated core metrics and revised certain components related to the estimation process for evaluating the adequacy of the general reserve of the allowance for loan losses. These enhancements to the ALLL methodology, which are described in the paragraphs below, were implemented as of June 30, 2014 and resulted in a net decrease to the allowance for loan losses of $18.7 million for the non-covered portfolio and a net increase to the allowance for loan losses of $0.8 million for the covered portfolio.

Management made the following principal revisions to the methodology during the second quarter of 2014:

Annual review and recalibration of the environmental factors adjustment. The environmental factor adjustments are developed by performing regression analyses on selected credit and economic indicators for each applicable loan segment. During the second quarter of 2014, the environmental factor models used to account for changes in current credit and macroeconomic conditions were reviewed and recalibrated based on the latest applicable trends. Management also revised the application of environmental factors to the historical loss rates to consider last 12 month trends of the applicable credit and macroeconomic indicators applied as an incremental adjustment to account for emerging risks not necessarily considered in the historical loss rates.

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The combined effect of the aforementioned recalibration and enhancements to the environmental factors adjustment resulted in a decrease to the allowance for loan losses of $17 million at June 30, 2014, of which $14.1 million related to the non-covered BPPR portfolio and $3.7 million related to the BPNA segment, offset in part by a $0.8 million increase in the BPPR covered portfoliot.

Increased the historical look-back period for determining the recent loss trend adjustment for consumer and mortgage loans. The Corporation increased the look-back period for assessing recent trends applicable to the determination of consumer and mortgage loan net charge-offs from 6 months to 12 months and eliminated the use of caps. Previously, the Corporation used a recent loss trend adjustment based on 6 months of net charge-offs up to a determined cap. Given the current overall consumer and mortgage credit quality improvements, management concluded that a 12-month look-back period for the recent loss trend adjustment aligns the Corporation s allowance for loan losses methodology to current credit quality trends while limiting excessive pro-cyclicality given the longer look-back period analysis, thus, eliminating the aforementioned caps.

The combined effect of the aforementioned enhancements to the recent loss trend adjustment resulted in a decrease to the allowance for loan losses of $1 million at June 30, 2014, of which $0.9 million related to the non-covered BPPR segment and $0.1 million related to the BPNA segment.

Discontinued Operations

Components of the Corporation that will be disposed of by sale, where the Corporation does not have a significant continuing involvement in the operations after the disposal, are accounted for as discontinued operations. The results of operations of the discontinued operations exclude allocations of corporate overhead. Refer to Note 3, Discontinued Operations, for additional information on the discontinued operations.

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NET INTEREST INCOME

Net interest income, on a taxable equivalent basis, is presented with its different components on Tables 2 and 3 for the quarter and six months periods ended June 30, 2014 as compared with the same periods in 2013, segregated by major categories of interest earning assets and interest bearing liabilities.

The interest earning assets include the investment securities and loans that are exempt from income tax, principally in Puerto Rico. The main sources of tax-exempt interest income are certain investments in obligations of the U.S. Government, its agencies and sponsored entities, and certain obligations of the Commonwealth of Puerto Rico and its agencies. To facilitate the comparison of all interest related to these assets, the interest income has been converted to a taxable equivalent basis, using the applicable statutory income tax rates for each quarter. The taxable equivalent computation considers the interest expense disallowance required by the Puerto Rico tax law.

Average outstanding securities balances are based upon amortized cost excluding any unrealized gains or losses on securities available-for-sale. Non-accrual loans have been included in the respective average loans and leases categories. Loan fees collected and costs incurred in the origination of loans are deferred and amortized over the term of the loan as an adjustment to interest yield. Prepayment penalties, late fees collected and the amortization of premiums / discounts on purchased loans are also included as part of the loan yield.

Taxable equivalent net interest expense was $59.4 million for the second quarter of 2014, a decrease of $393.8 million from the same quarter of the prior year. Net interest margin, as reported, was (0.51)%. Excluding the impact of the accelerated amortization of TARP discount and deferred costs of $414.1 million, net interest income on a taxable equivalent basis was $375.0 million, an increase of $22.8 million from the same quarter of the previous year. The adjusted net interest margin was 4.94%, an increase of 23 basis points from the same quarter of the previous year. The main reasons for the increase were:

- Higher yield from covered loans by 323 basis points mainly due to reduced expected losses resulting from the recasting process and the resolution of certain commercial loans that resulted in higher accretion income, partially offset by lower volume of the portfolio.

- Higher interest income from commercial loans by $4.2 million mainly due to higher volume of the portfolio and interest collected on loans in nonaccrual status.

- Higher interest income from consumer loans by $3.4 million related to purchased loans at the end of the first quarter 2014 and higher volume of auto loans due to higher lending activity at Popular Auto.

- A lower average cost of interest bearing deposits by 13 bps, mainly lower cost certificates of deposits and individual retirement accounts as these come due and are re-priced at lower rates; also lower volume of broker CDs, contributed to the decrease in the deposits interest expense.

- Long term debt reflected a reduction of 80 basis points due to the early repayment, on the third quarter of 2013, of $233.2 million in senior notes at an average cost of 7.77%.

These positive variances were partially offset by lower volume and yield on mortgage loans resulting in lower interest income by approximately $6.4 million as compared to the same quarter in 2013 mostly due to lower volume by $328 million.

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

Quarters ended June 30,

										Varianc	
verage Volume			Average Yields / Costs				Interest			Attributab	
	2013	Variance	2014	2013	Variance		2014	2013	Variance	Rate	V
$ in millions)								(In thousands)			
3	$ 980	$ 398	0.33 %	0.34 %	(0.01)%	Money market investments	$ 1,131	$ 829	$ 302	$ 67	$
3	5,535	493	2.75	3.04	(0.29)	Investment securities	41,376	42,017	(641)	(1,567)	
3	428	5	5.59	6.20	(0.61)	Trading securities	6,024	6,614	(590)	(658)	
9	6,943	896	2.48	2.85	(0.37)	Total money market, investment and trading securities	48,531	49,460	(929)	(2,158)	
						Loans:					
5	8,206	240	5.08	5.03	0.05	Commercial	107,041	102,851	4,190	1,157	
5	312	(137)	5.55	4.52	1.03	Construction	2,416	3,512	(1,096)	680	
6	542	4	7.43	8.02	(0.59)	Leasing	10,151	10,880	(729)	(805)	
1	7,019	(328)	5.34	5.45	(0.11)	Mortgage	89,314	95,699	(6,385)	(1,979)	
4	3,720	174	10.44	10.56	(0.12)	Consumer	101,350	97,901	3,449	(603)	
2	19,799	(47)	6.30	6.29	0.01	Sub-total loans	310,272	310,843	(571)	(1,550)	
1	3,269	(458)	11.83	8.60	3.23	Covered loans	82,975	70,136	12,839	20,715	
3	23,068	(505)	6.99	6.62	0.37	Total loans	393,247	380,979	12,268	19,165	
2	$ 30,011	$ 391	5.82 %	5.75 %	0.07 %	Total earning assets	$ 441,778	$ 430,439	$ 11,339	$ 17,007	$
						Interest bearing deposits:					
7	$ 4,736	$ 161	0.32 %	0.35 %	(0.03)%	NOW and money market [1]	$ 3,847	$ 4,158	$ (311)	$ (447)	$
3	6,538	175	0.22	0.25	(0.03)	Savings	3,628	4,020	(392)	(481)	
9	8,073	(364)	0.98	1.21	(0.23)	Time deposits	18,748	24,267	(5,519)	(3,930)	
9	19,347	(28)	0.54	0.67	(0.13)	Total deposits	26,223	32,445	(6,222)	(4,858)	
9	2,722	(623)	1.70	1.44	0.26	Short-term borrowings [3]	8,892	9,767	(875)	(443)	
5	511	25	15.92	15.95	(0.03)	TARP funds [2]	21,342	20,374	968	(48)	
9	1,253	(274)	4.21	5.01	(0.80)	Other medium and long-term debt [3]	10,306	15,692	(5,386)	(561)	
3	23,833	(900)	1.17	1.32	(0.15)	Total interest bearing liabilities	66,763	78,278	(11,515)	(5,910)	

	5,388	63				Non-interest bearing demand deposits					
3	790	1,228				Other sources of funds					
2	$ 30,011	$ 391	0.88 %	1.04 %	(0.16)%	Total source of funds	66,763	78,278	(11,515)	(5,910)	
			4.94 %	4.71 %	0.23 %	Net interest margin					
						Net interest income on a taxable equivalent basis	375,015	352,161	22,854	$ 22,917	$
			4.65 %	4.43 %	0.22 %	Net interest spread					
						Accelerated amortization TARP discount and related deferred costs	414,068		414,068		
						Taxable equivalent adjustment	20,328	17,750	2,578		
						Net interest income	$ (59,381)	$ 334,411	$ (393,792)		
			(0.51)%			Net interest margin including accelerated amortization of TARP discount and related costs					

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

[1] Includes interest bearing demand deposits corresponding to certain government entities in Puerto Rico.
[2] Junior subordinated deferrable interest debentures.
[3] Cost of borrowings excludes the impact of the accelerated amortization. Total cost of borrowings for the second quarter of 2014 including the accelerated amortization of TARP discount would have been 50.31%.

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The results for the six-month period ended June 30, 2014 were impacted by the same factors described in the quarterly results, being the most significant the increase in the covered loan portfolio yield.

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

Six Months ended June 30,

Average Volume			Average Yields / Costs				Interest			Variance Attributable to	
014	2013	Variance	2014	2013	Variance		2014	2013	Variance	Rate	Volum
(In millions)							(In thousands)				
1,347	$ 1,041	$ 306	0.32 %	0.35 %	(0.03)%	Money market investments	$ 2,104	$ 1,784	$ 320	$ 48	$ 27
5,933	5,488	445	2.78	3.11	(0.33)	Investment securities	82,493	85,230	(2,737)	(4,842)	2,10
423	428	(5)	5.73	6.23	(0.50)	Trading securities	12,022	13,206	(1,184)	(1,049)	(13
7,703	6,957	746	2.51	2.88	(0.37)	Total money market, investment and trading securities	96,619	100,220	(3,601)	(5,843)	2,24
						Loans:					
8,467	8,224	243	5.05	4.93	0.12	Commercial	212,172	201,058	11,114	5,098	6,01
180	338	(158)	8.11	4.18	3.93	Construction	7,252	7,008	244	4,536	(4,29
545	542	3	7.50	8.19	(0.69)	Leasing	20,455	22,213	(1,758)	(1,870)	11
6,691	6,716	(25)	5.39	5.44	(0.05)	Mortgage	180,497	182,581	(2,084)	(1,407)	(67
3,828	3,723	105	10.42	10.57	(0.15)	Consumer	197,783	195,068	2,715	(2,086)	4,80
9,711	19,543	168	6.31	6.26	0.05	Sub-total loans	618,159	607,928	10,231	4,271	5,96
2,872	3,391	(519)	11.50	8.45	3.05	Covered loans	164,073	142,320	21,753	40,073	(18,32
2,583	22,934	(351)	6.97	6.58	0.39	Total loans	782,232	750,248	31,984	44,344	(12,36
0,286	$ 29,891	$ 395	5.83 %	5.72 %	0.11 %	Total earning assets	$ 878,851	$ 850,468	$ 28,383	$ 38,501	$ (10,11
						Interest bearing deposits:					
4,817	$ 4,666	$ 151	0.32 %	0.37 %	(0.05)%	NOW and money market [1]	$ 7,625	$ 8,592	$ (967)	$ (1,234)	$ 26

6,702	6,530	172	0.22	0.25	(0.03)	Savings	7,187	8,140	(953)	(1,117)	16
7,624	8,172	(548)	1.01	1.24	(0.23)	Time deposits	38,269	50,329	(12,060)	(8,206)	(3,85
9,143	19,368	(225)	0.56	0.70	(0.14)	Total deposits	53,081	67,061	(13,980)	(10,557)	(3,42
2,201	2,722	(521)	1.64	1.45	0.19	Short-term borrowings [3]	17,932	19,548	(1,616)	177	(1,79
534	507	27	15.98	15.95	0.03	TARP funds [2]	42,673	40,407	2,266	93	2,17
1,005	1,260	(255)	4.16	5.00	(0.84)	Other medium and long-term debt [3]	20,865	31,426	(10,561)	(1,139)	(9,42
2,883	23,857	(974)	1.18	1.33	(0.15)	Total interest bearing liabilities	134,551	158,442	(23,891)	(11,426)	(12,46
5,517	5,315	202				Non-interest bearing demand deposits					
1,886	719	1,167				Other sources of funds					
0,286	$ 29,891	$ 395	0.89 %	1.07 %	(0.18)%	Total source of funds	134,551	158,442	(23,891)	(11,426)	(12,46
			4.94 %	4.65 %	0.29 %	Net interest margin					
						Net interest income on a taxable equivalent basis	744,300	692,026	52,274	$ 49,927	$ 2,34
			4.65 %	4.39 %	0.26 %	Net interest spread					
						Accelerated amortization TARP discount and related deferred costs	414,068		414,068		
						Taxable equivalent adjustment	38,442	32,971	5,471		
						Net interest income	$ 291,790	$ 659,055	$ (367,265)		

2.20 %	Net interest margin including accelerated amortization of TARP discount and related costs

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

[1] Includes interest bearing demand deposits corresponding to certain government entities in Puerto Rico.
[2] Junior subordinated deferrable interest debentures.
[3] Cost of borrowings excludes the impact of the accelerated amortization. Total cost of borrowings for the six months ended June 30, 2014 including the accelerated amortization of TARP discount would have been 26.51%.

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Provision for Loan Losses

The Corporation s total provision for loan losses totaled $61.7 million for the quarter ended June 30, 2014 compared with $254.5 million for the quarter ended June 30, 2013.

The provision for loan losses for the non-covered loan portfolio totaled $50.1 million, compared with $229.0 million for the same quarter in 2013, reflecting a decrease of $178.9 million, mostly due to an incremental provision of $169.2 million as a result of the bulk sale of non-performing residential mortgage loans completed during the second quarter of 2013. Excluding the impact of the sale, the provision for loans losses declined by $9.7 million. In addition, the Corporation recorded a reserve release of $18.7 million during the second quarter of 2014 due to the annual recalibration and enhancements to the allowance for loan losses methodology, compared to a reserve increase of $11.8 million for the second quarter of 2013 due to enhancements completed in that quarter. Net charge-offs, excluding write-downs related to the bulk sale in 2013, decreased by $32.9 million from the same quarter prior year, driven by improvements in the credit performance of most portfolios.

The provision for the Puerto Rico non-covered portfolio amounted to $74.9 million, compared to $230.5 million in the second quarter of 2013, reflecting the aforementioned impact of the bulk loan sale. Excluding the impact of the sale, the provision for loan losses increased by $13.6 million, when compared to the quarter ended June 30, 2013, predominantly driven by environmental factors accounting for prevailing macroeconomic conditions in Puerto Rico and the effect of downgrades in the internal risk ratings of certain large corporate and public sector relationships. These increases were partially offset by a $14.9 million reserve release as part of the annual recalibration and enhancements to the allowance for loan losses methodology. Refer to the Critical Accounting Policies section of this MD&A for further details of these revisions.

The U.S. operations recorded a provision release of $24.8 million for the second quarter of 2014, compared to a provision release of $1.5 million for the same quarter in 2013 prompted by continued improvements in credit quality trends and the effect of a $3.8 million reserve release as part of the annual recalibration and enhancements of the ALLL models.

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The provision for covered loans totaled $11.6 million in the second quarter of 2014, compared with $25.5 million for the same quarter in 2013, reflecting a decrease of $13.9 million. This decrease is due to lower impairment losses on commercial loan pools accounted for under ASC 310-30 and the impact of a $7.5 million reserve increase related to recalibration and enhancements to the allowance for loan losses methodology implemented during the second quarter of 2013. Overall expected loss estimates for pools accounted for under ASC Subtopic 310-30 continue to be lower than originally estimated. In addition, as part of the annual recalibration and enhancements of the ALLL models, the Corporation recorded a $0.8 million reserve increase during the second quarter of 2014.

For the six months ended June 30, 2014, the Corporation s total provision for loan losses totaled $141.5 million, compared with $481.1 million for the same period in 2013, decreasing by $339.6 million, mostly due to the impact of $318.1 million related to the bulk loan sales completed during 2013. Excluding the impact of the sales, the provision reflects a decrease of $21.5 million from the six month period ended June 30, 2013, mostly driven by continued credit quality improvements in the US operations. The results for the six months ended June 30, 2014 include a $17.9 million reserve release as part of the annual recalibration and enhancements of the ALLL models, compared to a reserve increase of $19.3 million for the same period of 2013 due to enhancements to the allowance for loan losses methodology.

For the six months period ended June 30, 2014 the provision for loan losses for the non-covered loan portfolio decreased by $333.9 million when compared to the same period of 2013, mainly due to the $318.1 million impact of the loan sales during 2013. Excluding the impact of the sales, the provision would have declined by $15.8 million, led by a decrease of $27.9 million in the US operations, offset by an increase of $12.1 million in the BPPR segment primarily due to challenging economic conditions in Puerto Rico, as stated above.

The provision for the covered portfolio was $37.3 million for the six month period ended June 30, 2014, compared to $43.1 million for same period of last year. This decrease is due to lower impairment losses on commercial loan pools accounted for under ASC 310-30 and the impact of a $7.5 million reserve increase related to the recalibration and enhancements to the allowance for loan losses methodology implemented during the second quarter of 2013.

Refer to the Credit Risk Management and Loan Quality sections of this MD&A for a detailed analysis of net charge-offs, non-performing assets, the allowance for loan losses and selected loan losses statistics.

NON-INTEREST INCOME

Refer to Table 4 for a breakdown on non-interest income by major categories for the quarters and six months ended June 30, 2014 and 2013.

Table 4 Non-Interest Income

	Quarters ended June 30,			Six months ended June 30,		
(In thousands)	2014	2013	Variance	2014	2013	Variance
Service charges on deposit accounts	$ 39,237	$ 41,378	$ (2,141)	$ 78,596	$ 82,539	$ (3,943)
Other service fees:						
Debit card fees	11,000	10,395	605	21,544	20,460	1,084
Insurance fees	12,406	11,550	856	24,125	23,157	968
Credit card fees	16,985	16,265	720	33,068	31,819	1,249

Sale and administration of investment products	7,456	10,243	(2,787)	13,913	18,960	(5,047)
Trust fees	4,566	4,154	412	9,029	8,612	417
Other fees	4,055	4,672	(617)	7,607	9,215	(1,608)
Total other service fees	56,468	57,279	(811)	109,286	112,223	(2,937)
Mortgage banking activities	3,788	18,081	(14,293)	7,466	38,378	(30,912)
Net gain (loss) and valuation adjustments of investment securities		5,856	(5,856)		5,856	(5,856)
Trading account profit (loss)	1,055	(4,345)	5,400	3,032	(5,329)	8,361
Net gain (loss) on sale of loans, including valuation adjustment on loans held-for-sale	9,659	4,291	5,368	14,052	(58,428)	72,480
Adjustment (expense) to indemnity reserves on loans sold	(7,454)	(11,632)	4,178	(17,801)	(27,775)	9,974
FDIC loss share (expense) income	(55,261)	(3,755)	(51,506)	(79,467)	(30,021)	(49,446)
Other operating income	15,297	181,565	(166,268)	43,657	201,585	(157,928)
Total non-interest income	$ 62,789	$ 288,718	$ (225,929)	$ 158,821	$ 319,028	$ (160,207)

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Table 5 Mortgage Banking Activities

(In thousands)	Quarters ended June 30, 2014	2013	Variance	Six months ended June 30, 2014	2013	Variance
Mortgage servicing fees, net of fair value adjustments:						
Mortgage servicing fees	$ 10,558	$ 11,313	$ (755)	$ 21,306	$ 22,556	$ (1,250)
Mortgage servicing rights fair value adjustments	(7,740)	(5,126)	(2,614)	(15,836)	(10,741)	(5,095)
Total mortgage servicing fees, net of fair value adjustments	2,818	6,187	(3,369)	5,470	11,815	(6,345)
Net gain (loss) on sale of loans, including valuation on loans held-for-sale	8,189	(351)	8,540	15,365	13,409	1,956
Trading account (loss) profit:						
Unrealized gains (losses) on outstanding derivative positions	22	622	(600)	(738)	600	(1,338)
Realized (losses) gains on closed derivative positions	(7,241)	11,623	(18,864)	(12,631)	12,554	(25,185)
Total trading account (loss) profit	(7,219)	12,245	(19,464)	(13,369)	13,154	(26,523)
Total mortgage banking activities	$ 3,788	$ 18,081	$ (14,293)	$ 7,466	$ 38,378	$ (30,912)

Non-interest income decreased by $225.9 million during the quarter ended June 30, 2014, compared with the same quarter of the previous year. During the second quarter of 2013, BPPR completed the sale of a portfolio of non-performing residential mortgage loans with a loss of $3.9 million and reserve for indemnification claims of $3.0 million. In addition, in connection with the EVERTEC IPO completed during the second quarter of 2013, the Corporation recognized other operating income of $162.1 million and a prepayment penalty fee of $5.9 million from EVERTEC s early repayment of its debt security. Excluding the impact of these transactions completed during the second quarter of 2013, non-interest income decreased $64.9 million.

The decrease in non-interest income was principally due to:

- Lower other operating income by $166.3 million mostly due to the gain of $162.1 million during the second quarter of 2013 from EVERTEC s IPO;

- Unfavorable variance in FDIC loss share (expense) income of $51.5 million due mainly to a higher amortization of the indemnification asset by $33.5 million. During the second quarter, the Corporation revised its analysis of expected cash flows which resulted in a net decrease of approximately $102.9 million in estimated credit losses, which was driven mainly by commercial loan pools. Though this will have a positive impact on the Corporation s interest accretion in future periods, the carrying value of the indemnification asset was amortized to reflect lower levels of expected losses. This amortization is recognized over the shorter of the remaining life of the loan pools, which had an average life of approximately six years, or the indemnification asset, which as of June 30, 2014 is one year for commercial, construction and consumer loans and of six years for single-family residential mortgage loans. Additionally, lower mirror accounting of credit impairment losses by $15.0 million also contributed to the higher expense. Refer to Table 6 for a breakdown of FDIC loss share (expenses) income by major categories;

Lower mortgage banking activities revenues by $14.3 million due to an unfavorable variance of $18.9 million in realized gains / (losses) on closed derivative positions and higher unfavorable valuation adjustments on mortgage servicing rights at BPPR segment. Refer to Table 5 for details of mortgage banking activities; and

Lower gains on investment securities by $5.9 million due to EVERTEC s prepayment penalty fee resulting from the early repayment of its debt security.

These unfavorable variances were partially offset by:

Higher trading account profit by $5.4 million mainly at BPPR segment due to higher volume of MBS outstanding at higher market prices;

Higher net gains on sale of loans by $5.4 million principally at the BPNA segment due to a higher volume of loans sold; and

Lower adjustments to the indemnity reserves by $4.2 million mostly due to the indemnity reserve of $3.0 million recorded during the second quarter of 2013 at BPPR in connection to the sale of non-performing loans and a partial reserve release at BPNA during this quarter, partially offset by higher provision for loans subject to credit recourse at BPPR.

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For the six months ended June 30, 2014 non-interest income decreased $160.2 million. Excluding the two significant transactions discussed above and the bulk sale of non-performing assets during the first quarter of 2013, which had a negative impact in non-interest income of $72.2 million, the non-interest income decreased by $71.3 million.

Lower other operating income by $157.9 million primarily due to the gain of $162.1 million during the second quarter of 2013 from EVERTEC s IPO;

Unfavorable variance in FDIC loss share (expense) income of $49.4 million due mainly to the same factors described above for the quarterly results. The amortization of the indemnification asset increased by $42.3 million when compared to the same period of 2013, driven by an increase in expected cash flows. Additionally, lower mirror accounting of credit impairment losses by $13.9 million partially offset by a favorable variance in the fair value adjustment of the true-up payment obligation of $7.2 million also contributed to the higher expense. Refer to Table 6 for a breakdown of FDIC loss share (expenses) income by major categories; and

Lower mortgage banking activities revenues by $30.9 million mainly due to the unfavorable variance in realized gains / (losses) on closed derivative positions and higher unfavorable valuation adjustments on mortgage servicing rights at BPPR segment. Refer to Table 5 for details of mortgage banking activities.

These unfavorable variances were partially offset by:

Positive variance of $72.5 million in net gain (loss) on sale of loans held-for-sale, net of valuation adjustment, that was mainly due to effect of the $61.4 million loss at BPPR resulting from the bulk sale of non-performing commercial and construction loans during the first quarter of 2013, which included an unfavorable valuation adjustment on loans held-for-sale transferred to held-in-portfolio of approximately $8.8 million;

Lower provision for indemnity reserves on loans sold by $10.0 million mainly due to the effect of the $13.7 million reserves established at BPPR in connection with the previously mentioned bulk sales of non-performing assets completed during the first and second quarters of 2013, of which $2.0 million was reversed during the first quarter of 2014, in addition to the reserve release of $1.2 million at BPNA during this quarter; and

Net positive change in trading account profit / (loss) by $8.4 million at BPPR segment due to higher volume of MBS outstanding at higher market values.

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The following table provides a summary of the revenues and expenses derived from the assets acquired in the FDIC-assisted transaction during the quarters and six month periods ended June 30, 2014 and 2013:

Table 6 Financial Information Westernbank FDIC-Assisted Transaction

	Quarters ended June 30,			Six months ended June 30,		
(In thousands)	2014	2013	Variance	2014	2013	Variance
Interest income on covered loans	$ 82,975	$ 70,136	$ 12,839	$ 164,073	$ 142,320	$ 21,753
FDIC loss share (expense) income :						
Amortization of loss share indemnification asset	(72,095)	(38,557)	(33,538)	(121,041)	(78,761)	(42,280)
80% mirror accounting on credit impairment losses[1]	10,372	25,338	(14,966)	25,462	39,383	(13,921)
80% mirror accounting on reimbursable expenses	11,085	12,131	(1,046)	23,830	19,914	3,916
80% mirror accounting on recoveries on covered assets, including rental income on OREOs, subject to reimbursement to the FDIC	(3,557)	(2,168)	(1,389)	(7,949)	(3,269)	(4,680)
80% mirror accounting on amortization of contingent liability on unfunded commitments		(193)	193		(386)	386
Change in true-up payment obligation	(1,206)	(476)	(730)	(38)	(7,251)	7,213
Other	140	170	(30)	269	349	(80)
Total FDIC loss share (expense) income	(55,261)	(3,755)	(51,506)	(79,467)	(30,021)	(49,446)
Amortization of contingent liability on unfunded commitments (included in other operating income)		242	(242)		484	(484)
Total revenues	27,714	66,623	(38,909)	84,606	112,783	(28,177)
Provision for loan losses	11,604	25,500	(13,896)	37,318	43,056	(5,738)
Total revenues less provision for loan losses	$ 16,110	$ 41,123	$ (25,013)	$ 47,288	$ 69,727	$ (22,439)

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

Average balances

	Quarters ended June 30,			Six months ended June 30,		
(In millions)	2014	2013	Variance	2014	2013	Variance
Covered loans	$ 2,811	$ 3,269	$ (458)	$ 2,872	$ 3,391	$ (519)
FDIC loss share asset	792	1,376	(584)	846	1,385	(539)

Operating Expenses

Refer to Table 7 for a breakdown of operating expenses by major categories. Operating expenses decreased by $18.4 million when compared to the same quarter of 2013 due to the following factors:

- Lower FDIC deposit insurances expenses by $8.1 million resulting from improvements in assets quality and earnings trends.

- Lower personnel costs by $7.3 million mainly at BPPR mostly related to lower pension and postretirement expenses due to actuarial revisions, and lower hospital and life insurance expenses.

- Lower other real estate (OREO) expenses by $4.2 million due to lower maintenance expenses and lower rental income as a result of OREO properties sold, partially offset by higher subsequent write-downs during this quarter.

- Lower other operating expenses by $2.3 million due to a sundry reserve release of approximately $1.4 million at BPNA during the second quarter of 2014.

These decreases were partially offset by higher restructuring costs by $4.6 million related to the PCB reorganization. Refer to Note 4 for a detail of restructuring charges.

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Operating expenses decreased by $56.1 million for the six months ended June 30, 2014 when compared to the same period in 2013, due to the following main factors:

Lower OREO expenses by $43.7 million mainly at BPPR due to the loss of $37.0 million from the bulk sale of commercial and single family real estate owned recognized during the first quarter of 2013.

Lower personnel costs by $10.5 million mostly at BPPR driven by lower pension and postretirement expenses due to actuarial revisions, partially offset by higher 401K savings plan expenses due to the restoration of the Corporation s matching contribution to the plan in April 2013.

Lower FDIC deposit insurance expense by $5.5 million resulting from improvements in assets quality and earnings trends.

These decreases were partially offset by higher restructuring costs by $4.6 million related to the PCB reorganization.

Table 7 Operating Expenses

	Quarters ended June 30,			Six months ended June 30,		
(In thousands)	2014	2013	Variance	2014	2013	Variance
Personnel costs:						
Salaries	$ 69,149	$ 68,585	$ 564	$ 138,187	$ 136,207	$ 1,980
Commissions, incentives and other bonuses	12,862	14,704	(1,842)	25,961	29,477	(3,516)
Pension, postretirement and medical insurance	7,532	13,911	(6,379)	16,233	28,224	(11,991)
Other personnel costs, including payroll taxes	9,557	9,159	398	23,020	20,032	2,988
Total personnel costs	99,100	106,359	(7,259)	203,401	213,940	(10,539)
Net occupancy expenses	20,267	21,059	(792)	41,627	41,551	76
Equipment expenses	12,044	11,485	559	23,456	23,105	351
Other taxes	13,543	15,225	(1,682)	27,206	26,753	453
Professional fees:						
Collections, appraisals and other credit related fees	6,652	7,915	(1,263)	12,972	17,629	(4,657)
Programming, processing and other technology services	43,533	42,872	661	86,218	85,521	697
Other professional fees	16,839	16,228	611	34,833	31,602	3,231
Total professional fees	67,024	67,015	9	134,023	134,752	- 729
Communications	6,425	6,395	30	13,110	12,946	164

Business promotion	16,038	15,357	681	27,424	27,942	(518)
FDIC deposit insurance	10,480	18,557	(8,077)	21,458	26,913	(5,455)
Other real estate owned (OREO) expenses	3,410	7,657	(4,247)	9,850	53,524	(43,674)
Other operating expenses:						
Credit and debit card processing, volume and interchange expenses	5,640	5,096	544	10,836	9,801	1,035
Transportation and travel	1,586	1,756	(170)	3,176	3,165	11
Printing and supplies	955	1,035	(80)	1,645	1,815	(170)
Operational losses	1,945	3,577	(1,632)	7,480	7,095	385
All other	10,383	11,302	(919)	19,721	21,808	(2,087)
Total other operating expenses	20,509	22,766	(2,257)	42,858	43,684	(826)
Amortization of intangibles	2,025	1,989	36	4,051	3,979	72
Restructuring costs	4,574		4,574	4,574		4,574
Total operating expenses	$ 275,439	$ 293,864	$ (18,425)	$ 553,038	$ 609,089	$ (56,051)

INCOME TAXES

Income tax benefit amounted to $4.1 million for the quarter ended June 30, 2014, compared with $237.4 million for the same quarter of 2013. The decrease in income tax benefit was primarily due to the recognition during the second quarter of 2013 of $215.6 million in income tax benefit and a corresponding increase in the net deferred tax asset of the Puerto Rico operations as the result of the increase in the marginal tax rate from 30% to 39% per Act Number 40 of the Puerto Rico Internal Revenue Code applicable to taxable years beginning after December 31, 2012.

During the second quarter of 2014 the Corporation entered into a Closing Agreement with the Puerto Rico Department of Treasury. The Agreement, among other matters, was related to the income tax treatment of certain charge-offs related to the loans acquired from Westernbank as part of the FDIC assisted transaction in the year 2010. As a result of the Agreement, the Corporation recorded a tax benefit of $23.4 million due to a reduction in the deferred tax liability associated with the Westernbank loan portfolio. Additionally, in connection with this Closing, the Corporation made an estimated tax payment of $45 million which will be used as a credit to offset future income tax liabilities.

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This benefit was partially offset by the negative impact of the deferred tax asset valuation allowance of $9.2 million recorded at the Holding Company, due to the difference in the tax treatment of the interest expense related to the TARP funds and the newly issued $450 million senior notes, bearing interest at 7%. The previous interest expense on the TARP funds was not deductible for purposes of calculating taxable income. However, interest expense on the $450 million term notes will be deductible for purposes of the calculation; increasing the loss in the Holding Company on a stand-alone basis. The Holding Company s lack of taxable income exclusive of reversing temporary differences after deducting the interest expense generated on the notes represents strong negative evidence within management s evaluation of the realizability of that entity s deferred tax asset. After weighting of all positive and negative evidence management concluded, as of the reporting date, that it is more likely that not that the Holding Company will not be able to realize any portion of the deferred tax asset, considering the criteria of ASC Topic 740, therefore recorded a full valuation allowance against it.

On July1, 2014, the Government of Puerto Rico approved an amendment to the Internal Revenue Code, which among other things, changed the income tax rate for capital gains from 15% to 20%. As a result, the Corporation expects to recognize an income tax expense of approximately $20.0 million during the third quarter of 2014, mainly related to the deferred tax liability associated with the portfolio acquired from Westernbank.

The components of income tax benefit for the quarters ended June 30, 2014 and 2013 are included in the following table:

Table 8 Components of Income Tax Benefit Quarter

	Quarters ended			
	June 30, 2014		June 30, 2013	
(In thousands)	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax at statutory rates	$ (130,147)	39 %	$ 29,168	39 %
Net benefit of net tax exempt interest income	(13,558)	4	(10,325)	(14)
Deferred tax asset valuation allowance	(7,211)	2	(2,958)	(4)
Non-deductible expenses	169,810	(50)	7,946	11
Difference in tax rates due to multiple jurisdictions	(4,293)	1	(2,588)	(3)
Initial adjustment in deferred tax due to change in tax rate			(215,600)	(288)
Effect of income subject to preferential tax rate[1]	(20,833)	6	(47,322)	(63)
Others	2,108	(1)	4,299	5
Income tax benefit	$ (4,124)	1%	$ (237,380)	(317)%

[1] For 2014, includes the impact of the Closing Agreement with the P.R. Treasury signed in June 2014.

Income tax expense amounted to $19.1 million for the six months ended June 30, 2014, compared with an income tax benefit of $294.3 million for the same period of 2013. The increase in income tax expense was primarily due to the recognition during the year 2013 of a tax benefit and a corresponding increase in the net deferred tax asset of the Puerto Rico operations as result of the increase in the marginal tax rate from 30% to 39% as mention above. In addition, during 2013 the income tax benefit increased due to the loss generated on the Puerto Rico operations by the sale of non-performing assets net of the gain realized on the sale of EVERTEC s common stock.

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

	Six months ended			
	June 30, 2014		June 30, 2013	
(In thousands)	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax at statutory rates	$ (95,138)	39 %	$ (43,731)	39 %
Net benefit of net tax exempt interest income	(24,944)	10	(19,876)	18
Deferred tax asset valuation allowance	(14,183)	6	(2,975)	3
Non-deductible expenses	178,129	(73)	15,759	(14)
Difference in tax rates due to multiple jurisdictions	(10,488)	4	(5,948)	5
Initial adjustment in deferred tax due to change in tax rate			(197,467)	176
Effect of income subject to preferential tax rate[1]	(18,555)	8	(45,313)	40
Others	4,319	(2)	5,294	(5)
Income tax expense (benefit)	$ 19,140	(8)%	$ (294,257)	262 %

[1] For 2014, includes the impact of the Closing Agreement with the P.R. Treasury signed in June 2014.
Refer to Note 34 to the consolidated financial statements for a breakdown of the Corporation s deferred tax assets as of June 30, 2014.

REPORTABLE SEGMENT RESULTS

The Corporation s reportable segments for managerial reporting purposes consist of Banco Popular de Puerto Rico and Banco Popular North America. These reportable segments pertain only to the continuing operations of Popular, Inc. As previously indicated in Note 3 to the consolidated financial statements, the regional operations in California, Illinois and Central Florida were classified as discontinued operations in the second quarter of 2014. A Corporate group has been defined to support the reportable segments. For managerial reporting purposes, the costs incurred by the Corporate group are not allocated to the reportable segments.

For a description of the Corporation s reportable segments, including additional financial information and the underlying management accounting process, refer to Note 36 to the consolidated financial statements.

The Corporate group reported a net loss of $451.4 million for the second quarter and $471.4 million for the six months ended June 30, 2014, compared with a net income of $137.0 million for the second quarter and $107.8 million for the six months ended June 30, 2013. The unfavorable variance at the Corporate group was mainly due to the accelerated amortization of $414.1 million of the discount and deferred costs associated with the TARP funds, which were repaid in July 2, 2014 and the after-tax gain of approximately $156.6 million recognized during the second quarter of 2013, in connection with EVERTEC s IPO.

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

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Banco Popular de Puerto Rico

The Banco Popular de Puerto Rico reportable segment s net income amounted to $71.3 million for the quarter ended June 30, 2014, compared with a net income of $160.1 million for the same quarter of the previous year. The principal factors that contributed to the variance in the financial results included the following:

- higher net interest income by $19.3 million, or 24 basis points, mostly due to:
  - an increase of $12.8 million in income from the covered portfolio due to loan resolutions and higher expected cash flows, partially offset by lower levels due to the continued resolution of that portfolio;
  - higher income from commercial loans of $4.4 million due to higher volumes and higher yields after the bulk sale of non-performing commercial loans during the first quarter of 2013;
  - an increase of $3.1 million on income from consumer loans due to the loan purchase of $90.0 million completed during the first quarter of 2014 and higher volume of auto loans;
  - lower interest expense from deposits by $3.8 million, or a lower cost of 10 basis points, mainly from individual retirement accounts and brokered CD s related to renewal of maturities at lower prevailing rates and to lower volume of deposits; and
  - lower cost of borrowings by $4.7 million mainly due to the conversion into shares of common stock of $185 million in subordinated notes due to Popular, Inc. during the fourth quarter of 2013.

Partially offsetting the favorable variances in net interest income was a reduction of approximately $6.0 million in interest income from mortgage loans due to lower volumes and $1.8 million on investment securities also caused by lower volumes of mortgage backed securities. The net interest margin was 5.50% for the quarter ended June 30, 2014, compared to 5.26% for the same period in 2013;

- lower provision for loan losses by $169.5 million, or 66%, mostly due to the decrease in the provision for loan losses on the non-covered loan portfolio of $155.6 million, mainly related to the $169.2 million impact of the bulk sale of non-performing mortgage loans during the second quarter of 2013. Excluding the impact of the sale, the provision for loan losses for the non-covered portfolio increased by $13.6 million, due to macro-economic conditions in Puerto Rico and reserves for commercial and public sector exposures, offset by the reserve releases due to the annual review of the components of the allowance for loan losses. The provision for the covered portfolio declined by $13.9 million driven by lower impairment losses on loan pools accounted for under ASC 310-30;

- lower non-interest income by $64.8 million, or 63%, mainly due to:

higher FDIC loss share expense by $51.5 million (refer to Table 6 for components of this variance). During the second quarter of 2014, the Corporation revised its analysis of expected cash flows which resulted in a net decrease of approximately $102.9 million in estimated credit losses, driven mainly by certain commercial loan pools. Although this is expected to have a positive impact on the Corporation s interest accretion in future periods, the carrying value of the indemnification asset was amortized to reflect lower levels of expected losses. Lower mirror accounting on credit impairment losses during the quarter also contributed to higher FDIC loss share expense, and

lower income from mortgage banking activities by $ 14.3 million mainly due to higher losses on closed derivative positions and unfavorable fair value adjustments on mortgage servicing rights, offset by higher gains on securitization transactions.

The negative variances in non-interest income detailed above were partially offset by:

higher trading account income by $ 5.3 million due to higher volume of mortgage backed securities at higher market values, and

lower provisions for indemnity reserves by $2.2 million due to the $3.0 million provision recorded during the second quarter of 2013 related to the bulk sale of non-performing mortgage loans,

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lower operating expenses by $15.0 million, or 6%, mainly due to lower personnel costs by $6.8 million mostly due to lower pension and postretirement expenses due to changes to actuarial assumptions in pension obligations, and medical and life insurance expenses; and lower FDIC deposit insurance expense by $8.0 million due to improved asset quality and earnings trends

lower income tax benefit by $227.8 million, mainly due to the change in statutory tax rate from 30% to 39% during the second quarter of 2013, resulting in a tax benefit of $214.2 million, as compared to a benefit of $23.4 million recognized during the second quarter of 2014, in connection with a Closing Agreement with the Puerto Rico Department of Treasury

Net income for the six months ended June 30, 2014 amounted to $136.3 million, compared to $51.3 million for the same period of the previous year. The principal factors that contributed to the variance in the financial results included the following:

higher net interest income by $42.2 million, or 28 basis points, mostly due to:

an increase of $21.8 million in income from the covered portfolio due to loan resolutions and higher expected cash flows, partially offset by lower levels due to the continued resolution of that portfolio;

higher income from commercial loans of $10.9 million due to higher volumes and higher yields after the bulk sale of non-performing commercial loans during the first quarter of 2013;

an increase of $3.1 million on income from consumer loans due to the loan purchase of $90 million in consumer loans during the first quarter of 2014 and higher volume of auto loans;

lower interest expense from deposits by $8.9 million, or a lower cost of 11 basis points, mainly from individual retirement accounts and brokered CD s related to renewal of maturities at lower prevailing rates and to lower volume of deposits; and

lower cost of borrowings by $9.0 million mainly due to the conversion into shares of common stock of $185 million in subordinated notes due to Popular, Inc. during the fourth quarter of 2013.

Partially offsetting the favorable variances in net interest income was a reduction of approximately $2.2 million and $3.2 million in construction and mortgage loans income, respectively, due to lower volumes and $4.3 million lower income on investment securities also caused by lower volumes of mortgage backed securities and US Government Agencies. The net interest margin was 5.50% for the six months ended June 30, 2014, compared to 5.22% for the same period in 2013;

lower provision for loan losses by $311.6 million, or 65%, mostly due to the decrease in the provision for loan losses on the non-covered loan portfolio of $306.0 million, mainly related to the incremental provision of $148.8 million and $169.2 million related to the bulk sales of non-performing loans during the first and second quarters of 2013. Excluding the impact of the sales, the provision for loan losses for the non-covered portfolio increased by $6.4 million, due to macro-economic conditions in Puerto Rico and reserves for commercial and public sector exposures, offset by the reserve releases due to the annual review of the components of the allowance for loan losses. The provision for the covered portfolio declined by $5.7 million driven by lower impairment losses on loan pools accounted for under ASC 310-30; and

lower non-interest income by $13.1 million, or 11%, mainly due to:

Higher FDIC loss share expense by $49.4 million mainly due to higher amortization of the indemnification asset and lower mirror accounting on credit impairment losses, as discussed above; and

Lower income from mortgage banking activities by $ 30.9 million mainly due to higher losses on closed derivative positions and unfavorable fair value adjustments on mortgage servicing rights, offset by higher gains on securitization transactions.

The negative variances in non-interest income detailed above were partially offset by:

Lower losses on sale of loans by $59.6 million due to the impact of the sales of non performing loans completed during 2013;

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Higher trading account income by $8.4 million due to higher volume of mortgage backed securities at higher market values;

Lower provisions for indemnity reserves by $6.8 million due to the $13.7 million aggregate provision recorded during the first and second quarters of 2013 related to the bulk sale of non-performing assets

Lower operating expenses by $55.0 million, or 11%, mainly due to lower OREO expenses due to the $37.0 million write down recorded in connection with the sale of non-performing assets during the first quarter of 2013, lower personnel costs by $10.5 million mostly due to lower pension and postretirement expenses due to changes to actuarial assumptions in pension obligations, and medical and life insurance expenses; and lower FDIC deposit insurance expense by $5.5 million due to improved asset quality and earnings trends.

Income tax expense was $21.9 million, compared to an income tax benefit of $288.6 million. The unfavorable variance of $310.5 million was mainly due higher income during 2014 and the change in statutory tax rate from 30% to 39% during the second quarter of 2013, resulting in a tax benefit of $214.2 million, as compared to a benefit of $23.4 million recognized during the second quarter of 2014, in connection with a Closing Agreement with the Puerto Rico Department of Treasury.

Banco Popular North America

For the quarter ended June 30, 2014, the reportable segment of Banco Popular North America reported net income from continuing operations of $50.9 million, compared with $15.4 million for the same quarter of the previous year. The principal factors that contributed to the variance in the financial results included the following:

higher net interest income by $2.2 million, or 5%, mainly impacted by lower interest expense from deposits by $2.4 million, or a lower cost of 27 basis points, driven by the renewal of maturities from time deposits at lower prevailing rates. The BPNA reportable segment s net interest margin was 3.25% for the quarter ended June 30, 2014, compared with 3.12% for the same period in 2013;

higher reversal of provision for loan losses by $23.3 million, principally as a result of improved credit performance. Refer to the Credit Risk Management and Loan Quality section of this MD&A for certain quality indicators and further explanations corresponding to the BPNA reportable segment;

higher non-interest income by $10.1 million, mostly due to higher gains on sale of loans by $8.4 million related to a higher volume of sales of non-performing commercial loans; and lower provision for indemnity reserves by $2.0 million.

higher operating expenses by $0.1 million, reflecting $4.6 million in restructuring charges incurred during the second quarter of 2014, related to the reorganization of PCB, partially offset by a favorable variance of $3.1 million in OREO expense due to sales of commercial OREOs.

Net income from continuing operations for the six months ended June 30, 2014 amounted to $72.0 million, compared to $23.0 million for the same period of the previous year. The principal factors that contributed to the variance in the financial results included the following:

higher net interest income by $7.2 million, or 8%, mainly impacted by lower interest expense from deposits by $5.1 million, or a lower cost of 29 basis points, driven by the renewal of maturities from time deposits at lower prevailing rates and higher income from collection of construction loans which were in non-accrual status by $2.5 million. The BPNA reportable segment s net interest margin was 3.33% for the six months ended June 30, 2014, compared with 3.14% for the same period in 2013;

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favorable variance in the provision for loan losses by $27.9 million, principally as a result of improved credit performance, as mentioned above.

higher non-interest income by $14.4 million, mostly due to higher gains on sale of loans by $12.9 million related to a higher volume of sales of non-performing commercial loans; and lower provision for indemnity reserves for $3.2 million, partially offset by lower service charges on deposits by $1.9 million

higher operating expenses by $0.7 million, reflecting $4.6 million in restructuring charges incurred during the second quarter of 2014, related to the reorganization of PCB, partially offset by a favorable variance of $2.5 million in OREO expense due to sales of commercial OREOs and lower personnel costs by $1.4 million.

FINANCIAL CONDITION ANALYSIS

Assets

During the quarter ended June 30, 2014, the Corporation reclassified $1.8 billion in assets and $2.1 billion in liabilities to discontinued operations in the statement of financial condition as part of the reorganization of PCB. Refer to Note 3 for details of discontinued operations.

The Corporation s total assets were $36.6 billion at June 30, 2014 and $35.7 billion at December 31, 2013. Refer to the consolidated financial statements included in this report for the Corporation s consolidated statements of financial condition as of such dates.

Money market investments, trading and investment securities

Money market investments totaled $1.7 billion at June 30, 2014, compared to $858.5 million at December 31, 2013. The increase was mainly due to liquidity held in anticipation of the TARP repayment.

Trading account securities amounted to $346 million at June 30, 2014, compared to $340 million at December 31, 2013. Refer to the Market Risk section of this MD&A for a table that provides a breakdown of the trading portfolio by security type.

Investment securities available-for-sale and held-to-maturity amounted to $5.8 billion at June 30, 2014, compared with $5.4 billion at December 31, 2013. The increase in investment securities available-for-sale is mainly reflected in the categories of Obligations of US Government sponsored entities. At June 30, 2014, the investment securities available-for-sale portfolio was in unrealized net gain position of $4.3 million, compared with an unrealized net loss position of $51.1 million at December 31, 2013.

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Table 10 provides a breakdown of the Corporation s portfolio of investment securities available-for-sale (AFS) and held-to-maturity (HTM) on a combined basis. Also, Notes 7 and 8 to the consolidated financial statements provide additional information with respect to the Corporation s investment securities AFS and HTM. The portfolio of Obligations of the Puerto Rico Government is comprised of securities with specific sources of income or revenues identified for repayments. The Corporation performs periodic credit quality review on these issuers.

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

(In thousands)	June 30, 2014	December 31, 2013	Variance
U.S. Treasury securities	$ 27,729	$ 28,482	$ (753)
Obligations of U.S. Government sponsored entities	2,217,230	1,629,205	588,025
Obligations of Puerto Rico, States and political subdivisions	181,846	180,258	1,588
Collateralized mortgage obligations	2,303,707	2,418,924	(115,217)
Mortgage-backed securities	1,020,048	1,135,641	(115,593)
Equity securities	4,343	4,116	227
Others	13,369	38,670	(25,301)
Total investment securities AFS and HTM	$ 5,768,272	$ 5,435,296	$ 332,976

Loans

Refer to Table 11, for a breakdown of the Corporation s loan portfolio, the principal category of earning assets. Loans covered under the FDIC loss sharing agreements are presented separately in Table 11. The risks on covered loans are significantly different as a result of the loss protection provided by the FDIC. The loss share agreement applicable to commercial (including construction) and consumer loans provides for FDIC loss sharing for five years expiring at the end of the quarter ended June 30, 2015. Also, refer to Note 9 for detailed information about the Corporation s loan portfolio composition and loan purchases and sales.

The Corporation s total loan portfolio amounted to $22.5 billion at June 30, 2014 compared to $24.7 billion at December 31, 2013. Excluding the reclassification of $1.8 billion in loans to discontinued operations, the total loan portfolio decreased by $454 million mainly in the covered loan portfolio due to the continuation of loan resolutions and the normal portfolio run-off.

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Table 11 Loans Ending Balances

(In thousands)	June 30, 2014	December 31, 2013	Variance
Loans not covered under FDIC loss sharing agreements:			
Commercial	$ 8,155,547	$ 10,037,184	$ (1,881,637)
Construction	179,059	206,084	(27,025)
Legacy[1]	162,941	211,135	(48,194)
Lease financing	546,868	543,761	3,107
Mortgage	6,664,448	6,681,476	(17,028)
Consumer	3,926,361	3,932,226	(5,865)
Total non-covered loans held-in-portfolio	19,635,224	21,611,866	(1,976,642)
Loans covered under FDIC loss sharing agreements:			
Commercial	1,745,967	1,812,804	(66,837)
Construction	82,763	190,127	(107,364)
Mortgage	867,075	934,373	(67,298)
Consumer	40,297	47,123	(6,826)
Total covered loans held-in-portfolio	2,736,102	2,984,427	(248,325)
Total loans held-in-portfolio	22,371,326	24,596,293	(2,224,967)
Loans held-for-sale:			
Commercial	2,895	603	2,292
Construction	949		949
Mortgage	93,166	109,823	(16,657)
Total loans held-for-sale	97,010	110,426	(13,416)
Total loans	$ 22,468,336	$ 24,706,719	$ (2,238,383)

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

Non-covered loans

The non-covered loans held-in-portfolio decreased to $19.6 billion at June 30, 2014 compared to $21.6 billion at December 31, 2013. Excluding the $1.8 billion loans reclassified to discontinued operations, non-covered loans held-in-portfolio decreased by $192.6 million, mainly in the BPPR commercial loan portfolio primarily as a result of a reduction in the public sector.

The loans held-for-sale portfolio reflected a decrease of $13.4 million from December 31, 2013 to June 30, 2014; the decrease was mostly at BPPR segment driven by mortgage loans securitized and sold during the quarter.

Covered loans

The covered loans portfolio amounted to $2.7 billion at June 30, 2014, compared to $3.0 billion at December 31, 2013. The decrease of $248.3 million was mainly due to loan resolutions and the normal portfolio run-off. Refer to Table 11 for a breakdown of the covered loans by major loan type categories. Tables 12 and 13 provide the activity in the carrying amount and outstanding discount on the covered loans accounted for under ASC 310-30. The outstanding accretable discount is impacted by increases in cash flow expectations on the loan pool based on quarterly revisions of the portfolio. The increase in the accretable discount is recognized as interest income using the effective yield method over the estimated life of each applicable loan pool.

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

	Quarter ended June 30,		Six months ended June 30,	
(In thousands)	2014	2013	2014	2013
Beginning balance	$ 2,733,122	$ 3,157,663	$ 2,827,947	$ 3,491,759
Accretion	79,863	62,536	158,981	127,526
Collections / charge-offs	(202,321)	(207,333)	(376,264)	(606,419)
Ending balance	$ 2,610,664	$ 3,012,866	$ 2,610,664	$ 3,012,866
Allowance for loan losses (ALLL)	(90,892)	(91,195)	(90,892)	(91,195)
Ending balance, net of ALLL	$ 2,519,772	$ 2,921,671	$ 2,519,772	$ 2,921,671

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

	Quarter ended June 30,		Six months ended June 30,	
(In thousands)	2014	2013	2014	2013
Beginning balance	$ 1,218,212	$ 1,372,135	$ 1,309,205	$ 1,451,669
Accretion [1]	(79,863)	(62,536)	(158,981)	(127,526)
Change in expected cash flows	142,409	70,013	130,534	55,469
Ending balance	$ 1,280,758	$ 1,379,612	$ 1,280,758	$ 1,379,612

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

FDIC loss share asset

Table 14 sets forth the activity in the FDIC loss share asset for the quarters and six months ended June 30, 2014 and 2013.

Table 14 Activity of Loss Share Asset

	Quarters ended June 30,		Six months ended June 30,	
(In thousands)	2014	2013	2014	2013
Balance at beginning of period	$ 833,721	$ 1,380,592	$ 948,608	$ 1,399,098
Amortization of loss share indemnification asset	(72,095)	(38,557)	(121,041)	(78,761)
Credit impairment losses to be covered under loss sharing agreements	10,372	25,338	25,462	39,383
		(193)		(386)

Decrease due to reciprocal accounting on amortization of contingent liability on unfunded commitments				
Reimbursable expenses	11,085	12,131	23,830	19,914
Payments to (from) FDIC under loss sharing agreements	(31,530)		(112,857)	107
Other adjustments attributable to FDIC loss sharing agreements		31	(12,449)	(13)
Balance at end of period	$ 751,553	$ 1,379,342	$ 751,553	$ 1,379,342

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

Table 15 Activity in the Remaining FDIC Loss Share Asset Discount

	Quarter ended June 30,		Six months ended June 30,	
(In thousands)	2014	2013	2014	2013
Balance at beginning of period[1]	$ 71,634	$ 128,682	$ 103,691	$ 141,800
Amortization of negative discount[2]	(72,095)	(38,557)	(121,041)	(78,761)
Impact of lower projected losses	106,400	31,999	123,289	59,085
Balance at end of period	$ 105,939	$ 122,124	$ 105,939	$ 122,124

[1] Positive balance represents negative discount (debit to assets), while a negative balance represents a discount (credit to assets).

[2] Amortization results in a negative impact to non-interest income, while a positive balance results in a positive impact to non-interest income, particularly FDIC loss share (expense) income.

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During the second quarter, the Corporation revised its analysis of expected cash flow which resulted in a net decrease of approximately $102.9 million in estimated credit losses, which was driven mainly by commercial loan pools. The lowered loss estimates requires the Corporation to amortize the loss share asset to its currently lower expected collectible balance, thus resulting in negative accretion. Due to the shorter life of the indemnity asset compared with the expected life of the covered loans, this negative accretion temporarily offsets the benefit of higher cash flows accounted through the accretable yield on the loans.

Other real estate owned

Other real estate owned (OREO) represents real estate property received in satisfaction of debt. At June 30, 2014, OREO decreased to $295 million from $304 million at December 31, 2013. Refer to Table 16 for the activity in other real estate owned. The amounts included as covered other real estate are subject to the FDIC loss sharing agreements.

Table 16 Other Real Estate Owned Activity

(In thousands)	For the quarter ended June 30, 2014 Non-covered OREO Commercial/ Construction	Non-covered OREO Mortgage	Covered OREO Commercial/ Construction	Covered OREO Mortgage	Total
Balance at beginning of period	$ 48,141	$ 88,824	$ 110,333	$ 48,414	$ 295,712
Write-downs in value	(571)	(439)	(6,635)	(940)	(8,585)
Additions	6,303	15,400	22,260	4,103	48,066
Sales	(5,372)	(12,203)	(14,792)	(3,777)	(36,144)
Other adjustments	1,286	(1,949)	(3,261)	100	(3,824)
Ending balance	$ 49,787	$ 89,633	$ 107,905	$ 47,900	$ 295,225

(In thousands)	For the six months ended June 30, 2014 Non-covered OREO Commercial/ Construction	Non-covered OREO Mortgage	Covered OREO Commercial/ Construction	Covered OREO Mortgage	Total
Balance at beginning of period	$ 48,649	$ 86,852	$ 120,215	$ 47,792	$ 303,508
Write-downs in value	(785)	(1,108)	(11,198)	(1,147)	(14,238)
Additions	10,971	30,283	35,454	8,594	85,302
Sales	(10,334)	(24,266)	(33,213)	(6,154)	(73,967)
Other adjustments	1,286	(2,128)	(3,353)	(1,185)	(5,380)
Ending balance	$ 49,787	$ 89,633	$ 107,905	$ 47,900	$ 295,225

(In thousands)	For the quarter ended June 30, 2013 Non-covered OREO	Non-covered OREO Mortgage	Covered OREO	Covered OREO Mortgage	Total

	Commercial/ Construction		Commercial/ Construction		
Balance at beginning of period	$ 79,146	$ 75,553	$ 129,413	$ 42,965	$ 327,077
Write-downs in value	(987)	(462)	(3,568)	(1,482)	(6,499)
Additions	3,940	30,337	16,879	8,064	59,220
Sales	(17,264)	(13,154)	(3,839)	(5,208)	(39,465)
Other adjustments	290	1,521		1	1,812
Ending balance	$ 65,125	$ 93,795	$ 138,885	$ 44,340	$ 342,145

	For the six months ended June 30, 2013				
	Non-covered OREO	Non-covered OREO	Covered OREO	Covered OREO	
(In thousands)	Commercial/ Construction	Mortgage	Commercial/ Construction	Mortgage	Total
Balance at beginning of period	$ 135,862	$ 130,982	$ 99,398	$ 39,660	$ 405,902
Write-downs in value	(5,886)	(7,820)	(6,673)	(1,785)	(22,164)
Additions	22,258	55,185	51,674	17,037	146,154
Sales	(87,399)	(85,171)	(5,514)	(10,464)	(188,548)
Other adjustments	290	619		(108)	801
Ending balance	$ 65,125	$ 93,795	$ 138,885	$ 44,340	$ 342,145

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Other assets

Table 17 provides a breakdown of the principal categories that comprise the caption of Other assets in the consolidated statements of financial condition at June 30, 2014 and December 31, 2013.

Table 17 Breakdown of Other Assets

(In thousands)	June 30, 2014	December 31, 2013	Variance
Net deferred tax assets (net of valuation allowance)	$ 788,732	$ 761,768	$ 26,964
Investments under the equity method	214,452	197,006	17,446
Bank-owned life insurance program	230,570	228,805	1,765
Prepaid FDIC insurance assessment	379	383	(4)
Prepaid taxes	210,079	91,504	118,575
Other prepaid expenses	73,886	67,108	6,778
Derivative assets	27,559	34,710	(7,151)
Trades receivable from brokers and counterparties	519,495	71,680	447,815
Others	227,208	234,594	(7,386)
Total other assets	$ 2,292,360	$ 1,687,558	$ 604,802

The increase in other assets from December 31, 2013 to June 30, 2014 of $604.8 million was mainly due to $450.0 million on trade receivables due to the issuance of senior notes raised near the end of the second quarter with a settlement date of July 1, 2014, to partially fund the repayment of the $935 million in trust preferred securities under TARP.

Also, prepaid taxes increased by $118.6 million mostly due to the payment of $45 million in income taxes in connection with the Closing Agreement signed with the Puerto Rico Department of Treasury on June 30, 2014, and $37.8 million of corporate personal property tax and municipal tax paid during the quarter, to be amortized over the next twelve months.

Goodwill

The decrease in goodwill from December 31, 2013 to June 30, 2014 of $187 million was the result of the non-cash write-down of the goodwill allocated, on a relative fair value basis, to the discontinued U.S. businesses. Refer to Note 16 for detailed information about the Corporation s goodwill and other intangible assets and Note 3 for more information about the discontinued U.S businesses.

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Deposits and Borrowings

The composition of the Corporation s financing sources to total assets at June 30, 2014 and December 31, 2013 is included in Table 18.

Table 18 Financing to Total Assets

(In millions)	June 30, 2014	December 31, 2013	% increase (decrease) from 2013 to 2014	% of total assets 2014	2013
Non-interest bearing deposits	$ 5,667	$ 5,923	(4.3)%	15.5%	16.6%
Interest-bearing core deposits	14,778	16,026	(7.8)	40.4	44.8
Other interest-bearing deposits	4,456	4,762	(6.4)	12.2	13.3
Fed funds purchased and repurchase agreements	2,075	1,659	25.1	5.7	4.6
Other short-term borrowings	31	401	(92.3)	0.1	1.1
Notes payable	2,360	1,585	48.9	6.4	4.4
Other liabilities	881	767	14.9	2.4	2.2
Liabilities from discontinued operations	2,080			5.7	
Stockholders equity	4,260	4,626	(7.9)	11.6	13.0

Deposits

The Corporation s deposits totaled $24.9 billion at June 30, 2014 compared to $26.7 billion at December 31, 2013. Excluding the reclassification of $2.1 billion in deposits to discontinued operations, deposits increased by $248.3 million mainly in demand deposit. Refer to Table 19 for a breakdown of the Corporation s deposits at June 30, 2014 and December 31, 2013.

Table 19 Deposits Ending Balances

(In thousands)	June 30, 2014	December 31, 2013	Variance
Demand deposits [1]	$ 6,412,632	$ 6,590,963	$ (178,331)
Savings, NOW and money market deposits (non-brokered)	10,276,715	11,255,309	(978,594)
Savings, NOW and money market deposits (brokered)	543,032	553,521	(10,489)
Time deposits (non-brokered)	5,790,324	6,478,103	(687,779)
Time deposits (brokered CDs)	1,878,449	1,833,249	45,200
Total deposits	$ 24,901,152	$ 26,711,145	$ (1,809,993)

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

Borrowings

The Corporation s borrowings amounted to $4.5 billion at June 30, 2014, compared with $3.6 billion at December 31, 2013. The increase is mainly the result of the accelerated amortization of the $414.1 million discount and deferred cost of the TARP related trust preferred securities, as well as the issuance of $450.0 million in senior notes. Refer to Note 18 to the consolidated financial statements for detailed information on the Corporation s borrowings. Also, refer to the Liquidity section in this MD&A for additional information on the Corporation s funding sources.

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Other liabilities

Other liabilities increased from $766.8 million at December 31, 2013 to $880.6 million at June 30, 2014. The increase was principally driven by unsettled trades payable at the end of the period accompanied by higher income tax payable at the BPPR segment.

Stockholders Equity

Stockholders equity totaled $4.3 billion at June 30, 2014, compared with $4.6 billion at December 31, 2013. The decrease resulted from the Corporation s net loss of $424.9 million for the six months ended June 30, 2014, principally triggered by the acceleration of the amortization of discount and deferred costs related to the TARP securities, partially offset by a decrease of $58.5 million in accumulated other comprehensive loss due to net unrealized gain (losses) in the portfolio of investments securities available-for-sale. Refer to the consolidated statements of financial condition, comprehensive income and of changes in stockholders equity for information on the composition of stockholders equity.

REGULATORY CAPITAL

The Corporation continues to exceed the well-capitalized guidelines under the federal banking regulations. The regulatory capital ratios and amounts of total risk-based capital, Tier 1 risk-based capital and Tier 1 leverage at June 30, 2014 and December 31, 2013 are presented on Table 20. As of such dates, BPPR and BPNA were well-capitalized.

Table 20 Capital Adequacy Data

(Dollars in thousands)	June 30, 2014	December 31, 2013
Risk-based capital:		
Tier I capital	$ 4,591,753	$ 4,464,742
Supplementary (Tier II) capital	348,485	296,813
Total capital	$ 4,940,238	$ 4,761,555
Minimum Total capital requirement to be well capitalized	2,387,307	2,331,867
Excess Total capital	$ 2,552,931	$ 2,429,688
Risk-weighted assets:		
Balance sheet items	$ 22,083,255	$ 21,409,548
Off-balance sheet items	1,789,813	1,909,126
Total risk-weighted assets	$ 23,873,068	$ 23,318,674
Adjusted quarterly average assets	$ 35,132,145	$ 34,746,137

Ratios [1]:

Tier I capital (minimum required	4.00%)	19.23%	19.15%
Total capital (minimum required	8.00%)	20.69	20.42
Leverage ratio [2]		13.07	12.85

[1] The well-capitalized requirement for a bank holding company under existing rules is a minimum ratio of Tier I capital to risk-weighted assets of 6% and Total capital to risk-weighted assets of 10%.

[2] All banks are required to have a minimum Tier 1 Leverage ratio of 3% or 4% of adjusted quarterly average assets, depending on the bank s classification. At June 30, 2014, the capital adequacy minimum requirement for Popular, Inc. was (in thousands): Total capital of $ 1,909,845; Tier 1 capital of $ 954,923; and Tier 1 Leverage of $ 1,053,964, based on a 3% ratio, or $ 1,405,286, based on a 4% ratio, according to the entity s classification.

The increase in the regulatory capital ratios from December 31, 2013 was driven mainly by the impact of the current six months period earnings, excluding the effect of the non-cash goodwill impairment charge which had no impact in total capital for regulatory capital purposes and the acceleration of the unamortized discount of the TARP funds. This favorable impact was partially offset by a net increase in risk-weighted assets, which included the trade receivable booked as of June 30, 2014 as part of the senior note issuance trade date accounting, which was subject to a 100% risk-weight assignment.

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In accordance with the Federal Reserve Board guidance under its existing general risk-based capital rules, the trust preferred securities represent restricted core capital elements and qualify as Tier 1 capital, subject to certain quantitative limits. The aggregate amount of restricted core capital elements that may be included in the Tier 1 capital of a banking organization must not exceed 25% of the sum of all core capital elements (including cumulative perpetual preferred stock and trust preferred securities). Amounts of restricted core capital elements in excess of this limit generally may be included in Tier 2 capital, subject to further limitations. At June 30, 2014, the Corporation s restricted core capital elements exceeded the 25% limitation as a result of the acceleration of the unamortized discount of the TARP funds and, as a result $45 million of the outstanding trust preferred securities were included as Tier 2 capital. At December 31, 2013, the Corporation s restricted core capital elements did not exceed the 25% limitation.

Non-GAAP financial measures

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

Table 21 provides a reconciliation of total stockholders equity to tangible common equity and total assets to tangible assets at June 30, 2014 and December 31, 2013.

Table 21 Reconciliation of Tangible Common Equity and Tangible Assets

(In thousands, except share or per share information)	June 30, 2014	December 31, 2013
Total stockholders equity	$ 4,260,441	$ 4,626,150
Less: Preferred stock	(50,160)	(50,160)
Less: Goodwill	(461,246)	(647,757)
Less: Other intangibles	(40,122)	(45,132)
Total tangible common equity	$ 3,708,913	$ 3,883,101
Total assets	$ 36,587,902	$ 35,749,333
Less: Goodwill	(461,246)	(647,757)
Less: Other intangibles	(40,122)	(45,132)
Total tangible assets	$ 36,086,534	$ 35,056,444
Tangible common equity to tangible assets	10.28%	11.08%
Common shares outstanding at end of period	103,472,979	103,397,699
Tangible book value per common share	$ 35.84	$ 37.56

The Tier 1 common equity to risk-weighted assets ratio is another non-GAAP measure. Ratios calculated based upon Tier 1 common equity have become a focus of regulators and investors, and management believes ratios based on Tier 1 common equity assist investors in analyzing the Corporation s capital position.

Because Tier 1 common equity is not formally defined by GAAP or, unlike Tier 1 capital, codified in the federal banking regulations currently in place as of June 30, 2014, this measure is considered to be a non-GAAP financial measure. Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. To mitigate these limitations, the Corporation has procedures in place to calculate these measures using the appropriate GAAP or regulatory components. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP.

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Table 22 provides a reconciliation of the Corporation s total common stockholders equity (GAAP) to Tier 1 common equity at June 30, 2014 and December 31, 2013 (non-GAAP).

Table 22 Reconciliation Tier 1 Common Equity

(In thousands)	June 30, 2014	December 31, 2013
Common stockholders equity	$ 4,210,281	$ 4,575,990
Less: Unrealized losses (gains) on available-for-sale securities, net of tax[1]	(4,071)	48,344
Less: Disallowed deferred tax assets[2]	(636,081)	(626,570)
Less: Disallowed goodwill and other intangible assets, net of deferred tax liability	(447,182)	(643,185)
Less: Aggregate adjusted carrying value of non-financial equity investments	(1,381)	(1,442)
Add: Adjustment of pension and postretirement benefit plans and unrealized gains (losses) on cash flow hedges, net of tax[1]	103,263	104,302
Total Tier 1 common equity	$ 3,224,829	$ 3,457,439
Tier 1 common equity to risk-weighted assets	13.51%	14.83%

[1] Under the current general risk-based capital rules, the effects of accumulated other comprehensive income or loss (AOCI) items included in shareholders equity (for example, mark-to-market adjustments to the value of securities held in the available for sale portfolio) under U.S. GAAP are reversed for the purposes of determining regulatory capital ratios.

[2] Approximately $159 million of the Corporation s $789 million of net deferred tax assets included as Other assets in the consolidated statement of financial condition at June 30, 2014 ($167 million and $762 million, respectively, at December 31, 2013), were included without limitation in regulatory capital pursuant to the risk-based capital guidelines, while approximately $636 million of such assets at June 30, 2014 ($627 million at December 31, 2013) exceeded the limitation imposed by these guidelines and, as disallowed deferred tax assets , were deducted in arriving at Tier 1 capital. The remaining $(6) million of the Corporation s other net deferred tax assets at June 30, 2014 ($(32) million at December 31, 2013) represented primarily the following items: (a) the deferred tax effects of unrealized gains and losses on available-for-sale debt securities, which are permitted to be excluded prior to deriving the amount of net deferred tax assets subject to limitation under the guidelines; (b) the deferred tax asset corresponding to the pension liability adjustment recorded as part of accumulated other comprehensive income; and (c) certain deferred tax liabilities associated with goodwill and other intangibles.

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As indicated previously, in July 2014, the Corporation completed the repayment of $935 million in TARP funds to the U.S. Treasury, as well as repurchased the warrant owned by the U.S. Treasury at a price of $3 million. The associated $935 million of capital securities (trust preferred securities) qualify for regulatory capital treatment under the federal agencies risk-based standards. The Corporation s pro-forma regulatory capital ratios and capital amounts assuming the repayment of the TARP funds had occurred as of June 30, 2014 are the following:

Table 23 Capital Adequacy Data Pro-forma with TARP Repayment

(Dollars in thousands)	Actual June 30, 2014	Pro-forma effect	Pro-forma June 30, 2014
Risk-based capital:			
Tier I common equity [1]	$ 3,224,829	$ (3,000)	$ 3,221,829
Additional Tier I capital	1,366,924	(890,162)	476,762
Total Tier I capital	$ 4,591,753	$ (893,162)	$ 3,698,591
Supplementary (Tier II) capital	348,485	(50,350)	298,135
Total capital [2]	$ 4,940,238	$ (943,512)	$ 3,996,726
Minimum Total capital requirement to be well capitalized	$ 2,387,307	$ (44,651)	$ 2,342,656
Excess Total capital	$ 2,552,931	$ (898,861)	$ 1,654,070
Risk-weighted assets:			
Balance sheet items [3]	$ 22,083,255	$ (446,512)	$ 21,636,743
Off-balance sheet items	1,789,813		1,789,813
Total risk-weighted assets	$ 23,873,068	$ (446,512)	$ 23,426,556
Adjusted quarterly average assets	$ 35,132,145	$ (24,231)	$ 35,107,914
Ratios:			
Tier I capital (minimum required 4.00%)	19.23%	(3.44)	15.79%
Total capital (minimum required 8.00%)	20.69	(3.63)	17.06
Leverage ratio	13.07	(2.54)	10.53
Tier 1 common equity [4]	13.51	0.24	13.75

[1] Refer to Table 22 for a reconciliation of Tier I common equity.

[2] Pro-forma effect includes the repurchase of the $935 million in capital securities and the repurchase of the warrant for $3 million.

[3] As of June 30, 2014, the Corporation had recorded a trade receivable for $441 million in other assets associated with the senior note issuance which settled in July 1st, 2014. The funds were used to repay the TARP funds. The trade receivable was risk-weighted at 100%, while the remaining funds used to repay TARP had 0% risk weight.

[4] Actual and pro-forma Common Tier I capital includes $414.1 million of accelerated discount amortization related to the subsequent $935 million TARP repayment. The Tier 1 common equity ratio on a pro-forma basis was impacted by the warrant and the trade receivable. The ratio is computed by dividing Tier 1 common equity by risk-weighted assets.

New Capital Rules to Implement Basel III Capital Requirements

In July 2013, the Board of Governors of the Federal Reserve System (the Board), the Office of the Comptroller of the Currency (the OCC) and the Federal Deposit Insurance Corporation (the FDIC) and together with the Board and the OCC (the Agencies) approved new rules (New Capital Rules) to establish a revised comprehensive regulatory capital framework for all U.S. banking organizations. On July 9, 2013, the New Capital Rules were approved by the Office of the Comptroller of the Currency (OCC) and (as interim final rules) by the Federal Deposit Insurance Corporation (FDIC) (together with the Board, the Agencies).

The New Capital Rules generally implement the Basel Committee on Banking Supervision s (the Basel Committee) December 2010 final capital framework referred to as Basel III for strengthening international capital standards. The New Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including Popular, BPPR and BPNA, as compared to the current U.S. general risk-based capital rules. The New Capital Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions regulatory capital ratios. The New Capital Rules also address asset risk weights and other matters

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affecting the denominator in banking institutions regulatory capital ratios and replace the existing general risk-weighting approach, which was derived from the Basel Committee s 1988 Basel I capital accords, with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee s 2004 Basel II capital accords. In addition, the New Capital Rules implement certain provisions of Dodd-Frank Act, including the requirements of Section 939A to remove references to credit ratings from the federal agencies rules. The New Capital Rules are effective for Popular, BPPR and BPNA on January 1, 2015, subject to phase-in periods for certain of their components and other provisions.

Among other matters, the New Capital Rules: (i) introduce a new capital measure called Common Equity Tier 1 (CET1) and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and Additional Tier 1 capital instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to existing regulations. Under the New Capital Rules, for most banking organizations, including the Corporation, the most common form of Additional Tier 1 capital is non-cumulative perpetual preferred stock and the most common form of Tier 2 capital is subordinated notes and a portion of the allocation for loan and lease losses, in each case, subject to the New Capital Rules specific requirements.

Pursuant to the New Capital Rules, the minimum capital ratios as of January 1, 2015 will be as follows:

4.5% CET1 to risk-weighted assets;

6.0% Tier 1 capital (that is, CET1 *plus* Additional Tier 1 capital) to risk-weighted assets;

8.0% Total capital (that is, Tier 1 capital *plus* Tier 2 capital) to risk-weighted assets; and

4% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the leverage ratio).

The New Capital Rules also introduce a new 2.5% capital conservation buffer , composed entirely of CET1, on top of the three minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. Thus, when fully phased-in on January 1, 2019, Popular, BPPR and BPNA will be required to maintain such an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) Total capital to risk-weighted assets of at least 10.5%.

The New Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1.

In addition (as noted above), under the current general risk-based capital rules, the effects of AOCI items included in shareholders equity (for example, mark-to-market adjustments to the value of securities held in the available for sale portfolio) under U.S. GAAP are reversed for the purposes of determining regulatory capital ratios. Pursuant to the New Capital Rules, the effects of certain AOCI items are not excluded; however, non-advanced approach banking organizations, including Popular, BPPR and BPNA, may make a one-time permanent election to continue to exclude these items. This election must be made concurrently with the first filing of certain of the Popular s, BPPR s and BPNA s periodic regulatory reports in the beginning of 2015. Popular, BPPR and BPNA expect to make this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of their securities portfolio. The New Capital Rules also preclude certain hybrid securities, such as trust preferred securities, from inclusion in bank holding companies Tier 1 capital, subject to phase-out in the case of bank holding companies that had $15 billion or more in total consolidated assets as of December 31, 2009. The Corporation s Tier I capital level at June 30, 2014, included $ 427 million of trust preferred securities that are subject to the phase-out provisions of the New Capital Rules. The Corporation would be allowed to include only 25 percent of such trust preferred securities in Tier 1 capital as of January 1, 2015 and 0 percent as of January 1, 2016, and thereafter. Trust preferred securities no longer included in Popular s Tier 1 capital may nonetheless be included as a component of Tier 2 capital on a permanent basis without phase-out and irrespective of whether such securities otherwise meet the revised definition of Tier 2 capital set forth in the New Capital Rules. The Corporation s trust preferred securities issued to the U.S. Treasury pursuant to the Emergency Economic Stabilization Act of 2008 were exempt from the phase-out provision. However, these were repurchased by the Corporation on July 2, 2014.

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Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2015 and will be phased-in over a 4-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

With respect to BPPR and BPNA, the New Capital Rules revise the prompt corrective action (PCA) regulations adopted pursuant to Section 38 of the Federal Deposit Insurance Act, by: (i) introducing a CET1 ratio requirement at each PCA category (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the current 6%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The New Capital Rules do not change the total risk-based capital requirement for any PCA category.

The New Capital Rules prescribe a new standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the assets, and resulting in higher risk weights for a variety of asset classes.

The Corporation has evaluated the impact of the New Capital Rules on our regulatory capital ratios and estimates a reduction of approximately 103 basis points to our Basel I Tier I Common risk-based capital ratio based on our June 30, 2014 balance sheet composition, assuming the TARP repayment and a full phase-in of the New Capital Rules. The following table presents a preliminary estimate of the computation of the Corporation s regulatory capital ratios and risk-weighted assets on a fully-phased in basis under the methodologies set forth in the New Capital Rules based on our current understanding of those Rules and subject to certain assumptions.

We believe that Popular, BPPR and BPNA will be able to meet the required well-capitalized capital ratios on a Basel III basis.

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Table 24 Estimated Regulatory Capital Ratios Under Basel III Rules Fully Phased-in-Basis

(Dollars in thousands)	June 30, 2014 adjusted to reflect the TARP repayment
Tier I common equity (Basel I)	$ 3,221,829
Adjustment related to capital components	10,022
Estimated Tier I common equity under Basel III rules without AOCI	$ 3,231,851
Additional Tier I equity (Basel I)	$ 476,762
Adjustment related to capital components	(426,602)
Estimated additional Tier I equity under Basel III rules	$ 50,160
Tier II capital (Basel I)	$ 298,135
Adjustment related to capital components	450,441
Estimated Tier II capital under Basel III rules	$ 748,576
Total capital (Basel I)	$ 3,996,726
Adjustment related to capital components	33,861
Estimated total capital under Basel III rules	$ 4,030,587
Risk-weighted assets under Basel I rules	$ 23,426,556
Adjustment related to RWA components	1,973,497
Estimated risk-weighted assets under Basel III rules	$ 25,400,053
Estimated ratios:	
Tier I capital	12.92%
Tier I common equity	12.72
Total capital	15.87
Leverage	9.34

Contractual Obligations and Commercial Commitments

The Corporation has various financial obligations, including contractual obligations and commercial commitments, which require future cash payments on debt and lease agreements. Also, in the normal course of business, the Corporation enters into contractual arrangements whereby it commits to future purchases of products or services from third parties. Obligations that are legally binding agreements, whereby the Corporation agrees to purchase products or services with a specific minimum quantity defined at a fixed, minimum or variable price over a specified period of time, are defined as purchase obligations.

Purchase obligations include major legal and binding contractual obligations outstanding at June 30, 2014, primarily for services, equipment and real estate construction projects. Services include software licensing and maintenance, facilities maintenance, supplies purchasing, and other goods or services used in the operation of the business. Generally, these contracts are renewable or cancelable at least annually, although in some cases the Corporation has committed to contracts that may extend for several years to secure favorable pricing concessions. Purchase obligations amounted to $245 million at June 30, 2014 of which approximately 50% matures in 2014, 21% in 2015, 14% in 2016 and 15% thereafter.

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

Refer to Note 18 for a breakdown of long-term borrowings by maturity.

The Corporation utilizes lending-related financial instruments in the normal course of business to accommodate the financial needs of its customers. The Corporation s exposure to credit losses in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit and commercial letters of credit is represented by the contractual notional amount of these instruments. The Corporation uses credit procedures and policies in making those commitments and conditional obligations as it does in extending loans to customers. Since many of the commitments may expire without being drawn upon, the total contractual amounts are not representative of the Corporation s actual future credit exposure or liquidity requirements for these commitments.

Table 25 presents the contractual amounts related to the Corporation s off-balance sheet lending and other activities at June 30, 2014.

Table 25 Off-Balance Sheet Lending and Other Activities

	Amount of commitment - Expiration Period				
(In millions)	Remaining 2014	Years 2015 - 2016	Years 2017 - 2018	Years 2019 - thereafter	Total
Commitments to extend credit	$ 5,592	$ 1,050	$ 198	$ 102	$ 6,942
Commercial letters of credit	5				5
Standby letters of credit	20	28			48
Commitments to originate or fund mortgage loans	20	13			33
Unfunded investment obligations	1	9			10
Total	$ 5,638	$ 1,100	$ 198	$ 102	$ 7,038

Note: Commitments to extend credit and standby letters of credit exclude $111.5 million from discontinued operations.

At June 30, 2014 and December 31, 2013, the Corporation maintained a reserve of approximately $4 million and $7 million, respectively, for probable losses associated with unfunded loan commitments related to commercial and consumer lines of credit. The estimated reserve is principally based on the expected draws on these facilities using historical trends and the application of the corresponding reserve factors determined under the Corporation s allowance for loan losses methodology. This reserve for unfunded loan commitments remains separate and distinct from the allowance for loan losses and is reported as part of other liabilities in the consolidated statement of financial condition.

Refer to Note 24 to the consolidated financial statements for additional information on credit commitments and contingencies.

Guarantees associated with loans sold / serviced

At June 30, 2014, the Corporation serviced $2.3 billion in residential mortgage loans subject to lifetime credit recourse provisions, principally loans associated with FNMA and FHLMC residential mortgage loan securitization programs, compared with $2.5 billion at December 31, 2013. The Corporation s last sale of mortgage loans subject to credit recourse was in 2009.

In the event of any customer default, pursuant to the credit recourse provided, the Corporation is required to repurchase the loan or reimburse the third party investor for the incurred loss. The maximum potential amount of future payments that the Corporation would be required to make under the recourse arrangements in the event of nonperformance by the borrowers is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. In the event of nonperformance by the borrower, the Corporation has rights to the underlying collateral securing the mortgage loan. The

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Corporation suffers losses on these loans when the proceeds from a foreclosure sale of the property underlying a defaulted mortgage loan are less than the outstanding principal balance of the loan plus any uncollected interest advanced and the costs of holding and disposing the related property.

In the case of Puerto Rico, most claims are settled by repurchases of delinquent loans, the majority of which are greater than 90 days past due. The average time period to prepare an initial response to a repurchase request is from 30 to 120 days from the initial written notice depending on the type of repurchase request. Failure by the Corporation to respond to a request for repurchase on a timely basis could result in a deterioration of the seller/servicer relationship and the seller/servicer s overall standing. In certain instances, investors could require additional collateral to ensure compliance with the servicer s repurchase obligation or cancel the seller/servicer license and exercise their rights to transfer the servicing to an eligible seller/servicer.

Table 26 below presents the delinquency status of the residential mortgage loans serviced by the Corporation that are subject to lifetime credit recourse provisions.

Table 26 Delinquency of Residential Mortgage Loans Subject to Lifetime Credit Recourse

(In thousands)	June 30, 2014	December 31, 2013
Total portfolio	$ 2,304,197	$ 2,524,155
Days past due:		
30 days and over	$ 281,092	$ 347,046
90 days and over	$ 123,876	$ 138,018
As a percentage of total portfolio:		
30 days past due or more	12.20%	13.75%
90 days past due or more	5.38%	5.47%

During the second quarter and six months ended June 30, of 2014, the Corporation repurchased approximately $21 million and $48 million, respectively, (unpaid principal balance) in mortgage loans subject to the credit recourse provisions, compared with $36 million and $66 million, respectively, during the same periods of 2013. Based on historical repurchase experience, the loan delinquency status is the main factor which causes the repurchase request. Once the loans are repurchased, they are put through the Corporation s loss mitigation programs.

At June 30, 2014, there was ten outstanding unresolved claim related to the credit recourse portfolio with a principal balance outstanding of $1.2 million, compared with five claims with an outstanding balance of $769 thousand at December 31, 2013. The outstanding unresolved claims at June 30, 2014 pertain to FNMA and Freddie Mac and to FNMA at December 31, 2013.

At June 30, 2014, the Corporation s liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to $48 million, compared with $41 million at December 31, 2013.

The following table presents the changes in the Corporation s liability for estimated losses related to loans serviced with credit recourse provisions for the quarters and six months ended June 30, 2014 and 2013.

Table 27 Changes in Liability of Estimated Losses from Credit Recourse Agreements

(In thousands)	Quarters ended June 30, 2014	Quarters ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Balance as of beginning of period	$ 45,809	$ 47,983	$ 41,463	$ 51,673
Provision for recourse liability	7,984	6,688	19,026	10,785
Net charge-offs / terminations	(5,901)	(8,779)	(12,597)	(16,566)
Balance as of end of period	$ 47,892	$ 45,892	$ 47,892	$ 45,892

The provision for credit recourse liability increased by $8.2 million during the six months ended June 30 2014, when compared with the same period in 2013, due to certain enhancements in the estimated losses for credit recourse at BPPR.

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The estimated losses to be absorbed under the credit recourse arrangements are recorded as a liability when the loans are sold or credit recourse is assumed as part of acquired servicing rights and are updated by accruing or reversing expense (categorized in the line item adjustments (expense) to indemnity reserves on loans sold in the consolidated statements of operations) throughout the life of the loan, as necessary, when additional relevant information becomes available. The methodology used to estimate the recourse liability is a function of the recourse arrangements given and considers a variety of factors, which include actual defaults and historical loss experience, foreclosure rate, estimated future defaults and the probability that a loan would be delinquent. Statistical methods are used to estimate the recourse liability. Expected loss rates are applied to different loan segmentations. The expected loss, which represents the amount expected to be lost on a given loan, considers the probability of default and loss severity. The probability of default represents the probability that a loan in good standing would become 90 days delinquent within the following twelve-month period. Regression analysis quantifies the relationship between the default event and loan-specific characteristics, including credit scores, loan-to-value ratios and loan aging, among others.

Servicing agreements relating to the mortgage-backed securities programs of FNMA and GNMA, and to mortgage loans sold or serviced to certain other investors, including FHLMC, require the Corporation to advance funds to make scheduled payments of principal, interest, taxes and insurance, if such payments have not been received from the borrowers. At June 30, 2014, the Corporation serviced $16.1 billion in mortgage loans for third-parties, including the loans serviced with credit recourse, compared with $16.3 billion at December 31, 2013. The Corporation generally recovers funds advanced pursuant to these arrangements from the mortgage borrower, from liquidation proceeds when the mortgage loan is foreclosed or, in the case of FHA/VA loans, under the applicable FHA and VA insurance and guarantees programs. However, in the meantime, the Corporation must absorb the cost of the funds it advances during the time the advance is outstanding. The Corporation must also bear the costs of attempting to collect on delinquent and defaulted mortgage loans. In addition, if a defaulted loan is not cured, the mortgage loan would be canceled as part of the foreclosure proceedings and the Corporation would not receive any future servicing income with respect to that loan. At June 30, 2014, the outstanding balance of funds advanced by the Corporation under such mortgage loan servicing agreements was approximately $24 million, compared with $29 million during 2013. To the extent the mortgage loans underlying the Corporation s servicing portfolio experience increased delinquencies, the Corporation would be required to dedicate additional cash resources to comply with its obligation to advance funds as well as incur additional administrative costs related to increases in collection efforts.

When the Corporation sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. The Corporation s mortgage operations in Puerto Rico conform mortgage loans into pools which are exchanged for FNMA and GNMA mortgage-backed securities, which are generally sold to private investors, or are sold directly to FNMA for cash. As required under the government agency programs, quality review procedures are performed by the Corporation to ensure that asset guideline qualifications are met. To the extent the loans do not meet specified characteristics, the Corporation may be required to repurchase such loans or indemnify for losses and bear any subsequent loss related to the loans. Repurchases under representation and warranty arrangements in which the Corporation s Puerto Rico banking subsidiaries were required to repurchase the loans amounted to $2.2 million in unpaid principal balance with losses amounting to $1.6 million during the six months ended June 30, 2014. A substantial amount of these loans reinstate to performing status or have mortgage insurance, and thus the ultimate losses on the loans are not deemed significant.

During the quarter ended June 30, 2013, the Corporation established a reserve for certain specific representation and warranties made in connection with BPPR s sale of non-performing mortgage loans. The purchaser s sole remedy under the indemnity clause is to seek monetary damages from BPPR, for a maximum of $16.3 million. BPPR recognized a reserve of approximately $3.0 million, representing its best estimate of the loss that would be incurred in connection with this indemnification. BPPR s obligations under this clause end one year after the closing except with respect to any claim asserted prior to such termination date. The reserve balance has been maintained to cover claims received from the purchaser, which are currently being evaluated.

During the quarter ended March 31, 2013, the Corporation established a reserve for certain specific representation and warranties made in connection with BPPR s sale of commercial and construction loans, and commercial and single family real estate owned. The purchaser s sole remedy under the indemnity clause is to seek monetary damages from BPPR, for a maximum of $18.0 million. BPPR is not required to repurchase any of the assets. BPPR recognized a reserve of approximately $10.7 million, representing its best estimate of the loss that would be incurred in connection with this indemnification. During the quarter ended March 31, 2014, the Corporation released $2.0 million of this reserve based on an evaluation of claims received under this clause.

The following table presents the changes in the Corporation s liability for estimated losses associated with indemnifications and customary representations and warranties related to loans sold by BPPR during the quarters and six months ended June 30, 2014 and 2013.

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Table 28 Changes in Liability of Estimated Losses from Indemnifications and Customary Representations and Warranties Agreements

(In thousands)	Quarters ended June 30, 2014	Quarters ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Balance as of beginning of period	$ 23,731	$ 17,603	$ 26,261	$ 7,587
Additions for new sales		3,047		13,747
Provision (reversal) for representation and warranties	(1,647)	415	(2,663)	125
Net charge-offs / terminations	(504)	(106)	(2,018)	(500)
Balance as of end of period	$ 21,580	$ 20,959	$ 21,580	$ 20,959

In addition, at June 30, 2014, the Corporation has reserves for customary representations and warranties related to loans sold by its U.S. subsidiary E-LOAN prior to 2009. Loans were sold to investors on a servicing released basis subject to certain representations and warranties. Although the risk of loss or default was generally assumed by the investors, the Corporation made certain representations relating to borrower creditworthiness, loan documentation and collateral, which if not correct, may result in requiring the Corporation to repurchase the loans or indemnify investors for any related losses associated with these loans. At June 30, 2014 and December 31, 2013, the Corporation s reserve for estimated losses from such representation and warranty arrangements amounted to $5 million and $7 million, respectively. E-LOAN is no longer originating and selling loans since the subsidiary ceased these activities in 2008 and most of the outstanding agreements with major counterparties were settled during 2010 and 2011.

MARKET RISK

The financial results and capital levels of Popular, Inc. are constantly exposed to market risk. Market risk represents the risk of loss due to adverse movements in market rates or financial asset prices, which include interest rates, foreign exchange rates, and bond and equity security prices; the failure to meet financial obligations coming due because of the inability to liquidate assets or obtain adequate funding; and the inability to easily unwind or offset specific exposures without significantly lowering prices because of inadequate market depth or market disruptions.

While the Corporation is exposed to various business risks, the risks relating to interest rate risk and liquidity are major risks that can materially impact future results of operations and financial condition due to their complexity and dynamic nature.

The Asset Liability Management Committee (ALCO) and the Corporate Finance Group are responsible for planning and executing the Corporation s market, interest rate risk, funding activities and strategy, and for implementing the policies and procedures approved by the Corporation s Risk Management Committee. In addition, the Risk Management Group independently monitors and reports adherence with established market and liquidity policies and recommends actions to enhance and strengthen controls surrounding interest, liquidity, and market risks. The ALCO meets mostly on a weekly basis and reviews the Corporation s current and forecasted asset and liability positions as well as desired pricing strategies and other relevant topics. Also, on a monthly basis the ALCO reviews various interest rate risk metrics, ratios and portfolio information, including but not limited to, the Corporation s liquidity positions, projected sources and uses of funds, interest rate risk positions and economic conditions.

Interest rate risk (IRR), a component of market risk, is considered by management as a predominant market risk in terms of its potential impact on profitability or market value. Management utilizes various tools to assess IRR, including simulation modeling, static gap analysis, and Economic Value of Equity (EVE). The three methodologies complement each other and are use jointly in the evaluation of the Corporation s IRR. Simulation modeling is prepared for a five year period, which in conjunction with the EVE analysis, provides Management a better view of long term IRR.

Net interest income simulation analysis performed by legal entity and on a consolidated basis is a tool used by the Corporation in estimating the potential change in future net interest income resulting from hypothetical changes in interest rates. Sensitivity analysis is calculated using a simulation model which incorporates actual balance sheet figures detailed by maturity and interest yields or costs. It also incorporates assumptions on balance sheet growth and expected changes in its composition, estimated prepayments in accordance with projected interest rates, pricing and maturity expectations on new volumes and other non-interest related data.

Management assesses interest rate risk using various interest rate scenarios that differ in magnitude and direction, the speed of change and the projected shape of the yield curve. For example, the types of interest rate scenarios processed include most likely economic scenarios, flat or unchanged rates, yield curve twists, + 200 and + 400 basis points parallel ramps and + 200 and + 400

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basis points parallel shocks. Given the fact that some market interest rates are close to zero, management has focused on measuring the risk on net interest income in rising rate scenarios. Management also performs analyses to isolate and measure basis and prepayment risk exposures.

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

The Corporation runs net interest income simulations under interest rate scenarios in which the yield curve is assumed to rise gradually by the same amount. The rising rate scenarios considered in these market risk disclosures reflect gradual parallel changes of 200 and 400 basis points during the twelve-month period ending June 30, 2015. Under a 200 basis points rising rate scenario, projected net interest income increases by $33 million, while under a 400 basis points rising rate scenario, projected net interest income increases by $54 million, when compared against the Corporation s flat or unchanged interest rates forecast scenario. These interest rate simulations exclude the impact on loans accounted pursuant to ASC Subtopic 310-30, whose yields are based on management s current expectation of future cash flows.

Simulation analyses are based on many assumptions, including relative levels of market interest rates, interest rate spreads, loan prepayments and deposit decay. They should not be relied upon as indicative of actual results. Further, the estimates do not contemplate actions that management could take to respond to changes in interest rates. By their nature, these forward-looking computations are only estimates and may be different from what may actually occur in the future.

The Corporation estimates the sensitivity of economic value of equity to changes in interest rates. EVE is equal to the estimated present value of the Corporation s assets minus the estimated present value of the liabilities. This sensitivity analysis is a useful tool to measure long-term IRR because it captures the impact of rate changes in expected cash flows from all future periods, including principal and interest.

EVE sensitivity using interest rate shock scenarios is estimated on a quarterly basis. The current EVE sensitivity is focused on rising 200 and 400 basis point parallel shocks. Management has a defined limit for the increase in EVE sensitivity resulting from the shock scenario.

The Corporation maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in net interest income or market value that are caused by interest rate volatility. The market value of these derivatives is subject to interest rate fluctuations and counterparty credit risk adjustments which could have a positive or negative effect in the Corporation s earnings.

Trading

The Corporation engages in trading activities in the ordinary course of business at its subsidiaries, Banco Popular de Puerto Rico (BPPR) and Popular Securities. Popular Securities trading activities consist primarily of market-making activities to meet expected customers needs related to its retail brokerage business and purchases and sales of U.S. Government and government sponsored securities with the objective of realizing gains from expected short-term price movements. BPPR s trading activities consist primarily of holding U.S. Government sponsored mortgage-backed securities classified as trading and hedging the related market risk with TBA (to-be-announced) market transactions.

The objective is to derive spread income from the portfolio and not to benefit from short-term market movements. In addition, BPPR uses forward contracts or TBAs to hedge its securitization pipeline. Risks related to variations in interest rates and market volatility are hedged with TBAs that have characteristics similar to that of the forecasted security and its conversion timeline.

At June 30, 2014, the Corporation held trading securities with a fair value of $346 million, representing approximately 1.0% of the Corporation s total assets, compared with $340 million and 1.0% at December 31, 2013. As shown in Table 29, the trading portfolio consists principally of mortgage-backed securities, which at June 30, 2014 were investment grade securities. As of June 30, 2014, the trading portfolio also included $10.3 million in Puerto Rico government obligations and shares of Closed-end funds that invest primarily in Puerto Rico government obligations (December 31, 2013 - $11.1 million) held by Popular Securities. Trading instruments are recognized at fair value, with changes resulting from fluctuations in market prices, interest rates or exchange rates reported in current period earnings. The Corporation recognized a net trading account gain of $1.1 million for the quarter ended June 30, 2014 and a trading account loss of $4.3 million for the quarter ended June 30, 2013. Table 29 provides the composition of the trading portfolio at June 30, 2014 and December 31, 2013.

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Table 29 Trading Portfolio

	June 30, 2014		December 31, 2013	
(Dollars in thousands)	Amount	Weighted Average Yield [1]	Amount	Weighted Average Yield [1]
Mortgage-backed securities	$ 317,082	4.82%	$ 312,751	4.90%
Collateralized mortgage obligations	1,845	4.81	1,849	4.75
Puerto Rico obligations	8,197	5.14	7,586	5.15
Interest-only strips	842	12.16	915	12.01
Other (includes related trading derivatives)	17,857	2.63	16,642	3.14
Total	$ 345,823	4.73%	$ 339,743	4.84%

[1] Not on a taxable equivalent basis.

The Corporation s trading activities are limited by internal policies. For each of the two subsidiaries, the market risk assumed under trading activities is measured by the 5-day net value-at-risk (VAR), with a confidence level of 99%. The VAR measures the maximum estimated loss that may occur over a 5-day holding period, given a 99% probability. Under the Corporation s current policies, trading exposures cannot exceed 2% of the trading portfolio market value of each subsidiary, subject to a cap.

The Corporation s trading portfolio had a 5-day VAR of approximately $1.5 million, assuming a confidence level of 99%, for the last week in June 2014. There are numerous assumptions and estimates associated with VAR modeling, and actual results could differ from these assumptions and estimates. Backtesting is performed to compare actual results against maximum estimated losses, in order to evaluate model and assumptions accuracy.

In the opinion of management, the size and composition of the trading portfolio does not represent a significant source of market risk for the Corporation.

FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The Corporation currently measures at fair value on a recurring basis its trading assets, available-for-sale securities, derivatives, mortgage servicing rights and contingent consideration. Occasionally, the Corporation may be required to record at fair value other assets on a nonrecurring basis, such as loans held-for-sale, impaired loans held-in-portfolio that are collateral dependent and certain other assets. These nonrecurring fair value adjustments typically result from the application of lower of cost or fair value accounting or write-downs of individual assets.

The Corporation categorizes its assets and liabilities measured at fair value under the three-level hierarchy. The level within the hierarchy is based on whether the inputs to the valuation methodology used for fair value measurement are observable.

Refer to Note 27 to the consolidated financial statements for information on the Corporation s fair value measurement disclosures required by the applicable accounting standard. At June 30, 2014, approximately $ 6.0 billion, or 97%, of the assets measured at fair value on a recurring basis used market-based or market-derived valuation inputs in their valuation methodology and, therefore, were classified as Level 1 or Level 2. The majority of instruments measured at fair value were classified as Level 2, including U.S. Treasury securities, obligations of U.S. Government sponsored entities, obligations of Puerto Rico, States and political subdivisions, most mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs), and derivative instruments.

At June 30, 2014, the remaining 3% of assets measured at fair value on a recurring basis were classified as Level 3 since their valuation methodology considered significant unobservable inputs. The financial assets measured as Level 3 included mostly tax-exempt GNMA mortgage-backed securities and mortgage servicing rights (MSRs). Additionally, the Corporation reported $77 million of financial assets that were measured at fair value on a nonrecurring basis at June 30, 2014, all of which were classified as Level 3 in the hierarchy.

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Broker quotes used for fair value measurements inherently reflect any lack of liquidity in the market since they represent an exit price from the perspective of the market participants. Financial assets that were fair valued using broker quotes amounted to $ 29 million at June 30, 2014, of which $ 14 million were Level 3 assets and $ 15 million were Level 2 assets. Level 3 assets consisted principally of tax-exempt GNMA mortgage-backed securities. Fair value for these securities was based on an internally-prepared matrix derived from an average of two indicative local broker quotes. The main input used in the matrix pricing was non-binding local broker quotes obtained from limited trade activity. Therefore, these securities were classified as Level 3.

During the quarter and six months ended June 30, 2014, there were no transfers in and/or out of Level 1, Level 2 and Level 3 for financial instruments measured at fair value on a recurring basis. Refer to the Critical Accounting Policies / Estimates in the 2013 Annual Report for additional information on the accounting guidance and the Corporation s policies or procedures related to fair value measurements.

Trading Account Securities and Investment Securities Available-for-Sale

The majority of the values for trading account securities and investment securities available-for-sale are obtained from third-party pricing services and are validated with alternate pricing sources when available. Securities not priced by a secondary pricing source are documented and validated internally according to their significance to the Corporation s financial statements. Management has established materiality thresholds according to the investment class to monitor and investigate material deviations in prices obtained from the primary pricing service provider and the secondary pricing source used as support for the valuation results. During the quarter and six months ended June 30, 2014, the Corporation did not adjust any prices obtained from pricing service providers or broker dealers.

Inputs are evaluated to ascertain that they consider current market conditions, including the relative liquidity of the market. When a market quote for a specific security is not available, the pricing service provider generally uses observable data to derive an exit price for the instrument, such as benchmark yield curves and trade data for similar products. To the extent trading data is not available, the pricing service provider relies on specific information including dialogue with brokers, buy side clients, credit ratings, spreads to established benchmarks and transactions on similar securities, to draw correlations based on the characteristics of the evaluated instrument. If for any reason the pricing service provider cannot observe data required to feed its model, it discontinues pricing the instrument. During the quarter and six months ended June 30, 2014, none of the Corporation s investment securities were subject to pricing discontinuance by the pricing service providers. The pricing methodology and approach of our primary pricing service providers is concluded to be consistent with the fair value measurement guidance.

Furthermore, management assesses the fair value of its portfolio of investment securities at least on a quarterly basis, which includes analyzing changes in fair value that have resulted in losses that may be considered other-than-temporary. Factors considered include, for example, the nature of the investment, severity and duration of possible impairments, industry reports, sector credit ratings, economic environment, creditworthiness of the issuers and any guarantees.

Securities are classified in the fair value hierarchy according to product type, characteristics and market liquidity. At the end of each period, management assesses the valuation hierarchy for each asset or liability measured. The fair value measurement analysis performed by the Corporation includes validation procedures and review of market changes, pricing methodology, assumption and level hierarchy changes, and evaluation of distressed transactions.

At June 30, 2014, the Corporation s portfolio of trading and investment securities available-for-sale amounted to $ 6.0 billion and represented 97% of the Corporation s assets measured at fair value on a recurring basis. At June 30, 2014, net unrealized gains on the trading and available-for-sale investments securities portfolios approximated $11 million and $4 million, respectively. Fair values for most of the Corporation s trading and investment securities available-for-sale were classified as Level 2. Trading and investment securities available-for-sale classified as Level 3, which were the securities that involved the highest degree of judgment, represented less than 1% of the Corporation s total portfolio of trading and investment securities available-for-sale.

Mortgage Servicing Rights

Mortgage servicing rights (MSRs), which amounted to $ 152 million at June 30, 2014, do not trade in an active, open market with readily observable prices. Fair value is estimated based upon discounted net cash flows calculated from a combination of loan level data and market assumptions. The valuation model combines loans with common characteristics that impact servicing cash flows (e.g. investor, remittance cycle, interest rate, product type, etc.) in order to project net cash flows. Market valuation assumptions include prepayment speeds, discount rate, cost to service, escrow account earnings, and contractual servicing fee income, among other considerations. Prepayment speeds are derived from market data that is more relevant to the U.S. mainland loan portfolios and, thus, are adjusted for the Corporation s loan characteristics and portfolio behavior since prepayment rates in Puerto Rico have

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been historically lower. Other assumptions are, in the most part, directly obtained from third-party providers. Disclosure of two of the key economic assumptions used to measure MSRs, which are prepayment speed and discount rate, and a sensitivity analysis to adverse changes to these assumptions, is included in Note 13 to the consolidated financial statements.

Derivatives

Derivatives, such as interest rate swaps and indexed options, are traded in over-the-counter active markets. These derivatives are indexed to an observable interest rate benchmark, such as LIBOR or equity indexes, and are priced using an income approach based on present value and option pricing models using observable inputs. Other derivatives are liquid and have quoted prices, such as forward contracts or to be announced securities (TBAs). All of these derivatives held by the Corporation were classified as Level 2. Valuations of derivative assets and liabilities reflect the values associated with counterparty risk and nonperformance risk, respectively. The non-performance risk, which measures the Corporation s own credit risk, is determined using internally-developed models that consider the net realizable value of the collateral posted, remaining term, and the creditworthiness or credit standing of the Corporation. The counterparty risk is also determined using internally-developed models which incorporate the creditworthiness of the entity that bears the risk, net realizable value of the collateral received, and available public data or internally-developed data to determine their probability of default. To manage the level of credit risk, the Corporation employs procedures for credit approvals and credit limits, monitors the counterparties credit condition, enters into master netting agreements whenever possible and, when appropriate, requests additional collateral. During the quarter ended June 30, 2014, inclusion of credit risk in the fair value of the derivatives resulted in a net gain of $0.4 million recorded in the other operating income and interest expense captions of the consolidated statement of operations, which consisted of a loss of $0.2 million from the assessment of the counterparties credit risk and a gain of $0.6 million resulting from the Corporation s own credit standing adjustment. During the six months ended June 30, 2014, inclusion of credit risk in the fair value of the derivatives resulted in a net gain of $1.5 million recorded in the other operating income and interest expense captions of the consolidated statement of operations, which consisted of a gain of $1.0 million resulting from assessment of the counterparties credit risk and a gain of $0.5 million resulting from the Corporation s own credit standing adjustment.

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

The impairment is based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, size and supply and demand. Deterioration of the housing markets and the economy in general have adversely impacted and continue to affect the market activity related to real estate properties. These collateral dependent impaired loans are classified as Level 3 and are reported as a nonrecurring fair value measurement.

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LIQUIDITY

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

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

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

Deposits, including customer deposits, brokered deposits and public funds deposits, continue to be the most significant source of funds for the Corporation, funding 68% of the Corporation s total assets at June 30, 2014, compared with 75% at December 31, 2013. The ratio of total ending loans to deposits was 90% at June 30, 2014, compared to 93% at December 31, 2013. In addition to traditional deposits, the Corporation maintains borrowing arrangements. At June 30, 2014, these borrowings consisted primarily of $ 1.8 billion in assets sold under agreement to repurchase, $541 million in advances with the FHLB, $1.4 billion in junior subordinated deferrable interest debentures related to trust preferred securities and $450 million in term notes issued to partially fund the repayment of TARP funds. A detailed description of the Corporation s borrowings, including their terms, is included in Note 18 to the consolidated financial statements. Also, the consolidated statements of cash flows in the accompanying consolidated financial statements provide information on the Corporation s cash inflows and outflows.

On April 22, 2014 the Corporation s U.S. bank subsidiary (PCB) declared a $250 million cash dividend to the Bank Holding Company (BHC), $100 million of which was contributed by the BHC to the Puerto Rico banking subsidiary (BPPR).

The following sections provide further information on the Corporation s major funding activities and needs, as well as the risks involved in these activities. A detailed description of the Corporation s borrowings and available lines of credit, including its terms, is included in Note 18 to the consolidated financial statements. Also, the consolidated statements of cash flows in the accompanying consolidated financial statements provide information on the Corporation s cash inflows and outflows.

Banking Subsidiaries

Primary sources of funding for the Corporation s banking subsidiaries (BPPR and BPNA), or the banking subsidiaries, include retail and commercial deposits, brokered deposits, unpledged investment securities, and, to a lesser extent, loan sales. In addition, the Corporation maintains borrowing facilities with the FHLB and at the discount window of the Fed, and has a considerable amount of collateral pledged that can be used to quickly raise funds under these facilities.

The principal uses of funds for the banking subsidiaries include loan originations, investment portfolio purchases, loan purchases and repurchases, repayment of outstanding obligations (including deposits), and operational expenses. Also, the banking subsidiaries assume liquidity risk related to collateral posting requirements for certain activities mainly in connection with contractual commitments, recourse provisions, servicing advances, derivatives, credit card licensing agreements and support to several mutual funds administered by BPPR.

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Note 38 to the consolidated financial statements provides a consolidating statement of cash flows which includes the Corporation s banking subsidiaries as part of the All other subsidiaries and eliminations column.

The banking subsidiaries maintain sufficient funding capacity to address large increases in funding requirements such as deposit outflows. This capacity is comprised mainly of available liquidity derived from secured funding sources, as well as on-balance sheet liquidity in the form of cash balances maintained at the Fed and unused secured lines held at the Fed and FHLB, in addition to liquid unpledged securities. The Corporation has established liquidity guidelines that require the banking subsidiaries to have sufficient liquidity to cover all short-term borrowings and a portion of deposits.

The Corporation s ability to compete successfully in the marketplace for deposits, excluding brokered deposits, depends on various factors, including pricing, service, convenience and financial stability as reflected by operating results, credit ratings (by nationally recognized credit rating agencies), and importantly, FDIC deposit insurance. Although a downgrade in the credit ratings of the Corporation s banking subsidiaries may impact their ability to raise retail and commercial deposits or the rate that it is required to pay on such deposits, management does not believe that the impact should be material. Deposits at all of the Corporation s banking subsidiaries are federally insured (subject to FDIC limits) and this is expected to mitigate the potential effect of a downgrade in the credit ratings.

Deposits are a key source of funding as they tend to be less volatile than institutional borrowings and their cost is less sensitive to changes in market rates. Refer to Table 19 for a breakdown of deposits by major types. Core deposits are generated from a large base of consumer, corporate and institutional customers. Core deposits include all non-interest bearing deposits, savings deposits and certificates of deposit under $100,000, excluding brokered deposits with denominations under $100,000. Core deposits have historically provided the Corporation with a sizable source of relatively stable and low-cost funds. Core deposits totaled $ 20.4 billion, or 82% of total deposits, at June 30, 2014, compared with $21.9 billion, or 82% of total deposits, at December 31, 2013. Core deposits financed 67% of the Corporation s earning assets at June 30, 2014, compared with 70% at December 31, 2013.

Certificates of deposit with denominations of $100,000 and over at June 30, 2014 totaled $3.0 billion, or 12% of total deposits (December 31, 2013 - $3.2 billion, or 12% of total deposits). Their distribution by maturity at June 30, 2014 is presented in the table that follows:

Table 30 Distribution by Maturity of Certificate of Deposits of $100,000 and Over

(In thousands)	
3 months or less	$ 1,557,130
3 to 6 months	437,155
6 to 12 months	421,364
Over 12 months	601,934
Total	$ 3,017,583

At June 30, 2014 and December 31, 2013, approximately 7% of the Corporation s assets were financed by brokered deposits. The Corporation had $2.4 billion in brokered deposits at June 30, 2014 and December 31, 2013. In the event that any of the Corporation s banking subsidiaries regulatory capital ratios fall below those required by a well-capitalized institution or are subject to capital restrictions by the regulators, that banking subsidiary faces the risk of not being able to raise or maintain brokered deposits and faces limitations on the rate paid on deposits, which may hinder the Corporation s ability to effectively compete in its retail markets and could affect its deposit raising efforts.

To the extent that the banking subsidiaries are unable to obtain sufficient liquidity through core deposits, the Corporation may meet its liquidity needs through short-term borrowings by pledging securities for borrowings under repurchase agreements, by pledging additional loans and securities through the available secured lending facilities, or by selling liquid assets. These measures are subject to availability of collateral.

The Corporation s banking subsidiaries have the ability to borrow funds from the FHLB. At June 30, 2014 and December 31, 2013, the banking subsidiaries had credit facilities authorized with the FHLB aggregating to $3.3 billion and $3.0 billion, respectively, based on assets pledged with the FHLB at those dates. Outstanding borrowings under these credit facilities totaled $541 million at June 30, 2014 and $1.2 billion at December 31, 2013. Such advances are collateralized by loans held-in-portfolio, do not have restrictive covenants and do not have any callable features. At June 30, 2014 the credit facilities authorized with the FHLB were collateralized by $ 3.4 billion in loans held-in-portfolio and $4.5 billion at December 31, 2013. Refer to Note 18 to the consolidated financial statements for additional information on the terms of FHLB advances outstanding.

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At June 30, 2014 and December 31, 2013, the Corporation s borrowing capacity at the Fed s Discount Window amounted to approximately $2.6 billion and $3.4 billion, respectively, which remained unused as of both dates. This facility is a collateralized source of credit that is highly reliable even under difficult market conditions. The amount available under this borrowing facility is dependent upon the balance of performing loans, securities pledged as collateral and the haircuts assigned to such collateral. At June 30, 2014 and December 31, 2013, this credit facility with the Fed was collateralized by $4.8 billion and $4.5 billion, respectively, in loans held-in-portfolio.

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

As disclosed in Note 3, Discontinued Operations, in connection with the sale of the U.S. regional operations of California, Illinois and Central Florida, BPNA will be transferring the assets and liabilities of these regions which currently result in an aggregate net liability of $251.4 million. Upon the closing of these transactions, BPNA will need to fund this difference with its available liquid assets.

At June 30, 2014, management believes that the banking subsidiaries had sufficient current and projected liquidity sources to meet their anticipated cash flow obligations, as well as special needs and off-balance sheet commitments, in the ordinary course of business and have sufficient liquidity resources to address a stress event. Although the banking subsidiaries have historically been able to replace maturing deposits and advances if desired, no assurance can be given that they would be able to replace those funds in the future if the Corporation s financial condition or general market conditions were to deteriorate. The Corporation s financial flexibility will be severely constrained if its banking subsidiaries are unable to maintain access to funding or if adequate financing is not available to accommodate future financing needs at acceptable interest rates. The banking subsidiaries also are required to deposit cash or qualifying securities to meet margin requirements. To the extent that the value of securities previously pledged as collateral declines because of market changes, the Corporation will be required to deposit additional cash or securities to meet its margin requirements, thereby adversely affecting its liquidity. Finally, if management is required to rely more heavily on more expensive funding sources to meet its future growth, revenues may not increase proportionately to cover costs. In this case, profitability would be adversely affected.

Westernbank FDIC-assisted Transaction and Impact on Liquidity

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

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

BPPR s liquidity may also be impacted by the loan payment performance and timing of claims made and receipt of reimbursements under the FDIC loss sharing agreements. Please refer to the Legal Proceedings section of Note 24 to the consolidated financial statements and to Part II, Item 1A- Risk factors herein for a description of an ongoing contractual dispute between BPPR and the FDIC which has impacted the timing of the payment of claims under the loss share agreements.

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Bank Holding Companies

The principal sources of funding for the holding companies include cash on hand, investment securities, dividends received from banking and non-banking subsidiaries (subject to regulatory limits and authorizations) asset sales, credit facilities available from affiliate banking subsidiaries and proceeds from potential securities offerings.

The principal use of these funds include the repayment of debt, and interest payments to holders of senior debt and junior subordinated deferrable interest (related to trust preferred securities) and capitalizing its banking subsidiaries.

During the six months ended June 30, 2014, PIHC received $ 2.3 million in dividends from EVERTEC s parent company. PIHC also received $10.1 million in dividends from its investment in BHD.

On July 2, 2014, the Corporation completed the repayment of TARP funds to the U.S. Treasury through the repurchase of $935 million of trust capital securities issued to the U.S. Treasury under the TARP Capital Purchase Program. The Corporation funded the repurchase through a combination of available cash and approximately $400 million from the proceeds of the issuance of its $450 million aggregate principal amount of 7% Senior Notes due on 2019 which settled on July 1, 2014.

On July 23, 2014, the Corporation also completed the repurchase of the outstanding warrant initially issued to the U.S. Treasury under the TARP Capital Purchase Program in 2008. The warrant represented the right to purchase 2,093,284 shares of the Corporation s common stock at an exercise price of $67 per share with an original term of 10 years. The Corporation and the U.S. Treasury agreed upon a repurchase price of $3.0 million for the warrant. With the completion of this transaction, the Corporation completed its exit from the TARP Capital Purchase Program.

In connection with the repayment of TARP on July 2, 2014, the Corporation accelerated the related amortization of the discount and deferred costs amounting to $414.1 million during the second quarter of 2014, which is reflected as part of interest expense in the consolidated statement of operations.

Another use of liquidity at the parent holding company is the payment of dividends on preferred stock. At the end of 2010, the Corporation resumed paying dividends on its Series A and B preferred stock. The preferred stock dividends amounted to $1.9 million for the six months ended June 30, 2014. The preferred stock dividends paid were financed by issuing new shares of common stock to the participants of the Corporation s qualified employee savings plans. The Corporation is required to obtain approval from the Fed prior to declaring or paying dividends, incurring, increasing or guaranteeing debt or making any distributions on its trust preferred securities or subordinated debt. The Corporation anticipates that any future preferred stock dividend payments would continue to be financed with the issuance of new common stock in connection with its qualified employee savings plans. The Corporation is not paying dividends to holders of its common stock.

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

Note 38 to the consolidated financial statements provides a statement of condition, of operations and of cash flows for the two BHC s. The loans held-in-portfolio in such financial statements is principally associated with intercompany transactions.

The outstanding balance of notes payable at the BHC s amounted to $1.8 billion at June 30, 2014 and to $972 million on December 31, 2013. These borrowings are principally junior subordinated debentures (related to trust preferred securities), including those issued to the U.S. Treasury as part of the TARP, and unsecured senior debt (term notes) which were repaid in full on July 2, 2014, as mentioned above. The repayment of the BHC s obligations represents a potential cash need which is expected to be met with a combination of internal liquidity resources stemming mainly from future dividend receipts and new borrowings. Increasing or guaranteeing new debt would be subject to the approval of the Fed.

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The contractual maturities of the BHC s notes payable at June 30, 2014 are presented in Table 31.

Table 31 Distribution of BHC s Notes Payable by Contractual Maturity

Year	(In thousands)
2014	$ 675
2015	
2016	
2017	
2018	
Later years	889,800
No stated maturity	936,000
Total	1,826,475

The BHCs liquidity position continues to be adequate with sufficient cash on hand, investments and other sources of liquidity which are expected to be enough to meet all BHCs obligations during the foreseeable future.

Non-banking subsidiaries

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

Obligations Subject to Rating Triggers or Collateral Requirements

The Corporation s banking subsidiaries currently do not use borrowings that are rated by the major rating agencies, as these banking subsidiaries are funded primarily with deposits and secured borrowings. The banking subsidiaries had $19 million in deposits at June 30, 2014 that are subject to rating triggers.

Some of the Corporation s derivative instruments include financial covenants tied to the bank s well-capitalized status and certain formal regulatory actions. These agreements could require exposure collateralization, early termination or both. The fair value of derivative instruments in a liability position subject to financial covenants approximated $12 million at June 30, 2014, with the Corporation providing collateral totaling $16 million to cover the net liability position with counterparties on these derivative instruments.

In addition, certain mortgage servicing and custodial agreements that BPPR has with third parties include rating covenants. In the event of a credit rating downgrade, the third parties have the right to require the institution to engage a substitute cash custodian for escrow deposits and/or increase collateral levels securing the recourse obligations. Also, as discussed in the Guarantees section of this MD&A, the Corporation services residential mortgage loans subject to credit recourse provisions. Certain contractual agreements require the Corporation to post collateral to secure such recourse obligations if the institution s required credit ratings are not maintained. Collateral pledged by the Corporation to secure recourse obligations amounted to approximately $105 million at June 30, 2014. The

Corporation could be required to post additional collateral under the agreements. Management expects that it would be able to meet additional collateral requirements if and when needed. The requirements to post collateral under certain agreements or the loss of escrow deposits could reduce the Corporation s liquidity resources and impact its operating results.

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CREDIT RISK MANAGEMENT AND LOAN QUALITY

Non-Performing Assets

Non-performing assets include primarily past-due loans that are no longer accruing interest, renegotiated loans, and real estate property acquired through foreclosure. A summary, including certain credit quality metrics, is presented in Table 29.

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

Commercial and construction loans recognition of interest income on commercial and construction loans is discontinued when the loans are 90 days or more in arrears on payments of principal or interest or when other factors indicate that the collection of principal and interest is doubtful. The impaired portions of secured loans past due as to principal and interest is charged-off not later than 365 days past due. However, in the case of collateral dependent loans individually evaluated for impairment, the excess of the recorded investment over the fair value of the collateral (portion deemed uncollectible) is generally promptly charged-off, but in any event, not later than the quarter following the quarter in which such excess was first recognized. Commercial unsecured loans are charged-off no later than 180 days past due. Overdrafts are generally charged-off no later than 60 days past their due date.

Lease financing recognition of interest income for lease financing is ceased when loans are 90 days or more in arrears. Leases are charged-off when they are 120 days in arrears.

Mortgage loans recognition of interest income on mortgage loans is generally discontinued when loans are 90 days or more in arrears on payments of principal or interest. The impaired portion of a mortgage loan is charged-off when the loan is 180 days past due. The Corporation discontinues the recognition of interest income on residential mortgage loans insured by the Federal Housing Administration (FHA) or guaranteed by the U.S. Department of Veterans Affairs (VA) when 18 months delinquent as to principal or interest. The principal repayment on these loans is insured.

Consumer loans recognition of interest income on closed-end consumer loans and home-equity lines of credit is discontinued when the loans are 90 days or more in arrears on payments of principal or interest. Income is generally recognized on open-end consumer loans, except for home equity lines of credit, until the loans are charged-off. Closed-end consumer loans are charged-off when they are 120 days in arrears. Open-end consumer loans are charged-off when they are 180 days in arrears. Overdrafts in excess of 60 days are generally charged-off no later than 60 days past their due date.

Troubled debt restructurings (TDRs) loans classified as TDRs are typically in non-accrual status at the time of the modification. The TDR loan continues in non-accrual status until the borrower has demonstrated a willingness and ability to make the restructured loan payments (generally at least six months of sustained performance after the modification (or one year for loans providing for quarterly or semi-annual payments)) and management has concluded that it is probable that the borrower would not be in payment default in the foreseeable future.

Loans accounted for under ASC Subtopic 310-30 by the Corporation, are not considered non-performing and will continue to have an accretable yield as long as there is a reasonable expectation about the timing and amount of cash flows expected to be collected.

Covered loans acquired in the Westernbank FDIC-assisted transaction, except for revolving lines of credit, are accounted for by the Corporation in accordance with ASC Subtopic 310-30. Under ASC Subtopic 310-30, the acquired loans were aggregated into pools based on similar characteristics. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. The covered loans, which are accounted for under ASC Subtopic 310-30 by the Corporation, are not considered non-performing and will continue to have an accretable yield as long as there is a reasonable expectation about the timing and amount of cash flows expected to be collected. Also, loans charged-off against the non-accretable difference established in purchase accounting are not reported as charge-offs. Charge-offs will be recorded only to the extent that losses exceed the purchase accounting estimates.

Because of the application of ASC Subtopic 310-30 to the Westernbank acquired loans and the loss protection provided by the FDIC which limits the risks on the covered loans, the Corporation has determined to provide certain quality metrics in this MD&A that exclude such covered loans to facilitate the comparison between loan portfolios and across periods. Given the significant

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amount of covered loans that are past due but still accruing due to the accounting under ASC Subtopic 310-30, the Corporation believes the inclusion of these loans in certain asset quality ratios in the numerator or denominator (or both) would result in a significant distortion to these ratios. In addition, because charge-offs related to the acquired loans are recorded against the non-accretable balance, the net charge-off ratio including the acquired loans is lower for portfolios that have significant amounts of covered loans. The inclusion of these loans in the asset quality ratios could result in a lack of comparability across periods, and could negatively impact comparability with other portfolios that were not impacted by acquisition accounting. The Corporation believes that the presentation of asset quality measures, excluding covered loans and related amounts from both the numerator and denominator, provides a better perspective into underlying trends related to the quality of its loan portfolio.

Total non-performing non-covered assets were $784 million at June 30, 2014, increasing by $49 million, or 7%, compared with December 31, 2013. Non-covered non-performing loans held-in-portfolio stand at $640 million, increasing by $42 million, or 7%, from December 31, 2013. This increase was driven by an increase of $127 million in the BPPR segment, offset in part by an improvement of $85 million in the BPNA segment. The ratio of non-performing loans to loans held-in-portfolio, excluding covered loans, increased to 3.26% at June 30, 2014 from 2.77% at December 31, 2013, also impacted by the reduction in loan balances from the reclassification to the discontinued operations.

At June 30, 2014, non-performing loans secured by real estate held-in-portfolio, excluding covered loans, amounted to $487 million in the Puerto Rico operations and $59 million in the U.S. mainland operations. These figures compare to $388 million in the Puerto Rico operations and $141 million in the U.S. mainland operations at December 31, 2013. In addition to the non-performing loans included in Table 32, at June 30, 2014, there were $104 million of non-covered performing loans, mostly commercial loans that, in management s opinion, are currently subject to potential future classification as non-performing and are considered impaired, compared with $103 million at December 31, 2013.

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Table 32 Non-Performing Assets

(Dollars in thousands)	June 30, 2014	As a % of loans HIP by category [5]	December 31, 2013	As a % of loans HIP by category [5]
Commercial	$ 278,133	3.4%	$ 279,053	2.8%
Construction	21,456	12.0	23,771	11.5
Legacy [1]	8,323	5.1	15,050	7.1
Leasing	2,873	0.5	3,495	0.6
Mortgage	286,320	4.3	232,681	3.5
Consumer	42,630	1.1	43,898	1.1
Total non-performing loans held-in-portfolio, excluding covered loans[2]	639,735	3.3%	597,948	2.8%
Non-performing loans held-for-sale [3]	4,426		1,092	
Other real estate owned (OREO), excluding covered OREO	139,420		135,501	
Total non-performing assets, excluding covered assets	$ 783,581		$ 734,541	
Covered loans and OREO [4]	171,955		197,388	
Total non-performing assets	$ 955,536		$ 931,929	
Accruing loans past due 90 days or more[6] [7]	$ 420,251		$ 418,028	
Ratios excluding covered loans:[8]				
Non-performing loans held-in-portfolio to loans held-in-portfolio	3.26%		2.77%	
Allowance for loan losses to loans held-in-portfolio	2.68		2.49	
Allowance for loan losses to non-performing loans, excluding held-for-sale	82.26		90.05	
Ratios including covered loans:				
Non-performing assets to total assets	2.61%		2.61%	
Non-performing loans held-in-portfolio to loans held-in-portfolio	2.93		2.55	
Allowance for loan losses to loans held-in-portfolio	2.79		2.60	
Allowance for loan losses to non-performing loans, excluding	95.28		102.11	

held-for-sale

HIP = held-in-portfolio

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

[2] Total non-performing loans held-in-portfolio, excluding covered loans, excludes $9.5 million in discontinued operations as of June 30, 2014.

[3] Non-performing loans held-for-sale consist $582 thousand in mortgage loans, $3 million in commercial loans and $1 million in construction loans as of June 30, 2014 (December 31, 2013 - $603 thousand in commercial loans and $489 thousand in mortgage loans).

[4] The amount consists of $16 million in non-performing covered loans accounted for under ASC Subtopic 310-20 and $156 million in covered OREO as of June 30, 2014 (December 31, 2013 - $29 million and $168 million, respectively). It excludes covered loans accounted for under ASC Subtopic 310-30 as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analyses.

[5] Loans held-in-portfolio used in the computation exclude $2.7 billion in covered loans at June 30, 2014 (December 31, 2013 $3.0 billion).

[6] The carrying value of covered loans accounted for under ASC Sub-topic 310-30 that are contractually 90 days or more past due was $0.6 billion at June 30, 2014 (December 31, 2013 - $0.7 billion). This amount is excluded from the above table as the covered loans accretable yield interest recognition is independent from the underlying contractual loan delinquency status.

[7] It is the Corporation s policy to report delinquent residential mortgage loans insured by FHA or guaranteed by the VA as accruing loans past due 90 days or more as opposed to non-performing since the principal repayment is insured. These balances include $124 million of residential mortgage loans insured by FHA or guaranteed by the VA that are no longer accruing interest as of June 30, 2014 (December 31, 2013 - $115 million). Furthermore, the Corporation has approximately $60 million in reverse mortgage loans which are guaranteed by FHA, but which are currently not accruing interest. Due to the guaranteed nature of the loans, it is the Corporation s policy to exclude these balances from non-performing assets (December 31, 2013 - $50 million).

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[8] These asset quality ratios have been adjusted to remove the impact of covered loans and covered foreclosed property. Appropriate adjustments to the numerator and denominator have been reflected in the calculation of these ratios. Management believes the inclusion of acquired loans in certain asset quality ratios that include non-performing assets, past due loans or net charge-offs in the numerator and denominator results in distortions of these ratios and they may not be comparable to other periods presented or to other portfolios that were not impacted by purchase accounting.

For the quarter ended June 30, 2014, total non-performing loans inflows, excluding consumer loan, amounted to $152 million, a decrease of $35 million, or 19%, when compared to inflows for the same period in 2013. Inflows of non-performing loans held-in-portfolio at the BPPR segment amounted to $136 million, a decrease of $22 million, or 14%, compared to inflows for 2013. Inflows of non-performing loans held-in-portfolio at the BPNA segment amounted to $16 million, a decrease of $13 million, or 45%, compared to inflows for 2013. These reductions are mostly concentrated in the commercial portfolio, reflective of credit quality improvements and proactive portfolio management processes. Refer to the following table for more information on non-performing loans held-in-portfolio inflows, excluding consumer loans.

Table 33 Activity in Non-Performing Loans Held-in-Portfolio (Excluding Covered Loans)

	For the quarter ended June 30, 2014		For the six months ended June 30, 2014	
(Dollars in thousands)	BPPR	BPNA	BPPR	BPNA
Beginning balance	$ 498,196	$ 94,826	$ 410,594	$ 139,961
Plus:				
New non-performing loans	136,133	14,604	319,280	37,418
Advances on existing non-performing loans		1,000		1,011
Less:				
Non-performing loans transferred to OREO	(6,948)	(661)	(12,399)	(1,856)
Non-performing loans charged-off	(22,685)	(6,935)	(40,072)	(14,462)
Loans returned to accrual status / loan collections	(67,332)	(19,325)	(140,039)	(48,469)
Loans transferred to held-for-sale		(17,402)		(47,496)
Non-performing loans transferred to discontinued operations		(9,239)		(9,239)
Ending balance NPLs	$ 537,364	$ 56,868	$ 537,364	$ 56,868

Table 34 Activity in Non-Performing Loans Held-in-Portfolio (Excluding Covered Loans)

	For the quarter ended June 30, 2013		For the six months ended June 30, 2013	
(Dollars in thousands)	BPPR	BPNA	BPPR	BPNA
Beginning balance	$ 804,575	$ 203,686	$ 1,156,229	$ 223,281
New non-performing loans	158,418	27,291	315,969	53,297
Advances on existing non-performing loans		1,230		1,234

Loans transferred from held-for-sale			14,942	400
Other		4,310		4,310
Non-performing loans transferred to OREO	(21,991)	(1,638)	(49,299)	(3,943)
Non-performing loans charged-off	(41,051)	(17,901)	(85,591)	(36,190)
Loans returned to accrual status / loan collections	(66,895)	(25,267)	(186,442)	(50,678)
Loans transferred to held-for-sale	(14,968)	(2,594)	(14,968)	(2,594)
Non-performing loans sold[1]	(434,607)		(767,359)	
Other		(4,309)		(4,309)
Ending balance NPLs	$ 383,481	$ 184,808	$ 383,481	$ 184,808

[1] Includes write-downs of loans sold during the quarters ended June 30, 2013 and March 31, 2013.

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Refer to Table 35 for a summary of the activity in the allowance for loan losses and selected loan losses statistics for the quarters ended June 30, 2014 and 2013.

Table 35 Allowance for Loan Losses and Selected Loan Losses Statistics Quarterly Activity

	Quarters ended June 30,					
(Dollars in thousands)	2014 Non-covered loans	2014 Covered loans	2014 Total	2013 Non-covered loans	2013 Covered loans	2013 Total
Balance at beginning of period	$ 542,575	$ 97,773	$ 640,348	$ 583,501	$ 99,867	$ 683,368
Provision for loan losses Continuing operations	50,074	11,604	61,678	228,975	25,500	254,475
Provision for loan losses Discontinued operations				(5,067)		(5,067)
	592,649	109,377	702,026	807,409	125,367	932,776
Charged-offs:						
Commercial	21,890	5,993	27,883	42,386	1,150	43,536
Construction	42	6,427	6,469	2,191	16,024	18,215
Leases	1,754	2	1,756	1,843		1,843
Legacy[1]	1,347		1,347	3,743		3,743
Mortgage	10,997	2,262	13,259	16,127	2,255	18,382
Consumer	33,938	(677)	33,261	33,206	(106)	33,100
Discontinued operations				13,362		13,362
	69,968	14,007	83,975	112,858	19,323	132,181
Recoveries:						
Commercial	11,671	555	12,226	10,274	42	10,316
Construction	657	2,727	3,384	4,485	322	4,807
Leases	610	1	611	630		630
Legacy[1]	2,552		2,552	5,208		5,208
Mortgage	678	11	689	520		520
Consumer	7,599	1	7,600	8,135	49	8,184
Discontinued operations				4,461		4,461
	23,767	3,295	27,062	33,713	413	34,126
Net loans charged-offs (recovered):						
Commercial	10,219	5,438	15,657	32,112	1,108	33,220
Construction	(615)	3,700	3,085	(2,294)	15,702	13,408
Leases	1,144	1	1,145	1,213		1,213
Legacy[1]	(1,205)		(1,205)	(1,465)		(1,465)
Mortgage	10,319	2,251	12,570	15,607	2,255	17,862

Consumer	26,339	(678)	25,661	25,071	(155)	24,916
Discontinued operations				8,901		8,901
	46,201	10,712	56,913	79,145	18,910	98,055
Net write-downs[2]				(199,502)		(199,502)
Net write-downs related to loans transferred to discontinued operations	(20,202)		(20,202)			
Balance at end of period	$ 526,246	$ 98,665	$ 624,911	$ 528,762	$ 106,457	$ 635,219
Ratios:						
Annualized net charge-offs to average loans held-in-portfolio[3]	0.94%		1.01%	1.47%		1.58%
Provision for loan losses to net charge-offs[3]	1.08x		1.08x	0.69x		0.82x

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[1] The legacy portfolio is comprised of commercial loans, construction loans and lease financings related to certain lending products exited by the Corporation as part of restructuring efforts carried out in prior years at the BPNA segment.
[2] Net write-downs for the quarter ended June 30, 2013 are related to loans sold.
[3] Excluding provision for loan losses and the net write-down related to the asset sale during the quarter June 30, 2013.

Refer to Table 36 for a summary of the activity in the allowance for loan losses and selected loan losses statistics for the six months ended June 30, 2014 and 2013.

Table 36 Allowance for Loan Losses and Selected Loan Losses Statistics Year-to-date Activity

	Six months ended June 30,					
(Dollars in thousands)	2014 Non-covered loans	2014 Covered loans	2014 Total	2013 Non-covered loans	2013 Covered loans	2013 Total
Balance at beginning of period	$ 538,463	$ 102,092	$ 640,555	$ 621,701	$ 108,906	$ 730,607
Provision for loan losses Continuing operations	104,196	37,318	141,514	438,068	43,056	481,124
Provision for loan losses Discontinued operations	(6,764)		(6,764)	(7,860)		(7,860)
	635,895	139,410	775,305	1,051,909	151,962	1,203,871
Charged-offs:						
Commercial	48,998	13,961	62,959	82,023	11,715	93,738
Construction	458	29,408	29,866	3,820	25,783	29,603
Leases	2,721	2	2,723	3,386		3,386
Legacy[1]	4,331		4,331	10,036		10,036
Mortgage	21,261	3,918	25,179	37,903	4,317	42,220
Consumer	68,210	(972)	67,238	66,815	4,461	71,276
Discontinued operations	4,452		4,452	20,307		20,307
	150,431	46,317	196,748	224,290	46,276	270,566
Recoveries:						
Commercial	21,619	875	22,494	19,920	72	19,992
Construction	2,627	4,616	7,243	5,759	636	6,395
Leases	921	1	922	1,189		1,189
Legacy[1]	9,745		9,745	9,682		9,682
Mortgage	1,556	11	1,567	2,733	11	2,744
Consumer	14,519	69	14,588	16,361	52	16,413
Discontinued operations	9,997		9,997	8,144		8,144
	60,984	5,572	66,556	63,788	771	64,559

Net loans charged-off (recovered):						
Commercial	27,379	13,086	40,465	62,103	11,643	73,746
Construction	(2,169)	24,792	22,623	(1,939)	25,147	23,208
Leases	1,800	1	1,801	2,197		2,197
Legacy[1]	(5,414)		(5,414)	354		354
Mortgage	19,705	3,907	23,612	35,170	4,306	39,476
Consumer	53,691	(1,041)	52,650	50,454	4,409	54,863
Discontinued operations	(5,545)		(5,545)	12,163		12,163
	89,447	40,745	130,192	160,502	45,505	206,007
Net write-downs [2]				(362,645)		(362,645)
Net write-downs related to loans transferred to discontinued operations	(20,202)		(20,202)			
Balance at end of period	$ 526,246	$ 98,665	$ 624,911	$ 528,762	$ 106,457	$ 635,219
Ratios:						
Annualized net charge-offs to average loans held-in-portfolio[3]	0.87%		1.11%	1.51%		1.67%
Provision for loan losses to net charge-offs[3]	1.16x		1.09x	0.70x		0.75x

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[1] The legacy portfolio is comprised of commercial loans, construction loans and lease financings related to certain lending products exited by the Corporation as part of restructuring efforts carried out in prior years at the BPNA segment.
[2] Net write-downs for June 30, 2013 are related to loans sold.
[3] Excluding provision for loan losses and the net write-downs related to the loans sales.
Refer to the Allowance for Loan Losses subsection in this MD&A for tables detailing the composition of the allowance for loan losses between general and specific reserves, and for qualitative information on the main factors driving the variances.

The following table presents annualized net charge-offs to average loans held-in-portfolio (HIP) for the non-covered portfolio by loan category for the quarters and six month period ended June 30, 2014 and 2013.

Table 37 Annualized Net Charge-offs (Recoveries) to Average Loans Held-in-Portfolio (Non-covered loans)

	Quarters ended June 30,		Six months ended June 30,	
	2014[2]	2013	2014	2013
Commercial [1]	0.49%	1.63%	0.47%	1.49%
Construction[1]	(1.55)	(3.31)	(2.61)	(1.43)
Leases	0.84	0.90	0.66	0.82
Legacy	(7.66)	(1.31)	(9.09)	0.14
Mortgage[1]	0.62	0.91	0.59	1.07
Consumer	2.71	2.68	2.79	2.70
Total annualized net charge-offs to average loans held-in-portfolio	0.94%	1.47%	0.87%	1.51%

[1] Excluding the net write-down related to the asset sales during the first and second quarters of 2013.
[2] Excluding net charge-offs from discontinued operations.
Note: Average loans held-in-portfolio excludes covered loans acquired in the Westernbank FDIC-assisted transaction which were recorded at fair value on date of acquisition, and thus, considered a credit discount component.

The Corporation s annualized net charge-offs to average non-covered loans held-in-portfolio ratio was 0.94% for the quarter ended June 30, 2014, down from 1.47% for the same period in 2013. Net charge-offs, excluding covered loans, for the quarter ended June 30, 2014 decreased by $32.9 million when compared to the quarter ended June 30, 2013. The decline is mostly driven by improvements in the credit performance of the loan portfolios and de-risking strategies taken by the Corporation to improve the risk profile of its portfolios.

During the second quarter of 2014, the Corporation s overall asset quality remained relatively stable. The BPNA segment continued to reflect strong credit quality led by the improved risk profile of its loan portfolios, further strengthened by the divesture of its regional operations in California, Illinois and Central Florida. Nevertheless, challenging economic and fiscal conditions in Puerto Rico continued to influence credit quality results in the BPPR segment.

The discussions in the sections that follow assess credit quality performance for the second quarter of 2014 for each of the Corporation s non-covered loan portfolios.

Commercial loans

Non-covered non-performing commercial loans held-in-portfolio remained flat at $278 million during June 30, 2014, compared with $279 million at December 31, 2013. The percentage of non-performing commercial loans held-in-portfolio to commercial loans held-in-portfolio increased to 3.41% at June 30, 2014 from 2.78% at December 31, 2013, primarily reflecting the reduction in loan balances from the reclassification to the discontinued operations.

Commercial non-covered non-performing loans held-in-portfolio at the BPPR segment increased by $67 million from December 31, 2013, mainly driven by a single $52 million credit relationship. Commercial non-performing loans held-in-portfolio at the BPNA segment decreased by $68 million from December 31, 2013, primarily reflecting the impact of loan resolutions and credit quality improvements, and $8 million attributed to the reclassification of the discontinued operations.

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Tables 38 and 39 present the changes in the non-performing commercial loans held-in-portfolio for the quarters and six months period ended June 30, 2014 and 2013 for the BPPR (excluding covered loans) and the BPNA segments.

For the quarter ended June 30, 2014, inflows of commercial non-performing loans held-in-portfolio at the BPPR segment amounted to $30 million, a decrease of $30 million, or 50%, when compared to inflows for the same period in 2013. Inflows of commercial non-performing loans held-in-portfolio at the BPNA segment amounted to $9 million, a decrease of $8 million, or 49%, compared to inflows for 2013. These reductions are mainly driven by improvements in the underlying quality of the portfolio and proactive portfolio management processes.

Table 38 provides information on commercial non-performing loans and net charge-offs for the BPPR (excluding the Westernbank covered loan portfolio) and the BPNA segments.

Table 38 Activity in Non-Performing Commercial Loans Held-in-Portfolio (Excluding Covered Loans)

	For the quarter ended June 30, 2014		For the six months ended June 30, 2014	
(Dollars in thousands)	BPPR	BPNA	BPPR	BPNA
Beginning balance	$ 245,931	$ 60,998	$ 186,097	$ 92,956
Plus:				
New non-performing loans	30,068	7,726	116,113	24,882
Advances on existing non-performing loans		951		957
Less:				
Non-performing loans transferred to OREO	(4,103)		(7,803)	
Non-performing loans charged-off	(14,377)	(5,470)	(24,655)	(9,562)
Loans returned to accrual status / loan collections	(3,967)	(15,475)	(16,200)	(30,409)
Loans transferred to held-for-sale		(16,130)		(46,224)
Non-performing loans transferred to discontinued operations		(8,019)		(8,019)
Ending balance NPLs	$ 253,552	$ 24,581	$ 253,552	$ 24,581

Table 39 Activity in Non-Performing Commercial Loans Held-in-Portfolio (Excluding Covered Loans)

	For the quarter ended June 30, 2013		For the six months ended June 30, 2013	
(Dollars in thousands)	BPPR	BPNA	BPPR	BPNA
Beginning balance	$ 186,808	$ 133,979	$ 522,733	$ 142,556
Plus:				
New non-performing loans	59,736	15,763	107,471	30,874
Advances on existing non-performing loans		1,226		1,226
Loans transferred from held-for-sale			790	
Other		4,310		4,310

Less:				
Non-performing loans transferred to OREO	(2,191)	(532)	(11,389)	(2,090)
Non-performing loans charged-off	(32,511)	(9,890)	(61,361)	(19,771)
Loans returned to accrual status / loan collections	(12,122)	(18,827)	(29,256)	(31,076)
Loans transferred to held-for-sale		(2,594)		(2,594)
Non-performing loans sold[1]			(329,268)	
Ending balance NPLs	$ 199,720	$ 123,435	$ 199,720	$ 123,435

[1] includes write-downs of $161,297 of loans sold at BPPR during the quarter ended March 31, 2013.

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Table 40 Non-Performing Commercial Loans and Net Charge-offs (Excluding Covered Loans)

	BPPR		BPNA		Popular, Inc.	
(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Non-performing commercial loans	$ 253,552	$ 186,097	$ 24,581	$ 92,956	$ 278,133	$ 279,053
Non-performing commercial loans to commercial loans HIP	4.03%	2.88%	1.32%	2.60%	3.41%	2.78%

	BPPR For the quarters ended		BPNA For the quarters ended		Popular, Inc. For the quarters ended	
(Dollars in thousands)	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Commercial loan net charge-offs[1]	$ 9,309	$ 29,968	$ 910	$ 9,808	$ 10,219	$ 39,776
Commercial loan net charge-offs (annualized) to average commercial loans HIP	0.58%	1.94%	0.18%	1.09%	0.49%	1.63%

	BPPR For the six months ended		BPNA For the six months ended		Popular, Inc. For the six months ended	
(Dollars in thousands)	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Commercial loan net charge-offs (recoveries)[1]	$ 24,482	$ 54,279	(2,781)	$ 18,670	$ 21,701	$ 72,949
Commercial loan net charge-offs (recoveries) (annualized) to average commercial loans HIP[1]	0.76%	1.76%	(0.20)%	1.04%	0.47%	1.49%

There are two commercial loan relationships greater than $10 million in non-accrual status with an outstanding aggregate balance of $65 million at June 30, 2014, compared with one commercial loan relationship with an outstanding aggregate balance of $15 million at December 31, 2013.

Commercial loan net charge-offs, excluding net charge-offs for covered loans, amounted to $10.2 million for the quarter ended June 30, 2014, compared to $39.8 million for the same period in 2013. Commercial loans annualized net charge-offs to average non-covered loans held-in-portfolio decreased to 0.49% for the quarter ended June 30, 2014 from 1.63% for the quarter ended June 30, 2013. Commercial loan net charge-offs, excluding net charge-offs for covered loans, decline of $29.6 million, or 74%, for the quarter ended June 30, 2014 when compared with the same quarter in 2013 was primarily due to improvements in credit quality and successful actions taken by the Corporation to de-risk the portfolio.

Commercial loan net charge-offs in the BPPR segment amounted to $9.3 million for the quarter ended June 30, 2014, compared to $30.0 million in June 30, 2013. Commercial loans annualized net charge-offs to average non-covered loans held-in-portfolio decreased to 0.58% for the quarter ended June 30, 2014 from 1.94% for the quarter ended June 30, 2013. Commercial loan net charge-offs declined by $20.7 million for the quarter ended June 30, 2014 when compared with the quarter ended June 30, 2013. For the quarter ended June 30, 2014, the charge-offs associated with collateral dependent commercial loans amounted to approximately $7.9 million in the BPPR segment.

Commercial loan net charge-offs in the BPNA segment amounted to $910 thousand for the quarter ended June 30, 2014, compared to $9.8 million in June 30, 2013. Commercial loans annualized net charge-offs to average non-covered loans held-in-portfolio decreased to 0.18% for the quarter ended June 30, 2014 from 1.09% for the quarter ended June 30, 2013. Commercial loan net charge-offs declined by $8.9 million for the quarter ended June 30, 2014 when compared with the same period in 2013. For the quarter ended June 30, 2014, there were no charge-offs associated with collateral dependent commercial loans from continuing operations at the BPNA segment.

The Corporation s commercial loan portfolio secured by real estate (CRE), excluding covered loans, amounted to $4.7 billion at June 30, 2014, of which $1.8 billion was secured with owner occupied properties, compared with $6.4 billion and $2.3 billion, respectively, at December 31, 2013. CRE non-performing loans, excluding covered loans, amounted to $188 million at June 30, 2014, compared with $221 million at December 31, 2013. The CRE non-performing loans ratios for the BPPR and BPNA segments were 4.71% and 1.71%, respectively, at June 30, 2014, compared with 3.80% and 3.10%, respectively, at December 31, 2013.

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Construction loans

Non-covered non-performing construction loans held-in-portfolio amounted to $21 million at June 30, 2014, compared to $24 million at December 31, 2013. Stable credit trends in the construction portfolio are the result of de-risking strategies executed by the Corporation over the past several years to downsize its construction loan portfolio. The percentage of non-performing construction loans to construction loans held-in-portfolio, excluding covered loans, remained stable at 11.98% at June 30, 2014 compared to 11.53% at December 31, 2013.

Construction non-covered non-performing loans held-in-portfolio at the BPPR segment increased to $21 million at June 30, 2014, from $18 million at December 31, 2013, driven by a single borrower. There are no construction non-performing loans held-in-portfolio at the BPNA segment for the quarter ended June 30, 2014, decreasing by $6 million at December 31, 2013.

Tables 41 and 42 present changes in non-performing construction loans held-in-portfolio for the quarters and six months period ended June 30, 2014 and 2013 for the BPPR (excluding covered loans) and the BPNA segments.

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

	For the quarter ended June 30, 2014		For the six months ended June 30, 2014	
(Dollars in thousands)	BPPR	BPNA	BPPR	BPNA
Beginning balance	$ 22,464	$	$ 18,108	$ 5,663
Plus:				
New non-performing loans	952		8,912	
Less:				
Non-performing loans charged-off	(42)		(458)	
Loans returned to accrual status / loan collections	(1,918)		(5,106)	(5,663)
Ending balance NPLs	$ 21,456	$	$ 21,456	$

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

	For the quarter ended June 30, 2013		For the six months ended June 30, 2013	
(Dollars in thousands)	BPPR	BPNA	BPPR	BPNA
Beginning balance	$ 45,036	$ 5,884	$ 37,390	$ 5,960
Plus:				
Advances on existing non-performing loans			14,152	
Less:				
Non-performing loans charged-off	(2,175)		(3,257)	
Loans returned to accrual status / loan collections	(3,817)	(50)	(5,757)	(126)
Non-performing loans sold[1]			(3,484)	

Ending balance NPLs	$ 39,044	$ 5,834	$ 39,044	$ 5,834

[1] Includes write-downs of $1,846 of loans sold at BPPR during the quarter ended March 31, 2013.

For the quarter ended June 30, 2014, inflows of construction non-performing loans held-in-portfolio at the BPPR segment increased to $952 thousand, when compared to additions for the same period in 2013. There were no additions of construction non-performing loans held-in-portfolio at the BPNA segment during the second quarter of 2014.

There were no construction loan relationships greater than $10 million in non-performing status at June 30, 2014 and December 31, 2013.

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Construction loan net charge-offs (recoveries), excluding net charge-offs for covered loans, amounted to recoveries of $615 thousand for the quarter ended June 30, 2014, compared to recoveries of $2 million at June 30, 2013. Construction loans annualized net charge-offs (recoveries) to average non-covered loans held-in-portfolio stand at (1.55%) for the quarter ended June 30, 2014, compared to (3.31%) for the quarter ended June 30, 2013. Construction loan net charge-offs, excluding covered loans, for the quarter ended June 30, 2014, increased by $1.7 million when compared with the quarter ended June 30, 2013 led by an increase in the BPPR segment. For the quarter ended June 30, 2014, the charge-offs associated with collateral dependent construction loans amounted to $103 thousand in the BPPR segment and none in the BPNA segment. Management identified construction loans considered impaired and charged-off specific reserves based on the value of the collateral.

Table 43 provides information on construction non-performing loans and net charge-offs for the BPPR (excluding the covered loan portfolio) and the BPNA segments.

Table 43 Non-Performing Construction Loans and Net Charge-offs (Excluding Covered Loans)

	BPPR		BPNA		Popular, Inc.	
(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Non-performing construction loans	$ 21,456	$ 18,108	$	$ 5,663	$ 21,456	$ 23,771
Non-performing construction loans to construction loans HIP	15.81%	11.24%	%	12.61%	11.98%	11.53%

	BPPR		BPNA		Popular, Inc.	
	For the quarters ended		For the quarters ended		For the quarters ended	
(Dollars in thousands)	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Construction loan net charge-offs (recoveries) [1]	$ (615)	$ (2,294)	$	$	$ (615)	$ (2,294)
Construction loan net charge-offs (recoveries) (annualized) to average construction loans HIP	(1.86)%	(3.73)%	%	%	(1.55)%	(3.31)%

	BPPR		BPNA		Popular, Inc.	
	For the six months ended		For the six months ended		For the six months ended	
(Dollars in thousands)	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Construction loan net charge-offs (recoveries) [1]	$ (1,993)	$ (1,939)	$ (176)	$	$ (2,169)	$ (1,939)

Construction loan net charge-offs (recoveries) (annualized) to average construction loans HIP[1]	(2.86)%	(1.65)%	(1.31)%	%	(2.61)%	(1.43)%

Legacy loans

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

Legacy non-performing loans held-in-portfolio amounted to $8 million at June 30, 2014, compared with $15 million at December 31, 2013. The decrease of $7 million, or 45%, from December 31, 2013 was primarily driven by lower inflows to non-performing loans, loan resolutions and portfolio run-off. The percentage of non-performing legacy loans held-in-portfolio to legacy loans held-in-portfolio decreased to 5.11% at June 30, 2014 from 7.13% at December 31, 2013.

For the quarter ended June 30, 2014, additions to legacy loans in non-performing status amounted to $2 million, a decrease of $2 million, or 52%, when compared with the quarter ended June 30, 2013. The decrease in the inflows of non-performing legacy loans reflects improvements in overall loan credit performance.

Tables 44 and 45 present the changes in non-performing legacy loans held in-portfolio for the quarters and six months period ended June 30, 2014 and 2013.

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Table 44 Activity in Non-Performing Legacy Loans Held-in-Portfolio

(In thousands)	For the quarter ended June 30, 2014 BPNA	For the six months ended June 30, 2014 BPNA
Beginning balance	$ 11,608	$ 15,050
Plus:		
New non-performing loans	2,201	3,939
Advances on existing non-performing loans	49	54
Less:		
Non-performing loans charged-off	(816)	(3,384)
Loans returned to accrual status / loan collections	(2,227)	(4,844)
Loans transferred to held-for-sale	(1,272)	(1,272)
Non-performing loans transferred to discontinued operations	(1,220)	(1,220)
Ending balance NPLs	$ 8,323	$ 8,323

Table 45 Activity in Non-Performing Legacy Loans Held-in-Portfolio

(Dollars in thousands)	For the quarter ended June 30, 2013 BPNA	For the six months ended June 30, 2013 BPNA
Beginning balance	$ 35,830	$ 40,741
Plus:		
New non-performing loans	4,640	11,028
Advances on existing non-performing loans	4	8
Loans transferred from held-for-sale		400
Less:		
Non-performing loans charged-off	(5,358)	(10,673)
Loans returned to accrual status / loan collections	(2,373)	(8,761)
Other	(4,309)	(4,309)
Ending balance NPLs	$ 28,434	$ 28,434

In the loans held-in-portfolio, there was no legacy loan relationship greater than $10 million in non-accrual status at June 30, 2014 and December 31, 2013.

Legacy loan net charge-offs (recoveries) amounted to recoveries of $1.2 million for the quarter ended June 30, 2014, compared to recoveries of $917 thousand in June 30, 2013. Legacy loan net charge-offs (recoveries) to average non-covered loans held-in-portfolio improved to (7.66%) for the quarter ended June 30, 2014 from (1.31%) for the quarter ended June 30, 2013.

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Table 46 provides information on legacy non-performing loans and net charge-offs.

Table 46 Non-Performing Legacy Loans and Net Charge-offs

	BPNA	
(Dollars in thousands)	June 30, 2014	December 31, 2013
Non-performing legacy loans	$ 8,323	$ 15,050
Non-performing legacy loans to legacy loans HIP	5.11%	7.13%

	BPNA For the quarters ended	
(Dollars in thousands)	June 30, 2014	June 30, 2013
Legacy loan net charge-offs (recoveries)	$ (1,205)	$ (917)
Legacy loan net charge-offs (recoveries) (annualized) to average legacy loans HIP	(7.66)%	(1.31)%

	BPNA For the six months ended	
(Dollars in thousands)	June 30, 2014	June 30, 2013
Legacy loan net charge-offs (recoveries)	$ (6,087)	$ 211
Legacy loan net charge-offs (recoveries) (annualized) to average legacy loans HIP	(9.09)%	0.14%

Mortgage loans

Non-covered non-performing mortgage loans held-in-portfolio were $286 million at June 30, 2014, compared to $233 million at December 31, 2013. The increase of $54 million from December 31, 2013 is mainly reflective of higher non-performing loans in the BPPR segment. The percentage of non-performing mortgage loans held-in-portfolio to mortgage loans held-in-portfolio increased to 4.30% at June 30, 2014 from 3.48% at December 31, 2013.

Mortgage non-covered non-performing loans held-in-portfolio at the BPPR segment increased by $56 million from December 31, 2013. While inflows continue relatively stable, reduced outflows are contributing to the net increase in non-performing loans balance. Mortgage non-performing loans held-in-portfolio at the BPNA segment remained stable, decreasing by $2 million from December 31, 2013.

Tables 47 and 48 present changes in non-performing mortgage loans held-in-portfolio for the quarters and six months period ended June 30, 2014 and 2013.

Table 47 Activity in Non-Performing Mortgage Loans Held-in-Portfolio (Excluding Covered Loans)

	For the quarter ended June 30, 2014	For the six months ended

	June 30, 2014			
(Dollars in thousands)	BPPR	BPNA	BPPR	BPNA
Beginning balance	$ 229,801	$ 22,220	$ 206,389	$ 26,292
Plus:				
New non-performing loans	105,113	4,677	194,255	8,597
Less:				
Non-performing loans transferred to OREO	(2,845)	(661)	(4,596)	(1,856)
Non-performing loans charged-off	(8,266)	(649)	(14,959)	(1,516)
Loans returned to accrual status / loan collections	(61,447)	(1,623)	(118,733)	(7,553)
Ending balance NPLs	$ 262,356	$ 23,964	$ 262,356	$ 23,964

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

	For the quarter ended June 30, 2013		For the six months ended June 30, 2013	
(Dollars in thousands)	BPPR	BPNA	BPPR	BPNA
Beginning balance	$ 572,731	$ 27,993	$ 596,106	$ 34,024
Plus:				
New non-performing loans	98,682	6,888	208,498	11,395
Less:				
Non-performing loans transferred to OREO	(19,800)	(1,106)	(37,910)	(1,853)
Non-performing loans charged-off	(6,365)	(2,653)	(20,973)	(5,746)
Loans returned to accrual status / loan collections	(50,956)	(4,017)	(151,429)	(10,715)
Loans transferred to held-for-sale	(14,968)		(14,968)	
Non-performing loans sold[1]	(434,607)		(434,607)	
Ending balance NPLs	$ 144,717	$ 27,105	$ 144,717	$ 27,105

[1] Includes write-downs of $199,502 of loans sold at BPPR during the quarter ended June 30, 2013.

For the quarter ended June 30, 2014, inflows of mortgage non-performing loans held-in-portfolio at the BPPR segment amounted to $105 million, an increase of $6 million, or 7%, when compared to inflows for the same period in 2013. Inflows of mortgage non-performing loans held-in-portfolio at the BPNA segment amounted to $5 million, a decrease of $2 million, or 32%, when compared to inflows for the same period in 2013.

Mortgage loan net charge-offs, excluding net charge-offs for covered loans, amounted to $10.3 million for the quarter ended June 30, 2014, compared to $15.6 million in June 30, 2013. Mortgage loan net charge-offs to average mortgage non-covered loans held-in-portfolio was 0.62% in June 30, 2014, compared to 0.91% for the quarter ended June 30, 2013. Mortgage loan net charge-offs, excluding covered loans, decrease of $5.3 million for the quarter ended June 30, 2014, when compared with the same period in 2013, was mainly related to the de-risking of the portfolio. Mortgage loan net charge-offs at the BPPR segment, excluding covered loans, amounted to $9.9 million, or 0.73% of average non-covered loans held-in-portfolio on an annualized basis, a decrease of $2.7 million when compared to same period in 2013. For the quarter ended June 30, 2014, charge-offs associated with mortgage loans individually evaluated for impairment amounted to $2.3 million in the BPPR segment.

Mortgage loan net charge-offs at the BPNA segment amounted to $393 thousand for the quarter ended June 30, 2014, a decrease of $2.6 million when compared to the same period in 2013. Mortgage loan net charge-offs to average mortgage non-covered loans held-in-portfolio decreased to 0.13% for the quarter ended June 30, 2014 from 1.00% for the quarter ended June 30, 2013. The net charge-offs for BPNA s non-conventional mortgage loan portfolio amounted to approximately $462 thousand, or 0.45% of average non-conventional mortgage loans held-in-portfolio, for the quarter ended June 30, 2014, compared with $2.4 million, or 2.22% of average loans for the same period last year.

Table 49 provides information on non-performing mortgage loans and net charge-offs for the BPPR, excluding the covered loan portfolio, and the BPNA segments.

Table 49 Non-Performing Mortgage Loans and Net Charge-offs (Excluding Covered Loans)

	BPPR		BPNA		Popular, Inc.	
(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Non-performing mortgage loans	$ 262,356	$ 206,389	$ 23,964	$ 26,292	$ 286,320	$ 232,681
Non-performing mortgage loans to mortgage loans HIP	4.81%	3.82%	1.99%	2.05%	4.30%	3.48%

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	BPPR		BPNA		Popular, Inc.	
	For the quarters ended		For the quarters ended		For the quarters ended	
(Dollars in thousands)	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Mortgage loan net charge-offs	$ 9,926	$ 12,589	$ 393	$ 3,018	$ 10,319	$ 15,607
Mortgage loan net charge-offs (annualized) to average mortgage loans HIP	0.73 %	0.89 %	0.13 %	1.00 %	0.62 %	0.91 %

	BPPR		BPNA		Popular, Inc.	
	For the six months ended		For the six months ended		For the six months ended	
(Dollars in thousands)	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Mortgage loan net charge-offs [1]	$ 18,442	$ 29,362	1,263	$ 5,808	$ 19,705	$ 35,170
Mortgage loan net charge-offs (annualized) to average mortgage loans HIP [1]	0.68 %	1.09 %	0.20 %	1.00 %	0.59 %	1.07 %

[1] Excludes write-downs of loans sold at BPPR.

Consumer loans

Non-covered non-performing consumer loans held-in-portfolio were $43 million at June 30, 2014, compared to $44 million at December 31, 2013. Consumer non-covered non-performing loans held-in-portfolio decreased by $1 million when compared to December 31, 2013, driven by a decrease of $2 million in the BPNA segment. The percentage of non-performing consumer loans held-in-portfolio to consumer loans held-in-portfolio decreased to 1.09% at June 30, 2014 from 1.12% at December 31, 2013.

For the quarter ended June 30, 2014, inflows of consumer non-performing loans held-in-portfolio at the BPPR segment amounted to $24 million, an increase of $3 million, or 15%, when compared to inflows for the same period of 2013. Inflows of consumer non-performing loans held-in-portfolio at the BPNA segment amounted to $6 million, a decrease of $2 million, or 26% compared to inflows for 2013.

The Corporation s consumer loan net charge-offs, excluding covered loans, amounted to $26.3 million for the quarter ended June 30, 2014, compared to $25.8 million in June 30, 2013. Consumer loan net charge-offs to average consumer non-covered loans held-in-portfolio increased to 2.71% for the quarter ended June 30, 2014 from 2.68% for June 30, 2013. Slight increase for the quarter ended June 30, 2014 was reflective of an increase of $3.6 million in the BPPR segment, offset by a decline of $3.1 million in the BPNA segment.

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Table 50 provides information on consumer non-performing loans and net charge-offs by segments.

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

	BPPR		BPNA		Popular, Inc.	
(Dollars in thousands)	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Non-performing consumer loans	$ 33,570	$ 33,166	$ 9,060	$ 10,732	$ 42,630	$ 43,898
Non-performing consumer loans to consumer loans HIP	0.98 %	1.00 %	1.77 %	1.74 %	1.09 %	1.12 %

	BPPR For the quarters ended		BPNA For the quarters ended		Popular, Inc. For the quarters ended	
(Dollars in thousands)	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Consumer loan net charge-offs	$ 23,571	$ 19,928	$ 2,768	$ 5,832	$ 26,339	$ 25,760
Consumer loan net charge-offs (annualized) to average consumer loans HIP	2.76 %	2.46 %	2.30 %	3.80 %	2.71 %	2.68 %

	BPPR For the six months ended		BPNA For the six months ended		Popular, Inc. For the six months ended	
(Dollars in thousands)	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Consumer loan net charge-offs	$ 46,554	$ 39,929	$ 7,943	$ 11,985	$ 54,497	$ 51,914
Consumer loan net charge-offs (annualized) to average consumer loans HIP	2.77 %	2.47 %	2.92 %	3.86 %	2.79 %	2.70 %

Combined net charge-offs for E-LOAN s home equity lines of credit and closed-end second mortgages amounted to approximately $397 thousand, or 0.65% of those particular average loan portfolios, for the quarter ended June 30, 2014, compared with $3.0 million, or 4.06%, for the quarter ended June 30, 2013. With the downsizing of E-LOAN, this subsidiary ceased originating these types of loans in 2008. Home equity lending includes both home equity loans and lines of credit. This type of lending, which is secured by a first or second mortgage on the borrower s residence, allows customers to borrow against the equity in their home. Real estate market values at the time the loan or line is granted directly affect the amount of credit extended and, in addition, changes in these values impact the severity of losses. E-LOAN s portfolio of home equity lines of credit and closed-end second mortgages outstanding at June 30, 2014 totaled $240 million with a related allowance for loan losses of $6 million, representing 2.58% of that particular portfolio. E-LOAN s portfolio of home equity lines of credit and closed-end second mortgages outstanding at June 30, 2013 totaled $284 million with a related allowance for loan losses of $15 million, representing 5.32% of that particular portfolio. At June 30, 2014, home equity lines of credit and closed-end second mortgages in which E-LOAN holds both the first and second lien amounted to $47 thousand and $235 thousand, respectively, representing 0.01% and 0.05%, respectively, of the consumer loan portfolio of the BPNA segment. At June 30, 2014, 50% are paying the minimum amount due on the home equity lines of credit. At June 30, 2014, all of the closed-end second mortgages in which E-LOAN holds the first lien mortgage were in performing status.

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Troubled debt restructurings

The following tables present the loans classified as TDRs according to their accruing status at June 30, 2014 and December 31, 2013. The Corporation s TDR loans totaled $1.0 billion at June 30, 2014, an increase of $77 million from December 31, 2013. TDRs in accruing status increased by $25 million from December 31, 2013, due to sustained borrower performance.

Table 51 TDRs Non-Covered Loans

	June 30, 2014		
(In thousands)	Accruing	Non-Accruing	Total
Commercial	$ 109,205	$ 113,148	$ 222,353
Construction	376	13,391	13,767
Mortgage	566,355	100,381	666,736
Leases	875	1,778	2,653
Consumer	110,066	11,681	121,747
Total	$ 786,877	$ 240,379	$ 1,027,256

Excludes TDRs from discontinued operations.

Table 52 TDRs Non-Covered Loans

	December 31, 2013		
(In thousands)	Accruing	Non-Accruing	Total
Commercial	$ 109,462	$ 80,140	$ 189,602
Construction	425	10,865	11,290
Legacy		949	949
Mortgage	535,357	82,786	618,143
Leases	270	2,623	2,893
Consumer	116,719	10,741	127,460
Total	$ 762,233	$ 188,104	$ 950,337

Table 53 TDRs Covered Loans

	June 30, 2014		
(In thousands)	Accruing	Non-Accruing	Total
Commercial	$ 14	$ 2,384	$ 2,398
Construction		2,962	2,962
Mortgage	2,804	592	3,396
Consumer	106	15	121

Total	$ 2,924	$ 5,953	$ 8,877

Table 54 TDRs Covered Loans

	December 31, 2013		
(In thousands)	Accruing	Non-Accruing	Total
Commercial	$ 7,389	$ 10,017	$ 17,406
Construction		3,464	3,464
Mortgage	146	189	335
Consumer	221	22	243
Total	$ 7,756	$ 13,692	$ 21,448

At June 30, 2014, the Corporation s commercial loan TDRs, excluding covered loans, for the BPPR and BPNA segments amounted to $219 million and $3 million, respectively, of which $111 million and $3 million, respectively, were in non-performing status. This compares with $172 million and $18 million, respectively, of which $63 million and $17 million were in non-performing status at December 31, 2013. The outstanding commitments for these commercial loan TDRs amounted to $4 million in the BPPR segment and no commitments outstanding in the BPNA segment at June 30, 2014. Commercial loans that have been modified as part of loss mitigation efforts were evaluated individually for impairment, resulting in a specific reserve of $26 million for the BPPR segment and none for the BPNA segment at June 30, 2014, compared with $13 million and none, respectively, at December 31, 2013.

At June 30, 2014, the Corporation s construction loan TDRs, excluding covered loans, for the BPPR segment amounted to $14 million, all of which were in non-performing status. The BPNA segment had no TDRs to report as of June 30, 2014. This compares with $6 million each, of which $5 million and $6 million, respectively, were in non-performing status at December 31, 2013. The outstanding commitments to lend additional funds to debtors owing loans whose terms have been modified in troubled debt restructurings for these construction loan TDRs amounted to $697 thousand in the BPPR segment and no commitments outstanding in the BPNA segment at June 30, 2014. These construction loan TDRs were individually evaluated for impairment resulting in a specific reserve of $883 thousand for the BPPR segment and none for the BPNA segment at June 30, 2014, compared to $177 thousand for the BPPR segment and none for the BPNA segment at December 31, 2013.

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At June 30, 2014, the BPNA segment had no legacy TDRs to report as of June 30, 2014, compared to a total of $949 thousand of loan modifications at December 31, 2013. There were no commitments outstanding for these legacy loan TDRs at June 30, 2014. The legacy loan TDRs were evaluated for impairment requiring no specific reserves at June 30, 2014 and December 31, 2013.

At June 30, 2014, the mortgage loan TDRs for the BPPR and BPNA segments amounted to $615 million (including $269 million guaranteed by U.S. sponsored entities) and $52 million, respectively, of which $91 million and $9 million, respectively, were in non-performing status. This compares with $565 million (including $240 million guaranteed by U.S. sponsored entities) and $53 million, respectively, of which $73 million and $10 million were in non-performing status at December 31, 2013. These mortgage loan TDRs were evaluated for impairment resulting in a specific allowance for loan losses of $39 million and $14 million for the BPPR and BPNA segments, respectively, at June 30, 2014, compared to $38 million and $18 million, respectively, at December 31, 2013.

At June 30, 2014, the consumer loan TDRs for the BPPR and BPNA segments amounted to $119 million and $2 million, respectively, of which $11 million and $538 thousand, respectively, were in non-performing status, compared with $125 million and $2 million, respectively, of which $10 million and $587 thousand, respectively, were in non-performing status at December 31, 2013. These consumer loan TDRs were evaluated for impairment resulting in a specific allowance for loan losses of $28 million and $585 thousand for the BPPR and BPNA segments, respectively, at June 30, 2014, compared with $30 million and $280 thousand, respectively, at December 31, 2013.

Refer to Note 10 to the consolidated financial statements for additional information on modifications considered troubled debt restructurings, including certain qualitative and quantitative data about troubled debt restructurings performed in the past twelve months.

Other real estate

Other real estate represents real estate property acquired through foreclosure, part of the Corporation s continuous efforts to aggressively resolve non-performing loans. Other real estate not covered under loss sharing agreements with the FDIC increased by $3.9 million from December 31, 2013 to June 30, 2014.

Other real estate covered under loss sharing agreements with the FDIC, comprised principally of repossessed commercial real estate properties, amounted to $156 million at June 30, 2014, compared with $168 million at December 31, 2013. Generally, 80% of the write-downs taken on these properties based on appraisals or losses on the sale are covered under the loss sharing agreements.

During the second quarter of 2014, the Corporation transferred $48 million of loans to other real estate, sold $36 million of foreclosed properties and recorded write-downs and other adjustments of approximately $12 million.

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

For commercial and construction other real estate properties at the BPPR segment, depending on the type of property and/or the age of the appraisal, downward adjustments currently may range between 15% to 45%, including estimated cost to sell. For commercial and construction properties at the BPNA segment, the most typically applied collateral discount rate currently ranges from 10% to 40%, including cost to sell. This discount was determined based on an analysis of other real estate owned and loan sale transactions during the past year, comparing net proceeds received by the lender relative to the most recent appraised value of the properties. However, additional haircuts can be applied depending upon the age of appraisal, the region and the condition of the property or project.

Currently, in the case of the BPPR segment, appraisals of residential properties were subject to downward adjustments of up to approximately 15%, including cost to sell of 5%. In the case of the U.S. mainland residential properties, the downward adjustment approximated up to 30%, including cost to sell of 10%.

Allowance for Loan Losses

Non-Covered Loan Portfolio

The allowance for loan losses, which represents management s estimate of credit losses inherent in the loan portfolio, is maintained at a sufficient level to provide for estimated credit losses on individually evaluated loans as well as estimated credit losses inherent in the remainder of the loan portfolio. The Corporation s management evaluates the adequacy of the allowance for loan losses on a quarterly basis. In this evaluation, management considers current economic conditions and the resulting impact on Popular Inc. s loan portfolio, the composition of the portfolio by loan type and risk characteristics, historical loss experience, results of periodic credit reviews of individual loans, regulatory requirements and loan impairment measurement, among other factors.

The Corporation must rely on estimates and exercise judgment regarding matters where the ultimate outcome is unknown, such as economic developments affecting specific customers, industries or markets. Other factors that can affect management s estimates are the years of historical data when estimating losses, changes in underwriting standards, financial accounting standards and loan impairment measurements, among others. Changes in the financial condition of individual borrowers, in economic conditions, in historical loss experience and in the condition of the various markets in which collateral may be sold may all affect the required level of the allowance for loan losses. Consequently, the business financial condition, liquidity, capital and results of operations could also be affected.

The Corporation s assessment of the allowance for loan losses is determined in accordance with accounting guidance, specifically guidance of loss contingencies in ASC Subtopic 450-20 (general reserve for inherent losses) and loan impairment guidance in ASC Section 310-10-35 (loans individually assessed for impairment). Decreases in expected cash flows after the acquisition date for loans (pools) accounted for under ASC Subtopic 310-30 are recognized by recording an allowance for loan losses in the current period. For purposes of loans accounted for under ASC Subtopic 310-20 and new loans originated as a result of loan commitments assumed, the Corporation s assessment of the allowance for loan losses is determined in accordance with the accounting guidance of loss contingencies in ASC Subtopic 450-20 (general reserve for inherent losses) and loan impairment guidance in ASC Section 310-10-35 for loans individually evaluated for impairment. Refer to the Critical Accounting Policies / Estimates section of this MD&A for a description of the Corporation s allowance for loan losses methodology.

The following tables set forth information concerning the composition of the Corporation s allowance for loan losses (ALLL) at June 30, 2014 and December 31, 2013 by loan category and by whether the allowance and related provisions were calculated individually pursuant to the requirements for specific impairment or through a general valuation allowance.

Table 55 Composition of ALLL

	June 30, 2014						
(Dollars in thousands)	Commercial	Construction	Legacy [3]	Leasing	Mortgage	Consumer	Total[2]
Specific ALLL	$ 36,597	$ 883	$	$ 688	$ 53,815	$ 29,043	$ 121,026
Impaired loans [1]	$ 317,746	$ 21,094	$ 2,536	$ 2,653	$ 466,243	$ 122,106	$ 932,378
Specific ALLL to impaired loans [1]	11.52%	4.19%	%	25.93%	11.54%	23.79%	12.98%
General ALLL	$ 165,912	$ 4,459	$ 9,343	$ 5,271	$ 84,113	$ 136,122	$ 405,220

Loans held-in-portfolio, excluding impaired loans [1]	$ 7,837,801	$ 157,965	$ 160,405	$ 544,215	$ 6,198,205	$ 3,804,255	$ 18,702,846
General ALLL to loans held-in-portfolio, excluding impaired loans [1]	2.12%	2.82%	5.82%	0.97%	1.36%	3.58%	2.17%
Total ALLL	$ 202,509	$ 5,342	$ 9,343	$ 5,959	$ 137,928	$ 165,165	$ 526,246
Total non-covered loans held-in-portfolio [1]	$ 8,155,547	$ 179,059	$ 162,941	$ 546,868	$ 6,664,448	$ 3,926,361	$ 19,635,224
ALLL to loans held-in-portfolio [1]	2.48%	2.98%	5.73%	1.09%	2.07%	4.21%	2.68%

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

[2] Excludes covered loans acquired on the Westernbank FDIC-assisted transaction. At June 30, 2014, the general allowance on the covered loans amounted to $98.7 million, while specific reserve amounted to $8 thousand.

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

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Table 56 Composition of ALLL

	December 31, 2013						
(Dollars in thousands)	Commercial	Construction	Legacy[3]	Leasing	Mortgage	Consumer	Total[2]
Specific ALLL	$ 16,409	$ 177	$	$ 1,053	$ 55,667	$ 30,200	$ 103,506
Impaired loans [1]	$ 297,516	$ 22,486	$ 6,045	$ 2,893	$ 452,073	$ 127,703	$ 908,716
Specific ALLL to impaired loans [1]	5.52%	0.79%	%	36.40%	12.31%	23.65%	11.39%
General ALLL	$ 158,573	$ 5,165	$ 13,704	$ 9,569	$ 101,262	$ 146,684	$ 434,957
Loans held-in-portfolio, excluding impaired loans [1]	$ 9,739,669	$ 183,598	$ 205,090	$ 540,868	$ 6,229,403	$ 3,804,523	$ 20,703,151
General ALLL to loans held-in-portfolio, excluding impaired loans [1]	1.63%	2.81%	6.68%	1.77%	1.63%	3.86%	2.10%
Total ALLL	$ 174,982	$ 5,342	$ 13,704	$ 10,622	$ 156,929	$ 176,884	$ 538,463
Total non-covered loans held-in-portfolio [1]	$ 10,037,185	$ 206,084	$ 211,135	$ 543,761	$ 6,681,476	$ 3,932,226	$ 21,611,867
ALLL to loans held-in-portfolio [1]	1.74%	2.59%	6.49%	1.95%	2.35%	4.50%	2.49%

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

[2] Excludes covered loans acquired on the Westernbank FDIC-assisted transaction. At December 31, 2013, the general allowance on the covered loans amounted to $101.8 million while the specific reserve amounted to $0.3 million.

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

At June 30, 2014, the allowance for loan losses, excluding covered loans, decreased by approximately $12 million when compared with December 31, 2013, mainly driven by a $52 million reserve release in BPNA prompted by continued improvements in credit quality trends and $20 million related to the transfer to LHFS of the discontinued operations, offset in part by higher reserves for the BPPR segment of $39 million. The general and specific reserves related to non-covered loans totaled $405 million and $121 million, respectively, at quarter-end, compared with $435 million and $104 million, respectively, as of December 31, 2013. The ratio of the allowance for loan losses to loans held-in-portfolio stood at 2.68% in the second quarter of 2014, compared to 2.49% in the quarter ended December 31, 2013. The ratio of allowance to non-performing loans held-in-portfolio was 82.26% at June 30, 2014, compared with 90.05% at December 31, 2013.

At June 30, 2014, the allowance for loan losses for non-covered loans at the BPPR segment totaled $466 million, or 2.94% of non-covered loans held-in-portfolio, compared with $427 million, or 2.69% of non-covered loans held-in-portfolio, at December 31, 2013. The increase in the allowance was mostly driven by: (1) environmental factors adjustments accounting for prevailing macroeconomic conditions in Puerto Rico and the public sector utilities exposures, (2) the effect of downgrades in the internal risk ratings of certain large corporate and public sector relationships, and (3) higher specific reserves, partially offset by a $15 million reserve release as part of the annual review of the components of the ALLL models. The allowance for loan losses at the BPNA segment totaled $60 million, or 1.59% of loans held-in-portfolio, compared with $112 million, or 1.95% of loans held-in-portfolio, at December 31, 2013, reflective of continued improvements in credit quality trend, the reclassification of $20.2 million attributable to the discontinued operation, and a $3.8 million reserve release as part of the annual review of the components of the ALLL models. The ratio of allowance to non-performing loans held-in portfolio was 81.26% and 90.98% for the BPPR and BPNA segments, respectively as of June 30, 2014, compared with 95.42% and 74.12% at December 31, 2013.

The allowance for loan losses for commercial loans held-in-portfolio, excluding covered loans, amounted to $203 million, or 2.48% of that portfolio, at June 30, 2014, compared with $175 million, or 1.74%, at December 31, 2013. The allowance for loan losses for the commercial loan portfolio in the BPPR segment, excluding the allowance for covered loans, totaled $184 million, or 2.92% of non-covered commercial loans held-in-portfolio, at June 30, 2014, compared with $128 million, or 1.98%, at December 31, 2013. The increase in the allowance was mostly driven by the previously mentioned factors. At the BPNA segment, the allowance for loan losses of the commercial loan portfolio totaled $18 million, or 0.98% of commercial loans held-in-portfolio, at June 30, 2014, compared with $47 million, or 1.31%, at December 31, 2013. The decrease in allowance for loan losses for the commercial loans held-in-portfolio is primarily reflective of the continued improvements in credit quality trends, the reclassification to LHFS of the discontinued operations, and a reserve release as part of the annual review of the components of the ALLL models.

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The allowance for loan losses for construction loans held-in-portfolio, excluding covered loans, remained unchanged at $5 million, or 2.98% of that portfolio, at June 30, 2014, compared with $5 million, or 2.59%, at December 31, 2013. The allowance for loan losses corresponding to the construction loan portfolio for the BPPR segment, excluding the allowance for covered loans, totaled $5 million, or 3.83% of non-covered construction loans held-in-portfolio, at June 30, 2014, compared with $5 million, or 3.16%, at December 31, 2013. At the BPNA segment, the allowance for loan losses of the construction loan portfolio totaled $151 thousand, or 0.35% of construction loans held-in-portfolio, at June 30, 2014, compared with $247 thousand, or 0.55%, at December 31, 2013. The allowance levels in the construction portfolio are the result of de-risking strategies executed by the Corporation over the past several years to downsize its construction loan portfolio.

The allowance for loan losses for the legacy loans held-in-portfolio amounted to $9 million, or 5.73% of that portfolio, at June 30, 2014, compared with $14 million, or 6.49%, at December 31, 2013. The decrease in the allowance for loan losses is consistent with improved credit trends, lower loan balances and lower non-performing loans.

The allowance for loan losses for mortgage loans held-in-portfolio, excluding covered loans, amounted to $138 million, or 2.07% of that portfolio, at June 30, 2014, compared with $157 million, or 2.35%, at December 31, 2013. The allowance for loan losses corresponding to the mortgage loan portfolio at the BPPR segment totaled $120 million, or 2.21% of mortgage loans held-in-portfolio, excluding covered loans, at June 30, 2014 compared with $130 million, or 2.41%, respectively, at December 31, 2013. The decrease in the allowance was reflective of a lower environmental factors adjustment. At the BPNA segment, the allowance for loan losses corresponding to the mortgage loan portfolio totaled $18 million, or 1.45% of mortgage loans held-in-portfolio, at June 30, 2014, compared with $27 million, or 2.08%, at December 31, 2013. The decrease in the allowance is reflective of favorable credit trends and the run-off of the portfolio. The allowance for loan losses for BPNA s non-conventional mortgage loan portfolio amounted to $17 million, or 4.21% of that particular loan portfolio, compared with $23 million, or 5.57%, at December 31, 2013. The Corporation is no longer originating non-conventional mortgage loans at BPNA.

The allowance for loan losses for the consumer portfolio, excluding covered loans, amounted to $165 million, or 4.21% of that portfolio, at June 30, 2014, compared to $177 million, or 4.50%, at December 31, 2013. The allowance for loan losses of the non-covered consumer loan portfolio in the BPPR segment totaled $150 million, or 4.41% of that portfolio, at June 30, 2014, compared with $153 million, or 4.60%, at December 31, 2013. Overall consumer portfolios display stable trends, decreasing by $3 million when compared to December 31, 2013. At the BPNA segment, the allowance for loan losses of the consumer loan portfolio totaled $15 million, or 2.88% of consumer loans, at June 30, 2014, compared with $24 million, or 3.95%, at December 31, 2013. The decrease in the allowance for loan losses for the consumer loan portfolio was principally driven by lower loss trends, reflecting favorable credit trends.

The following table presents the Corporation s recorded investment in loans that were considered impaired and the related valuation allowance at June 30, 2014 and December 31, 2013.

Table 57 Impaired Loans (Non-Covered Loans) and the Related Valuation Allowance

	June 30, 2014		December 31, 2013	
(In millions)	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
Impaired loans:				
Valuation allowance	$ 754.0	$ 121.0	$ 642.6	$ 103.5

No valuation allowance required	178.4		266.1	
Total impaired loans	$ 932.4	$ 121.0	$ 908.7	$ 103.5

With respect to the $178 million non-covered portfolio of impaired loans for which no allowance for loan losses was required at June 30, 2014, management followed the guidance for specific impairment of a loan. When a loan is impaired, the measurement of the impairment may be based on: (1) the present value of the expected future cash flows of the impaired loan discounted at the loan s original effective interest rate; (2) the observable market price of the impaired loan; or (3) the fair value of the collateral, if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral. Impaired loans with no valuation allowance were mostly collateral dependent loans for which management charged-off specific reserves based on the fair value of the collateral less estimated costs to sell.

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Average impaired loans, excluding covered loans, during the quarters ended June 30, 2014 and June 30, 2013 were $939.4 million and $1.0 billion, respectively. The Corporation recognized interest income on non-covered impaired loans of $8.8 million and $10.1 million for the quarters ended June 30, 2014 and June 30, 2013, respectively.

The following tables set forth the activity in the specific reserves for impaired loans for the quarters ended June 30, 2014 and June 30, 2013.

Table 58 Activity in Specific ALLL for the Quarter Ended June 30, 2014

(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Leasing	Total
Beginning balance	$ 30,892	$ 243	$ 53,916	$	$ 29,413	$ 672	$ 115,136
Provision for impaired loans	13,576	537	2,371		4,316	16	20,816
Less: Net charge-offs	(7,871)	103	(2,472)		(4,686)		(14,926)
Specific allowance for loan losses at June 30, 2014	$ 36,597	$ 883	$ 53,815	$	$ 29,043	$ 688	$ 121,026

Table 59 Activity in Specific ALLL for the Quarter Ended June 30, 2013

(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Leasing	Total
Beginning balance	$ 21,776	$ 135	$ 75,697	$	$ 24,472	$ 1,662	$ 123,742
Provision for impaired loans	16,693	2,349	55,358	603	9,310	(263)	84,050
Less: Net charge-offs	(19,750)	(1,083)	(2,109)	(603)	(2,528)		(26,073)
Net write-downs			(75,668)				(75,668)
Specific allowance for loan losses at June 30, 2013	$ 18,719	$ 1,401	$ 53,278	$	$ 31,254	$ 1,399	$ 106,051

For the quarter ended June 30, 2014, total net charge-offs for individually evaluated impaired loans amounted to approximately $14.9 million, of which $14.7 million pertained to the BPPR segment and $233 thousand to the BPNA segment. Most of these net charge-offs were related to the commercial loan portfolio.

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

Appraisals may be adjusted due to age or general market conditions. The adjustments applied are based upon internal information, like other appraisals and/or loss severity information that can provide historical trends in the real estate market. Specifically, in commercial and construction impaired loans for the BPPR segment, and depending on the type of property and/or the age of the appraisal, downward adjustments currently range from 15% to 45% (including costs to sell). At June 30, 2014, the weighted average discount rate for the BPPR segment was 18%.

For commercial and construction loans at the BPNA segment, downward adjustments to the collateral value currently range from 10% to 40% depending on the age of the appraisals and the type, location and condition of the property. This discount used was determined based on an analysis of other real estate owned and loan sale transactions during the past year, comparing net proceeds received by the bank relative to the most recent appraised value of the properties. However, additional haircuts can be applied depending upon the age of appraisal, the region and the condition of the project. Factors are based on appraisal changes and/or trends in loss severities. Discount rates discussed above include costs to sell and may change from time to time based on market conditions. At June 30, 2014, the weighted average discount rate for the BPNA segment was 31%.

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For mortgage loans secured by residential real estate properties, a current assessment of value is made not later than 180 days past the contractual due date. Any outstanding balance in excess of the estimated value of the collateral property, less estimated costs to sell, is charged-off. For this purpose, the Corporation requests third-party Broker Price Opinion of Value BPOs of the subject collateral property at least annually. In the case of the mortgage loan portfolio for the BPPR segment, BPOs of the subject collateral properties are currently subject to downward adjustment of up to approximately 26%, including cost to sell of 5%. In the case of the U.S. mortgage loan portfolio, a haircut up to 30% is taken, which includes costs to sell.

Discount rates discussed above include costs to sell and may change from time to time based on market conditions.

The table that follows presents the approximate amount and percentage of non-covered impaired loans for which the Corporation relied on appraisals dated more than one year old for purposes of impairment requirements at June 30, 2014 and December 31, 2013.

Table 60 Non-Covered Impaired Loans with Appraisals Dated 1 year or Older

	June 30, 2014		
	Total Impaired Loans Held-in-portfolio (HIP)		
(In thousands)	Loan Count	Outstanding Principal Balance	Impaired Loans with Appraisals Over One-Year Old [1]
Commercial	138	$ 263,091	6 %
Construction	7	19,039	40
Legacy	1	2,536	

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

	December 31, 2013		
	Total Impaired Loans Held-in-portfolio (HIP)		
(In thousands)	Loan Count	Outstanding Principal Balance	Impaired Loans with Appraisals Over One-Year Old [1]
Commercial	174	$ 248,154	18 %
Construction	9	20,162	27
Legacy	4	6,045	

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

The percentage of the Corporation s impaired construction loans that were relied upon as developed and as is for the periods ended June 30, 2014 and December 31, 2013 are presented in Table 61.

At June 30, 2014 and December 31, 2013, the Corporation accounted for $13 million and $6 million, respectively, impaired construction loans under the as developed value. This approach is used since the current plan is that the project will be completed and it reflects the best strategy to reduce potential losses based on the prospects of the project. The costs to complete the project and the related increase in debt are considered an integral part of the individual reserve determination.

Costs to complete are deducted from the subject as developed collateral value on impaired construction loans. Impairment determinations are calculated following the collateral dependent method, comparing the outstanding principal balance of the respective impaired construction loan against the expected realizable value of the subject collateral. Realizable values of subject collaterals have been defined as the as developed appraised value less costs to complete, costs to sell and discount factors. Costs to complete represent an estimate of the amount of money to be disbursed to complete a particular phase of a construction project. Costs to sell have been determined as a percentage of the subject collateral value, to cover related collateral disposition costs (e.g. legal and commission fees). As discussed previously, discount factors may be applied to the appraised amounts due to age or general market conditions.

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Table 61 Impaired Construction Loans Relied Upon As is or As Developed

	June 30, 2014						
	As is			As developed			
(In thousands)	Loan Count	Outstanding Principal Balance	As a % Of Total Construction Impaired Loans HIP	Loan Count	Outstanding Principal Balance	As a % Of Total Construction Impaired Loans HIP	Average % Of Completion
Loans held-in-portfolio	8	$ 8,168	39%	3	$ 12,926	61%	92%

	December 31, 2013						
	As is			As developed			
(In thousands)	Loan Count	Outstanding Principal Balance	As a % Of Total Construction Impaired Loans HIP	Loan Count	Outstanding Principal Balance	As a % Of Total Construction Impaired Loans HIP	Average % Of Completion
Loans held-in-portfolio [1]	12	$ 18,835	77%	2	$ 5,703	23%	90%

[1] Includes $2.1 million of construction loans from the BPNA legacy portfolio.

Allowance for loan losses Covered loan portfolio

The Corporation s allowance for loan losses for the covered loan portfolio acquired in the Westernbank FDIC-assisted transaction amounted to $99 million at June 30, 2014. This allowance covers the estimated credit loss exposure related to: (i) acquired loans accounted for under ASC Subtopic 310-30, which required an allowance for loan losses of $91 million at June 30, 2014, compared with $94 million at December 31, 2013; and (ii) acquired loans accounted for under ASC Subtopic 310-20, which required an allowance for loan losses of $8 million at June 30, 2014 and at December 31, 2013.

Decreases in expected cash flows after the acquisition date for loans (pools) accounted for under ASC Subtopic 310-30 are recognized by recording an allowance for loan losses in the current period. For purposes of loans accounted for under ASC Subtopic 310-20 and new loans originated as a result of loan commitments assumed, the Corporation s assessment of the allowance for loan losses is determined in accordance with the accounting guidance of loss contingencies in ASC Subtopic 450-20 (general reserve for inherent losses) and loan impairment guidance in ASC Section 310-10-35 for loans individually evaluated for impairment. Concurrently, the Corporation records an increase in the FDIC loss share asset for the expected reimbursement from the FDIC under the loss sharing agreements.

Geographic and government risk

The Corporation is exposed to geographical and government risk. The Corporation s assets and revenue composition by geographical area and by business segment reporting are presented in Note 36 to the consolidated financial statements. A significant portion of the Corporation s financial activities and credit exposure is concentrated in Puerto Rico, which has been going through a challenging economic cycle. Puerto Rico s fiscal and economic situation is expected to continue to be difficult.

In February 2014, the three principal rating agencies (Moody s, S&P and Fitch) lowered their ratings on the General obligation bonds of the Commonwealth of Puerto Rico and on the bonds of several other Commonwealth instrumentalities to non-investment grade ratings. In connection with their rating actions the rating agencies have noted various factors, including high levels of public debt, the lack of a clear economic growth catalyst, fiscal budget deficits, the financial condition of the public sector employee pension plans and, more recently liquidity concerns regarding the Commonwealth and Government Development Bank for Puerto Rico and concerns regarding access to market financing.

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In March 2014, the Commonwealth of Puerto Rico sold $3.5 billion in General Obligation bonds yielding 8.72% rated below investment grade, which should improve liquidity at the Government Development Bank for Puerto Rico and alleviate the short term liquidity situation. This financing is expected to provide liquidity to the Central Government through July 2015.

On June 28, 2014, Governor Alejandro García Padilla signed into law the Puerto Rico Public Corporations Debt Enforcement and Recovery Act (the Recovery Act) which provides a framework for certain public corporations, including the Puerto Rico Electric Power Authority, Puerto Rico Aqueduct & Sewer Authority and the Puerto Rico Highways and Transportation Authority, to restructure their debt obligations in order to ensure that the services they provide to the public are not interrupted. As explained in the legislation not all public corporations may use the Recovery Act. There are other governmental entities not included such as debt from the Commonwealth, the Government Development Bank for Puerto Rico (GDB) and its subsidiaries, affiliates and other ascribed entities, the seventy eight municipalities, the PR Sales Tax and Financing Corporation, and the Employees Retirement System, among others. Several institutional investors have filed lawsuits challenging the legality of the new law.

Given that the U.S. Bankruptcy code does not apply to municipal debt in Puerto Rico the Recovery Act aims to provide a process similar to U.S. Federal Bankruptcy in which certain Puerto Rico s public corporations may be able to restructure their debt obligations with their bondholders, creditors and other stakeholders. The primary objective is to make them self sufficient and not rely on the Commonwealth General fund or the Government Development Bank for financial support.

On July 1, 2014, Moody s, as a consequence to the enactment of the Recovery Act, downgraded the majority of the Puerto Rico central government and public instrumentalities obligations expressing its concern for all of Puerto Rico s municipal debt based on the deteriorating fiscal situation on the island and the possibility that application of the new law may further limit the Commonwealth s ability to access the capital markets. Both S&P and Fitch later issued ratings downgrades for various Puerto Rico Municipal issuers including Puerto Rico Electric Power Authority.

The PR Electric Power Authority faces significant fiscal and financial challenges that have to be addressed in the short term in order to stabilize its operations. They include a $696 million short term credit facility from various banks, the majority of which has been extended until August 14, 2014, pursuant to a forbearance agreement, significant recurring operational and budgetary shortfalls, high rates compared to US, high leverage, limited fuel diversification, significant CAPEX needs as well as burdensome environmental regulatory requirements.

In the case of the two other principal Public corporations subject to the Recovery Act, the Puerto Rico Aqueduct and Sewer Authority has been operating without relying on General fund or GDB s support as a significant rate increase in July 2013 has generated additional revenues that according to the Authority are expected to be sufficient to cover their operating expenses and financial obligations during the next three years. However, it also faces some challenges including the refinancing of $200 million in Bond Anticipation Notes due in March 2015 and complying with various regulatory requirements that require capital expenditures. The Highways and Transportation Authority challenges include, recurring operational and budgetary shortfall even after finding new sources of revenue through ACTS 30 and 31 and implementation of cost savings initiatives.

The latest GDB Economic Activity index published of June 2014 reflected a 1% year over year reduction after showing a 1.1% reduction year over year in May 2014.

The lingering effects of the prolonged recession are still reflected in limited loan demand, an increase in the rate of delinquency rates on mortgage loans granted in Puerto Rico and the financial condition of commercial borrowers. If the prices of crude oil increases and / or global or local economic conditions worsen it could result in a reduction in consumer spending which could adversely impact our non-interest revenues.

At June 30, 2014, the Corporation s direct exposure to the Puerto Rico government and instrumentalities and municipalities amounted to $833 million, of which approximately $709 million is outstanding ($1.2 billion and $950 million at December 31, 2013). Of the amount outstanding, $570 million consists of loans and $139 million are securities ($789 million and $161 million at December 31, 2013). Of this amount, $272 million represents obligations from the Government of Puerto Rico and public corporations that are either collateralized loans or obligations that have a specific source of income or revenues identified for their repayment ($527 million at December 31, 2013). Some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services or products, such as public utilities. Public corporations have varying degrees of independence from the central Government and many receive appropriations or other payments from it. The remaining $437 million represents obligations from various municipalities in Puerto Rico for which, in most cases, the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment ($423 million at December 31, 2013). These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all of its general obligation bonds and loans. These loans have seniority to the payment of operating cost and expenses of the municipality. Table 62 has a summary of the Corporation s direct exposure to the Puerto Rico Government.

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Table 62 Direct Exposure to the Puerto Rico Government

(In thousands)	Investment Portfolio	Loans	Total Outstanding	Total Exposure
Central Government	$ 68,971	$	$ 68,971	$ 99,244
Government Development Bank (GDB)	6,921		6,921	6,921
Public Corporations:				
Puerto Rico Aqueduct and Sewer Authority	448	100,000	100,448	130,819
Puerto Rico Electric Power Authority		74,997	74,997	93,800
Puerto Rico Highways and Transportation Authority	3		3	3
Other		20,750	20,750	25,500
Municipalities	62,155	374,318	436,473	476,381
Total Direct Government Exposure	$ 138,498	$ 570,065	$ 708,563	$ 832,668

In addition, at June 30, 2014, the Corporation had $360 million in indirect exposure to loans or securities that are payable by non-governmental entities, but which carry a government guarantee to cover any shortfall in collateral in the event of borrower default ($360 million at December 31, 2013). These included $279 million in residential mortgage loans that are guaranteed by the Puerto Rico Housing Finance Authority (December 31, 2013 - $274 million). These mortgage loans are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default. Also, the Corporation had $48 million in Puerto Rico pass-through housing bonds backed by FNMA, GNMA or residential loans CMO s, and $33 million of industrial development notes ($52 million and $34 million, respectively, at December 31, 2013).

As further detailed in Notes 7 and 8 to the consolidated financial statements, a substantial portion of the Corporation s investment securities represented exposure to the U.S. Government in the form of U.S. Government sponsored entities, as well as agency mortgage-backed and U.S. Treasury securities. In addition, $937 million of residential mortgages and $131 million in commercial loans were insured or guaranteed by the U.S. Government or its agencies at June 30, 2014. The Corporation does not have any exposure to European sovereign debt.

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

Refer to Note 2, New Accounting Pronouncements .

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures for the current period can be found in the Market Risk section of this report, which includes changes in market risk exposures from disclosures presented in the Corporation s 2013 Annual Report.

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Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Corporation s management, with the participation of the Corporation s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Corporation s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, the Corporation s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Corporation s disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Corporation in the reports that it files or submits under the Exchange Act and such information is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosures.

Internal Control Over Financial Reporting

There have been no changes in the Corporation s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Corporation s internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

For a discussion of Legal Proceedings, see Note 24, Commitments and Contingencies , to the Consolidated Financial Statements.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under Part I Item 1A Risk Factors in our 2013 Annual Report. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report. Also refer to the discussion in Part I Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations in this report for additional information that may supplement or update the discussion of risk factors in our 2013 Annual Report.

There have been no material changes to the risk factors previously disclosed under Item 1A of the Corporation s 2013 Annual Report, except for the risks described below.

The risks described in our 2013 Annual Report and in this report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

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RISKS RELATED TO THE FDIC-ASSISTED TRANSACTION

Our ability to obtain reimbursement under the loss sharing agreements on covered assets depends on our compliance with the terms of the loss sharing agreements.

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

- manage and administer the covered assets and collect and effect charge-offs and recoveries with respect to such covered assets in a manner consistent with its usual and prudent business and banking practices and, with respect to single family shared-loss loans, the procedures (including collection procedures) customarily employed by BPPR in servicing and administering mortgage loans for its own account and the servicing procedures established by FNMA or FHLMC, as in effect from time to time, and in accordance with accepted mortgage servicing practices of prudent lending institutions;
- exercise its best judgment in managing, administering and collecting amounts on covered assets and effecting charge-offs with respect to the covered assets;
- use commercially reasonable efforts to maximize recoveries with respect to losses on single family shared-loss assets and best efforts to maximize collections with respect to commercial shared-loss assets;
- retain sufficient staff to perform the duties under the loss share agreements;
- adopt and implement accounting, reporting, record-keeping and similar systems with respect to the commercial shared-loss assets;
- comply with the terms of the modification guidelines approved by the FDIC or another federal agency for any single-family shared loss loan;
- provide notice with respect to proposed transactions pursuant to which a third party or affiliate will manage, administer or collect any commercial shared-loss assets; and
- file monthly and quarterly certificates with the FDIC specifying the amount of losses, charge-offs and recoveries.

Under the loss share agreements, BPPR is also required to maintain books and records sufficient to ensure and document compliance with the terms of the loss share agreements.

Under the terms of the loss share agreements, BPPR is also required to deliver certain certificates regarding compliance with the terms of each of the loss share agreements and the computations required there under. The required terms of the agreements are extensive and failure to comply with any of the guidelines could result in a specific asset or group of assets permanently losing their loss sharing coverage. BPPR believes that it has complied with the terms and conditions regarding the management of the covered assets. No assurances can be given that we will manage the covered assets in such a way as to always maintain loss share coverage on all such assets and fully recover the value of our loss share asset.

For the quarters ended June 30, 2010 through March 31, 2012, BPPR received reimbursement for loss-share claims submitted to the FDIC, including charge-offs for certain commercial late stage real-estate-collateral-dependent loans and OREO calculated in accordance with BPPR s charge-off policy for non-covered assets. When BPPR submitted its shared-loss claim in connection with the June 30, 2012 quarter, however, the FDIC refused to reimburse BPPR for a portion of the claim because of a difference related to the methodology for the computation of charge-offs for certain commercial late stage real-estate-collateral-dependent loans and OREO. In accordance with the terms of the commercial loss share agreement, BPPR applied a methodology for charge-offs for late stage real-estate-collateral-dependent loans that conforms to its regulatory supervisory criteria and is calculated in accordance with BPPR s charge-off policy for non-covered assets. The FDIC has stated that it believes that BPPR should use a different methodology for those charge-offs. Notwithstanding the FDIC s refusal to reimburse BPPR for certain shared-loss claims, BPPR has continued to calculate shared-loss claims for quarters subsequent to June 30, 2012 in accordance with its charge off policy for non-covered assets. As of June 30, 2014, BPPR had unreimbursed shared-loss claims of $369.4 million under the commercial loss share agreement with the FDIC. On July 25, 2014, BPPR received a payment of $66.3 million related to reimbursable shared-loss claims from the FDIC. After giving effect to this payment, BPPR has unreimbursed shared-loss claims amounting to $303.1 million. If the reimbursement amount for these claims were calculated in accordance with the FDIC s preferred methodology for late stage real-estate-collateral-dependent loans, the amount of such claims would be reduced by approximately $156.6 million.

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BPPR s loss share agreements with the FDIC specify that disputes can be submitted to arbitration before a review board under the commercial arbitration rules of the American Arbitration Association. On July 31, 2013, BPPR filed a statement of claim with the American Arbitration Association requesting that the review board determine certain matters relating to the loss-share claims under the commercial loss share agreement with the FDIC, including that the review board award BPPR the amounts owed under its unpaid quarterly certificates. The statement of claim includes requests for reimbursement of certain valuation adjustments for discounts to appraised values, costs to sell troubled assets and other items. The review board is comprised of one arbitrator appointed by BPPR, one arbitrator appointed by the FDIC and a third arbitrator selected by agreement of those arbitrators. The arbitration hearing date has been set for October 2014.

To the extent we are not able to successfully resolve this matter through the arbitration process described above, a material difference could result in the timing and amount of charge-offs recorded by us and the amount of charge-offs reimbursed by the FDIC under the commercial loss share agreement. No assurance can be given that we would be able to claim reimbursement from the FDIC for such difference prior to the expiration, in the quarter ending June 30, 2015, of the FDIC s obligation to reimburse BPPR under commercial loss share agreement, which could require us to make a material adjustment to the value of our loss share asset and the related true up payment obligation to the FDIC and could have a material adverse effect on our financial results for the period in which such adjustment is taken.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

In April 2004, the Corporation s shareholders adopted the Popular, Inc. 2004 Omnibus Incentive Plan. The Corporation has to date used shares purchased in the market to make grants under the Plan. As of June 30, 2014 the maximum number of shares of common stock that may have been granted under this plan was 3,500,000.

In connection with the Corporation s participation in the Capital Purchase Program under the Troubled Asset Relief Program, the consent of the U.S. Department of the Treasury will be required for the Corporation to repurchase its common stock other than in connection with benefit plans consistent with past practice and certain other specified circumstances. The Corporation terminated its participation in the Troubled Asset Relief Program, after the repurchase on July 23, 2014, of the outstanding warrants issued to the U.S. Treasury.

The following table sets forth the details of purchases of Common Stock during the quarter ended June 30, 2014 under the 2004 Omnibus Incentive Plan.

Issuer Purchases of Equity Securities

Not in thousands

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
April 1 - April 30				
May 1 - May 31	144,977	$ 31.02		

June 1 - June 30			
Total June 30, 2014	144,977	$	31.02

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Item 6. Exhibits

Exhibit No.	Exhibit Description
12.1	Computation of the ratios of earnings to fixed charges and preferred stock dividends(1)
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(1)
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(1)
101.INS	XBRL Instance Document(1)
101.SCH	XBRL Taxonomy Extension Schema Document(1)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document(1)
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document(1)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document(1)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document(1)

(1) Included herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	POPULAR, INC.
	(Registrant)
Date: August 8, 2014	By: /s/ Carlos J. Vázquez Carlos J. Vázquez Senior Executive Vice President & Chief Financial Officer
Date: August 8, 2014	By: /s/ Jorge J. García Jorge J. García Senior Vice President & Corporate Comptroller

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