POPULAR INC
Form 10-Q
August 11, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2014

Commission File Number: 001-34084

POPULAR, INC.

(Exact name of registrant as specified in its charter)

Puerto Rico	**66-0667416**
(State or other jurisdiction of	**(IRS Employer**
Incorporation or organization)	**Identification Number)**

Popular Center Building

209 Muñoz Rivera Avenue

Hato Rey, Puerto Rico	**00918**
(Address of principal executive offices)	**(Zip code)**

(787) 765-9800

(Registrant s telephone number, including area code)

NOT APPLICABLE

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

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: Common Stock, $0.01 par value, 103,481,803 shares outstanding as of August 4, 2014.

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Forward-Looking Information

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

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

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

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

- the performance of the stock and bond markets;
- competition in the financial services industry;
- additional Federal Deposit Insurance Corporation (FDIC) assessments;
- the resolution of our dispute with the FDIC under our loss share agreement entered into in connection with the Westernbank-FDIC assisted transaction; and
- possible legislative, tax or regulatory changes.

Other possible events or factors that could cause results or performance to differ materially from those expressed in these forward-looking statements include the following: negative economic conditions that adversely affect the general economy, housing prices, the job market, consumer confidence and spending habits which may affect, among other things, the level of non-performing assets, charge-offs and provision expense; changes in interest rates and market liquidity which may reduce interest margins, impact funding sources and affect our ability to originate and distribute financial products in the primary and secondary markets; adverse movements and volatility in debt and equity capital markets; changes in market rates and prices which may adversely impact the value of financial assets and liabilities; liabilities resulting from litigation and regulatory investigations; changes in accounting standards, rules and interpretations; increased competition; our ability to grow our core businesses; decisions to downsize, sell or close units or otherwise change our business mix; and management s ability to identify and manage these and other risks. Moreover, the outcome of legal proceedings, as discussed in Part II, Item I. Legal Proceedings, is inherently uncertain and depends on judicial interpretations of law and the findings of regulators, judges and juries. Investors should refer to the Corporation s Annual Report on Form 10-K for the year ended December 31, 2013 as well as Part II, Item 1A of this Form 10-Q for a discussion of such factors and certain risks and uncertainties to which the Corporation is subject.

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(UNAUDITED)

(In thousands, except share information)	June 30, 2014	December 31, 2013
Assets:		
Cash and due from banks	$ 362,572	$ 423,211
Money market investments:		
Federal funds sold		5,055
Securities purchased under agreements to resell	192,490	175,965
Time deposits with other banks	1,474,454	677,433
Total money market investments	1,666,944	858,453
Trading account securities, at fair value:		
Pledged securities with creditors right to repledge	255,990	308,978
Other trading securities	89,833	30,765
Investment securities available-for-sale, at fair value:		
Pledged securities with creditors right to repledge	1,483,479	1,286,839
Other investment securities available-for-sale	4,170,513	4,007,961
Investment securities held-to-maturity, at amortized cost (fair value 2014 - $103,501; 2013 - $120,688)	114,280	140,496
Other investment securities, at lower of cost or realizable value (realizable value 2014 - $170,700; 2013 - $184,526)	168,125	181,752
Loans held-for-sale, at lower of cost or fair value	97,010	110,426
Loans held-in-portfolio:		
Loans not covered under loss sharing agreements with the FDIC	19,726,234	21,704,010
Loans covered under loss sharing agreements with the FDIC	2,736,102	2,984,427
Less Unearned income	91,010	92,144
Allowance for loan losses	624,911	640,555
Total loans held-in-portfolio, net	21,746,415	23,955,738
FDIC loss share asset	751,553	948,608
Premises and equipment, net	492,382	519,516
Other real estate not covered under loss sharing agreements with the FDIC	139,420	135,501
Other real estate covered under loss sharing agreements with the FDIC	155,805	168,007
Accrued income receivable	119,520	131,536
Mortgage servicing assets, at fair value	151,951	161,099
Other assets	2,292,360	1,687,558
Goodwill	461,246	647,757

Other intangible assets	40,122	45,132
Assets from discontinued operations (Refer to Note 3)	1,828,382	
Total assets	$ 36,587,902	$ 35,749,333
Liabilities and Stockholders Equity		
Liabilities:		
Non-interest bearing	$ 5,666,685	$ 5,922,682
Interest bearing	19,234,467	20,788,463
Total deposits	24,901,152	26,711,145
Federal funds purchased and assets sold under agreements to repurchase	2,074,676	1,659,292
Other short-term borrowings	31,200	401,200
Notes payable	2,360,089	1,584,754
Other liabilities	880,602	766,792
Liabilities from discontinued operations (Refer to Note 3)	2,079,742	
Total liabilities	32,327,461	31,123,183
Commitments and contingencies (Refer to Note 24)		
Stockholders equity:		
Preferred stock, 30,000,000 shares authorized; 2,006,391 shares issued and outstanding	50,160	50,160
Common stock, $0.01 par value; 170,000,000 shares authorized; 103,539,383 shares issued (2013 103,435,967) and 103,472,979 shares outstanding (2013 103,397,699)	1,035	1,034
Surplus	4,173,616	4,170,152
Retained earnings	167,663	594,430
Treasury stock at cost, 66,404 shares (2013 38,268)	(1,742)	(881)
Accumulated other comprehensive loss, net of tax	(130,291)	(188,745)
Total stockholders equity	4,260,441	4,626,150
Total liabilities and stockholders equity	$ 36,587,902	$ 35,749,333

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(In thousands, except per share information)	Quarters ended June 30, 2014	Quarters ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Interest income:				
Loans	$ 380,986	$ 370,298	$ 758,588	$ 730,814
Money market investments	1,131	829	2,104	1,784
Investment securities	33,989	36,106	69,116	73,929
Trading account securities	5,344	5,456	10,601	10,970
Total interest income	421,450	412,689	840,409	817,497
Interest expense:				
Deposits	26,223	32,445	53,081	67,061
Short-term borrowings	8,892	9,767	17,932	19,548
Long-term debt	445,716	36,066	477,606	71,833
Total interest expense	480,831	78,278	548,619	158,442
Net interest (expense) income	(59,381)	334,411	291,790	659,055
Provision for loan losses non-covered loans	50,074	228,975	104,196	438,068
Provision for loan losses covered loans	11,604	25,500	37,318	43,056
Net interest (expense) income after provision for loan losses	(121,059)	79,936	150,276	177,931
Service charges on deposit accounts	39,237	41,378	78,596	82,539
Other service fees (Refer to Note 30)	56,468	57,279	109,286	112,223
Mortgage banking activities (Refer to Note 12)	3,788	18,081	7,466	38,378
Net gain and valuation adjustments on investment securities		5,856		5,856
Trading account profit (loss)	1,055	(4,345)	3,032	(5,329)
Net gain (loss) on sale of loans, including valuation adjustments on loans held-for-sale	9,659	4,291	14,052	(58,428)
Adjustments (expense) to indemnity reserves on loans sold	(7,454)	(11,632)	(17,801)	(27,775)
FDIC loss share expense (Refer to Note 31)	(55,261)	(3,755)	(79,467)	(30,021)
Other operating income	15,297	181,565	43,657	201,585
Total non-interest income	62,789	288,718	158,821	319,028
Operating expenses:				
Personnel costs	99,100	106,359	203,401	213,940
Net occupancy expenses	20,267	21,059	41,627	41,551

Equipment expenses	12,044	11,485	23,456	23,105
Other taxes	13,543	15,225	27,206	26,753
Professional fees	67,024	67,015	134,023	134,752
Communications	6,425	6,395	13,110	12,946
Business promotion	16,038	15,357	27,424	27,942
FDIC deposit insurance	10,480	18,557	21,458	26,913
Other real estate owned (OREO) expenses	3,410	7,657	9,850	53,524
Other operating expenses	20,509	22,766	42,858	43,684
Amortization of intangibles	2,025	1,989	4,051	3,979
Restructuring costs (Refer to Note 4)	4,574		4,574	
Total operating expenses	275,439	293,864	553,038	609,089
(Loss) income from continuing operations before income tax	(333,709)	74,790	(243,941)	(112,130)
Income tax (benefit) expense	(4,124)	(237,380)	19,140	(294,257)
(Loss) income from continuing operations	(329,585)	312,170	(263,081)	182,127
(Loss) income from discontinued operations, net of tax (Refer to Note 3)	(181,729)	15,298	(161,824)	25,034
Net (Loss) Income	$ (511,314)	$ 327,468	$ (424,905)	$ 207,161
Net (Loss) Income Applicable to Common Stock	$ (512,245)	$ 326,537	$ (426,767)	$ 205,300
Net (Loss) Income per Common Share Basic				
Net (loss) income from continuing operations	$ (3.21)	3.03	(2.58)	1.76
Net (loss) income from discontinued operations	(1.77)	0.15	(1.57)	0.24
Net (Loss) Income per Common Share Basic	$ (4.98)	$ 3.18	$ (4.15)	$ 2.00
Net (Loss) Income per Common Share Diluted				
Net (loss) income from continuing operations	$ (3.21)	3.02	(2.58)	1.75
Net (loss) income from discontinued operations	(1.77)	0.15	(1.57)	0.24
Net (Loss) Income per Common Share Diluted	$ (4.98)	$ 3.17	$ (4.15)	$ 1.99

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(UNAUDITED)

(In thousands)	Quarters ended, June 30, 2014	Quarters ended, June 30, 2013	Six months ended, June 30, 2014	Six months ended, June 30, 2013
Net (loss) income	$ (511,314)	$ 327,468	$ (424,905)	$ 207,161
Other comprehensive income (loss) before tax:				
Foreign currency translation adjustment	(603)	(2,653)	(2,718)	(1,929)
Reclassification adjustment for losses included in net income			7,718	
Amortization of net losses of pension and postretirement benefit plans	2,126	6,169	4,252	12,338
Amortization of prior service cost of pension and postretirement benefit plans	(950)		(1,900)	
Unrealized holding gains (losses) on investments arising during the period	27,084	(115,514)	54,666	(144,469)
Unrealized net (losses) gains on cash flow hedges	(2,548)	5,882	(4,273)	5,782
Reclassification adjustment for net (gains) losses included in net income	1,800	(3,045)	3,624	(3,196)
Other comprehensive income (loss) before tax	26,909	(109,161)	61,369	(131,474)
Income tax (expense) benefit	(925)	5,130	(2,915)	8,303
Total other comprehensive income (loss), net of tax	25,984	(104,031)	58,454	(123,171)
Comprehensive (loss) income, net of tax	$ (485,330)	$ 223,437	$ (366,451)	$ 83,990

Tax effect allocated to each component of other comprehensive loss:

(In thousands)	Quarters ended June 30, 2014	Quarters ended June 30, 2013	Six months ended, June 30, 2014	Six months ended, June 30, 2013
Amortization of net losses of pension and postretirement benefit plans	$ (829)	$ (2,962)	$ (1,658)	$ (4,813)
Amortization of prior service cost of pension and postretirement benefit plans	370		741	
Unrealized holding gains (losses) on investments arising during the period	(758)	8,942	(2,251)	13,891
Unrealized net (losses) gains on cash flow hedges	994	(1,764)	1,666	(1,734)
Reclassification adjustment for net (gains) losses included in net income	(702)	914	(1,413)	959

Income tax (expense) benefit	$	(925)	$	5,130	$	(2,915)	$	8,303

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

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(UNAUDITED)

n thousands)	Common stock	Preferred stock	Surplus	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total
alance at December 31, 2012	$ 1,032	$ 50,160	$ 4,150,294	$ 11,826	$ (444)	$ (102,868)	$ 4,110,00
et income				207,161			207,16
suance of stock	1		3,231				3,23
vidends declared:							
eferred stock				(1,861)			(1,86
ommon stock purchases					(325)		(32
her comprehensive loss, net of tax						(123,171)	(123,17
alance at June 30, 2013	$ 1,033	$ 50,160	$ 4,153,525	$ 217,126	$ (769)	$ (226,039)	$ 4,195,03
alance at December 31, 2013	$ 1,034	$ 50,160	$ 4,170,152	$ 594,430	$ (881)	$ (188,745)	$ 4,626,15
et loss				(424,905)			(424,90
suance of stock	1		3,047				3,04
x windfall benefit on vesting of restricted ock			417				41
vidends declared:							
eferred stock				(1,862)			(1,86
ommon stock purchases					(872)		(87
ommon stock reissuance					11		1
her comprehensive income, net of tax						58,454	58,45
alance at June 30, 2014	$ 1,035	$ 50,160	$ 4,173,616	$ 167,663	$ (1,742)	$ (130,291)	$ 4,260,44

sclosure of changes in number of shares:	June 30, 2014	June 30, 201
eferred Stock:		
alance at beginning and end of period	2,006,391	2,006,39
ommon Stock Issued:		
alance at beginning of period	103,435,967	103,193,30
suance of stock	103,416	117,84
alance at end of the period	103,539,383	103,311,15
easury stock	(66,404)	(35,02
ommon Stock Outstanding	103,472,979	103,276,13

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In thousands)	Six months ended June 30, 2014	2013
Cash flows from operating activities:		
Net (loss) income	$ (424,905)	$ 207,161
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	134,750	473,264
Goodwill impairment losses	186,511	
Amortization of intangibles	5,007	4,935
Depreciation and amortization of premises and equipment	23,832	25,009
Net accretion of discounts and amortization of premiums and deferred fees	324,779	(29,525)
Fair value adjustments on mortgage servicing rights	15,836	10,741
FDIC loss share expense	79,467	30,021
Adjustments (expense) to indemnity reserves on loans sold	17,801	27,775
Earnings from investments under the equity method	(24,355)	(34,214)
Deferred income tax expense (benefit)	2,689	(321,854)
Loss (gain) on:		
Disposition of premises and equipment	(2,551)	(2,347)
Sale of loans, including valuation adjustments on loans held-for-sale and mortgage banking activities	(42,413)	44,577
Sale of stock in equity method investee		(136,722)
Sale of foreclosed assets, including write-downs	(2,035)	35,006
Acquisitions of loans held-for-sale	(159,727)	(15,335)
Proceeds from sale of loans held-for-sale	72,757	119,003
Net originations on loans held-for-sale	(338,672)	(867,917)
Net (increase) decrease in:		
Trading securities	459,792	858,092
Accrued income receivable	6,721	(18,177)
Other assets	(48,455)	2,103
Net increase (decrease) in:		
Interest payable	633	(2,570)
Pension and other postretirement benefit obligation	(3,096)	3,786
Other liabilities	30,260	4,055
Total adjustments	739,531	209,706
Net cash provided by operating activities	314,626	416,867

Cash flows from investing activities:

Net (increase) decrease in money market investments	(808,491)	13,641
Purchases of investment securities:		
Available-for-sale	(1,079,586)	(1,490,647)
Other	(51,097)	(116,731)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:		
Available-for-sale	816,830	1,378,311
Held-to-maturity	27,029	2,359
Other	64,724	83,592
Net repayments on loans	473,336	624,262
Proceeds from sale of loans	87,983	295,237
Acquisition of loan portfolios	(289,292)	(1,520,088)
Net payments from (to) FDIC under loss sharing agreements	110,618	(107)
Return of capital from equity method investments		438
Proceeds from sale of stock in equity method investee		166,332
Mortgage servicing rights purchased		(45)
Acquisition of premises and equipment	(20,333)	(19,774)
Proceeds from sale of:		
Premises and equipment	8,631	5,891
Foreclosed assets	81,010	120,365
Net cash used in investing activities	(578,638)	(456,964)
Cash flows from financing activities:		
Net increase (decrease) in:		
Deposits	252,715	(259,950)
Federal funds purchased and assets sold under agreements to repurchase	418,381	(344,047)
Other short-term borrowings	(370,000)	590,000
Payments of notes payable	(111,030)	(48,458)
Proceeds from issuance of notes payable	31,905	49,874
Proceeds from issuance of common stock	3,048	3,232
Dividends paid	(1,862)	(1,551)
Net payments for repurchase of common stock	(861)	(325)
Net cash provided by (used in) financing activities	222,296	(11,225)
Net decrease in cash and due from banks	(41,716)	(51,322)
Cash and due from banks at beginning of period	423,211	439,363
Cash and due from banks at end of period, including discontinued operations	381,495	388,041
Less: cash from discontinued operations	18,923	
Cash and due from banks at end of period	$ 362,572	$ 388,041

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

The Consolidated Statements of Cash Flows for the periods ended June 30, 2014 and 2013 include the cash flows from operating, investing and financing activities associated with discontinued operations.

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Notes to Consolidated Financial Statements (Unaudited)

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Note 1 Organization, consolidation and basis of presentation

Nature of Operations

Popular, Inc. (the Corporation) is a diversified, publicly-owned financial holding company subject to the supervision and regulation of the Board of Governors of the Federal Reserve System. The Corporation has operations in Puerto Rico, the United States and the Caribbean. In Puerto Rico, the Corporation provides retail, including 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. The Corporation s mortgage origination business is conducted under the brand name Popular Mortgage, a division of BPPR. In the U.S. mainland, the Corporation operates Banco Popular North America (BPNA), including its wholly-owned subsidiary E-LOAN. BPNA focuses efforts and resources on the core community banking business. BPNA operates branches in New York, California, Illinois, New Jersey and Florida. E-LOAN markets deposit accounts under its name for the benefit of BPNA. The BPNA branches operate under the name of Popular Community Bank. Note 36 to the consolidated financial statements presents information about the Corporation s business segments. Note 37 presents information regarding definitive agreements entered into by BPNA sell its regional operations in California, Illinois and Central Florida.

Principles of Consolidation and Basis of Presentation

The consolidated interim financial statements have been prepared without audit. The consolidated statement of financial condition data at December 31, 2013 was derived from audited financial statements. The unaudited interim financial statements are, in the opinion of management, a fair statement of the results for the periods reported and include all necessary adjustments, all of a normal recurring nature, for a fair statement of such results.

Certain reclassifications have been made to the 2013 consolidated financial statements and notes to the financial statements to conform with the 2014 presentation. As discussed in Note 3, current and prior periods presented in the consolidated statement of operations as well as the related note disclosures covering income and expense amounts have been retrospectively adjusted for the impact of the discontinued operations for comparative purposes. The consolidated statement of financial condition and related note disclosure for prior periods do not reflect the reclassification of BPNA s assets and liabilities to discontinued operations.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted from the unaudited financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, these financial statements should be read in conjunction with the audited consolidated financial statements of the Corporation for the year ended December 31, 2013, included in the Corporation s 2013 Annual Report (the 2013 Annual Report). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

Use of Estimates in the Preparation of Financial Statements

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

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Note 2 New accounting pronouncements

FASB Accounting Standards Update 2014-12, Compensation Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (ASU 2014-12)

The FASB issued ASU 2014-12 in June 2014, which intends to resolve the diverse accounting treatment of awards with a performance target that could be achieved after an employee completes the requisite service period. That is, the employee would be eligible to vest in the award regardless of whether the employee is rendering service on the date the performance target is achieved.

The amendments of the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award.

Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period.

The amendments in the ASU are effective in the first quarter of 2016. Early adoption is permitted. The amendments of this ASU can be applied (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets outstanding at the beginning of the period of adoption and to all new or modified awards thereafter.

The Corporation does not anticipate that the adoption of this guidance will have a material effect on its consolidated statements of financial condition or results of operations.

FASB Accounting Standards Update 2014-11, Transfers and Servicing (Topic 860) Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures (ASU 2014-11)

The FASB issued ASU 2014-11 in June 2014, which requires two accounting changes. First, the amendments in this Update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement.

The amendments in this Update require disclosures for certain transactions comprising (1) a transfer of a financial asset accounted for as a sale and (2) an agreement with the same transferee entered into in contemplation of the initial transfer that results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction.

The accounting changes in this ASU are effective in the first quarter of 2015. Early application is prohibited. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption.

The Corporation does not anticipate that the adoption of this guidance will have a material effect on its consolidated statements of financial condition or results of operations.

FASB Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606); (ASU 2014-09)

The FASB issued ASU 2014-09 in May 2014, which clarifies the principles for recognizing revenue and develop a common revenue standard that would (1) remove inconsistencies and weaknesses in revenue requirements, (2) provide a more robust framework for addressing revenue issues, (3) improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, (4) provide more useful information to users of financial statement through improved disclosure requirements and (5) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. ASU 2014-09 amends the ASC Codification and creates a new Topic 606, Revenue from Contracts with Customers.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

In addition, the new guidance requires disclosures to enable users of financial statements to understand the nature, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative information is required about contract with customers, significant judgments and changes in judgments, and assets recognized from the cost to obtain or fulfill a contract.

The amendments in this ASU are effective in the first quarter of 2017. Early adoption is not permitted.

The Corporation does not anticipate that the adoption of this guidance will have a material effect on its consolidated statements of financial condition or results of operations.

FASB Accounting Standards Update 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposal of Components of an Entity (ASU 2014-08)

The FASB issued ASU 2014-08 in April 2014, which changes the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization s operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity investment.

In addition, the new guidance requires expanded disclosures about discontinued operations that will include more information about the assets, liabilities, income, and expenses of discontinued operations.

The new guidance also requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. This disclosure will provide information about the ongoing trends in the reporting organization s results from continuing operations.

The amendments in the ASU are effective in the first quarter of 2015. Early adoption is permitted.

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The Corporation is currently evaluating the impact that the adoption of this guidance will have on the presentation and disclosures in its consolidated financial statements.

FASB Accounting Standards Update 2014-04, Receivables-Troubled Debt Restructuring by Creditors (SubTopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (ASU 2014-04)

The FASB issued ASU 2014-04 in January 2014 which clarifies when a creditor should be considered to have received physical possession of a residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate property recognized.

The amendments of this ASU clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement.

The amendment of this guidance requires interim and annual disclosures of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction.

ASU 2014-04 is effective for annual periods, and interim periods within those years, beginning after December 15, 2014. The amendments in this ASU can be elected using either a modified retrospective transition method or a prospective transition method. Early adoption is permitted.

The Corporation does not anticipate that the adoption of this guidance will have a material effect on its consolidated statements of financial condition or results of operations.

FASB Accounting Standards Update 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11)

The FASB issued ASU 2013-11 in July 2013 which requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. When a net operating loss, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purposes, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. Currently, there is no explicit guidance under U.S. GAAP on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendment of this guidance does not require new recurring disclosures.

ASU 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013.

The Corporation adopted this guidance in the first quarter of 2014 and it did not have a material effect on the Corporation s consolidated financial statements.

FASB Accounting Standards Update 2013-05, Foreign Currency Matters (Topic 830): Parent s Accounting for the Cumulative Translation Adjustment Upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (ASU 2013-05)

The FASB issued ASU 2013-05 in March 2013 which clarifies the applicable guidance for the release of the cumulative translation adjustment. When a reporting entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity, the parent is required to apply the guidance in ASC subtopic 830-30 to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets has resided.

For an equity method investment that is a foreign entity, the partial sale guidance in ASC Section 830-30-40 still applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such equity method investment. However, this treatment does not apply to an equity method investment that is not a foreign entity. In those instances, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment.

Additionally, the amendments in this ASU clarify that the sale of an investment in a foreign entity includes both: (1) events that result in the loss of a controlling financial interest in a foreign entity and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date. Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events.

ASU 2013-05 is effective for fiscal years and interim periods within those years, beginning on or after December 15, 2013. The amendments should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted.

The Corporation adopted this guidance on the first quarter of 2014 and recognized a loss of approximately $7.7 million resulting from the reclassification from other comprehensive loss into earnings of the cumulative foreign translation adjustment related to the dilution on its equity investment in BHD. Refer to note 15 for additional information.

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Note 3 Discontinued operations

On April 22, 2014, BPNA, the Corporation s U.S. mainland banking subsidiary, entered into definitive agreements to sell 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 operations subject to these three definitive agreements each constituted a business, as defined in ASC 805-10-55. Accordingly, the decision to sell these businesses resulted in the discontinuance of each of these respective operations and classification as held-for-sale. For financial reporting purposes, the results of the discontinued operations are presented as Assets / Liabilities from discontinued operations in the consolidated statement of condition and (Loss) income from discontinued operations, net of tax in the consolidated statement of operations. As required by ASC 205-20, current and prior periods presented in the consolidated statement of operations as well as the related note disclosures covering income and expense amounts have been retrospectively adjusted for the impact of the discontinued operations for comparative purposes. The consolidated statement of financial condition and related note disclosure for prior periods do not reflect the reclassification of these assets and liabilities to discontinued operations.

During the quarter ended June 30, 2014, the Corporation recorded a non-cash goodwill impairment charge of $187 million, related to the goodwill allocated, on a relative fair value basis, to these operations. However, this non-cash charge had no impact on the Corporation s tangible capital or regulatory capital ratios. Refer to Note 16, for additional information on the goodwill impairment charge. The Corporation expects to realize a net premium estimated at approximately $24 million, before customary transaction costs, upon the closing of these transactions.

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 where incurred during the second quarter of 2014. Refer to Note 4, for restructuring charges incurred during the quarter ended June 30, 2014.

Assets and liabilities of discontinued operations, which are mostly classified as held-for-sale, are detailed below:

(In thousands)	June 30, 2014
Cash	$ 18,923
Loans held-for-sale	1,783,998
Premises and equipment, net	17,553
Other assets	7,908
Total assets	$ 1,828,382
Deposits	$ 2,058,309
Short-term borrowings	2,998
Other liabilities	18,435
Total liabilities	$ 2,079,742
Net liabilities	$ (251,360)

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The following table provides the components of net (loss) income from the discontinued operations for the quarter and six months ended June 30, 2014 and 2013.

	Quarter ended		Six months ended	
(In thousands)	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Net interest income	$ 19,092	$ 21,308	$ 40,889	$ 42,977
Provision (reversal) for loan losses		(5,067)	(6,764)	(7,860)
Non-interest income	9,388	4,645	19,921	8,392
Personnel costs	12,117	8,320	20,969	16,728
Net occupancy expenses	2,845	3,049	7,176	6,030
Professional fees	5,903	2,949	8,696	5,709
Goodwill impairment charge	186,511		186,511	
Other operating expenses	2,833	1,404	6,046	5,728
Net (loss) income from discontinued operations	$ (181,729)	$ 15,298	$ (161,824)	$ 25,034

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Note 4 Restructuring plan

As discussed in Note 3, in connection with the sale of the operations of the California, Illinois and Central Florida regions, the Corporation intends to centralize certain back office operations, previously conducted on these regions, in Puerto Rico and New York. The Corporation has undertaken a restructuring plan (the PCB Restructuring Plan) to eliminate and re-locate employment positions, terminate contracts and incur other costs associated with moving the operations to Puerto Rico and New York. The Corporation estimates that it will incur in restructuring charges of approximately $54 million, comprised of $32 million in severance and retention payments and $22 million in operational set-up costs and lease cancelations, of which approximately $5 million where incurred during the second quarter of 2014. The remaining costs will be recognized during the third and fourth quarter of 2014 and early 2015.

Full-time equivalent employees at the California, Illinois and Central Florida regions were 363 as of June 30, 2014, compared with 365 as of December 31, 2013. Some of the employees at these regions will be transferred to the acquiring entities. The remaining employees at these regions are expected to be transferred to other of the Corporation s U.S. mainland or Puerto Rico operations or depart by mid- 2015.

The following table details the expenses recorded by the Corporation that were associated with the PCB restructuring plan:

(In thousands)	Quarter ended June 30, 2014	
Personnel costs	$	3,630
Net occupancy expenses		271
Equipment expenses		190
Professional fees		448
Other operating expenses		35
Total restructuring costs	$	4,574

At June 30, 2014, the accrual for the PCB restructuring costs amounted to $3 million.

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Note 5 Restrictions on cash and due from banks and certain securities

The Corporation s banking subsidiaries, BPPR and BPNA, are required by federal and state regulatory agencies to maintain average reserve balances with the Federal Reserve Bank of New York (the Fed) or other banks. Those required average reserve balances amounted to $ 1.0 billion at June 30, 2014 (December 31, 2013 - $992 million). Cash and due from banks, as well as other short-term, highly liquid securities, are used to cover the required average reserve balances.

At June 30, 2014, the Corporation held $43 million in restricted assets in the form of funds deposited in money market accounts, trading account securities and investment securities available for sale (December 31, 2013 - $44 million). The amounts held in trading account securities and investment securities available for sale consist primarily of restricted assets held for the Corporation s non-qualified retirement plans and fund deposits guaranteeing possible liens or encumbrances over the title of insured properties.

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Note 6 Pledged assets

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

(In thousands)	June 30, 2014	December 31, 2013
Investment securities available-for-sale, at fair value	$ 2,264,948	$ 1,638,558
Investment securities held-to-maturity, at amortized cost	10,000	35,000
Loans held-for-sale measured at lower of cost or fair value	216	363
Loans held-in-portfolio covered under loss sharing agreements with the FDIC	365,432	407,257
Loans held-in-portfolio not covered under loss sharing agreements with the FDIC	8,447,919	9,108,984
Total pledged assets	$ 11,088,515	$ 11,190,162

Pledged assets from discontinued operations are presented as part of Assets from Discontinued Operations in the Consolidated Statement of Condition. Refer to Note 3 to the consolidated financial statements for further information on the discontinued operations.

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

At June 30, 2014, the Corporation had $ 1.2 billion in investment securities available-for-sale and $ 0.6 billion in loans that served as collateral to secure public funds (December 31, 2013 - $ 1.0 billion and $ 0.5 billion, respectively).

At June 30, 2014, the Corporation s banking subsidiaries had short-term and long-term credit facilities authorized with the Federal Home Loan Bank system (the FHLB) aggregating to $3.3 billion (December 31, 2013 - $3.0 billion). Refer to Note 18 to the consolidated financial statements for borrowings outstanding under these credit facilities. At June 30, 2014, the credit facilities authorized with the FHLB were collateralized by $ 3.4 billion in loans held-in-portfolio (December 31, 2013 - $ 4.5 billion). Also, at June 30, 2014, the Corporation s banking subsidiaries had a borrowing capacity at the Federal Reserve (Fed) discount window of $2.6 billion, which remained unused as of such date (December 31, 2013 - $3.4 billion). The amount available under these credit facilities with the Fed is dependent upon the balance of loans and securities pledged as collateral. At June 30, 2014, the credit facilities with the Fed discount window were collateralized by $ 4.8 billion in loans held-in-portfolio (December 31, 2013 - $ 4.5 billion). These pledged assets are included in the above table and were not reclassified and separately reported in the consolidated statements of financial condition.

In addition, at June 30, 2014, trade receivables from brokers and counterparties amounting to $76 million were pledged to secure repurchase agreements (December 31, 2013 - $69 million).

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Note 7 Investment securities available-for-sale

The following tables present the amortized cost, gross unrealized gains and losses, approximate fair value, weighted average yield and contractual maturities of investment securities available-for-sale at June 30, 2014 and December 31, 2013.

	At June 30, 2014				
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Weighted average yield
U.S. Treasury securities					
After 1 to 5 years	$ 26,085	$ 1,644	$	$ 27,729	3.87 %
Total U.S. Treasury securities	26,085	1,644		27,729	3.87
Obligations of U.S. Government sponsored entities					
Within 1 year	6,998	7		7,005	0.14
After 1 to 5 years	1,948,833	2,424	9,053	1,942,204	1.20
After 5 to 10 years	252,520	581	7,198	245,903	1.63
After 10 years	23,000		882	22,118	3.15
Total obligations of U.S. Government sponsored entities	2,231,351	3,012	17,133	2,217,230	1.27
Obligations of Puerto Rico, States and political subdivisions					
After 1 to 5 years	5,384	19	22	5,381	2.86
After 5 to 10 years	23,352	7	1,398	21,961	5.46
After 10 years	48,812	422	7,405	41,829	5.85
Total obligations of Puerto Rico, States and political subdivisions	77,548	448	8,825	69,171	5.52
Collateralized mortgage obligations federal agencies					
After 1 to 5 years	4,876	124		5,000	2.56
After 5 to 10 years	27,924	1,219	2	29,141	2.82
After 10 years	2,305,054	17,819	53,542	2,269,331	2.06
Total collateralized mortgage obligations federal agencies	2,337,854	19,162	53,544	2,303,472	2.07
Collateralized mortgage obligations private label					
After 10 years	130			130	3.90
	130			130	3.90

Total collateralized mortgage obligations private label					
Mortgage-backed securities					
Within 1 year	1			1	3.66
After 1 to 5 years	26,420	1,458		27,878	4.56
After 5 to 10 years	200,182	8,743	486	208,439	3.47
After 10 years	735,125	50,779	2,174	783,730	4.08
Total mortgage-backed securities	961,728	60,980	2,660	1,020,048	3.97
Equity securities (without contractual maturity)	3,177	1,284	118	4,343	6.39
Other					
After 1 to 5 years	9,458		15	9,443	1.68
After 10 years	2,341	85		2,426	3.63
Total other	11,799	85	15	11,869	2.06
Total investment securities available-for-sale	$ 5,649,672	$ 86,615	$ 82,295	$ 5,653,992	2.14 %

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	At December 31, 2013				
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Weighted average yield
U.S. Treasury securities					
After 1 to 5 years	$ 26,474	$ 2,008	$	$ 28,482	3.85 %
Total U.S. Treasury securities	26,474	2,008		28,482	3.85
Obligations of U.S. Government sponsored entities					
Within 1 year	25,021	39		25,060	1.85
After 1 to 5 years	1,087,453	1,678	12,715	1,076,416	1.26
After 5 to 10 years	528,611	100	21,742	506,969	1.52
After 10 years	23,000		2,240	20,760	3.12
Total obligations of U.S. Government sponsored entities	1,664,085	1,817	36,697	1,629,205	1.38
Obligations of Puerto Rico, States and political subdivisions					
After 1 to 5 years	6,228	45	85	6,188	4.64
After 5 to 10 years	23,147		1,978	21,169	6.33
After 10 years	48,803	29	9,812	39,020	5.84
Total obligations of Puerto Rico, States and political subdivisions	78,178	74	11,875	66,377	5.89
Collateralized mortgage obligations federal agencies					
After 1 to 5 years	5,131	101		5,232	1.79
After 5 to 10 years	31,613	921		32,534	2.98
After 10 years	2,438,021	18,532	76,023	2,380,530	2.05
Total collateralized mortgage obligations federal agencies	2,474,765	19,554	76,023	2,418,296	2.06
Collateralized mortgage obligations private label					
After 10 years	509	4		513	3.78
Total collateralized mortgage obligations private label	509	4		513	3.78
Mortgage-backed securities					
Within 1 year	419	24		443	3.14
After 1 to 5 years	15,921	833		16,754	4.50
After 5 to 10 years	62,373	3,058	1,214	64,217	4.12
After 10 years	1,007,733	50,807	4,313	1,054,227	3.93

Total mortgage-backed securities	1,086,446	54,722	5,527	1,135,641	3.95
Equity securities (without contractual maturity)	3,178	1,109	171	4,116	4.06
Other					
After 1 to 5 years	9,638		141	9,497	1.68
After 10 years	2,604	69		2,673	3.61
Total other	12,242	69	141	12,170	2.09
Total investment securities available-for-sale	$ 5,345,877	$ 79,357	$ 130,434	$ 5,294,800	2.30 %

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

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

There were no sales of investment securities available-for-sale during the six months ended June 30, 2014 or June 30, 2013.

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The following tables present the Corporation s fair value and gross unrealized losses of investment securities available-for-sale, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2014 and December 31, 2013.

	At June 30, 2014					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Obligations of U.S. Government sponsored entities	$ 594,695	$ 8,886	$ 462,222	$ 8,247	$ 1,056,917	$ 17,133
Obligations of Puerto Rico, States and political subdivisions	20,733	2,584	24,596	6,241	45,329	8,825
Collateralized mortgage obligations federal agencies	713,604	24,114	758,570	29,430	1,472,174	53,544
Mortgage-backed securities	15,875	446	46,384	2,214	62,259	2,660
Equity securities			1,707	118	1,707	118
Other			9,443	15	9,443	15
Total investment securities available-for-sale in an unrealized loss position	$ 1,344,907	$ 36,030	$ 1,302,922	$ 46,265	$ 2,647,829	$ 82,295

	At December 31, 2013					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Obligations of U.S. Government sponsored entities	$ 1,326,866	$ 32,457	$ 69,257	$ 4,240	$ 1,396,123	$ 36,697
Obligations of Puerto Rico, States and political subdivisions	54,256	11,685	8,330	190	62,586	11,875
Collateralized mortgage obligations federal agencies	1,567,654	70,378	96,676	5,645	1,664,330	76,023
Mortgage-backed securities	105,455	4,762	7,225	765	112,680	5,527
Equity securities	1,657	171			1,657	171
Other			9,497	141	9,497	141
Total investment securities available-for-sale in an unrealized loss position	$ 3,055,888	$ 119,453	$ 190,985	$ 10,981	$ 3,246,873	$ 130,434

As of June 30, 2014, the available-for-sale investment portfolio reflects gross unrealized losses of approximately $82 million, driven by US Agency Collateralized Mortgage Obligations, obligations from the U.S. Government sponsored entities, and obligations of the Puerto Rico Government and its political subdivisions. As part of its analysis for all US Agencies securities, management considers the US Agency guarantee.

In February 2014, the three principal nationally recognized rating agencies (Moody s Investor Services, Standard and Poor s and Fitch Ratings) downgraded the general-obligation bonds of the Commonwealth and other obligations of Puerto Rico instrumentalities to non-investment grade categories, citing concerns about financial flexibility and a reduced capacity to borrow in the financial markets. On June 2014, the Puerto Rico general obligations were further downgraded by the rating agencies, after the Commonwealth enacted a law that allowed the Puerto Rico public corporations to restructure their debt. 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 reviews on these issuers.

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

At June 30, 2014, management performed its quarterly analysis of all debt securities in an unrealized loss position. Based on the analyses performed, management concluded that no individual debt security was other-than-temporarily impaired as of such date. At June 30, 2014, the Corporation did not have the intent to sell debt securities in an unrealized loss position and it is not more likely than not that the Corporation will have to sell the investment securities prior to recovery of their amortized cost basis.

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

	June 30, 2014		December 31, 2013	
(In thousands)	Amortized cost	Fair value	Amortized cost	Fair value
FNMA	$ 2,013,092	$ 1,988,874	$ 2,318,171	$ 2,266,610
FHLB	1,144,118	1,139,269	336,933	326,220
Freddie Mac	1,361,507	1,356,819	1,434,346	1,418,216

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Note 8 Investment securities held-to-maturity

The following tables present the amortized cost, gross unrealized gains and losses, approximate fair value, weighted average yield and contractual maturities of investment securities held-to-maturity at June 30, 2014 and December 31, 2013.

	At June 30, 2014				
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Weighted average yield
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	$ 12,685	$	$ 2	$ 12,683	2.10 %
After 1 to 5 years	12,595	1	383	12,213	5.93
After 5 to 10 years	20,925		5,209	15,716	6.08
After 10 years	66,471	1,368	6,545	61,294	2.28
Total obligations of Puerto Rico, States and political subdivisions	112,676	1,369	12,139	101,906	3.37
Collateralized mortgage obligations federal agencies					
After 5 to 10 years	104		8	96	5.45
Total collateralized mortgage obligations federal agencies	104		8	96	5.45
Other					
Within 1 year	1,250			1,250	1.39
After 1 to 5 years	250		1	249	1.38
Total other	1,500		1	1,499	1.39
Total investment securities held-to-maturity	$ 114,280	$ 1,369	$ 12,148	$ 103,501	3.35 %

	At December 31, 2013				
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Weighted average yield
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	$ 12,570	$	$ 12	$ 12,558	2.06 %
After 1 to 5 years	12,060		984	11,076	5.91
After 5 to 10 years	20,015		5,251	14,764	6.06
After 10 years	69,236	257	13,179	56,314	2.43

Total obligations of Puerto Rico, States and political subdivisions	113,881	257	19,426	94,712	3.40
Collateralized mortgage obligations federal agencies					
After 10 years	115	7		122	5.45
Total collateralized mortgage obligations federal agencies	115	7		122	5.45
Other					
Within 1 year	26,000		645	25,355	3.41
After 1 to 5 years	500		1	499	1.33
Total other	26,500		646	25,854	3.37
Total investment securities held-to-maturity	$ 140,496	$ 264	$ 20,072	$ 120,688	3.40 %

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

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The following tables present the Corporation s fair value and gross unrealized losses of investment securities held-to-maturity, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2014 and December 31, 2013.

	At June 30, 2014					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Obligations of Puerto Rico, States and political subdivisions	$ 48,601	$ 5,012	$ 22,948	$ 7,127	$ 71,549	$ 12,139
Collateralized mortgage obligations federal agencies	96	8			96	8
Other	249	1			249	1
Total investment securities held-to-maturity in an unrealized loss position	$ 48,946	$ 5,021	$ 22,948	$ 7,127	$ 71,894	$ 12,148

	At December 31, 2013					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Obligations of Puerto Rico, States and political subdivisions	$ 60,028	$ 12,180	$ 13,044	$ 7,246	$ 73,072	$ 19,426
Other	24,604	646			24,604	646
Total investment securities held-to-maturity in an unrealized loss position	$ 84,632	$ 12,826	$ 13,044	$ 7,246	$ 97,676	$ 20,072

As indicated in Note 7 to these consolidated financial statements, management evaluates investment securities for OTTI declines in fair value on a quarterly basis.

The Obligations of Puerto Rico, States and political subdivisions classified as held-to-maturity at June 30, 2014 are primarily associated with securities issued by municipalities of Puerto Rico and are generally not rated by a credit rating agency. This includes $62 million of securities issued by three municipalities of Puerto Rico that are payable from the real and personal property taxes collected within such municipalities. These bonds have seniority to the payment of operating cost and expenses of the municipality. The portfolio also includes approximately $41 million in securities for which the underlying source of payment is not the central government, but in which it provides a guarantee in the event of default. In February 2014, the three principal nationally recognized rating agencies (Moody s Investor Services, Standard and Poor s and Fitch Ratings) downgraded the general-obligation bonds of the Commonwealth and other obligations of Puerto Rico instrumentalities to non-investment grade categories, citing concerns about financial flexibility and a reduced capacity to borrow in the financial markets. On June 2014, the

Puerto Rico general obligations were further downgraded by the rating agencies, after the Commonwealth enacted a law that allowed the Puerto Rico public corporations to restructure their debt. The Corporation performs periodic credit quality reviews on these issuers. The Corporation does not have the intent to sell securities held-to-maturity and it is not more likely than not that the Corporation will have to sell these investment securities prior to recovery of their amortized cost basis.

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Note 9 Loans

Covered loans acquired in the Westernbank FDIC-assisted transaction, except for lines of credit with revolving privileges, are accounted for by the Corporation in accordance with ASC Subtopic 310-30. Under ASC Subtopic 310-30, the acquired loans were aggregated into pools based on similar characteristics. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. The covered loans which are accounted for under ASC Subtopic 310-30 by the Corporation are not considered non-performing and will continue to have an accretable yield as long as there is a reasonable expectation about the timing and amount of cash flows expected to be collected. The Corporation measures additional losses for this portfolio when it is probable the Corporation will be unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition. Lines of credit with revolving privileges that were acquired as part of the Westernbank FDIC-assisted transaction are accounted for under the guidance of ASC Subtopic 310-20, which requires that any differences between the contractually required loan payment receivable in excess of the Corporation s initial investment in the loans be accreted into interest income. Loans accounted for under ASC Subtopic 310-20 are placed in non-accrual status when past due in accordance with the Corporation s non-accruing policy and any accretion of discount is discontinued.

The risks on loans acquired in the FDIC-assisted transaction are significantly different from the risks on loans not covered under the FDIC loss sharing agreements because of the loss protection provided by the FDIC. Accordingly, the Corporation presents loans subject to the loss sharing agreements as covered loans in the information below and loans that are not subject to the FDIC loss sharing agreements as non-covered loans . The FDIC loss sharing agreements expires at the end of the quarter ending June 30, 2015 for commercial (including construction) and consumer loans, and at the end of the quarter ending June 30, 2020 for to single-family residential mortgage loans, as explained in Note 11.

For a summary of the accounting policy related to loans, interest recognition and allowance for loan losses refer to the summary of significant accounting policies included in Note 2 to the consolidated financial statements included in 2013 Annual Report.

The following table presents the composition of non-covered loans held-in-portfolio (HIP), net of unearned income, at June 30, 2014 and December 31, 2013.

(In thousands)	June 30, 2014	December 31, 2013
Commercial multi-family	$ 475,826	$ 1,175,937
Commercial real estate non-owner occupied	2,501,036	2,970,505
Commercial real estate owner occupied	1,758,535	2,166,545
Commercial and industrial	3,420,150	3,724,197
Construction	179,059	206,084
Mortgage	6,664,448	6,681,476
Leasing	546,868	543,761
Legacy[2]	162,941	211,135
Consumer:		
Credit cards	1,171,182	1,185,272
Home equity lines of credit	388,667	478,211
Personal	1,406,920	1,349,119

Auto	745,579	699,980
Other	214,013	219,644
Total loans held-in-portfolio[1]	$ 19,635,224	$ 21,611,866

[1] Non-covered loans held-in-portfolio at June 30, 2014 are net of $91 million in unearned income and exclude $97 million in loans held-for-sale (December 31, 2013 - $92 million in unearned income and $110 million in loans held-for-sale).

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

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The following table presents the composition of covered loans at June 30, 2014 and December 31, 2013.

(In thousands)	June 30, 2014	December 31, 2013
Commercial real estate	$ 1,638,634	$ 1,710,229
Commercial and industrial	107,333	102,575
Construction	82,763	190,127
Mortgage	867,075	934,373
Consumer	40,297	47,123
Total loans held-in-portfolio	$ 2,736,102	$ 2,984,427

The following table provides a breakdown of loans held-for-sale (LHFS) at June 30, 2014 and December 31, 2013 by main categories.

(In thousands)	June 30, 2014 [1]	December 31, 2013
Commercial	$ 2,895	$ 603
Construction	949	
Mortgage	93,166	109,823
Total loans held-for-sale	$ 97,010	$ 110,426

[1] Loans held-for-sale from discontinued operations are presented as part of Assets from Discontinued Operations in the Consolidated Statement of Condition. Refer to Note 3 to the consolidated financial statements for further information on the discontinued operations.

During the quarter and six months ended June 30, 2014, the Corporation recorded purchases (including repurchases) of mortgage loans amounting to $169 million and $331 million, respectively (June 30, 2013 - $0.4 billion and $1.5 billion, respectively). Also, the Corporation recorded purchases of $92 million in consumer loans during the six months ended June 30, 2014 (June 30, 2013 - $42 million). In addition, during the six months ended June 30, 2014, the Corporation recorded purchases of commercial loans amounting to $21 million (during the quarter and six months ended June 30, 2013 - $3 million).

The Corporation performed whole-loan sales involving approximately $27 million and $70 million of residential mortgage loans during the quarter and six months ended June 30, 2014, respectively (June 30, 2013 - $503 million and $553 million, respectively). These sales included $435 million from the bulk sale of non-performing mortgage loans, completed during the quarter ended June 30, 2013. Also, the Corporation securitized approximately $ 184 million and $ 350 million of mortgage loans into Government National Mortgage Association (GNMA) mortgage-backed securities during the quarter and six months ended June 30, 2014, respectively (June 30, 2013 - $ 282 million and $ 568 million, respectively). Furthermore, the Corporation securitized approximately $ 60 million and $ 123 million of mortgage loans into Federal National Mortgage Association (FNMA) mortgage-backed securities during the quarter and six months ended June 30, 2014, respectively (June 30, 2013 - $ 124 million and $ 252 million, respectively). Also, the Corporation did not securitize mortgage loans into Federal Home Loan Mortgage Corporation (FHLMC) mortgage-backed securities during the quarter and six months ended June 30, 2014 (during the quarter and six months ended June 30, 2013 - $ 27 million). The Corporation sold commercial and construction loans with a book value of approximately $30 million and $61 million during the quarter and six months ended June 30, 2014, respectively (June 30, 2013 - $6 million and $407 million, respectively). These sales included $401 million from the bulk sale of non-performing commercial and construction loans during the quarter ended March 31, 2013.

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Non-covered loans

The following tables present non-covered loans held-in-portfolio by loan class that are in non-performing status or are accruing interest but are past due 90 days or more at June 30, 2014 and December 31, 2013. Accruing loans past due 90 days or more consist primarily of credit cards, FHA / VA and other insured mortgage loans, and delinquent mortgage loans which are included in the Corporation s financial statements pursuant to GNMA s buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option. Also, accruing loans past due 90 days or more include residential conventional loans purchased from another financial institution that, although delinquent, the Corporation has received timely payment from the seller / servicer, and, in some instances, have partial guarantees under recourse agreements. However, residential conventional loans purchased from another financial institution, which are in the process of foreclosure, are classified as non-performing mortgage loans.

At June 30, 2014						
	Puerto Rico		U.S. mainland [4]		Popular, Inc.	
(In thousands)	Non-accrual loans	Accruing loans past-due 90 days or more	Non-accrual loans	Accruing loans past-due 90 days or more	Non-accrual loans	Accruing loans past-due 90 days or more
Commercial multi-family	$ 2,851	$	$ 4,105	$	$ 6,956	$
Commercial real estate non-owner occupied	56,406		11,857		68,263	
Commercial real estate owner occupied	108,286		4,199		112,485	
Commercial and industrial	86,009	417	4,420		90,429	417
Construction	21,456				21,456	
Mortgage[2][3]	262,356	399,300	23,964		286,320	399,300
Leasing	2,873				2,873	
Legacy			8,323		8,323	
Consumer:						
Credit cards		19,595	378		378	19,595
Home equity lines of credit		467	7,221		7,221	467
Personal	17,968		1,459		19,427	
Auto	11,703				11,703	
Other	3,898	454	3		3,901	454
Total[1]	$ 573,806	$ 420,233	$ 65,929	$	$ 639,735	$ 420,233

[1] For purposes of this table non-performing loans exclude $ 4 million in non-performing loans held-for-sale.
[2] Non-covered loans by $55 million accounted for under ASC Subtopic 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.
[3] 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 in Puerto Rico insured by FHA or guaranteed by the VA that are no longer accruing interest as of June 30, 2014. Furthermore, the Corporation has approximately $60 million in reverse mortgage loans in Puerto Rico 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.

[4] Excludes $9.5 million in non-performing loans from discontinued operations.

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	At December 31, 2013					
	Puerto Rico		U.S. mainland		Popular, Inc.	
(In thousands)	Non-accrual loans	Accruing loans past-due 90 days or more	Non-accrual loans	Accruing loans past-due 90 days or more	Non-accrual loans	Accruing loans past-due 90 days or more
Commercial multi-family	$ 4,944	$	$ 20,894	$	$ 25,838	$
Commercial real estate non-owner occupied	41,959		42,413		84,372	
Commercial real estate owner occupied	83,441		23,507		106,948	
Commercial and industrial	55,753	556	6,142		61,895	556
Construction	18,108		5,663		23,771	
Mortgage[2][3]	206,389	395,645	26,292		232,681	395,645
Leasing	3,495				3,495	
Legacy			15,050		15,050	
Consumer:						
Credit cards		20,313	486		486	20,313
Home equity lines of credit		147	8,632		8,632	147
Personal	17,054	54	1,591		18,645	54
Auto	10,562		2		10,564	
Other	5,550	585	21		5,571	585
Total[1]	$ 447,255	$ 417,300	$ 150,693	$	$ 597,948	$ 417,300

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

[2] Non-covered loans by $43 million accounted for under ASC Subtopic 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.

[3] 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 $115 million of residential mortgage loans in Puerto Rico insured by FHA or guaranteed by the VA that are no longer accruing interest as of December 31, 2013. Furthermore, the Corporation has approximately $50 million in reverse mortgage loans in Puerto Rico 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.

The following tables present loans by past due status at June 30, 2014 and December 31, 2013 for non-covered loans held-in-portfolio (net of unearned income).

	June 30, 2014					
	Puerto Rico					
	Past due					
(In thousands)	30-59 days	60-89 days	90 days or more	Total past due	Current	Non-covered loans HIP Puerto Rico
Commercial multi-family	$	$ 189	$ 2,851	$ 3,040	$ 58,466	$ 61,506

Commercial real estate non-owner occupied	2,836	2,453	56,406	61,695	1,888,187	1,949,882
Commercial real estate owner occupied	9,351	4,015	108,286	121,652	1,423,932	1,545,584
Commercial and industrial	18,564	3,905	86,426	108,895	2,633,113	2,742,008
Construction		583	21,456	22,039	113,644	135,683
Mortgage	293,037	157,245	716,632	1,166,914	4,291,658	5,458,572
Leasing	7,083	1,857	2,873	11,813	535,055	546,868
Consumer:						
Credit cards	12,977	8,533	19,595	41,105	1,114,780	1,155,885
Home equity lines of credit			467	467	13,814	14,281
Personal	14,465	7,132	17,968	39,565	1,247,340	1,286,905
Auto	35,057	8,837	11,703	55,597	689,712	745,309
Other	1,462	522	4,352	6,336	207,133	213,469
Total	$ 394,832	$ 195,271	$ 1,049,015	$ 1,639,118	$ 14,216,834	$ 15,855,952

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June 30, 2014 U.S. mainland						
	Past due					
(In thousands)	30-59 days	60-89 days	90 days or more	Total past due	Current	Loans HIP U.S. mainland
Commercial multi-family	$	$	$ 4,105	$ 4,105	$ 410,215	$ 414,320
Commercial real estate non-owner occupied			11,857	11,857	539,297	551,154
Commercial real estate owner occupied	1,553	8,500	4,199	14,252	198,699	212,951
Commercial and industrial	2,411	4,022	4,420	10,853	667,289	678,142
Construction					43,376	43,376
Mortgage	1,892	7,241	23,964	33,097	1,172,779	1,205,876
Legacy	1,871	2,770	8,323	12,964	149,977	162,941
Consumer:						
Credit cards	295	176	378	849	14,448	15,297
Home equity lines of credit	2,052	2,077	7,221	11,350	363,036	374,386
Personal	790	1,034	1,459	3,283	116,732	120,015
Auto	6			6	264	270
Other	20		3	23	521	544
Total	$ 10,890	$ 25,820	$ 65,929	$ 102,639	$ 3,676,633	$ 3,779,272

June 30, 2014 Popular, Inc.						
	Past due					
(In thousands)	30-59 days	60-89 days	90 days or more	Total past due	Current	Non-covered loans HIP Popular, Inc.
Commercial multi-family	$	$ 189	$ 6,956	$ 7,145	$ 468,681	$ 475,826
Commercial real estate non-owner occupied	2,836	2,453	68,263	73,552	2,427,484	2,501,036
Commercial real estate owner occupied	10,904	12,515	112,485	135,904	1,622,631	1,758,535
Commercial and industrial	20,975	7,927	90,846	119,748	3,300,402	3,420,150
Construction		583	21,456	22,039	157,020	179,059
Mortgage	294,929	164,486	740,596	1,200,011	5,464,437	6,664,448
Leasing	7,083	1,857	2,873	11,813	535,055	546,868
Legacy	1,871	2,770	8,323	12,964	149,977	162,941
Consumer:						
Credit cards	13,272	8,709	19,973	41,954	1,129,228	1,171,182
Home equity lines of credit	2,052	2,077	7,688	11,817	376,850	388,667
Personal	15,255	8,166	19,427	42,848	1,364,072	1,406,920
Auto	35,063	8,837	11,703	55,603	689,976	745,579
Other	1,482	522	4,355	6,359	207,654	214,013
Total	$ 405,722	$ 221,091	$ 1,114,944	$ 1,741,757	$ 17,893,467	$ 19,635,224

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(In thousands)	December 31, 2013 Puerto Rico Past due 30-59 days	60-89 days	90 days or more	Total past due	Current	Non-covered loans HIP Puerto Rico
Commercial multi-family	$ 446	$	$ 4,944	$ 5,390	$ 77,013	$ 82,403
Commercial real estate non-owner occupied	13,889	349	41,959	56,197	1,808,021	1,864,218
Commercial real estate owner occupied	13,725	8,318	83,441	105,484	1,501,019	1,606,503
Commercial and industrial	9,960	4,463	56,309	70,732	2,841,734	2,912,466
Construction	2,329		18,108	20,437	140,734	161,171
Mortgage	316,663	154,882	645,444	1,116,989	4,283,690	5,400,679
Leasing	7,457	1,607	3,495	12,559	531,202	543,761
Consumer:						
Credit cards	13,797	9,991	20,313	44,101	1,125,520	1,169,621
Home equity lines of credit	133	53	147	333	14,845	15,178
Personal	12,897	6,794	17,108	36,799	1,177,085	1,213,884
Auto	31,340	9,361	10,562	51,263	648,228	699,491
Other	1,834	859	6,135	8,828	209,636	218,464
Total	$ 424,470	$ 196,677	$ 907,965	$ 1,529,112	$ 14,358,727	$ 15,887,839

(In thousands)	December 31, 2013 U.S. mainland Past due 30-59 days	60-89 days	90 days or more	Total past due	Current	Loans HIP U.S. mainland
Commercial multi-family	$ 3,621	$ 1,675	$ 20,894	$ 26,190	$ 1,067,344	$ 1,093,534
Commercial real estate non-owner occupied	4,255		42,413	46,668	1,059,619	1,106,287
Commercial real estate owner occupied	657	8,452	23,507	32,616	527,426	560,042
Commercial and industrial	2,331	2,019	6,142	10,492	801,239	811,731
Construction			5,663	5,663	39,250	44,913
Mortgage	30,713	9,630	26,292	66,635	1,214,162	1,280,797
Legacy	9,079	2,098	15,050	26,227	184,908	211,135
Consumer:						
Credit cards	285	200	486	971	14,680	15,651
Home equity lines of credit	2,794	2,198	8,632	13,624	449,409	463,033
Personal	3,196	826	1,591	5,613	129,622	135,235
Auto	11		2	13	476	489
Other	43	50	21	114	1,066	1,180
Total	$ 56,985	$ 27,148	$ 150,693	$ 234,826	$ 5,489,201	$ 5,724,027

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(In thousands)	December 31, 2013 Popular, Inc. Past due 30-59 days	60-89 days	90 days or more	Total past due	Current	Non-covered loans HIP Popular, Inc.
Commercial multi-family	$ 4,067	$ 1,675	$ 25,838	$ 31,580	$ 1,144,357	$ 1,175,937
Commercial real estate non-owner occupied	18,144	349	84,372	102,865	2,867,640	2,970,505
Commercial real estate owner occupied	14,382	16,770	106,948	138,100	2,028,445	2,166,545
Commercial and industrial	12,291	6,482	62,451	81,224	3,642,973	3,724,197
Construction	2,329		23,771	26,100	179,984	206,084
Mortgage	347,376	164,512	671,736	1,183,624	5,497,852	6,681,476
Leasing	7,457	1,607	3,495	12,559	531,202	543,761
Legacy	9,079	2,098	15,050	26,227	184,908	211,135
Consumer:						
Credit cards	14,082	10,191	20,799	45,072	1,140,200	1,185,272
Home equity lines of credit	2,927	2,251	8,779	13,957	464,254	478,211
Personal	16,093	7,620	18,699	42,412	1,306,707	1,349,119
Auto	31,351	9,361	10,564	51,276	648,704	699,980
Other	1,877	909	6,156	8,942	210,702	219,644
Total	$ 481,455	$ 223,825	$ 1,058,658	$ 1,763,938	$ 19,847,928	$ 21,611,866

The following table provides a breakdown of loans held-for-sale (LHFS) in non-performing status at June 30, 2014 and December 31, 2013 by main categories.

(In thousands)	June 30, 2014	December 31, 2013
Commercial	$ 2,895	$ 603
Construction	949	
Mortgage	582	489
Total	$ 4,426	$ 1,092

The outstanding principal balance of non-covered loans accounted pursuant to ASC Subtopic 310-30, net of amounts charged off by the Corporation, amounted to $226 million at June 30, 2014 (December 31, 2013 $197 million). At June 30, 2014, none of the acquired non-covered loans accounted under ASC Subtopic 310-30 were considered non-performing loans. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, was recognized on all acquired loans.

Changes in the carrying amount and the accretable yield for the non-covered loans accounted pursuant to the ASC Subtopic 310-30, for the quarters and six months ended June 30, 2014 and 2013 were as follows:

Activity in the accretable discount - Non-covered loans ASC 310-30

(In thousands)	For the quarter ended June 30, 2014	For the quarter ended June 30, 2013
Beginning balance	$ 67,285	$ 36,627
Additions	4,060	10,107
Accretion	(2,552)	(2,004)
Change in expected cash flows	8,034	4,483
Ending balance	$ 76,827	$ 49,213

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Activity in the accretable discount Non-covered loans ASC 310-30

(In thousands)		For the six months ended June 30, 2014		For the six months ended June 30, 2013
Beginning balance	$	49,398	$	
Additions		11,144		47,342
Accretion		(4,926)		(2,612)
Change in expected cash flows		21,211		4,483
Ending balance	$	76,827	$	49,213

Carrying amount of non-covered loans accounted for pursuant to ASC 310-30

(In thousands)		For the quarter ended June 30, 2014		For the quarter ended June 30, 2013
Beginning balance	$	190,216		133,041
Additions		13,139		22,899
Accretion		2,552		2,004
Collections and charge-offs		(6,866)		(19,312)
Ending balance	$	199,041	$	138,632
Allowance for loan losses ASC 310-30 non-covered loans		(15,751)		
Ending balance, net of ALLL	$	183,290	$	138,632

Carrying amount of non-covered loans accounted for pursuant to ASC 310-30

(In thousands)		For the six months ended June 30, 2014		For the six months ended June 30, 2013
Beginning balance	$	173,659	$	
Additions		33,181		156,311
Accretion		4,926		2,612
Collections and charge-offs		(12,725)		(20,291)
Ending balance	$	199,041	$	138,632
Allowance for loan losses ASC 310-30 non-covered loans		(15,751)		
Ending balance, net of ALLL	$	183,290	$	138,632

Covered loans

The following table presents covered loans in non-performing status and accruing loans past-due 90 days or more by loan class at June 30, 2014 and December 31, 2013.

	June 30, 2014	December 31, 2013

(In thousands)	Non-accrual loans	Accruing loans past due 90 days or more	Non-accrual loans	Accruing loans past due 90 days or more
Commercial real estate	$ 7,775	$	$ 8,345	$
Commercial and industrial	888		7,335	456
Construction	4,112		11,872	
Mortgage	3,044	18	1,739	69
Consumer	331		90	112
Total[1]	$ 16,150	$ 18	$ 29,381	$ 637

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

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The following tables present loans by past due status at June 30, 2014 and December 31, 2013 for covered loans held-in-portfolio. The information considers covered loans accounted for under ASC Subtopic 310-20 and ASC Subtopic 310-30.

June 30, 2014						
	Past due					
(In thousands)	30-59 days	60-89 days	90 days or more	Total past due	Current	Covered loans HIP
Commercial real estate	$ 18,747	$ 7,829	$ 340,117	$ 366,693	$ 1,271,941	$ 1,638,634
Commercial and industrial	870	684	7,686	9,240	98,093	107,333
Construction			71,197	71,197	11,566	82,763
Mortgage	46,826	25,447	149,311	221,584	645,491	867,075
Consumer	2,139	830	3,762	6,731	33,566	40,297
Total covered loans	$ 68,582	$ 34,790	$ 572,073	$ 675,445	$ 2,060,657	$ 2,736,102

December 31, 2013						
	Past due					
(In thousands)	30-59 days	60-89 days	90 days or more	Total past due	Current	Covered loans HIP
Commercial real estate	$ 42,898	$ 8,745	$ 374,301	$ 425,944	$ 1,284,285	$ 1,710,229
Commercial and industrial	1,584	349	16,318	18,251	84,324	102,575
Construction	399		178,007	178,406	11,721	190,127
Mortgage	50,222	23,384	165,030	238,636	695,737	934,373
Consumer	2,588	1,328	4,200	8,116	39,007	47,123
Total covered loans	$ 97,691	$ 33,806	$ 737,856	$ 869,353	$ 2,115,074	$ 2,984,427

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

	June 30, 2014			December 31, 2013		
	Carrying amount			Carrying amount		
(In thousands)	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Commercial real estate	$ 1,450,099	$ 126,474	$ 1,576,573	$ 1,483,331	$ 149,341	$ 1,632,672
Commercial and industrial	65,372	4,496	69,868	55,192	3,069	58,261
Construction	37,925	40,283	78,208	71,864	104,356	176,220
Mortgage	804,169	49,481	853,650	862,878	59,483	922,361
Consumer	30,346	2,019	32,365	35,810	2,623	38,433

Carrying amount	2,387,911	222,753	2,610,664	2,509,075	318,872	2,827,947
Allowance for loan losses	(50,609)	(40,283)	(90,892)	(57,594)	(36,321)	(93,915)
Carrying amount, net of allowance	$ 2,337,302	$ 182,470	$ 2,519,772	$ 2,451,481	$ 282,551	$ 2,734,032

The outstanding principal balance of covered loans accounted pursuant to ASC Subtopic 310-30, net of amounts charged off by the Corporation, amounted to $3.4 billion at June 30, 2014 (December 31, 2013 $3.8 billion). At June 30, 2014, none of the acquired loans from the Westernbank FDIC-assisted transaction accounted for under ASC Subtopic 310-30 were considered non-performing loans. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, was recognized on all acquired loans.

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Changes in the carrying amount and the accretable yield for the covered loans accounted pursuant to the ASC Subtopic 310-30, for the quarters ended June 30, 2014 and 2013, were as follows:

Activity in the accretable yield Covered loans ASC 310-30 For the quarters ended						
	June 30, 2014			June 30, 2013		
(In thousands)	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	$ 1,212,706	$ 5,506	$ 1,218,212	$ 1,372,375	$ (240)	$ 1,372,135
Accretion	(77,316)	(2,547)	(79,863)	(60,284)	(2,252)	(62,536)
Change in expected cash flows	135,812	6,597	142,409	53,579	16,434	70,013
Ending balance	$ 1,271,202	$ 9,556	$ 1,280,758	$ 1,365,670	$ 13,942	$ 1,379,612

Activity in the accretable discount Covered loans ASC 310-30 For the six months ended						
	June 30, 2014			June 30, 2013		
(In thousands)	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	$ 1,297,725	$ 11,480	$ 1,309,205	$ 1,446,381	$ 5,288	$ 1,451,669
Accretion	(149,868)	(9,113)	(158,981)	(121,461)	(6,065)	(127,526)
Change in expected cash flows	123,345	7,189	130,534	40,750	14,719	55,469
Ending balance	$ 1,271,202	$ 9,556	$ 1,280,758	$ 1,365,670	$ 13,942	$ 1,379,612

Carrying amount of covered loans accounted for pursuant to ASC 310-30 For the quarters ended						
	June 30, 2014			June 30, 2013		
(In thousands)	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	$ 2,469,453	$ 263,669	$ 2,733,122	$ 2,758,944	$ 398,719	$ 3,157,663
Accretion	77,316	2,547	79,863	60,284	2,252	62,536
Collections and charge-offs	(158,858)	(43,463)	(202,321)	(166,157)	(41,176)	(207,333)
Ending balance	$ 2,387,911	$ 222,753	$ 2,610,664	$ 2,653,071	$ 359,795	$ 3,012,866
Allowance for loan losses ASC 310-30 covered loans	(50,609)	(40,283)	(90,892)	(47,017)	(44,178)	(91,195)
Ending balance, net of ALLL	$ 2,337,302	$ 182,470	$ 2,519,772	$ 2,606,054	$ 315,617	$ 2,921,671

	Carrying amount of loans accounted for pursuant to ASC 310-30 For the six months ended					
	June 30, 2014			June 30, 2013		
(In thousands)	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	$ 2,509,075	$ 318,872	$ 2,827,947	$ 3,051,964	$ 439,795	$ 3,491,759
Accretion	149,868	9,113	158,981	121,461	6,065	127,526
Collections and charge offs	(271,032)	(105,232)	(376,264)	(520,354)	(86,065)	(606,419)
Ending balance	$ 2,387,911	$ 222,753	$ 2,610,664	$ 2,653,071	$ 359,795	$ 3,012,866
Allowance for loan losses ASC 310-30 covered loans	(50,609)	(40,283)	(90,892)	(47,017)	(44,178)	(91,195)
Ending balance, net of ALLL	$ 2,337,302	$ 182,470	$ 2,519,772	$ 2,606,054	$ 315,617	$ 2,921,671

The Corporation accounts for lines of credit with revolving privileges under the accounting guidance of ASC Subtopic 310-20, which requires that any differences between the contractually required loans payment receivable in excess of the initial investment in the loans be accreted into interest income over the life of the loans, if the loan is accruing interest. Covered loans accounted for under ASC Subtopic 310-20 amounted to $0.1 billion at June 30, 2014 (December 31, 2013 $0.2 billion).

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Note 10 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.

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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.

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 segment and $3.7 million related to the BPNA segment, offset in part by a $0.8 million increase in the BPPR covered segment.

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.

The following tables present the changes in the allowance for loan losses for the quarters ended June 30, 2014 and 2013.

	For the quarter ended June 30, 2014					
	Puerto Rico - Non-covered loans					
(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						

Beginning balance	$ 124,134	$ 5,079	$ 137,796	$ 10,483	$ 157,248	$ 434,740
Provision (reversal of provision)	69,410	(503)	(7,471)	(3,380)	16,805	74,861
Charge-offs	(16,218)	(42)	(10,083)	(1,754)	(29,941)	(58,038)
Recoveries	6,909	657	157	610	6,370	14,703
Ending balance	$ 184,235	$ 5,191	$ 120,399	$ 5,959	$ 150,482	$ 466,266

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For the quarter ended June 30, 2014 Puerto Rico - Covered loans						
(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 38,589	$ 15,966	$ 38,848	$	$ 4,370	$ 97,773
Provision (reversal of provision)	13,542	(3,270)	2,344	1	(1,013)	11,604
Charge-offs	(5,993)	(6,427)	(2,262)	(2)	677	(14,007)
Recoveries	555	2,727	11	1	1	3,295
Ending balance	$ 46,693	$ 8,996	$ 38,941	$	$ 4,035	$ 98,665

For the quarter ended June 30, 2014 U.S. Mainland - Continuing Operations						
(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 31,505	$ 196	$ 25,167	$ 11,872	$ 18,893	$ 87,633
Provision (reversal of provision)	(12,321)	(45)	(7,245)	(3,734)	(1,442)	(24,787)
Charge-offs	(5,672)		(914)	(1,347)	(3,997)	(11,930)
Recoveries	4,762		521	2,552	1,229	9,064
Ending balance	$ 18,274	$ 151	$ 17,529	$ 9,343	$ 14,683	$ 59,980

For the quarter ended June 30, 2014 U.S. Mainland - Discontinued Operations						
(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 16,375	$ 27	$	$ 1,400	$ 2,400	$ 20,202
Net write-downs related to loans transferred to discontinued operations	(16,375)	(27)		(1,400)	(2,400)	(20,202)
Ending balance	$	$	$	$	$	$

For the quarter ended June 30, 2014 Popular, Inc.							
(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Beginning balance	$ 210,603	$ 21,268	$ 201,811	$ 13,272	$ 10,483	$ 182,911	$ 640,348
Provision (reversal of provision)	70,631	(3,818)	(12,372)	(3,734)	(3,379)	14,350	61,678
Charge-offs	(27,883)	(6,469)	(13,259)	(1,347)	(1,756)	(33,261)	(83,975)
Recoveries	12,226	3,384	689	2,552	611	7,600	27,062
Net write-downs related to loans transferred to	(16,375)	(27)		(1,400)		(2,400)	(20,202)

discontinued operations

Ending balance	$ 249,202	$ 14,338	$ 176,869	$ 9,343	$ 5,959	$ 169,200	$ 624,911

	For the six months ended June 30, 2014					
	Puerto Rico - Non-covered loans					
(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 128,150	$ 5,095	$ 130,330	$ 10,622	$ 152,578	$ 426,775
Provision (reversal of provision)	80,566	(1,897)	8,511	(2,863)	44,458	128,775
Charge-offs	(38,334)	(458)	(18,809)	(2,721)	(59,137)	(119,459)
Recoveries	13,853	2,451	367	921	12,583	30,175
Ending balance	$ 184,235	$ 5,191	$ 120,399	$ 5,959	$ 150,482	$ 466,266

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For the six months ended June 30, 2014 Puerto Rico - Covered loans						
(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 42,198	$ 19,491	$ 36,006	$	$ 4,397	$ 102,092
Provision (reversal of provision)	17,581	14,297	6,842	1	(1,403)	37,318
Charge-offs	(13,961)	(29,408)	(3,918)	(2)	972	(46,317)
Recoveries	875	4,616	11	1	69	5,572
Ending balance	$ 46,693	$ 8,996	$ 38,941	$	$ 4,035	$ 98,665

For the six months ended June 30, 2014 U.S. Mainland - Continuing Operations						
(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 24,930	$ 214	$ 26,599	$ 11,335	$ 19,205	$ 82,283
Allowance transferred from discontinued operations	7,984					7,984
Provision (reversal of provision)	(11,742)	(239)	(7,807)	(7,406)	2,615	(24,579)
Charge-offs	(10,664)		(2,452)	(4,331)	(9,073)	(26,520)
Recoveries	7,766	176	1,189	9,745	1,936	20,812
Ending balance	$ 18,274	$ 151	$ 17,529	$ 9,343	$ 14,683	$ 59,980

For the six months ended June 30, 2014 U.S. Mainland - Discontinued Operations						
(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 21,902	$ 33	$	$ 2,369	$ 5,101	$ 29,405
Allowance transferred to continuing operations	(7,984)					(7,984)
Provision (reversal of provision)	(2,831)	(226)		(1,812)	(1,895)	(6,764)
Charge-offs	(2,995)			(557)	(900)	(4,452)
Recoveries	8,283	220		1,400	94	9,997
Net write-downs related to loans transferred to discontinued operations	(16,375)	(27)		(1,400)	(2,400)	(20,202)
Ending balance	$	$	$	$	$	$

For the six months ended June 30, 2014 Popular, Inc.							
(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							

Beginning balance	$ 217,180	$ 24,833	$ 192,935	$ 13,704	$ 10,622	$ 181,281	$ 640,555
Provision (reversal of provision)	83,574	11,935	7,546	(9,218)	(2,862)	43,775	134,750
Charge-offs	(65,954)	(29,866)	(25,179)	(4,888)	(2,723)	(68,138)	(196,748)
Recoveries	30,777	7,463	1,567	11,145	922	14,682	66,556
Net write-downs related to loans transferred to discontinued operations	(16,375)	(27)		(1,400)		(2,400)	(20,202)
Ending balance	$ 249,202	$ 14,338	$ 176,869	$ 9,343	$ 5,959	$ 169,200	$ 624,911

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	For the quarter ended June 30, 2013 Puerto Rico - Non-covered loans					
(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 160,883	$ 6,403	$ 130,466	$ 3,895	$ 122,374	$ 424,021
Provision (reversal of provision)	(18,763)	375	204,540	6,241	38,068	230,461
Charge-offs	(35,270)	(2,191)	(12,750)	(1,843)	(27,247)	(79,301)
Recoveries	5,302	4,485	161	630	7,319	17,897
Net write-down related to loans sold			(199,502)			(199,502)
Ending balance	$ 112,152	$ 9,072	$ 122,915	$ 8,923	$ 140,514	$ 393,576

	For the quarter ended June 30, 2013 Puerto Rico - Covered Loans					
(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 67,681	$ 6,293	$ 20,673	$	$ 5,220	$ 99,867
Provision (reversal of provision)	(1,016)	16,762	8,583		1,171	25,500
Charge-offs	(1,150)	(16,024)	(2,255)		106	(19,323)
Recoveries	42	322			49	413
Ending balance	$ 65,557	$ 7,353	$ 27,001	$	$ 6,546	$ 106,457

	For the quarter ended June 30, 2013 U.S. Mainland - Continuing Operations					
(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 30,169	$ 775	$ 31,479	$ 27,139	$ 23,222	$ 112,784
Provision (reversal of provision)	(432)	(474)	4,604	(12,102)	6,918	(1,486)
Charge-offs	(7,116)		(3,377)	(3,743)	(5,959)	(20,195)
Recoveries	4,972		359	5,208	816	11,355
Ending balance	$ 27,593	$ 301	$ 33,065	$ 16,502	$ 24,997	$ 102,458

	For the quarter ended June 30, 2013 U.S. Mainland - Discontinued Operations					
(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 37,818	$ 261	$	$ 3,638	$ 4,979	$ 46,696
Provision (reversal of provision)	(5,418)	(224)		386	189	(5,067)
Charge-offs	(10,282)			(2,198)	(882)	(13,362)
Recoveries	2,618			1,650	193	4,461
Ending balance	$ 24,736	$ 37	$	$ 3,476	$ 4,479	$ 32,728

	For the quarter ended June 30, 2013						
	Popular, Inc.						
(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Beginning balance	$ 296,551	$ 13,732	$ 182,618	$ 30,777	$ 3,895	$ 155,795	$ 683,368
Provision (reversal of provision)	(25,629)	16,439	217,727	(11,716)	6,241	46,346	249,408
Charge-offs	(53,818)	(18,215)	(18,382)	(5,941)	(1,843)	(33,982)	(132,181)
Recoveries	12,934	4,807	520	6,858	630	8,377	34,126
Net write-down related to loans sold			(199,502)				(199,502)
Ending balance	$ 230,038	$ 16,763	$ 182,981	$ 19,978	$ 8,923	$ 176,536	$ 635,219

(In thousands)	For the six months ended June 30, 2013 Puerto Rico - Non-covered loans Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 217,615	$ 5,862	$ 119,027	$ 2,894	$ 99,899	$ 445,297
Provision	110,114	3,117	232,752	8,226	80,544	434,753
Charge-offs	(67,716)	(3,820)	(30,509)	(3,386)	(54,607)	(160,038)
Recoveries	13,436	5,759	1,147	1,189	14,678	36,209
Net write-downs related to loans sold	(161,297)	(1,846)	(199,502)			(362,645)
Ending balance	$ 112,152	$ 9,072	$ 122,915	$ 8,923	$ 140,514	$ 393,576

(In thousands)	For the six months ended June 30, 2013 Puerto Rico - Covered Loans Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 72,060	$ 9,946	$ 20,914	$	$ 5,986	$ 108,906
Provision	5,140	22,554	10,393		4,969	43,056
Charge-offs	(11,715)	(25,783)	(4,317)		(4,461)	(46,276)
Recoveries	72	636	11		52	771
Ending balance	$ 65,557	$ 7,353	$ 27,001	$	$ 6,546	$ 106,457

(In thousands)	For the six months ended June 30, 2013 U.S. Mainland - Continuing Operations Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 36,658	$ 1,196	$ 30,348	$ 29,070	$ 26,383	$ 123,655
Provision (reversal of provision)	(486)	(895)	8,525	(12,968)	9,139	3,315
Charge-offs	(15,068)		(7,394)	(9,278)	(12,208)	(43,948)
Recoveries	6,489		1,586	9,678	1,683	19,436
Ending balance	$ 27,593	$ 301	$ 33,065	$ 16,502	$ 24,997	$ 102,458

(In thousands)	For the six months ended June 30, 2013 U.S. Mainland - Discontinued Operations Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 43,409	$ 371	$	$ 4,032	$ 4,937	$ 52,749
Provision (reversal of provision)	(8,583)	(334)		55	1,002	(7,860)
Charge-offs	(15,470)			(3,004)	(1,830)	(20,304)
Recoveries	5,380			2,393	370	8,143
Ending balance	$ 24,736	$ 37	$	$ 3,476	$ 4,479	$ 32,728

	For the six months ended June 30, 2013						
	Popular, Inc.						
(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Beginning balance	$ 369,742	$ 17,375	$ 170,289	$ 33,102	$ 2,894	$ 137,205	$ 730,607
Provision (reversal of provision)	106,185	24,442	251,670	(12,913)	8,226	95,654	473,264
Charge-offs	(109,969)	(29,603)	(42,220)	(12,282)	(3,386)	(73,106)	(270,566)
Recoveries	25,377	6,395	2,744	12,071	1,189	16,783	64,559
Net write-down related to loans sold	(161,297)	(1,846)	(199,502)				(362,645)
Ending balance	$ 230,038	$ 16,763	$ 182,981	$ 19,978	$ 8,923	$ 176,536	$ 635,219

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

	ASC 310-30 Covered loans			
	For the quarters ended		For the six months ended	
(In thousands)	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Balance at beginning of period	$ 90,371	$ 91,573	$ 93,915	$ 95,407
Provision for loan losses	10,951	17,568	35,506	31,608
Net charge-offs	(10,430)	(17,946)	(38,529)	(35,820)
Balance at end of period	$ 90,892	$ 91,195	$ 90,892	$ 91,195

The following tables present information at June 30, 2014 and December 31, 2013 regarding loan ending balances and the allowance for loan losses by portfolio segment and whether such loans and the allowance pertains to loans individually or collectively evaluated for impairment.

	At June 30, 2014					
	Puerto Rico					
(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Specific ALLL non-covered loans	$ 36,597	$ 883	$ 39,341	$ 688	$ 28,458	$ 105,967
General ALLL non-covered loans	147,638	4,308	81,058	5,271	122,024	360,299
ALLL non-covered loans	184,235	5,191	120,399	5,959	150,482	466,266
Specific ALLL covered loans	8					8
General ALLL covered loans	46,685	8,996	38,941		4,035	98,657
ALLL covered loans	46,693	8,996	38,941		4,035	98,665
Total ALLL	$ 230,928	$ 14,187	$ 159,340	$ 5,959	$ 154,517	$ 564,931
Loans held-in-portfolio:						
Impaired non-covered loans	$ 307,762	$ 21,094	$ 414,636	$ 2,653	$ 119,604	$ 865,749
Non-covered loans held-in-portfolio excluding impaired loans	5,991,218	114,589	5,043,936	544,215	3,296,245	14,990,203
Non-covered loans held-in-portfolio	6,298,980	135,683	5,458,572	546,868	3,415,849	15,855,952
Impaired covered loans	2,823	2,419				5,242

Covered loans held-in-portfolio excluding impaired loans	1,743,144	80,344	867,075		40,297	2,730,860
Covered loans held-in-portfolio	1,745,967	82,763	867,075		40,297	2,736,102
Total loans held-in-portfolio	$ 8,044,947	$ 218,446	$ 6,325,647	$ 546,868	$ 3,456,146	$ 18,592,054

At June 30, 2014

U.S. Mainland

(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Specific ALLL	$	$	$ 14,474	$	$ 585	$ 15,059
General ALLL	18,274	151	3,055	9,343	14,098	44,921
Total ALLL	$ 18,274	$ 151	$ 17,529	$ 9,343	$ 14,683	$ 59,980
Loans held-in-portfolio:						
Impaired loans	$ 9,984	$	$ 51,607	$ 2,536	$ 2,502	$ 66,629
Loans held-in-portfolio, excluding impaired loans	1,846,583	43,376	1,154,269	160,405	508,010	3,712,643
Total loans held-in-portfolio	$ 1,856,567	$ 43,376	$ 1,205,876	$ 162,941	$ 510,512	$ 3,779,272

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	At June 30, 2014						
			Popular, Inc.				
(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Specific ALLL non-covered loans	$ 36,597	$ 883	$ 53,815	$	$ 688	$ 29,043	$ 121,026
General ALLL non-covered loans	165,912	4,459	84,113	9,343	5,271	136,122	405,220
ALLL non-covered loans	202,509	5,342	137,928	9,343	5,959	165,165	526,246
Specific ALLL covered loans	8						8
General ALLL covered loans	46,685	8,996	38,941			4,035	98,657
ALLL covered loans	46,693	8,996	38,941			4,035	98,665
Total ALLL	$ 249,202	$ 14,338	$ 176,869	$ 9,343	$ 5,959	$ 169,200	$ 624,911
Loans held-in-portfolio:							
Impaired non-covered loans	$ 317,746	$ 21,094	$ 466,243	$ 2,536	$ 2,653	$ 122,106	$ 932,378
Non-covered loans held-in-portfolio excluding impaired loans	7,837,801	157,965	6,198,205	160,405	544,215	3,804,255	18,702,846
Non-covered loans held-in-portfolio	8,155,547	179,059	6,664,448	162,941	546,868	3,926,361	19,635,224
Impaired covered loans	2,823	2,419					5,242
Covered loans held-in-portfolio excluding impaired loans	1,743,144	80,344	867,075			40,297	2,730,860
Covered loans held-in-portfolio	1,745,967	82,763	867,075			40,297	2,736,102
Total loans held-in-portfolio	$ 9,901,514	$ 261,822	$ 7,531,523	$ 162,941	$ 546,868	$ 3,966,658	$ 22,371,326

At December 31, 2013						
Puerto Rico						
(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Specific ALLL non-covered loans	$ 16,409	$ 177	$ 38,034	$ 1,053	$ 29,920	$ 85,593
General ALLL non-covered loans	111,741	4,918	92,296	9,569	122,658	341,182
ALLL non-covered loans	128,150	5,095	130,330	10,622	152,578	426,775
Specific ALLL covered loans	153	140				293
General ALLL covered loans	42,045	19,351	36,006		4,397	101,799
ALLL covered loans	42,198	19,491	36,006		4,397	102,092
Total ALLL	$ 170,348	$ 24,586	$ 166,336	$ 10,622	$ 156,975	$ 528,867
Loans held-in-portfolio:						
Impaired non-covered loans	$ 245,380	$ 16,823	$ 399,347	$ 2,893	$ 125,342	$ 789,785
Non-covered loans held-in-portfolio excluding impaired loans	6,220,210	144,348	5,001,332	540,868	3,191,296	15,098,054
Non-covered loans held-in-portfolio	6,465,590	161,171	5,400,679	543,761	3,316,638	15,887,839
Impaired covered loans	20,945					20,945
Covered loans held-in-portfolio excluding impaired loans	1,791,859	190,127	934,373		47,123	2,963,482
Covered loans held-in-portfolio	1,812,804	190,127	934,373		47,123	2,984,427
Total loans held-in-portfolio	$ 8,278,394	$ 351,298	$ 6,335,052	$ 543,761	$ 3,363,761	$ 18,872,266

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	At December 31, 2013 U.S. Mainland					
(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Specific ALLL	$	$	$ 17,633	$	$ 280	$ 17,913
General ALLL	46,832	247	8,966	13,704	24,026	93,775
Total ALLL	$ 46,832	$ 247	$ 26,599	$ 13,704	$ 24,306	$ 111,688
Loans held-in-portfolio:						
Impaired loans	$ 52,136	$ 5,663	$ 52,726	$ 6,045	$ 2,361	$ 118,931
Loans held-in-portfolio, excluding impaired loans	3,519,459	39,250	1,228,071	205,090	613,227	5,605,097
Total loans held-in-portfolio	$ 3,571,595	$ 44,913	$ 1,280,797	$ 211,135	$ 615,588	$ 5,724,028

	At December 31, 2013 Popular, Inc.						
(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Specific ALLL non-covered loans	$ 16,409	$ 177	$ 55,667	$	$ 1,053	$ 30,200	$ 103,506
General ALLL non-covered loans	158,573	5,165	101,262	13,704	9,569	146,684	434,957
ALLL non-covered loans	174,982	5,342	156,929	13,704	10,622	176,884	538,463
Specific ALLL covered loans	153	140					293
General ALLL covered loans	42,045	19,351	36,006			4,397	101,799
ALLL covered loans	42,198	19,491	36,006			4,397	102,092
Total ALLL	$ 217,180	$ 24,833	$ 192,935	$ 13,704	$ 10,622	$ 181,281	$ 640,555
Loans held-in-portfolio:							
Impaired non-covered loans	$ 297,516	$ 22,486	$ 452,073	$ 6,045	$ 2,893	$ 127,703	$ 908,716
Non-covered loans held-in-portfolio excluding impaired loans	9,739,669	183,598	6,229,403	205,090	540,868	3,804,523	20,703,151

Non-covered loans held-in-portfolio	10,037,185	206,084	6,681,476	211,135	543,761	3,932,226	21,611,867
Impaired covered loans	20,945						20,945
Covered loans held-in-portfolio excluding impaired loans	1,791,859	190,127	934,373			47,123	2,963,482
Covered loans held-in-portfolio	1,812,804	190,127	934,373			47,123	2,984,427
Total loans held-in-portfolio	$ 11,849,989	$ 396,211	$ 7,615,849	$ 211,135	$ 543,761	$ 3,979,349	$ 24,596,294

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Impaired loans

The following tables present loans individually evaluated for impairment at June 30, 2014 and December 31, 2013.

	June 30, 2014 Puerto Rico							
	Impaired Loans With an Allowance			Impaired Loans With No Allowance		Impaired Loans Total		
(In thousands)	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial multi-family	$	$	$	$ 1,305	$ 1,305	$ 1,305	$ 1,305	$
Commercial real estate non-owner occupied	54,933	59,622	9,877	24,911	25,724	79,844	85,346	9,877
Commercial real estate owner occupied	73,799	94,235	12,352	45,797	53,876	119,596	148,111	12,352
Commercial and industrial	75,216	77,283	14,368	31,801	42,746	107,017	120,029	14,368
Construction	10,213	16,937	883	10,881	31,380	21,094	48,317	883
Mortgage	370,863	393,190	39,341	43,773	43,773	414,636	436,963	39,341
Leasing	2,653	2,653	688			2,653	2,653	688
Consumer:								
Credit cards	42,581	42,581	8,068			42,581	42,581	8,068
Personal	74,247	74,247	20,064			74,247	74,247	20,064
Auto	2,292	2,292	234			2,292	2,292	234
Other	484	484	92			484	484	92
Covered loans	1,591	1,591	8	3,651	28,947	5,242	30,538	8
Total Puerto Rico	$ 708,872	$ 765,115	$ 105,975	$ 162,119	$ 227,751	$ 870,991	$ 992,866	$ 105,975

	June 30, 2014 U.S. mainland [1]							
	Impaired Loans With an Allowance			Impaired Loans With No Allowance		Impaired Loans Total		
(In thousands)	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial multi-family	$	$	$	$ 1,960	$ 1,960	$ 1,960	$ 1,960	$
Commercial real estate non-owner occupied				5,827	10,307	5,827	10,307	

Commercial real estate owner occupied				1,542	1,542	1,542	1,542	
Commercial and industrial				655	655	655	655	
Mortgage	44,310	49,084	14,474	7,297	9,367	51,607	58,451	14,474
Legacy				2,536	4,226	2,536	4,226	
Consumer:								
HELOCs	2,410	2,410	581			2,410	2,410	581
Auto				86	86	86	86	
Other	6	6	4			6	6	4
Total U.S. mainland	$ 46,726	$ 51,500	$ 15,059	$ 19,903	$ 28,143	$ 66,629	$ 79,643	$ 15,059

[1] Excludes impaired loans from discontinued operations.

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June 30, 2014
Popular, Inc.

(In thousands)	Impaired Loans With an Allowance			Impaired Loans With No Allowance		Impaired Loans Total		
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial multi-family	$	$	$	$ 3,265	$ 3,265	$ 3,265	$ 3,265	$
Commercial real estate non-owner occupied	54,933	59,622	9,877	30,738	36,031	85,671	95,653	9,877
Commercial real estate owner occupied	73,799	94,235	12,352	47,339	55,418	121,138	149,653	12,352
Commercial and industrial	75,216	77,283	14,368	32,456	43,401	107,672	120,684	14,368
Construction	10,213	16,937	883	10,881	31,380	21,094	48,317	883
Mortgage	415,173	442,274	53,815	51,070	53,140	466,243	495,414	53,815
Legacy				2,536	4,226	2,536	4,226	
Leasing	2,653	2,653	688			2,653	2,653	688
Consumer:								
Credit cards	42,581	42,581	8,068			42,581	42,581	8,068
HELOCs	2,410	2,410	581			2,410	2,410	581
Personal	74,247	74,247	20,064			74,247	74,247	20,064
Auto	2,292	2,292	234	86	86	2,378	2,378	234
Other	490	490	96			490	490	96
Covered loans	1,591	1,591	8	3,651	28,947	5,242	30,538	8
Total Popular, Inc.	$ 755,598	$ 816,615	$ 121,034	$ 182,022	$ 255,894	$ 937,620	$ 1,072,509	$ 121,034

December 31, 2013
Puerto Rico

(In thousands)	Impaired Loans With an Allowance			Impaired Loans With No Allowance		Impaired Loans Total		
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial multi-family	$	$	$	$ 3,405	$ 6,942	$ 3,405	$ 6,942	$
Commercial real estate non-owner occupied	19,120	19,407	2,368	47,245	55,397	66,365	74,804	2,368
Commercial real estate owner occupied	55,826	74,420	6,473	33,749	47,545	89,575	121,965	6,473
	30,370	33,152	7,568	55,665	68,141	86,035	101,293	7,568

Commercial and industrial								
Construction	2,324	9,047	177	14,499	36,951	16,823	45,998	177
Mortgage	358,437	376,393	38,034	40,910	45,181	399,347	421,574	38,034
Leasing	2,893	2,893	1,053			2,893	2,893	1,053
Consumer:								
Credit cards	45,015	45,015	8,344			45,015	45,015	8,344
Personal	78,475	78,475	21,313			78,475	78,475	21,313
Auto	1,354	1,354	171			1,354	1,354	171
Other	498	498	92			498	498	92
Covered loans	12,837	17,538	293	8,108	10,063	20,945	27,601	293
Total Puerto Rico	$ 607,149	$ 658,192	$ 85,886	$ 203,581	$ 270,220	$ 810,730	$ 928,412	$ 85,886

December 31, 2013

U.S. mainland

	Impaired Loans With an Allowance			Impaired Loans With No Allowance		Impaired Loans Total		
(In thousands)	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial multi-family	$	$	$	$ 7,668	$ 10,870	$ 7,668	$ 10,870	$
Commercial real estate non-owner occupied				27,016	37,393	27,016	37,393	
Commercial real estate owner occupied				15,624	19,910	15,624	19,910	
Commercial and industrial				1,828	1,828	1,828	1,828	
Construction				5,663	5,663	5,663	5,663	
Mortgage	46,192	50,570	17,633	6,534	8,513	52,726	59,083	17,633
Legacy				6,045	8,715	6,045	8,715	
Consumer:								
HELOCs				198	198	198	198	
Auto				88	88	88	88	
Other	2,075	2,075	280			2,075	2,075	280
Total U.S. mainland	$ 48,267	$ 52,645	$ 17,913	$ 70,664	$ 93,178	$ 118,931	$ 145,823	$ 17,913

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December 31, 2013 Popular, Inc.								
	Impaired Loans With an Allowance			Impaired Loans With No Allowance		Impaired Loans Total		
(In thousands)	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial multi-family	$	$	$	$ 11,073	$ 17,812	$ 11,073	$ 17,812	$
Commercial real estate non-owner occupied	19,120	19,407	2,368	74,261	92,790	93,381	112,197	2,368
Commercial real estate owner occupied	55,826	74,420	6,473	49,373	67,455	105,199	141,875	6,473
Commercial and industrial	30,370	33,152	7,568	57,493	69,969	87,863	103,121	7,568
Construction	2,324	9,047	177	20,162	42,614	22,486	51,661	177
Mortgage	404,629	426,963	55,667	47,444	53,694	452,073	480,657	55,667
Legacy				6,045	8,715	6,045	8,715	
Leasing	2,893	2,893	1,053			2,893	2,893	1,053
Consumer:								
Credit cards	45,015	45,015	8,344			45,015	45,015	8,344
HELOCs				198	198	198	198	
Personal	78,475	78,475	21,313			78,475	78,475	21,313
Auto	1,354	1,354	171	88	88	1,442	1,442	171
Other	2,573	2,573	372			2,573	2,573	372
Covered loans	12,837	17,538	293	8,108	10,063	20,945	27,601	293
Total Popular, Inc.	$ 655,416	$ 710,837	$ 103,799	$ 274,245	$ 363,398	$ 929,661	$ 1,074,235	$ 103,799

The following tables present the average recorded investment and interest income recognized on impaired loans for the quarter and six months ended June 30, 2014 and 2013.

For the quarter ended June 30, 2014						
	Puerto Rico		U.S. Mainland [1]		Popular, Inc.	
(In thousands)	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial multi-family	$ 2,144	$	$ 2,808	$	$ 4,952	$
Commercial real estate non-owner occupied	77,906	696	9,653	24	87,559	720
Commercial real estate owner occupied	113,400	728	6,632	30	120,032	758
Commercial and industrial	112,697	1,717	1,122		113,819	1,717
Construction	21,553				21,553	
Mortgage	410,345	5,081	52,034	485	462,379	5,566
Legacy			3,123		3,123	

Leasing	2,554				2,554	
Consumer:						
Credit cards	43,241				43,241	
Helocs			2,431		2,431	
Personal	74,918				74,918	
Auto	1,910		87		1,997	
Other	880		6		886	
Covered loans	5,391	118			5,391	118
Total Popular, Inc.	$ 866,939	$ 8,340	$ 77,896	$ 539	$ 944,835	$ 8,879

[1] Excludes impaired loans from discontinued operations.

	For the quarter ended June 30, 2013					
	Puerto Rico		U.S. Mainland		Popular, Inc.	
(In thousands)	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial multi-family	$ 8,448	$ (29)	$ 6,619	$	$ 15,067	$ (29)
Commercial real estate non-owner occupied	47,621	364	38,509	55	86,130	419
Commercial real estate owner occupied	98,892	493	20,235	73	119,127	566
Commercial and industrial	96,622	769	1,457		98,079	769
Construction	41,528		5,859		47,387	
Mortgage	480,435	7,861	53,000	482	533,435	8,343
Legacy			14,200		14,200	
Leasing	4,088				4,088	
Consumer:						
Credit cards	34,019				34,019	
Helocs			200		200	
Personal	83,531				83,531	
Auto	858		90		948	
Other	274		2,311		2,585	
Covered loans	24,252	265			24,252	265
Total Popular, Inc.	$ 920,568	$ 9,723	$ 142,480	$ 610	$ 1,063,048	$ 10,333

	For the six months ended June 30, 2014					
	Puerto Rico		U.S. Mainland [1]		Popular, Inc.	
(In thousands)	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial multi-family	$ 2,564	$	$ 4,428	$	$ 6,992	$
Commercial real estate non-owner occupied	74,059	8	15,440	24	89,499	32
Commercial real estate owner occupied	105,458	1,191	9,629	30	115,087	1,221
Commercial and industrial	103,810	1,581	1,357		105,167	1,581
Construction	19,976	3,329	1,888		21,864	3,329
Mortgage	406,679	10,263	52,264	992	458,943	11,255
Legacy			4,097		4,097	
Leasing	2,667				2,667	
Consumer:						
Credit cards	43,832				43,832	
HELOCs			1,687		1,687	
Personal	76,104				76,104	
Auto	1,724		87		1,811	
Other	752		696		1,448	
Covered loans	10,576	234			10,576	234
Total Popular, Inc.	$ 848,201	$ 16,606	$ 91,573	$ 1,046	$ 939,774	$ 17,652

[1] Excludes impaired loans from discontinued operations.

	For the six months ended June 30, 2013					
	Puerto Rico		U.S. Mainland		Popular, Inc.	
(In thousands)	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial multi-family	$ 10,082	$ 132	$ 6,960	$ 39	$ 17,042	$ 171
Commercial real estate non-owner occupied	57,631	723	40,944	90	98,575	813
Commercial real estate owner occupied	139,981	1,009	20,280	15	160,261	1,024
Commercial and industrial	109,286	1,608	2,990		112,276	1,608
Construction	39,635		5,893		45,528	
Mortgage	506,002	15,596	53,364	985	559,366	16,581
Legacy			15,714		15,714	
Leasing	4,352				4,352	
Consumer:						
Credit cards	36,851				36,851	
HELOCs			200		200	
Personal	84,648				84,648	
Auto	829		90		919	
Other	347		2,348		2,695	
Covered loans	52,582	504			52,582	504
Total Popular, Inc.	$ 1,042,226	$ 19,572	$ 148,783	$ 1,129	$ 1,191,009	$ 20,701

Modifications

Troubled debt restructurings related to non-covered loan portfolios amounted to $ 1.0 billion at June 30, 2014 (December 31, 2013 - $ 1.0 billion). The amount of outstanding commitments to lend additional funds to debtors owing receivables whose terms have been modified in troubled debt restructurings amounted $4 million related to the commercial loan portfolio and $697 thousand related to the construction loan portfolio at June 30, 2014 (December 31, 2013 - $3 million and $0, respectively).

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

Commercial and industrial loans modified in a TDR often involve temporary interest-only payments, term extensions, and converting evergreen revolving credit lines to long-term loans. Commercial real estate (CRE), which includes multifamily, owner-occupied and non-owner occupied CRE, and construction loans modified in a TDR often involve reducing the interest rate for a limited period of time or the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or reductions in the payment plan. Construction loans modified in a TDR may also involve extending the interest-only payment period.

Residential mortgage loans modified in a TDR are primarily comprised of loans where monthly payments are lowered to accommodate the borrowers financial needs for a period of time, normally five years to ten years. After the lowered monthly payment period ends, the borrower reverts back to paying principal and interest per the original terms with the maturity date adjusted accordingly.

Home equity loans modifications are made infrequently and are not offered if the Corporation also holds the first mortgage. Home equity loans modifications are uniquely designed to meet the specific needs of each borrower. Automobile loans modified in a TDR are primarily comprised of loans where the Corporation has lowered monthly payments by extending the term. Credit cards modified in a TDR are primarily comprised of loans where monthly payments are lowered to accommodate the borrowers financial needs for a period of time, normally up to 24 months.

As part of its NPL reduction strategy and in order to expedite the resolution of delinquent construction and commercial loans, commencing in 2012, the Corporation routinely enters into liquidation agreements with borrowers and guarantors through the regular legal process, bankruptcy procedures and in certain occasions, out of court transactions. These liquidation agreements, in general, contemplate the following conditions: (1) consent to judgment by the borrowers and guarantors; (2) acknowledgement by the borrower of the debt, its liquidity and maturity; and (3) acknowledgment of the default in payments. The contractual interest rate is not reduced and continues to accrue during the term of the agreement. At the end of the period, the borrower is obligated to remit all amounts due or be subject to the Corporation s exercise of its foreclosure rights and further collection efforts. Likewise, the borrower s failure to make stipulated payments will grant the Corporation the ability to exercise its foreclosure rights. This strategy tends to expedite the foreclosure process, resulting in a more effective and efficient collection process. Although in general, these liquidation agreements do not contemplate the forgiveness of principal or interest as debtor is required to cover all outstanding amounts when the agreement becomes due, it could be construed that the Corporation has granted a concession by temporarily accepting a payment schedule that is different from the contractual payment schedule. Accordingly, loans under these program agreements are considered TDRs.

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

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

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

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

The following tables present the non-covered and covered loans classified as TDRs according to their accruing status at June 30, 2014 and December 31, 2013.

Popular, Inc.
Non-Covered Loans

	June 30, 2014 [1]			December 31, 2013		
(In thousands)	Accruing	Non-Accruing	Total	Accruing	Non-Accruing	Total
Commercial	$ 109,205	$ 113,148	$ 222,353	$ 109,462	$ 80,140	$ 189,602
Construction	376	13,391	13,767	425	10,865	11,290
Legacy					949	949
Mortgage	566,355	100,381	666,736	535,357	82,786	618,143
Leases	875	1,778	2,653	270	2,623	2,893
Consumer	110,066	11,681	121,747	116,719	10,741	127,460
Total	$ 786,877	$ 240,379	$ 1,027,256	$ 762,233	$ 188,104	$ 950,337

[1] Excludes TDRs from discontinued operations.

Popular, Inc.
Covered Loans

	June 30, 2014			December 31, 2013		
(In thousands)	Accruing	Non-Accruing	Total	Accruing	Non-Accruing	Total
Commercial	$ 14	$ 2,384	$ 2,398	$ 7,389	$ 10,017	$ 17,406
Construction		2,962	2,962		3,464	3,464
Mortgage	2,804	592	3,396	146	189	335
Consumer	106	15	121	221	22	243
Total	$ 2,924	$ 5,953	$ 8,877	$ 7,756	$ 13,692	$ 21,448

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The following tables present the loan count by type of modification for those loans modified in a TDR during the quarters ended June 30, 2014 and 2013.

	Puerto Rico							
	For the quarter ended June 30, 2014				For the six months ended June 30, 2014			
	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Commercial real estate non-owner occupied		3			2	4		
Commercial real estate owner occupied	6	5			15	7		
Commercial and industrial	14	6			23	6		
Construction						3		
Mortgage	14	12	110	43	27	26	190	67
Leasing		1	18			5	24	
Consumer:								
Credit cards	273			172	547			327
Personal	247	16		2	463	33		3
Auto		6	3			8	3	
Other	25			1	43			2
Total	579	49	131	218	1,120	92	217	399

	U.S. Mainland							
	For the quarter ended June 30, 2014				For the six months ended June 30, 2014			
	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Mortgage			5				11	
Total			5				11	

Excludes TDRs from discontinued operations.

	Popular, Inc.							
	For the quarter ended June 30, 2014				For the six months ended June 30, 2014			
	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Commercial real estate non-owner occupied		3			2	4		
Commercial real estate owner occupied	6	5			15	7		
Commercial and industrial	14	6			23	6		
Construction						3		
Mortgage	14	12	115	43	27	26	201	67
Leasing		1	18			5	24	
Consumer:								
Credit cards	273			172	547			327
Personal	247	16		2	463	33		3
Auto		6	3			8	3	
Other	25			1	43			2
Total	579	49	136	218	1,120	92	228	399

Excludes TDRs from discontinued operations.

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	Puerto Rico							
	For the quarter ended June 30, 2013				For the six months ended June 30, 2013			
	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Commercial real estate non-owner occupied						1		
Commercial real estate owner occupied	1			33	2	1		33
Commercial and industrial	8	2		8	10	4		8
Mortgage	5	14	85	7	9	27	215	13
Leasing		2	5			12	13	
Consumer:								
Credit cards	272			246	560			482
Personal	223	6		3	455	14		3
Auto		2				2		
Other	26				45			
Total	535	26	90	297	1,081	61	228	539

	U.S. Mainland							
	For the quarter ended June 30, 2013				For the six months ended June 30, 2013			
	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Commercial real estate non-owner occupied			2			2	2	
Commercial real estate owner occupied							1	
Mortgage			5				8	
Total			7			2	11	

	Popular, Inc.							
	For the quarter ended June 30, 2013				For the six months ended June 30, 2013			
				Other				Other

	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date		Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	
Commercial real estate non-owner occupied			2			3	2	
Commercial real estate owner occupied	1			33	2	1	1	33
Commercial and industrial	8	2		8	10	4		8
Mortgage	5	14	90	7	9	27	223	13
Leasing		2	5			12	13	
Consumer:								
Credit cards	272			246	560			482
Personal	223	6		3	455	14		3
Auto		2				2		
Other	26				45			
Total	535	26	97	297	1,081	63	239	539

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The following tables present by class, quantitative information related to loans modified as TDRs during the quarters and six months ended June 30, 2014 and 2013.

Puerto Rico
For the quarter ended June 30, 2014

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	3	$ 1,486	$ 1,461	$ 141
Commercial real estate owner occupied	11	31,629	31,193	1,446
Commercial and industrial	20	41,418	41,205	60
Mortgage	179	26,651	26,411	804
Leasing	19	507	510	103
Consumer:				
Credit cards	445	3,369	3,811	602
Personal	265	4,374	4,391	854
Auto	9	144	149	9
Other	26	66	65	11
Total	977	$ 109,644	$ 109,196	$ 4,030

U.S. Mainland
For the quarter ended June 30, 2014

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Mortgage	5	$ 643	$ 763	$ 245
Total	5	$ 643	$ 763	$ 245

Popular, Inc.
For the quarter ended June 30, 2014

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	3	$ 1,486	$ 1,461	$ 141
Commercial real estate owner occupied	11	31,629	31,193	1,446

Commercial and industrial	20	41,418	41,205	60
Mortgage	184	27,294	27,174	1,049
Leasing	19	507	510	103
Consumer:				
Credit cards	445	3,369	3,811	602
Personal	265	4,374	4,391	854
Auto	9	144	149	9
Other	26	66	65	11
Total	982	$ 110,287	$ 109,959	$ 4,275

Puerto Rico
For the quarter ended June 30, 2013

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate owner occupied	34	$ 10,646	$ 8,628	$ (161)
Commercial and industrial	18	3,583	3,623	(17)
Mortgage	111	18,046	19,192	878
Leasing	7	116	114	30
Consumer:				
Credit cards	518	3,879	4,649	718
Personal	232	3,810	3,821	985
Auto	2	38	40	2
Other	26	120	119	19
Total	948	$ 40,238	$ 40,186	$ 2,454

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U.S. Mainland
For the quarter ended June 30, 2013

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	2	$ 1,228	$ 1,154	$
Mortgage	5	702	731	49
Total	7	$ 1,930	$ 1,885	$ 49

Popular, Inc.
For the quarter ended June 30, 2013

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	2	$ 1,228	$ 1,154	$
Commercial real estate owner occupied	34	10,646	8,628	(161)
Commercial and industrial	18	3,583	3,623	(17)
Mortgage	116	18,748	19,923	927
Leasing	7	116	114	30
Consumer:				
Credit cards	518	3,879	4,649	718
Personal	232	3,810	3,821	985
Auto	2	38	40	2
Other	26	120	119	19
Total	955	$ 42,168	$ 42,071	$ 2,503

Puerto Rico
For the six months ended June 30, 2014

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	6	$ 2,862	2,915	$ 78
Commercial real estate owner occupied	22	33,258	32,810	1,420
Commercial and industrial	29	42,191	41,975	69

Construction	3	11,358	11,358	(570)
Mortgage	310	46,037	46,936	1,942
Leasing	29	713	717	166
Consumer:				
Credit cards	874	6,952	7,902	1,229
Personal	499	8,449	8,465	1,766
Auto	11	176	182	10
Other	45	103	102	17
Total	1,828	$ 152,099	$ 153,362	$ 6,127

U.S. mainland
For the six months ended June 30, 2014

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Mortgage	11	$ 1,568	$ 1,827	$ 240
Total	11	$ 1,568	$ 1,827	$ 240

Excludes TDRs from discontinued operations.

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Popular, Inc.
For the six months ended June 30, 2014

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	6	$ 2,862	$ 2,915	$ 78
Commercial real estate owner occupied	22	33,258	32,810	1,420
Commercial and industrial	29	42,191	41,975	69
Construction	3	11,358	11,358	(570)
Mortgage	321	47,605	48,763	2,182
Leasing	29	713	717	166
Consumer:				
Credit cards	874	6,952	7,902	1,229
Personal	499	8,449	8,465	1,766
Auto	11	176	182	10
Other	45	103	102	17
Total	1,839	$ 153,667	$ 155,189	$ 6,367

Excludes TDRs from discontinued operations.

Puerto Rico
For the six months ended June 30, 2013

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	1	$ 1,248	$ 741	$ (10)
Commercial real estate owner occupied	36	15,212	13,214	(501)
Commercial and industrial	22	3,743	3,784	(18)
Mortgage	264	42,944	45,981	4,305
Leasing	25	443	429	133
Consumer:				
Credit cards	1,042	8,144	9,795	755
Personal	472	7,642	7,667	1,978
Auto	2	38	40	2
Other	45	169	167	19
Total	1,909	$ 79,583	$ 81,818	$ 6,663

U.S. mainland
For the six months ended June 30, 2013

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	4	$ 2,822	$ 2,713	$ (2)
Commercial real estate owner occupied	1	381	287	(10)
Mortgage	8	928	959	72
Total	13	$ 4,131	$ 3,959	$ 60

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Popular, Inc.
For the six months ended June 30, 2013

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	5	$ 4,070	$ 3,454	$ (12)
Commercial real estate owner occupied	37	15,593	13,501	(511)
Commercial and industrial	22	3,743	3,784	(18)
Mortgage	272	43,872	46,940	4,377
Leasing	25	443	429	133
Consumer:				
Credit cards	1,042	8,144	9,795	755
Personal	472	7,642	7,667	1,978
Auto	2	38	40	2
Other	45	169	167	19
Total	1,922	$ 83,714	$ 85,777	$ 6,723

During the quarter ended June 30, 2014, there were no restructured notes. During the quarter ended June 30, 2013, one loan of $2.9 million, was restructured into multiple notes (Note A / B split). The Corporation recorded $1.3 million of charge-offs as part of the loan restructuring during the quarter ended June 30, 2013. The renegotiation of this loan was made after analyzing the borrowers capacity to repay the debt, collateral and ability to perform under the modified terms. The recorded investment on this commercial TDR amounted to approximately $1.6 million at June 30, 2013 with related allowance for loan losses of $21 thousand.

The following tables present by class, TDRs that were subject to payment default and that had been modified as a TDR during the twelve months preceding the default date. Payment default is defined as a restructured loan becoming 90 days past due after being modified, foreclosed or charged-off, whichever occurs first. The recorded investment at June 30, 2014 is inclusive of all partial paydowns and charge-offs since the modification date. Loans modified as a TDR that were fully paid down, charged-off or foreclosed upon by period end are not reported.

Puerto Rico

	Defaulted during the quarter ended June 30, 2014		Defaulted during the six months ended June 30, 2014	
(Dollars in thousands)	Loan count	Recorded investment as of first default date	Loan count	Recorded investment as of first default date
Commercial real estate non-owner occupied		$	1	$ 30
Commercial real estate owner occupied	1	44	3	377
Commercial and industrial	2	438	5	609
Mortgage	33	6,225	55	10,915
Leasing	4	52	7	87
Consumer:				

Credit cards	133		1,329	256		2,408
Personal	30		345	55		666
Auto	5		84	10		186
Total	208	$	8,517	392	$	15,278

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For U.S Mainland for the quarter and six months ended June 30, 2014 there were no TDRs that were subject to payment default and that had been modified as a TDR during the twelve months preceding the default date.

Popular, Inc.

(Dollars in thousands)	Defaulted during the quarter ended June 30, 2014 Loan count	Defaulted during the quarter ended June 30, 2014 Recorded investment as of first default date	Defaulted during the six months ended June 30, 2014 Loan count	Defaulted during the six months ended June 30, 2014 Recorded investment as of first default date
Commercial real estate non-owner occupied		$	1	$ 30
Commercial real estate owner occupied	1	44	3	377
Commercial and industrial	2	438	5	609
Mortgage	33	6,225	55	10,915
Legacy	4	52	7	87
Consumer:				
Credit cards	133	1,329	256	2,408
Personal	30	345	55	666
Auto	5	84	10	186
Total	208	$ 8,517	392	$ 15,278

Puerto Rico

(Dollars in thousands)	Defaulted during the quarter ended June 30, 2013 Loan count	Defaulted during the quarter ended June 30, 2013 Recorded investment as of first default date	Defaulted during the six months ended June 30, 2013 Loan count	Defaulted during the six months ended June 30, 2013 Recorded investment as of first default date
Commercial real estate owner occupied	2	$ 5,127	2	$ 5,127
Commercial and industrial	1	504	2	1,436
Mortgage	68	11,730	131	20,601
Leasing	3	21	10	65
Consumer:				
Credit cards	169	1,807	300	2,927
Personal	30	415	71	992
Total	273	$ 19,604	516	$ 31,148

U.S. Mainland

(Dollars in thousands)	Defaulted during the quarter ended June 30, 2013			Defaulted during the six months ended June 30, 2013		
	Loan count	Recorded investment as of first default date		Loan count	Recorded investment as of first default date	
Commercial real estate non-owner occupied		$		1	$	1,139
Total		$		1	$	1,139

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Popular, Inc.				
	Defaulted during the quarter ended June 30, 2013		Defaulted during the six months ended June 30, 2013	
(Dollars in thousands)	Loan count	Recorded investment as of first default date	Loan count	Recorded investment as of first default date
Commercial real estate non-owner occupied			1	$ 1,139
Commercial real estate owner occupied	2	$ 5,127	2	5,127
Commercial and industrial	1	504	2	1,436
Mortgage	68	11,730	131	20,601
Leasing	3	21	10	65
Consumer:				
Credit cards	169	1,807	300	2,927
Personal	30	415	71	992
Total	273	$ 19,604	517	$ 32,287

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

Credit Quality

The following table presents the outstanding balance, net of unearned income, of non-covered loans held-in-portfolio based on the Corporation s assignment of obligor risk ratings as defined at June 30, 2014 and December 31, 2013.

	June 30, 2014							
(In thousands)	Watch	Special Mention	Substandard	Doubtful	Loss	Sub-total	Pass/ Unrated	Total
Puerto Rico[1]								
Commercial multi-family	$ 2,151	$ 4,689	$ 4,506	$	$	$ 11,346	$ 50,160	$ 61,506
Commercial real estate non-owner occupied	156,672	136,028	181,440			474,140	1,475,742	1,949,882
Commercial real estate owner occupied	287,713	116,570	313,161	272		717,716	827,868	1,545,584
Commercial and industrial	415,988	330,675	275,512	152	297	1,022,624	1,719,384	2,742,008

Total Commercial	862,524	587,962	774,619	424	297	2,225,826	4,073,154	6,298,980
Construction	6,472	3,722	23,911			34,105	101,578	135,683
Mortgage			213,278			213,278	5,245,294	5,458,572
Leasing			2,870		3	2,873	543,995	546,868
Consumer:								
Credit cards			20,511			20,511	1,135,374	1,155,885
HELOCs			922		2,590	3,512	10,769	14,281
Personal			7,862		126	7,988	1,278,917	1,286,905
Auto			11,393		310	11,703	733,606	745,309
Other			2,424		1,474	3,898	209,571	213,469
Total Consumer			43,112		4,500	47,612	3,368,237	3,415,849
Total Puerto Rico	$ 868,996	$ 591,684	$ 1,057,790	$ 424	$ 4,800	$ 2,523,694	$ 13,332,258	$ 15,855,952
U.S. mainland[2]								
Commercial multi-family	$ 33,289	$ 2,789	$ 20,214	$	$	$ 56,292	$ 358,028	$ 414,320
Commercial real estate non-owner occupied	18,326	10,337	76,039			104,702	446,452	551,154
Commercial real estate owner occupied	30,249	3,889	27,689			61,827	151,124	212,951
Commercial and industrial	9,633	3,510	26,642			39,785	638,357	678,142
Total Commercial	91,497	20,525	150,584			262,606	1,593,961	1,856,567
Construction							43,376	43,376
Mortgage			23,964			23,964	1,181,912	1,205,876
Legacy	14,659	8,432	31,640			54,731	108,210	162,941
Consumer:								

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Credit cards			378			378	14,919	15,297
HELOCs			2,151		5,070	7,221	367,165	374,386
Personal			761		693	1,454	118,561	120,015
Auto							270	270
Other			3			3	541	544
Total Consumer			3,293		5,763	9,056	501,456	510,512
Total U.S. mainland	$ 106,156	$ 28,957	$ 209,481	$	$ 5,763	$ 350,357	$ 3,428,915	$ 3,779,272
Popular, Inc.								
Commercial multi-family	$ 35,440	$ 7,478	$ 24,720	$	$	$ 67,638	$ 408,188	$ 475,826
Commercial real estate non-owner occupied	174,998	146,365	257,479			578,842	1,922,194	2,501,036
Commercial real estate owner occupied	317,962	120,459	340,850	272		779,543	978,992	1,758,535
Commercial and industrial	425,621	334,185	302,154	152	297	1,062,409	2,357,741	3,420,150
Total Commercial	954,021	608,487	925,203	424	297	2,488,432	5,667,115	8,155,547
Construction	6,472	3,722	23,911			34,105	144,954	179,059
Mortgage			237,242			237,242	6,427,206	6,664,448
Legacy	14,659	8,432	31,640			54,731	108,210	162,941
Leasing			2,870		3	2,873	543,995	546,868
Consumer:								
Credit cards			20,889			20,889	1,150,293	1,171,182
HELOCs			3,073		7,660	10,733	377,934	388,667
Personal			8,623		819	9,442	1,397,478	1,406,920
Auto			11,393		310	11,703	733,876	745,579
Other			2,427		1,474	3,901	210,112	214,013
Total Consumer			46,405		10,263	56,668	3,869,693	3,926,361
Total Popular, Inc.	$ 975,152	$ 620,641	$ 1,267,271	$ 424	$ 10,563	$ 2,874,051	$ 16,761,173	$ 19,635,224

The following table presents the weighted average obligor risk rating at June 30, 2014 for those classifications that consider a range of rating scales.

	(Scales 11 and 12)	(Scales 1 through 8)

	Substandard	Pass
Weighted average obligor risk rating		
Puerto Rico:[1]		
Commercial multi-family	11.63	5.73
Commercial real estate non-owner occupied	11.31	6.74
Commercial real estate owner occupied	11.33	6.84
Commercial and industrial	11.32	6.61
Total Commercial	11.32	6.70
Construction	11.90	7.87

	Substandard	Pass
U.S. mainland:[2]		
Commercial multi-family	11.20	7.14
Commercial real estate non-owner occupied	11.16	6.77
Commercial real estate owner occupied	11.15	6.82
Commercial and industrial	11.14	6.45
Total Commercial	11.16	6.73
Construction		7.65
Legacy	11.19	7.74

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

	December 31, 2013							
(In thousands)	Watch	Special Mention	Substandard	Doubtful	Loss	Sub-total	Pass/ Unrated	Total
Puerto Rico[1]								
Commercial multi-family	$ 2,477	$ 4,453	$ 2,343	$	$	$ 9,273	$ 73,130	$ 82,403
Commercial real estate non-owner occupied	230,847	156,189	115,435		112	502,583	1,361,635	1,864,218
Commercial real estate owner occupied	231,705	134,577	305,565			671,847	934,656	1,606,503
Commercial and industrial	727,647	192,404	214,531	68	446	1,135,096	1,777,370	2,912,466
Total Commercial	1,192,676	487,623	637,874	68	558	2,318,799	4,146,791	6,465,590
Construction	6,895	1,788	25,722	2,250		36,655	124,516	161,171
Mortgage			169,239			169,239	5,231,440	5,400,679
Leasing			3,495			3,495	540,266	543,761

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Consumer:								
Credit cards			21,044			21,044	1,148,577	1,169,621
HELOCs			665		2,426	3,091	12,087	15,178
Personal			7,483		141	7,624	1,206,260	1,213,884
Auto			10,407		155	10,562	688,929	699,491
Other			2,019		3,531	5,550	212,914	218,464
Total Consumer			41,618		6,253	47,871	3,268,767	3,316,638
Total Puerto Rico	$ 1,199,571	$ 489,411	$ 877,948	$ 2,318	$ 6,811	$ 2,576,059	$ 13,311,780	$ 15,887,839
U.S. mainland								
Commercial multi-family	$ 73,481	$ 11,459	$ 62,346	$	$	$ 147,286	$ 946,248	$ 1,093,534
Commercial real estate non-owner occupied	75,094	29,442	160,001			264,537	841,750	1,106,287
Commercial real estate owner occupied	56,515	15,845	75,508			147,868	412,174	560,042
Commercial and industrial	11,657	11,822	46,307			69,786	741,945	811,731
Total Commercial	216,747	68,568	344,162			629,477	2,942,117	3,571,594
Construction			20,885			20,885	24,028	44,913
Mortgage			26,292			26,292	1,254,505	1,280,797
Legacy	14,948	11,593	42,622			69,163	141,972	211,135
Consumer:								
Credit cards			486			486	15,165	15,651
HELOCs			3,317		5,315	8,632	454,401	463,033
Personal			1,005		569	1,574	133,661	135,235
Auto					2	2	487	489
Other			20		1	21	1,159	1,180
Total Consumer			4,828		5,887	10,715	604,873	615,588
Total U.S. mainland	$ 231,695	$ 80,161	$ 438,789	$	$ 5,887	$ 756,532	$ 4,967,495	$ 5,724,027

Popular, Inc.								
Commercial multi-family	$ 75,958	$ 15,912	$ 64,689	$	$	$ 156,559	$ 1,019,378	$ 1,175,937
Commercial real estate non-owner occupied	305,941	185,631	275,436		112	767,120	2,203,385	2,970,505
Commercial real estate owner occupied	288,220	150,422	381,073			819,715	1,346,830	2,166,545
Commercial and industrial	739,304	204,226	260,838	68	446	1,204,882	2,519,315	3,724,197
Total Commercial	1,409,423	556,191	982,036	68	558	2,948,276	7,088,908	10,037,184
Construction	6,895	1,788	46,607	2,250		57,540	148,544	206,084
Mortgage			195,531			195,531	6,485,945	6,681,476
Legacy	14,948	11,593	42,622			69,163	141,972	211,135
Leasing			3,495			3,495	540,266	543,761
Consumer:								
Credit cards			21,530			21,530	1,163,742	1,185,272
HELOCs			3,982		7,741	11,723	466,488	478,211
Personal			8,488		710	9,198	1,339,921	1,349,119
Auto			10,407		157	10,564	689,416	699,980
Other			2,039		3,532	5,571	214,073	219,644
Total Consumer			46,446		12,140	58,586	3,873,640	3,932,226
Total Popular, Inc.	$ 1,431,266	$ 569,572	$ 1,316,737	$ 2,318	$ 12,698	$ 3,332,591	$ 18,279,275	$ 21,611,866

The following table presents the weighted average obligor risk rating at December 31, 2013 for those classifications that consider a range of rating scales.

	(Scales 11 and 12) Substandard	(Scales 1 through 8) Pass
Weighted average obligor risk rating		
Puerto Rico:[1]		
Commercial multi-family	11.33	5.31
Commercial real estate non-owner occupied	11.38	6.73
Commercial real estate owner occupied	11.31	6.89
Commercial and industrial	11.34	6.63
Total Commercial	11.33	6.71

Construction	11.63	7.86

	Substandard	Pass
U.S. mainland:		
Commercial multi-family	11.34	7.08
Commercial real estate non-owner occupied	11.27	6.89
Commercial real estate owner occupied	11.31	7.04
Commercial and industrial	11.09	6.53
Total Commercial	11.27	6.89
Construction	11.27	7.64
Legacy	11.24	7.72

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

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Note 11 FDIC loss share asset and true-up payment obligation

In connection with the Westernbank FDIC-assisted transaction, BPPR entered into loss share agreements with the FDIC with respect to the covered loans and other real estate owned. Pursuant to the terms of the loss share agreements, the FDIC s obligation to reimburse BPPR for losses with respect to covered assets begins with the first dollar of loss incurred. The FDIC reimburses BPPR for 80% of losses with respect to covered assets, and BPPR reimburses the FDIC for 80% of recoveries with respect to losses for which the FDIC paid 80% reimbursement under loss share agreements. The loss share agreement applicable to single-family residential mortgage loans provides for FDIC loss and recoveries sharing for ten years expiring at the end of the quarter ending June 30, 2020. 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 ending June 30, 2015 and BPPR reimbursement to the FDIC for eight years expiring at the end of the quarter ending June 30, 2018, in each case, on the same terms and conditions as described above.

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

(In thousands)	Quarters ended June 30, 2014	2013	Six months ended June 30, 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
Decrease due to reciprocal accounting on amortization of contingent liability on unfunded commitments		(193)		(386)
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

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 certain 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.

The following table presents the weighted average life of the loan portfolios subject to the FDIC loss sharing agreement for the at June 30, 2014 and December 31, 2013.

	Weighted Average Life	
	June 30, 2014	December 31, 2013
Commercial	5.78 years	6.43 years
Consumer	3.16	3.13
Construction	1.35	1.30
Mortgage	6.87	6.91

As part of the loss share agreements, BPPR has agreed to make a true-up payment to the FDIC on the date that is 45 days following the last day (such day, the true-up measurement date) of the final shared-loss month, or upon the final disposition of all covered assets under the loss share agreements, in the event losses on the loss share agreements fail to reach expected levels. The estimated fair value of such true-up payment obligation is recorded as contingent consideration, which is included in the caption of other liabilities in the consolidated statements of financial condition. Under the loss sharing agreements, BPPR will pay to the FDIC 50% of the excess, if any, of: (i) 20% of the intrinsic loss estimate of $4.6 billion (or $925 million) (as determined by the FDIC) less (ii) the sum of: (A) 25% of the asset discount (per bid) (or ($1.1 billion)); plus (B) 25% of the cumulative shared-loss payments (defined as the aggregate of all of the payments made or payable to BPPR minus the aggregate of all of the payments made or payable to the FDIC); plus (C) the sum of the period servicing amounts for every consecutive twelve-month period prior to and

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ending on the true-up measurement date in respect of each of the loss sharing agreements during which the loss sharing provisions of the applicable loss sharing agreement is in effect (defined as the product of the simple average of the principal amount of shared loss loans and shared loss assets at the beginning and end of such period times 1%).

The following table provides the fair value and the undiscounted amount of the true-up payment obligation at June 30, 2014 and December 31, 2013.

(In thousands)	June 30, 2014	December 31, 2013
Carrying amount (fair value)	$ 127,551	$ 127,513
Undiscounted amount	$ 192,738	$ 185,372

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

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

exercise its best judgment in managing, administering and collecting amounts on covered assets and effecting charge-offs with respect to the covered assets;

use commercially reasonable efforts to maximize recoveries with respect to losses on single family shared-loss assets and best efforts to maximize collections with respect to commercial shared-loss assets;

retain sufficient staff to perform the duties under the loss share agreements;

adopt and implement accounting, reporting, record-keeping and similar systems with respect to the commercial shared-loss assets;

comply with the terms of the modification guidelines approved by the FDIC or another federal agency for any single-family shared-loss loan;

provide notice with respect to proposed transactions pursuant to which a third party or affiliate will manage, administer or collect any commercial shared-loss assets;

file monthly and quarterly certificates with the FDIC specifying the amount of losses, charge-offs and recoveries; and

maintain books and records sufficient to ensure and document compliance with the terms of the loss share agreements.

Refer to Note 24, Commitment and Contingencies, for additional information on the arbitration proceedings with the FDIC regarding the commercial loss share agreement.

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Note 12 Mortgage banking activities

Income from mortgage banking activities includes mortgage servicing fees earned in connection with administering residential mortgage loans and valuation adjustments on mortgage servicing rights. It also includes gain on sales and securitizations of residential mortgage loans and trading gains and losses on derivative contracts used to hedge the Corporation s securitization activities. In addition, lower-of-cost-or-market valuation adjustments to residential mortgage loans held for sale, if any, are recorded as part of the mortgage banking activities.

The following table presents the components of mortgage banking activities:

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

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Note 13 Transfers of financial assets and mortgage servicing assets

The Corporation typically transfers conforming residential mortgage loans in conjunction with GNMA, FNMA and FHLMC securitization transactions whereby the loans are exchanged for cash or securities and servicing rights. The securities issued through these transactions are guaranteed by the corresponding agency and, as such, under seller/service agreements the Corporation is required to service the loans in accordance with the agencies servicing guidelines and standards. Substantially all mortgage loans securitized by the Corporation in GNMA, FNMA and FHLMC securities have fixed rates and represent conforming loans. As seller, the Corporation has made certain representations and warranties with respect to the originally transferred loans and, in some instances, has sold loans with credit recourse to a government-sponsored entity, namely FNMA. Refer to Note 23 to the consolidated financial statements for a description of such arrangements.

No liabilities were incurred as a result of these securitizations during the quarters and six months ended June 30, 2014 and 2013 because they did not contain any credit recourse arrangements. During the quarter ended June 30, 2014, the Corporation recorded a net gain $9.2 million (June 30, 2013 - $8.8 million) related to the residential mortgage loans securitized. During the six months ended June 30, 2014, the Corporation recorded a net gain $17.0 million (June 30, 2013 - $26.5 million) related to the residential mortgage loans securitized.

The following tables present the initial fair value of the assets obtained as proceeds from residential mortgage loans securitized during the quarters and six months ended June 30, 2014 and 2013:

	Proceeds Obtained During the Quarter Ended June 30, 2014			
(In thousands)	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Trading account securities:				
Mortgage-backed securities GNMA	$	$ 184,307	$	$ 184,307
Mortgage-backed securities FNMA		60,069		60,069
Total trading account securities	$	$ 244,376	$	$ 244,376
Mortgage servicing rights			2,919	2,919
Total	$	$ 244,376	$ 2,919	$ 247,295

	Proceeds Obtained During the Six Months Ended June 30, 2014			
(In thousands)	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Trading account securities:				
Mortgage-backed securities GNMA	$	$ 350,239	$	$ 350,239
Mortgage-backed securities FNMA		122,652		122,652
Total trading account securities	$	$ 472,891	$	$ 472,891
Mortgage servicing rights			6,117	6,117

Total	$		$	472,891	$	6,117	$	479,008

	Proceeds Obtained During the Quarter Ended June 30, 2013							
(In thousands)	Level 1		Level 2		Level 3		Initial Fair Value	
Assets								
Trading account securities:								
Mortgage-backed securities GNMA	$		$	282,317	$		$	282,317
Mortgage-backed securities FNMA				123,924				123,924
Mortgage-backed securities FHLMC				26,692				26,692
Total trading account securities	$		$	432,933	$		$	432,933
Mortgage servicing rights						4,637		4,637
Total	$		$	432,933	$	4,637	$	437,570

	Proceeds Obtained During the Six Months Ended June 30, 2013			
(In thousands)	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Trading account securities:				
Mortgage-backed securities GNMA	$	$ 567,569	$	$ 567,569
Mortgage-backed securities FNMA		252,066		252,066
Mortgage-backed securities FHLMC		26,692		26,692
Total trading account securities	$	$ 846,327	$	$ 846,327
Mortgage servicing rights			9,380	9,380
Total	$	$ 846,327	$ 9,380	$ 855,707

During the six months ended June 30, 2014, the Corporation retained servicing rights on whole loan sales involving approximately $53 million in principal balance outstanding (June 30, 2013 - $40 million), with realized gains of approximately $2.0 million (June 30, 2013 - gains of $1.5 million). All loan sales performed during the six months ended June 30, 2014 and 2013 were without credit recourse agreements.

The Corporation recognizes as assets the rights to service loans for others, whether these rights are purchased or result from asset transfers such as sales and securitizations. These mortgage servicing rights (MSRs) are measured at fair value.

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

The following table presents the changes in MSRs measured using the fair value method for the six months ended June 30, 2014 and 2013.

	Residential MSRs	
(In thousands)	June 30, 2014	June 30, 2013
Fair value at beginning of period	$ 161,099	$ 154,430
Purchases		45
Servicing from securitizations or asset transfers	6,692	10,152
Changes due to payments on loans[1]	(8,164)	(12,721)
Reduction due to loan repurchases	(1,830)	(2,033)
Changes in fair value due to changes in valuation model inputs or assumptions	(5,842)	4,013
Other disposals	(4)	(442)
Fair value at end of period	$ 151,951	$ 153,444

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

Residential mortgage loans serviced for others were $16.1 billion at June 30, 2014 (December 31, 2013 - $16.3 billion).

Net mortgage servicing fees, a component of mortgage banking activities in the consolidated statements of operations, include the changes from period to period in the fair value of the MSRs, including changes due to collection / realization of expected cash flows. Mortgage servicing fees, excluding fair value adjustments, for the quarter and six months ended June 30, 2014 amounted to $10.6 million and $21.3 million, respectively (June 30, 2013 - $11.3 million and $22.6 million, respectively). The banking subsidiaries receive servicing fees based on a percentage of the outstanding loan balance. At June 30, 2014, those weighted average mortgage servicing fees were 0.26% (June 30, 2013   0.27%). Under these servicing agreements, the banking subsidiaries do not generally earn significant prepayment penalty fees on the underlying loans serviced.

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

Key economic assumptions used in measuring the servicing rights derived from loans securitized or sold by the Corporation during the quarters and six months ended June 30, 2014 and 2013 were as follows:

	Quarter ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Prepayment speed	6.3%	7.3%	6.2%	7.7%
Weighted average life	15.9 years	13.7 years	16.0 years	12.9 years
Discount rate (annual rate)	10.7%	11.1%	10.7%	11.1%

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

Originated MSRs		
(In thousands)	June 30, 2014	December 31, 2013
Fair value of servicing rights	$ 110,977	$ 115,753
Weighted average life	12.5 years	12.5 years
Weighted average prepayment speed (annual rate)	8.0%	8.0%
Impact on fair value of 10% adverse change	$ (1,703)	$ (3,763)
Impact on fair value of 20% adverse change	$ (5,363)	$ (7,459)
Weighted average discount rate (annual rate)	11.6%	11.6%
Impact on fair value of 10% adverse change	$ (2,674)	$ (4,930)
Impact on fair value of 20% adverse change	$ (7,136)	$ (9,595)

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

Purchased MSRs		
(In thousands)	June 30, 2014	December 31, 2013
Fair value of servicing rights	$ 40,975	$ 45,346
Weighted average life	10.8 years	10.9 years
Weighted average prepayment speed (annual rate)	8.9%	9.2%
	$ (1,030)	$ (1,969)

Impact on fair value of 10% adverse change				
Impact on fair value of 20% adverse change	$	(2,421)	$	(3,478)
Weighted average discount rate (annual rate)		10.8%		10.8%
Impact on fair value of 10% adverse change	$	(1,087)	$	(2,073)
Impact on fair value of 20% adverse change	$	(2,511)	$	(3,655)

The sensitivity analyses presented in the tables above for servicing rights are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 and 20 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in the sensitivity tables included herein, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments and increased credit losses), which might magnify or counteract the sensitivities.

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At June 30, 2014, the Corporation serviced $2.3 billion (December 31, 2013 - $2.5 billion) in residential mortgage loans with credit recourse to the Corporation.

Under the GNMA securitizations, the Corporation, as servicer, has the right to repurchase (but not the obligation), at its option and without GNMA s prior authorization, any loan that is collateral for a GNMA guaranteed mortgage-backed security when certain delinquency criteria are met. At the time that individual loans meet GNMA s specified delinquency criteria and are eligible for repurchase, the Corporation is deemed to have regained effective control over these loans if the Corporation was the pool issuer. At June 30, 2014, the Corporation had recorded $34 million in mortgage loans on its consolidated statements of financial condition related to this buy-back option program (December 31, 2013 - $48 million). As long as the Corporation continues to service the loans that continue to be collateral in a GNMA guaranteed mortgage-backed security, the MSR is recognized by the Corporation. During the six months ended June 30, 2014, the Corporation repurchased approximately $ 107 million (year ended December 31, 2013 - $209 million) of mortgage loans under the GNMA buy-back option program. The determination to repurchase these loans was based on the economic benefits of the transaction, which results in a reduction of the servicing costs for these severely delinquent loans, mostly related to principal and interest advances. Furthermore, due to their guaranteed nature, the risk associated with the loans is minimal. The Corporation places these loans under its loss mitigation programs and once brought back to current status, these may be either retained in portfolio or re-sold in the secondary market.

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Note 14 Other real estate owned

The following tables present the Other Real Estate Owned Activity, for the quarters and six months ended June 30, 2014 and 2013.

	For the quarter ended June 30, 2014				
(In thousands)	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

	For the six months ended June 30, 2014				
(In thousands)	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

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

(In thousands)	OREO Commercial/Construction	OREO Mortgage	OREO Commercial/Construction	OREO 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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Note 15 Other assets

The caption of other assets in the consolidated statements of financial condition consists of the following major categories:

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

Other assets from discontinued operations are presented as part of Assets from Discontinued Operations in the Consolidated Statement of Condition. Refer to Note 3 to the consolidated financial statements for further information on the discontinued operations.

On February 1, 2014, Centro Financiero BHD (BHD), the Corporation s equity method investee based in the Dominican Republic, completed a merger transaction in which it acquired the net assets of Centro Financiero León. Centro Financiero León was the holding company of Banco León, the fourth largest bank in terms of assets in the Dominican Republic. In connection with the transaction, BHD issued additional shares which diluted the Corporation s equity participation from 19.99% to 15.79%. As a result of this transaction, the Corporation recognized a net gain of $14.2 million during the first quarter of 2014, due to BHD s increase in net assets. The gain was partially offset by approximately $7.7 million resulting from the reclassification from other comprehensive income into earnings of the cumulative foreign currency translation adjustment due to the reduction in the Corporation s ownership percentage. As of June 30, 2014, the Corporation had a 15.82% equity participation and continues to have significant influence over BHD. Accordingly, the investment in BHD 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.

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

Note 16 Goodwill and other intangible assets

Goodwill

The changes in the carrying amount of goodwill for the six months ended June 30, 2014 and 2013, allocated by reportable segments, were as follows (refer to Note 36 for the definition of the Corporation s reportable segments):

2014						
(In thousands)	Balance at January 1, 2014	Goodwill on acquisition	Purchase accounting adjustments	Goodwill written off related to discontinued operations	Other	Balance at June 30, 2014
Banco Popular de Puerto Rico	$ 245,679	$	$	$	$	$ 245,679
Banco Popular North America	402,078			(186,511)		215,567
Total Popular, Inc.	$ 647,757	$	$	$ (186,511)	$	$ 461,246

2013					
(In thousands)	Balance at January 1, 2013	Goodwill on acquisition	Purchase accounting adjustments	Other	Balance at June 30, 2013
Banco Popular de Puerto Rico	$ 245,679	$	$	$	$ 245,679
Banco Popular North America	402,078				402,078
Total Popular, Inc.	$ 647,757	$	$	$	$ 647,757

Goodwill Impairment Test

As discussed in Note 3, Discontinued Operations, on April 22, 2014, BPNA entered into definitive agreements to sell its regional operations in California, Illinois and Central Florida to three different buyers. In connection with the transactions, the Corporation intends to centralize certain back office operations in Puerto Rico and New York. During the second quarter of 2014, the assets and liabilities for these regions subject to the sales were reclassified as held-for-sale in accordance with ASC 360-10-45. As a result of the reclassification of these discontinued operations to held-for-sale, and in accordance with ASC 350-20-40, BPNA allocated a proportionate share of the goodwill balance to these discontinued businesses based on a relative fair value basis and performed an impairment test for the goodwill allocated to each of the discontinued operations as well as for the goodwill allocated to the retained business, each as a separate reporting unit. This allocation of goodwill and related impairment analysis resulted in an impairment charge of $186.5 million during the second quarter of 2014. The goodwill impairment charge is a non-cash charge that did not have an impact on the Corporation s tangible capital or regulatory capital ratios. The goodwill impairment analysis of the retained portion of the BPNA operations resulted in no impairment as of June 30, 2014.

The methodology used to determine the relative value of the regions sold and the retained portion of the BPNA reporting unit for purpose of the goodwill allocation among these reporting units takes into consideration the fair value estimates resulting from a combination of: (1) the average price to tangible book multiple based on a regression analysis of the projected return on equity for comparable companies, (2) the average price to revenue multiple based on a regression analysis of the projected revenue margin for comparable companies, and (3) the average price to earnings multiple based on comparable companies. After allocating the carrying amount of goodwill to the regions sold and the retained portion, the Corporation performed the goodwill impairment test of ASC 350-20 to each region sold and to the retained business reporting unit. The fair value of each region was based on the transaction price agreed with the buyers as part of the step 2 of the goodwill impairment analysis. This fair value was compared to the fair value of the assets and liabilities sold including any unrecognized intangible asset. The goodwill impairment analysis of the regions sold indicated that all the goodwill allocated to each region sold was impaired, and accordingly, the Corporation recorded an impairment charge of $186.5 million during the second quarter of 2014.

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For the ASC 350-20 goodwill impairment test of the remaining portion of the BPNA reporting unit, the Corporation performed an analysis similar to the annual impairment test performed during the third quarter of 2013. For the two-step test, the Corporation used a combination of methods, including market price multiples of comparable companies and transactions, as well as discounted cash flows analysis. The computations require management to make estimates and assumptions. Critical assumptions that are used as part of these evaluations include:

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

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

For purposes of the discounted cash flows (DCF) approach, the valuation is based on estimated future cash flows. The financial projections used in the DCF valuation analysis for the reporting unit are based on the most recent (as of the valuation date) financial projections presented to the Corporation s Asset / Liability Management Committee (ALCO).

The average estimated fair value calculated in Step 1 using all valuation methodologies exceeded BPNA reporting unit s equity value by approximately $197 million. This result indicates there would be no indication of impairment on the carrying amount of goodwill allocated to the remaining portion. Accordingly, Step 2 was not required to be performed.

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

	June 30, 2014					
(In thousands)	Balance at January 1, 2014 (gross amounts)	Accumulated impairment losses	Balance at January 1, 2014 (net amounts)	Balance at June 30, 2014 (gross amounts)	Accumulated impairment losses	Balance at June 30, 2014 (net amounts)
Banco Popular de Puerto Rico	$ 245,679	$	$ 245,679	$ 245,679	$	$ 245,679

Banco Popular North America	566,489	164,411	402,078	379,978	164,411	215,567
Total Popular, Inc.	$ 812,168	$ 164,411	$ 647,757	$ 625,657	$ 164,411	$ 461,246

	December 31, 2013					
(In thousands)	Balance at January 1, 2013 (gross amounts)	Accumulated impairment losses	Balance at January 1, 2013 (net amounts)	Balance at December 31, 2013 (gross amounts)	Accumulated impairment losses	Balance at December 31, 2013 (net amounts)
Banco Popular de Puerto Rico	$ 245,679	$	$ 245,679	$ 245,679	$	$ 245,679
Banco Popular North America	566,489	164,411	402,078	566,489	164,411	402,078
Total Popular, Inc.	$ 812,168	$ 164,411	$ 647,757	$ 812,168	$ 164,411	$ 647,757

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Other Intangible Assets

At June 30, 2014 and December 31, 2013, the Corporation had $ 6 million of identifiable intangible assets, with indefinite useful lives, mostly associated with E-LOAN s trademark.

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

(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
June 30, 2014			
Core deposits	$ 77,885	$ 55,793	$ 22,092
Other customer relationships	17,552	5,647	11,905
Other intangibles	135	124	11
Total other intangible assets	$ 95,572	$ 61,564	$ 34,008
December 31, 2013			
Core deposits	$ 77,885	$ 51,737	$ 26,148
Other customer relationships	17,555	4,712	12,843
Other intangibles	135	107	28
Total other intangible assets	$ 95,575	$ 56,556	$ 39,019

During the quarter ended June 30, 2014, the Corporation recognized $ 2.0 million in amortization expense related to other intangible assets with definite useful lives (June 30, 2013 - $ 2.0 million). During the six months ended June 30, 2014, the Corporation recognized $ 4.1 million in amortization related to other intangible assets with definite useful lives (June 30, 2013 - $ 4.0 million).

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

(In thousands)	
Remaining 2014	$ 4,364
Year 2015	7,227
Year 2016	6,942
Year 2017	4,194
Year 2018	4,101
Year 2019	3,969

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Note 17 Deposits

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

(In thousands)	June 30, 2014	December 31, 2013
Savings accounts	$ 7,536,527	$ 6,839,126
NOW, money market and other interest bearing demand deposits	4,029,167	5,637,985
Total savings, NOW, money market and other interest bearing demand deposits	11,565,694	12,477,111
Certificates of deposit:		
Under $100,000	4,651,190	5,101,711
$100,000 and over	3,017,583	3,209,641
Total certificates of deposit	7,668,773	8,311,352
Total interest bearing deposits	$ 19,234,467	$ 20,788,463

Deposits from discontinued operations are presented as part of Liabilities from Discontinued Operations in the Consolidated Statement of Condition. Refer to Note 3 to the consolidated financial statements for further information on the discontinued operations.

A summary of certificates of deposit by maturity at June 30, 2014 follows:

(In thousands)	
2014	$ 3,892,291
2015	1,671,312
2016	753,965
2017	563,469
2018	399,040
2019 and thereafter	388,696
Total certificates of deposit	$ 7,668,773

At June 30, 2014, the Corporation had brokered deposits amounting to $ 2.4 billion (December 31, 2013 - $ 2.4 billion).

The aggregate amount of overdrafts in demand deposit accounts that were reclassified to loans was $9 million at June 30, 2014 (December 31, 2013 - $10 million).

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Note 18 Borrowings

The following table presents the composition of federal funds purchased and assets sold under agreements to repurchase at June 30, 2014 and December 31, 2013.

(In thousands)	June 30, 2014	December 31, 2013
Federal funds purchased	$ 250,000	$
Assets sold under agreements to repurchase	1,824,676	1,659,292
Total federal funds purchased and assets sold under agreements to repurchase	$ 2,074,676	$ 1,659,292

The repurchase agreements outstanding at June 30, 2014 were collateralized by $ 1.5 billion (December 31, 2013 - $ 1.3 billion) in investment securities available-for-sale, $ 256 million (December 31, 2013 - $ 309 million) in trading securities and $ 76 million (December 31, 2013 - $ 70 million) in securities sold not yet delivered in other assets. It is the Corporation s policy to maintain effective control over assets sold under agreements to repurchase; accordingly, such securities continue to be carried on the consolidated statements of financial condition.

In addition, there were repurchase agreements outstanding collateralized by $ 203 million in securities purchased under agreements to resell to which the Corporation has the right to repledge the securities (December 31, 2013 - $ 189 million). It is the Corporation s policy to take possession of securities purchased under agreements to resell. However, the counterparties to such agreements maintain effective control over such securities; accordingly, these securities are not reflected in the Corporation s consolidated statements of financial condition.

The following table presents the composition of other short-term borrowings at June 30, 2014 and December 31, 2013.

(In thousands)	June 30, 2014	December 31, 2013
Advances with the FHLB paying interest at maturity, at a fixed rate of 0.42%	$ 30,000	$ 400,000
Others	1,200	1,200
Total other short-term borrowings	$ 31,200	$ 401,200

Note: Refer to the Corporation s 2013 Annual Report for rates information at December 31, 2013.

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The following table presents the composition of notes payable at June 30, 2014 and December 31, 2013.

(In thousands)	June 30, 2014	December 31, 2013
Advances with the FHLB with maturities ranging from 2014 through 2021 paying interest at monthly fixed rates ranging from 0.27% to 4.19 %	$ 510,514	$ 589,229
Unsecured senior debt securities maturing on 2019 paying interest semiannually at a fixed rate of 7.00%	450,000	
Term notes maturing on 2014 paying interest semiannually at a fixed rate of 7.47%	675	675
Term notes maturing on 2014 paying interest monthly at a floating rate of 3.00% over the 10-year U.S. Treasury note rate[1]	7	14
Junior subordinated deferrable interest debentures (related to trust preferred securities) with maturities ranging from 2027 to 2034 with fixed interest rates ranging from 6.125% to 8.327% (Refer to Note 20)	439,800	439,800
Junior subordinated deferrable interest debentures (related to trust preferred securities) ($936,000 less discount of $404,460 at December 31, 2013), with no stated maturity and a fixed interest rate of 5.00% until, but excluding December 5, 2013 and 9.00% thereafter (Refer to Note 20)[2]	936,000	531,540
Others	23,093	23,496
Total notes payable	$ 2,360,089	$ 1,584,754

Note: Refer to the Corporation s 2013 Annual Report for rates information at December 31, 2013.

[1] The 10-year U.S. Treasury note key index rate at June 30, 2014 and December 31, 2013 was 2.53% and 3.03%, respectively.

[2] The debentures are perpetual and may be redeemed by the Corporation at any time, subject to the consent of the Board of Governors of the Federal Reserve System. The discount on the debentures was being amortized over an estimated 30-year term that started in August 2009. During the quarter ended June 30, 2014, in connection with the repayment of these Notes completed on July 2, 2014, the Corporation accelerated the related amortization of the discount and deferred costs amounting to $414.1 million, which is reflected as interest expense in the consolidated statement of operations. The effective interest rate, including the discount accretion, was approximately 16% at December 31, 2013.

During the quarter ended June 30, 2014, the Corporation received approval from the Federal Reserve System to repay the $935 million in TARP Capital Purchase Program funds. On July 2, 2014, the Corporation completed the repayment of these funds, which were partially funded with $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. Accordingly, during the quarter ended June 30, 2014, the Corporation accelerated the related amortization of $414.1 million of discount and deferred costs, which is reflected as interest expense in the consolidated statement of operations. Refer to additional information on Note 20, Trust Preferred Securities and Note 37, Subsequent Events.

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A breakdown of borrowings by contractual maturities at June 30, 2014 is included in the table below.

(In thousands)	Fed funds purchased and assets sold under agreements to repurchase	Short-term borrowings	Notes payable	Total
Year				
2014	$ 1,332,479	$ 31,200	$ 16,905	$ 1,380,584
2015	174,135		29,040	203,175
2016	453,062		247,105	700,167
2017	115,000		79,033	194,033
2018			107,296	107,296
Later years			944,710	944,710
No stated maturity			936,000	936,000
Total borrowings	$ 2,074,676	$ 31,200	$ 2,360,089	$ 4,465,965

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Note 19 Offsetting of financial assets and liabilities

The following tables present the potential effect of rights of setoff associated with the Corporation s recognized financial assets and liabilities at June 30, 2014 and December 31, 2013.

As of June 30, 2014

				Gross Amounts Not Offset in the Statement of Financial Position			
(In thousands)	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Financial Instruments	Securities Collateral Received	Cash Collateral Received	Net Amount
Derivatives	$ 27,585	$	$ 27,585	$ 541	$	$	$ 27,044
Reverse repurchase agreements	192,490		192,490		192,490		
Total	$ 220,075	$	$ 220,075	$ 541	$ 192,490	$	$ 27,044

As of June 30, 2014

				Gross Amounts Not Offset in the Statement of Financial Position			
(In thousands)	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Financial Instruments	Securities Collateral Pledged	Cash Collateral Pledged	Net Amount
Derivatives	$ 25,611	$	$ 25,611	$ 541	$ 11,627	$	$ 13,443
Repurchase agreements	1,824,676		1,824,676		1,824,676		
Total	$ 1,850,287	$	$ 1,850,287	$ 541	$ 1,836,303	$	$ 13,443

As of December 31, 2013

				Gross Amounts Not Offset in the Statement of Financial Position			
(In thousands)	Gross Amount	Gross Amounts	Net Amounts of	Financial Instruments	Securities Collateral	Cash Collateral	Net Amount

	of Recognized Assets	Offset in the Statement of Financial Position	Assets Presented in the Statement of Financial Position		Received	Received	
Derivatives	$ 34,793	$	$ 34,793	$ 1,220	$	$	$ 33,573
Reverse repurchase agreements	175,965		175,965		175,965		
Total	$ 210,758	$	$ 210,758	$ 1,220	$ 175,965	$	$ 33,573

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As of December 31, 2013							
				Gross Amounts Not Offset in the Statement of Financial Position			
(In thousands)	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Financial Instruments	Securities Collateral Pledged	Cash Collateral Received	Net Amount
Derivatives	$ 32,378	$	$ 32,378	$ 1,220	$ 14,003	$	$ 17,155
Repurchase agreements	1,659,292		1,659,292		1,659,292		
Total	$ 1,691,670	$	$ 1,691,670	$ 1,220	$ 1,673,295	$	$ 17,155

The Corporation s derivatives are subject to agreements which allow a right of set-off with each respective counterparty. In addition, the Corporation s Repurchase Agreements and Reverse Repurchase Agreements have a right of set-off with the respective counterparty under the supplemental terms of the Master Repurchase Agreements. In an event of default each party has a right of set-off against the other party for amounts owed in the related agreement and any other amount or obligation owed in respect of any other agreement or transaction between them.

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Note 20 Trust preferred securities

At June 30, 2014 and December 31, 2013, four statutory trusts established by the Corporation (BanPonce Trust I, Popular Capital Trust I, Popular North America Capital Trust I and Popular Capital Trust II) had issued trust preferred securities (also referred to as capital securities) to the public. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts (the common securities), were used by the trusts to purchase junior subordinated deferrable interest debentures (the junior subordinated debentures) issued by the Corporation. In August 2009, the Corporation established the Popular Capital Trust III for the purpose of exchanging the shares of Series C preferred stock held by the U.S. Treasury at the time for trust preferred securities issued by this trust. In connection with this exchange, the trust used the Series C preferred stock, together with the proceeds of issuance and sale of common securities of the trust, to purchase junior subordinated debentures issued by the Corporation.

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

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

The following table presents financial data pertaining to the different trusts at June 30, 2014 and December 31, 2013.

(Dollars in thousands)

Issuer	BanPonce Trust I	Popular Capital Trust I	Popular North America Capital Trust I	Popular Capital Trust II	Popular Capital Trust III
Capital securities	$ 52,865	$ 181,063	$ 91,651	$ 101,023	$ 935,000
Distribution rate	8.327 %	6.700 %	6.564 %	6.125 %	5.000% until, but excluding December 5, 2013 and 9.000% thereafter
Common securities	$ 1,637	$ 5,601	$ 2,835	$ 3,125	$ 1,000
Junior subordinated debentures aggregate liquidation amount	$ 54,502	$ 186,664	$ 94,486	$ 104,148	$ 936,000
Stated maturity date	February 2027	November 2033	September 2034	December 2034	Perpetual
	[1],[3],[6]	[2],[4],[5]	[1],[3],[5]	[2],[4],[5]	[2],[4],[7],[8]

Reference notes

[1] Statutory business trust that is wholly-owned by Popular North America and indirectly wholly-owned by the Corporation.

[2] Statutory business trust that is wholly-owned by the Corporation.

[3] The obligations of PNA under the junior subordinated debentures and its guarantees of the capital securities under the trust are fully and unconditionally guaranteed on a subordinated basis by the Corporation to the extent set forth in the applicable guarantee agreement.

[4] These capital securities are fully and unconditionally guaranteed on a subordinated basis by the Corporation to the extent set forth in the applicable guarantee agreement.

[5] The Corporation has the right, subject to any required prior approval from the Federal Reserve, to redeem after certain dates or upon the occurrence of certain events mentioned below, the junior subordinated debentures at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest to the date of redemption. The maturity of the junior subordinated debentures may be shortened at the option of the Corporation prior to their stated maturity dates (i) on or after the stated optional redemption dates stipulated in the agreements, in whole at any time or in part from time to time, or (ii) in whole, but not in part, at any time within 90 days following the occurrence and during the continuation of a tax event, an investment company event or a capital treatment event as set forth in the indentures relating to the capital securities, in each case subject to regulatory approval.

[6] Same as [5] above, except that the investment company event does not apply for early redemption.

[7] The debentures are perpetual and may be redeemed by Popular at any time, subject to the consent of the Board of Governors of the Federal Reserve System.

[8] Carrying value of junior subordinated debentures of $ 936 million at June 30, 2014 and $ 532 million at December 31, 2013 ($ 936 million aggregate liquidation amount, net of $ 404 million discount).

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During the quarter ended June 30, 2014, the Corporation received approval from the Federal Reserve System to repay the $935 million in TARP Capital Purchase Program funds. On July 2, 2014, the Corporation completed the repurchase of $935 million of Fixed Rate Popular Capital Trust III Capital Securities, $1,000 liquidation amount per security (the trust capital securities), of Popular Capital Trust III, held by the U.S. Treasury. On July 23, 2014, the Corporation exchanged $936 million of Fixed Rate Perpetual Junior Subordinated Debentures Series A (the trust debentures) held by Popular Capital Trust III for the trust capital securities and the common securities of Popular Capital Trust III, in the amount of $1 million, held by the Corporation. The trust debentures were then cancelled and the obligations of the Corporation under the related indenture were satisfied and discharged. On the same date, Popular Capital Trust III was dissolved. In connection with the repayment of TARP, 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. Refer to note 37, Subsequent Events, for additional information on the repayment of TARP.

In accordance with the Federal Reserve Board guidance under Basel I, the trust preferred securities represent restricted core capital elements and currently 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 such, $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.

In July 2013, the Board of Governors of the Federal Reserve System approved final rules (New Capital Rules) to establish a new comprehensive regulatory capital framework for all U.S. banking organizations. 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 and several changes to the U.S. regulatory capital regime required by the Dodd-Frank Wall Street Reform and Consumer Protection on Act (Dodd-Frank). The New Capital Rules require that capital instruments such as trust preferred securities be phased-out of Tier 1 capital. 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% of such trust preferred securities in Tier I capital as of January 1, 2015 and 0% as of January 1, 2016 and thereafter. The New Capital Rules also permanently grandfathers as Tier 2 capital such trust preferred securities. The trust preferred securities issued to the U.S. Treasury pursuant to the Emergency Economic Stabilization Act of 2008 are exempt from the phase-out provision. As mentioned above, these trust preferred securities were repaid in full on July 2, 2014.

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Note 21 Stockholders equity

BPPR statutory reserve

The Banking Act of the Commonwealth of Puerto Rico requires that a minimum of 10% of BPPR s net income for the year be transferred to a statutory reserve account until such statutory reserve equals the total of paid-in capital on common and preferred stock. Any losses incurred by a bank must first be charged to retained earnings and then to the reserve fund. Amounts credited to the reserve fund may not be used to pay dividends without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The failure to maintain sufficient statutory reserves would preclude BPPR from paying dividends. BPPR s statutory reserve fund amounted to $445 million at June 30, 2014 (December 31, 2013 - $445 million). There were no transfers between the statutory reserve account and the retained earnings account during the quarters and six months ended June 30, 2014 and June 30, 2013.

As stated in Note 37, Subsequent Events, on July 2, 2014, the Corporation completed the repayment of the TARP funds to the U.S. Treasury. Also, on July 23, 2014, the Corporation 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. The purchase price of $3.0 million will be reflected as a reduction of surplus in stockholders equity on July 2014.

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Note 22 Other comprehensive loss

The following table presents changes in accumulated other comprehensive loss by component for the quarters and six months ended June 30, 2014 and 2013.

		Changes in Accumulated Other Comprehensive Loss by Component [1]			
		Quarters ended June 30,		Six months ended June 30,	
(In thousands)		2014	2013	2014	2013
Foreign currency translation	Beginning Balance	$ (30,496)	$ (30,553)	$ (36,099)	$ (31,277)
	Other comprehensive loss before reclassifications	(603)	(2,653)	(2,718)	(1,929)
	Amounts reclassified from accumulated other comprehensive loss			7,718	
	Net change	(603)	(2,653)	5,000	(1,929)
	Ending balance	$ (31,099)	$ (33,206)	$ (31,099)	$ (33,206)
Adjustment of pension and postretirement benefit plans	Beginning Balance	$ (103,584)	$ (221,528)	$ (104,302)	$ (225,846)
	Amounts reclassified from accumulated other comprehensive loss for amortization of net losses	1,297	3,207	2,594	7,525
	Amounts reclassified from accumulated other comprehensive loss for amortization of prior service cost	(580)		(1,159)	
	Net change	717	3,207	1,435	7,525
	Ending balance	$ (102,867)	$ (218,321)	$ (102,867)	$ (218,321)
Unrealized net holding gains (losses) on investments	Beginning Balance	$ (22,255)	$ 130,562	$ (48,344)	$ 154,568

	Other comprehensive income (loss) before reclassifications		26,326		(106,572)		52,415		(130,578)
	Net change		26,326		(106,572)		52,415		(130,578)
	Ending balance	$	4,071	$	23,990	$	4,071	$	23,990
Unrealized net gains (losses) on cash flow hedges	Beginning Balance	$	60	$	(489)	$		$	(313)
	Other comprehensive (loss) income before reclassifications		(1,554)		4,118		(2,607)		4,048
	Amounts reclassified from other accumulated other comprehensive (loss) income		1,098		(2,131)		2,211		(2,237)
	Net change		(456)		1,987		(396)		1,811
	Ending balance	$	(396)	$	1,498	$	(396)	$	1,498
	Total	$	(130,291)	$	(226,039)	$	(130,291)	$	(226,039)

[1] All amounts presented are net of tax.

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The following table presents the amounts reclassified out of each component of accumulated other comprehensive loss during the quarters and six months ended June 30, 2014 and 2013.

	Reclassifications Out of Accumulated Other Comprehensive Loss				
	Affected Line Item in the Consolidated Statements of Operations	Quarters ended June 30,		Six months ended June 30,	
(In thousands)		2014	2013	2014	2013
Foreign Currency Translation					
Cumulative translation adjustment reclassified into earnings	Other operating income	$	$	$ (7,718)	$
	Total before tax			(7,718)	
	Total net of tax	$	$	$ (7,718)	$
Adjustment of pension and postretirement benefit plans					
Amortization of net losses	Personnel costs	$ (2,126)	$ (6,169)	$ (4,252)	$ (12,338)
Amortization of prior service cost	Personnel costs	950		1,900	
	Total before tax	(1,176)	(6,169)	(2,352)	(12,338)
	Income tax benefit	459	2,962	917	4,813
	Total net of tax	$ (717)	$ (3,207)	$ (1,435)	$ (7,525)
Unrealized net gains (losses) on cash flow hedges					
Forward contracts	Mortgage banking activities	$ (1,800)	$ 3,045	$ (3,624)	$ 3,196
	Total before tax	(1,800)	3,045	(3,624)	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.

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.

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.

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.

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.

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 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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(In thousands)	Six months ended June 30, 2014 Level 1	Level 2	Level 3	Total	Write-downs
NONRECURRING FAIR VALUE MEASUREMENTS					
Assets					
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.

(In thousands)	Six months ended June 30, 2013 Level 1	Level 2	Level 3	Total	Write-downs
NONRECURRING FAIR VALUE MEASUREMENTS					
Assets					
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)	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
	Six months ended June 30, 2014							
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)	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
	Quarter ended June 30, 2013							
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)

	Six months ended June 30, 2013							
(In thousands)	MBS classified as investment securities available-for-sale	CMOs classified as trading account securities	MBS classified as trading account securities	Other securities classified as trading account securities	Mortgage servicing rights	Total assets	Contingent consideration	Total liabilities
Balance at January 1, 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.

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.

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

(In thousands)	June 30, 2014 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.

(In thousands)	December 31, 2013 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	2013	Six months ended June 30, 2014	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.

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 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.

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 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	$ 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 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	$ 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

(In thousands)	Banco Popular North America: 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

(In thousands)	Quarter ended June 30, 2014	Quarter ended June 30, 2013	Six months ended June 30, 2014	Six months ended 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)

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

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.

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 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

	Ending balances at			Average for the six months ended		
(In thousands)	June 30, 2014	December 31, 2013	Variance	June 30, 2014	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

	Quarters ended June 30,			Six months ended June 30,		
(In thousands, except per share information)	2014	2013	Variance	2014	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.

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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:					
6	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)	
6	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, 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;

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

(In thousands)	Quarter ended June 30, 2014	Quarter ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 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

(In thousands)	Quarter ended June 30, 2014	Quarter ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 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

(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 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

	For the quarter ended June 30, 2014				
(In thousands)	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

	For the six months ended June 30, 2014				
(In thousands)	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

	For the quarter ended June 30, 2013				
(In thousands)	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.

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 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

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 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.

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.

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.

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.

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).

[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