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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2011

Commission File Number: 001-34084

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

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

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

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

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

[X] Yes [ ] No

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

[X] Yes [ ] No

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

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

(Do not check if a smaller reporting company)

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

[ ] Yes [X] No

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

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Forward-Looking Information

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

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

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

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

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

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

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ITEM 1. FINANCIAL STATEMENTS

POPULAR, INC.

CONSOLIDATED STATEMENTS OF CONDITION (UNAUDITED)

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

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

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

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

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

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(UNAUDITED)

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

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

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

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

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

[1] Issuance of 46,000,000 in depositary shares; converted into 383,333,333 common shares (full conversion of depositary shares, each representing a 1/40th interest in shares of contingent convertible perpetual non-cumulative preferred stock).

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

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

Tax effect allocated to each component of other comprehensive income:

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

Disclosure of accumulated other comprehensive income (loss):

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

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

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

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

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

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

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Notes to Consolidated Financial Statements (Unaudited)

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Note 1 Summary of significant accounting policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of Popular, Inc. and its subsidiaries (the Corporation). All significant intercompany accounts and transactions have been eliminated in consolidation. In accordance with the consolidation guidance for variable interest entities, the Corporation would also consolidate any variable interest entities (VIEs) for which it has a controlling financial interest and therefore is the primary beneficiary. Assets held in a fiduciary capacity are not assets of the Corporation and, accordingly, are not included in the consolidated statements of condition. The results of operations of companies or assets acquired are included only from the dates of acquisition.

Unconsolidated investments, in which there is at least 20% ownership, are generally accounted for by the equity method. These investments are included in other assets and the Corporation s proportionate share of income or loss is included in other operating income. Investments, in which there is less than 20% ownership, are generally carried under the cost method of accounting, unless significant influence is exercised. Under the cost method, the Corporation recognizes income when dividends are received. Limited partnerships are accounted for by the equity method unless the Corporation s interest is so minor that it may have virtually no influence over partnership operating and financial policies.

Statutory business trusts that are wholly-owned by the Corporation and are issuers of trust preferred securities are not consolidated in the Corporation s consolidated financial statements.

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

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

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

Use of Estimates in the Preparation of Financial Statements

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

Nature of Operations

The Corporation is a diversified, publicly-owned financial holding company subject to the supervision and regulation of the Board of Governors of the Federal Reserve System. The Corporation has operations in Puerto Rico, the continental United States, and the U.S. and British Virgin Islands. In Puerto Rico, the Corporation provides retail and commercial banking services through its principal banking subsidiary, Banco Popular de Puerto Rico (BPPR), as well as auto and equipment leasing and financing, mortgage loans, investment banking, broker-dealer and insurance services through specialized subsidiaries. In the United States, the Corporation operates Banco Popular North America (BPNA), including its wholly-owned subsidiary E-LOAN, Inc. (E-LOAN). BPNA focuses efforts and resources on the core community banking business. BPNA operates branches in New York, California, Illinois, New Jersey and Florida. E-LOAN markets deposit accounts under its name for the benefit of BPNA. As part of the rebranding of the BPNA franchise, its branches in Illinois, Florida and California operate under a new assumed business name, Popular Community Bank. Note 29 to the consolidated financial statements presents information about the Corporation s business segments. The Corporation has a 49% interest in EVERTEC, which provides transaction processing services throughout the Caribbean and Latin America, including servicing many of Popular s system infrastructures and transaction processing businesses.

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

Note 2 New Accounting Pronouncements

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

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

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

ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption was permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity s financial statements for the most recent annual or interim period have not yet been issued. The Corporation did not elect to adopt early the provisions of this ASU.

The provisions of this guidance simplify how entities test for goodwill impairment and will not have an impact on the Corporation s consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Note 3 Related party transactions with affiliated company

On September 30, 2010, the Corporation completed the sale of a 51% majority interest in EVERTEC, Inc. (EVERTEC) to an unrelated third-party, including the Corporation s merchant acquiring and processing and technology businesses (the EVERTEC transaction), and retained a 49% ownership interest in Carib Holdings, the holding company of EVERTEC. EVERTEC continues to provide various processing and information technology services to the Corporation and its subsidiaries and gives BPPR access to the ATH network owned and operated by EVERTEC. The investment in EVERTEC was initially recorded at a fair value of $177 million at September 30, 2010, which was determined based on the third-party buyer s enterprise value of EVERTEC as determined in an orderly transaction between market participants, reduced by the debt incurred, net of debt issue costs, utilized as part of the sale transaction. Prospectively, the investment in EVERTEC is accounted for under the equity method and evaluated for impairment if events or circumstances indicate that a decrease in value of the investment has occurred that is other than temporary. Refer to the Corporation s 2010 Annual Report for details on this sale to an unrelated third-party.

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

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

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

The following tables present the impact of transactions and service payments between the Corporation and EVERTEC (as an affiliate) and their impact on the results of operations for the quarter and nine months ended September 30, 2011. Items that represent expenses to the Corporation are presented with parenthesis. For consolidation purposes, the Corporation eliminates 49% of the income (expense) between EVERTEC and the Corporation from the corresponding categories in the consolidated statements of operations and the net effect of all items at 49% is eliminated against other operating income, which is the category used to record the Corporation s share of income (loss) as part of its equity method investment in EVERTEC. The 51% majority interest in the table that follows represents the share of transactions with the affiliate that is not eliminated in the consolidation of the Corporation s results of operations.

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

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

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

Prior to the EVERTEC sale transaction on September 30, 2010, EVERTEC had certain performance bonds outstanding, which were guaranteed by the Corporation under a general indemnity agreement between the Corporation and the insurance companies issuing the bonds. The Corporation agreed to maintain, for a 5-year period following September 30, 2010, the guarantee of the performance bonds. The EVERTEC s performance bonds guaranteed by the Corporation amounted to approximately $15.0 million at September 30, 2011. Also, EVERTEC had an existing letter of credit issued by BPPR, for an amount of $2.9 million. As part of the merger agreement, the Corporation also agreed to maintain outstanding this letter of credit for a 5-year period. EVERTEC and the Corporation entered into a Reimbursement Agreement, in which EVERTEC will reimburse the Corporation for any losses incurred by the Corporation in connection with the performance bonds and the letter of credit. Possible losses resulting from these agreements are considered insignificant.

Furthermore, under the terms of the sale of EVERTEC, the Corporation was required for a period of twelve months following September 30, 2010 to sell its equity interests in Serfinsa and Consorcio de Tarjetas Dominicanas, S.A (CONTADO) to EVERTEC, subject to complying with certain rights of first refusal in favor of the Serfinsa and CONTADO shareholders. During the nine months ended September 30, 2011, the Corporation sold its equity interest in CONTADO to CONTADO shareholders and EVERTEC and

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recognized a gain of $16.7 million, net of tax, upon the sale. The Corporation s investment in CONTADO, accounted for under the equity method, amounted to $16 million at December 31, 2010. During the nine months ended September 30, 2011, the Corporation sold its equity investment in Serfinsa and recognized a gain of approximately $212 thousand, net of tax. The Corporation s investment in Serfinsa, accounted for under the equity method, amounted to $1.8 million at December 31, 2010.

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

The Corporation s subsidiary banks are required by federal and state regulatory agencies to maintain average reserve balances with the Federal Reserve Bank of New York (the Fed) or other banks. Those required average reserve balances were approximately $832 million at September 30, 2011 (December 31, 2010 - $835 million; September 30, 2010 - $828 million). Cash and due from banks, as well as other short-term, highly liquid securities, are used to cover the required average reserve balances.

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

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

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

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

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

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

Note 5 Pledged assets

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

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

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

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

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

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

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

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Note 6 Investment securities available for sale

The following table presents the amortized cost, gross unrealized gains and losses, approximate fair value, weighted average yield and contractual maturities of investment securities available-for-sale at September 30, 2011, December 31, 2010 and September 30, 2010.

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

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

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

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

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

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

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

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

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

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

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

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

Management evaluates investment securities for other-than-temporary (OTTI) declines in fair value on a quarterly basis. Once a decline in value is determined to be other-than-temporary, the value of a debt security is reduced and a corresponding charge to earnings is recognized for anticipated credit losses. Also, for equity securities that are considered other-than-temporarily impaired, the excess of the security s carrying value over its fair value at the evaluation date is accounted for as a loss in the results of operations. The OTTI analysis requires management to consider various factors, which include, but are not limited to: (1) the length

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of time and the extent to which fair value has been less than the amortized cost basis, (2) the financial condition of the issuer or issuers, (3) actual collateral attributes, (4) the payment structure of the debt security and the likelihood of the issuer being able to make payments, (5) any rating changes by a rating agency, (6) adverse conditions specifically related to the security, industry, or a geographic area, and (7) management s intent to sell the debt security or whether it is more likely than not that the Corporation would be required to sell the debt security before a forecasted recovery occurs.

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

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

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

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

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Note 7 Investment securities held-to-maturity

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 8 Loans

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

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

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

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

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

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

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

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

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

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

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

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

Non-covered loans

The following tables present non-covered loans held-in-portfolio that are in non-performing status and accruing loans past due 90 days or more by loan class at September 30, 2011 and December 31, 2010. Accruing loans past due 90 days or more consist primarily of credit cards, FHA / VA and other insured mortgage loans, and delinquent mortgage loans included in the Corporation s financial statements pursuant to GNMA s buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even

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when they elect not to exercise that option. Also, accruing loans past due 90 days or more include residential conventional loans purchased from other financial institutions that, although delinquent, the Corporation has received timely payment from the sellers / servicers, and, in some instances, have partial guarantees under recourse agreements. However, residential conventional loans purchased from other financial institutions, which are in the process of foreclosure, are classified as non-performing mortgage loans.

At September 30, 2011

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

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

At December 31, 2010

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

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

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

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

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

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

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

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September 30, 2011

Popular, Inc.

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

December 31, 2010

Puerto Rico

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

December 31, 2010

U.S. Mainland

(In thousands)	Past Due 30-59 Days	60-89 Days	90 Days or More	Total Past Due	Current	Loans held-in-portfolio U.S. Mainland

Commercial real estate	$ 68,903	$ 10,322	$ 182,456	$ 261,681	$ 2,889,397	$ 3,151,078
Commercial and industrial	30,372	15,079	57,102	102,553	1,422,838	1,525,391
Construction	30,105	292	173,876	204,273	128,222	332,495
Mortgage	38,550	12,751	23,587	74,888	800,134	875,022
Leasing	1,008	224	263	1,495	28,711	30,206
Consumer:						
Credit cards	343	357	-	700	15,182	15,882
Home equity lines of credit	6,116	6,873	17,562	30,551	537,802	568,353
Personal	5,559	2,689	5,369	13,617	201,190	214,807
Auto	375	98	135	608	8,499	9,107
Total	$ 181,331	$ 48,685	$ 460,350	$ 690,366	$ 6,031,975	$ 6,722,341

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December 31, 2010

Popular, Inc.

	Past Due					
(In thousands)	30-59 Days	60-89 Days	90 Days or More	Total Past Due	Current	Loans held-in-portfolio Popular, Inc.
Commercial real estate	$ 115,967	$ 35,869	$ 553,133	$ 704,969	$ 6,301,707	$ 7,006,676
Commercial and industrial	65,075	38,774	171,894	275,743	4,111,066	4,386,809
Construction	36,461	3,292	238,554	278,307	222,544	500,851
Mortgage	227,018	96,540	834,420	1,157,978	3,366,744	4,524,722
Leasing	11,745	2,498	5,937	20,180	582,813	602,993
Consumer:						
Credit cards	16,416	13,115	33,514	63,045	1,069,263	1,132,308
Home equity lines of credit	6,116	6,873	17,562	30,551	537,802	568,353
Personal	26,563	14,519	28,185	69,267	1,166,800	1,236,067
Auto	22,451	5,399	7,663	35,513	468,244	503,757
Other	3,799	1,318	8,334	13,451	252,048	265,499
Total	$ 531,611	$ 218,197	$ 1,899,196	$ 2,649,004	$ 18,079,031	$ 20,728,035

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

(In thousands)	September 30, 2011	December 31, 2010
Commercial	$ 24,191	$ 60,883
Construction	234,336	412,204
Mortgage	1,249	198,670
Total	$ 259,776	$ 671,757

Covered 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 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 on non-accrual status when past due in accordance with the Corporation s non-accruing policy and any accretion of discount is discontinued.

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The following table presents covered loans in non-performing status and accruing loans past-due 90 days or more by loan class at September 30, 2011 and December 31, 2010.

	September 30, 2011		December 31, 2010	
(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	$ 7,018	$ 207	$ 14,172	$ -
Commercial and industrial	2,290	214	10,635	60
Construction	771	4,920	1,168	-
Mortgage	515	6,222	-	8,648
Consumer	368	268	-	2,308
Total[a]	$ 10,962	$ 11,831	$ 25,975	$ 11,016

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

The following tables present loans by past due status at September 30, 2011 and December 31, 2010 for covered loans held-in-portfolio. The information considers covered loans accounted for under ASC Subtopic 310-20 and ASC Subtopic 310-30.

	September 30, 2011					
	Covered Loans					
	Past Due					
(In thousands)	30-59 Days	60-89 Days	90 Days or More	Total Past Due	Current	Covered loans held-in-portfolio
Commercial real estate	$ 42,077	$ 49,576	$ 532,352	$ 624,005	$ 1,714,293	$ 2,338,298
Commercial and industrial	7,700	2,529	21,506	31,735	204,043	235,778
Construction	5,837	10,035	444,914	460,786	139,204	599,990
Mortgage	60,077	30,015	214,829	304,921	912,513	1,217,434
Consumer	6,481	3,006	14,216	23,703	97,220	120,923
Total covered loans	$ 122,172	$ 95,161	$ 1,227,817	$ 1,445,150	$ 3,067,273	$ 4,512,423

	December 31, 2010					
	Covered Loans					
	Past Due					
(In thousands)	30-59 Days	60-89 Days	90 Days or More	Total Past Due	Current	Covered loans held-in-portfolio

Commercial real estate	$ 108,244	$ 89,403	$ 434,956	$ 632,603	$ 1,830,946	$ 2,463,549
Commercial and industrial	12,091	5,491	32,585	50,167	253,465	303,632
Construction	23,445	11,906	351,386	386,737	253,755	640,492
Mortgage	80,978	34,897	119,745	235,620	1,023,839	1,259,459
Consumer	8,917	4,483	14,612	28,012	141,738	169,750
Total covered loans	$ 233,675	$ 146,180	$ 953,284	$ 1,333,139	$ 3,503,743	$ 4,836,882

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The following table presents loans acquired as part of the Westernbank FDIC-assisted transaction accounted for pursuant to ASC Subtopic 310-30 at the April 30, 2010 acquisition date. The information presented includes loans determined to be impaired at the time of acquisition (credit impaired loans), and loans that were considered to be performing at the acquisition date and are accounted for by analogy to ASC Subtopic 310-30 (non-credit impaired loans). Refer to Note 1 to the consolidated financial statements and the Critical Accounting Policies / Estimated section of the 2010 Annual Report for a description of the Corporation s significant accounting policies related to acquired loans and criteria considered by management to apply ASC 310-30 by analogy to non-credit impaired loans.

	April 30, 2010		
(In thousands)	Non-credit Impaired Loans	Credit Impaired Loans	Total
Contractually-required principal and interest	$ 7,855,033	$ 1,995,580	$ 9,850,613
Non-accretable difference	2,154,542	1,248,365	3,402,907
Cash flows expected to be collected	5,700,491	747,215	6,447,706
Accretable yield	1,487,634	50,425	1,538,059
Fair value of loans accounted for under ASC Subtopic 310-30	$ 4,212,857	$ 696,790	$ 4,909,647

The cash flows expected to be collected consider the estimated remaining life of the underlying loans and include the effects of estimated prepayments. The unpaid principal balance of the acquired loans from the Westernbank FDIC-assisted transaction that are accounted under ASC Subtopic 310-30 amounted to $8.1 billion at the April 30, 2010 transaction date.

The carrying amount of the loans acquired as part of the Westernbank FDIC-assisted transaction at September 30, 2011 and December 31, 2010 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 tables.

	September 30, 2011 Carrying amount			December 31, 2010 Carrying amount		
(In thousands)	Non-credit Impaired Loans	Credit Impaired Loans	Total	Non-credit Impaired Loans	Credit Impaired Loans	Total
Commercial real estate	$ 1,928,943	$ 254,658	$ 2,183,601	$ 2,133,600	$ 247,654	$ 2,381,254
Commercial and industrial	74,313	5,661	79,974	117,869	8,257	126,126
Construction	282,680	287,968	570,648	341,866	292,341	634,207
Mortgage	1,104,158	94,562	1,198,720	1,156,879	87,062	1,243,941
Consumer	99,812	6,604	106,416	144,165	10,235	154,400
Carrying amount	3,489,906	649,453	4,139,359	3,894,379	645,549	4,539,928
Allowance for loan losses	(49,386)	(13,060)	(62,446)	-	-	-

Carrying amount, net of allowance	$ 3,440,520	$ 636,393	$ 4,076,913	$ 3,894,379	$ 645,549	$ 4,539,928

The outstanding principal balance of covered loans accounted pursuant to ASC Subtopic 310-30, including amounts charged off by the Corporation, amounted to $6.2 billion at September 30, 2011 (December 31, 2010 - $7.7 billion). At September 30, 2011, 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 acquired loans in the Westernbank FDIC-assisted transaction, which are accounted pursuant to the ASC Subtopic 310-30, for the quarter and nine months ended September 30, 2011 and September 30, 2010, were as follows:

Accretable Yield

For the quarters ended

	September 30, 2011			September 30, 2010		
(In thousands)	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	$ 1,546,233	$ 70,686	$ 1,616,919	$ 1,441,434	$ 43,213	1,484,647
Accretion	(66,808)	(29,610)	(96,418)	(67,697)	(10,089)	(77,786)
Change in expected cash flows	(26,964)	3,028	(23,936)	-	-	-
Ending balance	$ 1,452,461	$ 44,104	$ 1,496,565	$ 1,373,737	$ 33,124	$ 1,406,861

Accretable Yield

For the nine months ended

	September 30, 2011			September 30, 2010		
(In thousands)	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	$ 1,307,927	$ 23,181	$ 1,331,108	$ -	$ -	-
Additions	-	-	-	1,487,634	50,425	1,538,059
Accretion	(203,683)	(65,852)	(269,535)	(113,897)	(17,301)	(131,198)
Change in expected cash flows	348,217	86,775	434,992	-	-	-
Ending balance	$ 1,452,461	$ 44,104	$ 1,496,565	$ 1,373,737	$ 33,124	$ 1,406,861

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

For the quarters ended

	September 30, 2011			September 30, 2010		
(In thousands)	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total

Beginning balance	$ 3,588,002	$ 628,806	$ 4,216,808	$ 4,127,602	$ 697,481	4,825,083
Accretion	66,808	29,610	96,418	67,697	10,089	77,786
Collections	(164,904)	(8,963)	(173,867)	(185,889)	(23,609)	(209,498)
Ending balance	$ 3,489,906	$ 649,453	$ 4,139,359	$ 4,009,410	$ 683,961	$ 4,693,371
Allowance for loan losses ASC 310-30 covered loans	(49,386)	(13,060)	(62,446)	-	-	-
	$ 3,440,520	$ 636,393	$ 4,076,913	$ 4,009,410	$ 683,961	$ 4,693,371

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

	For the nine months ended					
	September 30, 2011			September 30, 2010		
(In thousands)	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	$ 3,894,379	$ 645,549	$ 4,539,928	$ -	$ -	-
Additions	-	-	-	4,212,857	696,790	4,909,647
Accretion	203,683	65,852	269,535	113,897	17,301	131,198
Collections	(608,156)	(61,948)	(670,104)	(317,344)	(30,130)	(347,474)
Ending balance	$ 3,489,906	$ 649,453	$ 4,139,359	$ 4,009,410	$ 683,961	$ 4,693,371
Allowance for loan losses ASC 310-30 covered loans	(49,386)	(13,060)	(62,446)	-	-	-
	$ 3,440,520	$ 636,393	$ 4,076,913	$ 4,009,410	$ 683,961	$ 4,693,371

During the quarter and nine months ended September 30, 2011, the Corporation recorded an allowance for loan losses related to the acquired covered loans that are accounted for under ASC Subtopic 310-30 as certain pools reflected lower expected cash flows. The following table provides the activity in the allowance for loan losses related to these acquired loans for the quarter and nine months ended September 30, 2011.

	ASC 310-30 loans	
(In thousands)	For the quarter ended September 30, 2011	For the nine months ended September 30, 2011
Balance at beginning of period	$ 48,257	$ -
Provision for loan losses	15,920	68,602
Charge-offs	(1,731)	(6,156)
Balance at end of period	$ 62,446	$ 62,446

There was no need to record an allowance for loan losses related to the covered loans at December 31, 2010 and September 30, 2010.

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 loan payment receivable in excess of the initial investment in the loans be accreted into interest income over the life of the loan, if the loan is accruing interest. The following table presents acquired loans accounted for under ASC Subtopic 310-20 at the April 30, 2010 acquisition date:

(In thousands)	
Fair value of loans accounted under ASC Subtopic 310-20	$ 290,810
Gross contractual amounts receivable (principal and interest)	$ 457,201
Estimate of contractual cash flows not expected to be collected	$ 164,427

The cash flows expected to be collected consider the estimated remaining life of the underlying loans and include the effects of estimated prepayments.

Covered loans accounted for under ASC Subtopic 310-20 amounted to $0.4 billion at September 30, 2011 (December 31, 2010 and September 30, 2010 - $0.3 billion).

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Note 9 Allowance for loan losses

The following tables present the changes in the allowance for loan losses for the quarters and nine months ended September 30, 2011 and 2010.

	For the quarters ended			
	September 30, 2011			September 30, 2010
(In thousands)	Non-covered loans	Covered loans	Total	Total
Balance at beginning of period	$ 689,678	$ 57,169	$ 746,847	$ 1,277,016
Provision for loan losses	150,703	25,573	176,276	215,013
Recoveries	37,640	1,500	39,140	24,616
Charge-offs	(172,815)	(3,821)	(176,636)	(272,651)
Net (write-down) recovery related to loans transferred to LHFS	(12,706)	-	(12,706)	-
Balance at end of period	$ 692,500	$ 80,421	$ 772,921	$ 1,243,994

	For the nine months ended			
	September 30, 2011			September 30, 2010
(In thousands)	Non-covered loans	Covered loans	Total	Total
Balance at beginning of period	$ 793,225	$ -	$ 793,225	$ 1,261,204
Provision for loan losses	306,177	89,735	395,912	657,471
Recoveries	100,769	1,500	102,269	75,928
Charge-offs	(508,772)	(10,814)	(519,586)	(750,609)
Net (write-down) recovery related to loans transferred to LHFS	1,101	-	1,101	-
Balance at end of period	$ 692,500	$ 80,421	$ 772,921	$ 1,243,994

The Corporation s allowance for loan losses at September 30, 2011 includes $80 million related to the covered loan portfolio acquired in the Westernbank FDIC-assisted transaction. This allowance covers the estimated credit loss exposure related to: (i) acquired loans accounted for under ASC Subtopic 310-30, which required an allowance for loan losses of $62 million at quarter end; and (ii) acquired loans accounted for under ASC Subtopic 310-20, which required an allowance for loan losses of $18 million. Decreases in expected cash flows after the acquisition date for loans (pools) accounted for under ASC Subtopic 310-30 are recognized by recording an allowance for loan losses in the current period. For purposes of loans accounted for under ASC 310-20 and new loans originated as a result of loan commitments assumed, the Corporation s assessment of the allowance for loan losses is determined in accordance with the accounting guidance of loss contingencies in ASC Subtopic 450-20 (general reserve for inherent losses) and loan impairment guidance in ASC Section 310-10-35 for individually impaired loans. Concurrently, the Corporation recorded an increase in the FDIC loss share asset for the expected reimbursement from the FDIC under the loss sharing agreements.

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The following tables present the changes in the allowance for loan losses (ALLL) by portfolio segment for the quarter and nine months ended September 30, 2011. Also, the tables present information at September 30, 2011 regarding loans ending balances and the ALLL by portfolio segment and whether such loans and ALLL pertain to loans individually evaluated for specific impairment or collectively evaluated for impairment.

For the quarter ended September 30, 2011

Puerto Rico

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 274,962	$ 16,364	$ 55,175	$ 5,045	$ 120,526	$ 472,072
Charge-offs	(67,077)	(1,696)	(8,622)	(1,096)	(32,857)	(111,348)
Recoveries	7,290	3,277	997	695	7,101	19,360
Provision (reversal of provision)	106,753	(3,012)	20,175	(740)	33,455	156,631
Net (write-down) recovery related to loans transferred to LHFS	(12,706)	-	-	-	-	(12,706)
Ending balance	$ 309,222	$ 14,933	$ 67,725	$ 3,904	$ 128,225	$ 524,009
Allowance for credit losses:						
Specific ALLL non-covered loans	$ 20,941	$ 569	$ 16,682	$ 46	$ 7,546	$ 45,784
General ALLL non-covered loans	224,807	4,438	48,747	3,858	115,954	397,804
ALLL - non-covered loans	245,748	5,007	65,429	3,904	123,500	443,588
Specific ALLL covered loans	1,634	-	-	-	-	1,634
General ALLL covered loans	61,840	9,926	2,296	-	4,725	78,787
ALLL - covered loans	63,474	9,926	2,296	-	4,725	80,421
Total ALLL	$ 309,222	$ 14,933	$ 67,725	$ 3,904	$ 128,225	$ 524,009
Loans held-in-portfolio:						
Impaired non-covered loans	$ 378,180	$ 61,750	$ 282,402	$ 6,568	$ 142,438	$ 871,338
Non-covered loans held-in-portfolio excluding impaired loans	6,035,309	102,164	4,350,938	546,557	2,822,057	13,857,025
Non-covered loans held-in-portfolio	6,413,489	163,914	4,633,340	553,125	2,964,495	14,728,363
Impaired covered loans	2,675	-	-	-	-	2,675
Covered loans held-in-portfolio excluding impaired loans	2,571,401	599,990	1,217,434	-	120,923	4,509,748
Covered loans held-in-portfolio	2,574,076	599,990	1,217,434	-	120,923	4,512,423

Total loans held-in-portfolio	$	8,987,565	$	763,904	$	5,850,774	$	553,125	$	3,085,418	$	19,240,786

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For the quarter ended September 30, 2011

U.S. Mainland

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 184,632	$ 12,712	$ 22,832	$ 725	$ 53,874	$ 274,775
Charge-offs	(36,865)	(7,619)	(6,244)	(127)	(14,433)	(65,288)
Recoveries	13,973	3,955	158	102	1,592	19,780
Provision (reversal of provision)	(2,341)	1,180	13,706	145	6,955	19,645
Net (write-down) recovery related to loans transferred to LHFS	-	-	-	-	-	-
Ending balance	$ 159,399	$ 10,228	$ 30,452	$ 845	$ 47,988	$ 248,912
Allowance for credit losses:						
Specific ALLL	$ 299	$ 766	$ 11,510	$ -	$ 119	$ 12,694
General ALLL	159,100	9,462	18,942	845	47,869	236,218
Total ALLL	$ 159,399	$ 10,228	$ 30,452	$ 845	$ 47,988	$ 248,912
Loans held-in-portfolio:						
Impaired loans	$ 141,647	$ 118,944	$ 31,549	$ -	$ 4,615	$ 296,755
Loans held-in-portfolio, excluding impaired loans	4,033,783	75,202	801,614	17,943	720,226	5,648,768
Total loans held-in-portfolio	$ 4,175,430	$ 194,146	$ 833,163	$ 17,943	$ 724,841	$ 5,945,523

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For the quarter ended September 30, 2011

Popular, Inc.

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 459,594	$ 29,076	$ 78,007	$ 5,770	$ 174,400	$ 746,847
Charge-offs	(103,942)	(9,315)	(14,866)	(1,223)	(47,290)	(176,636)
Recoveries	21,263	7,232	1,155	797	8,693	39,140
Provision (reversal of provision)	104,412	(1,832)	33,881	(595)	40,410	176,276
Net (write-down) recovery related to loans transferred to LHFS	(12,706)	-	-	-	-	(12,706)
Ending balance	$ 468,621	$ 25,161	$ 98,177	$ 4,749	$ 176,213	$ 772,921
Allowance for credit losses:						
Specific ALLL non-covered loans	$ 21,240	$ 1,335	$ 28,192	$ 46	$ 7,665	$ 58,478
General ALLL non-covered loans	383,907	13,900	67,689	4,703	163,823	634,022
ALLL - non-covered loans	405,147	15,235	95,881	4,749	171,488	692,500
Specific ALLL covered loans	1,634	-	-	-	-	1,634
General ALLL covered loans	61,840	9,926	2,296	-	4,725	78,787
ALLL - covered loans	63,474	9,926	2,296	-	4,725	80,421
Total ALLL	$ 468,621	$ 25,161	$ 98,177	$ 4,749	$ 176,213	$ 772,921
Loans held-in-portfolio:						
Impaired non-covered loans	$ 519,827	$ 180,694	$ 313,951	$ 6,568	$ 147,053	$ 1,168,093
Non-covered loans held-in-portfolio excluding impaired loans	10,069,092	177,366	5,152,552	564,500	3,542,283	19,505,793
Non-covered loans held-in-portfolio	10,588,919	358,060	5,466,503	571,068	3,689,336	20,673,886
Impaired covered loans	2,675	-	-	-	-	2,675
Covered loans held-in-portfolio excluding impaired loans	2,571,401	599,990	1,217,434	-	120,923	4,509,748
Covered loans held-in-portfolio	2,574,076	599,990	1,217,434	-	120,923	4,512,423
Total loans held-in-portfolio	$ 13,162,995	$ 958,050	$ 6,683,937	$ 571,068	$ 3,810,259	$ 25,186,309

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For the nine months ended September 30, 2011

Puerto Rico

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 256,643	$ 16,074	$ 42,029	$ 7,154	$ 133,531	$ 455,431
Charge-offs	(172,106)	(16,078)	(23,992)	(4,552)	(103,155)	(319,883)
Recoveries	21,898	11,237	1,539	2,340	20,944	57,958
Provision (reversal of provision)	215,493	3,700	48,149	(1,038)	76,905	343,209
Net (write-down) recovery related to loans transferred to LHFS	(12,706)	-	-	-	-	(12,706)
Ending balance	$ 309,222	$ 14,933	$ 67,725	$ 3,904	$ 128,225	$ 524,009
Allowance for credit losses:						
Specific ALLL non-covered loans	$ 20,941	$ 569	$ 16,682	$ 46	$ 7,546	$ 45,784
General ALLL non-covered loans	224,807	4,438	48,747	3,858	115,954	397,804
ALLL - non-covered loans	245,748	5,007	65,429	3,904	123,500	443,588
Specific ALLL covered loans	1,634	-	-	-	-	1,634
General ALLL covered loans	61,840	9,926	2,296	-	4,725	78,787
ALLL - covered loans	63,474	9,926	2,296	-	4,725	80,421
Total ALLL	$ 309,222	$ 14,933	$ 67,725	$ 3,904	$ 128,225	$ 524,009
Loans held-in-portfolio:						
Impaired non-covered loans	$ 378,180	$ 61,750	$ 282,402	$ 6,568	$ 142,438	$ 871,338
Non-covered loans held-in-portfolio excluding impaired loans	6,035,309	102,164	4,350,938	546,557	2,822,057	13,857,025
Non-covered loans held-in-portfolio	6,413,489	163,914	4,633,340	553,125	2,964,495	14,728,363
Impaired covered loans	2,675	-	-	-	-	2,675
Covered loans held-in-portfolio excluding impaired loans	2,571,401	599,990	1,217,434	-	120,923	4,509,748
Covered loans held-in-portfolio	2,574,076	599,990	1,217,434	-	120,923	4,512,423
Total loans held-in-portfolio	$ 8,987,565	$ 763,904	$ 5,850,774	$ 553,125	$ 3,085,418	$ 19,240,786

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For the nine months ended September 30, 2011

U.S. Mainland

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 205,748	$ 31,650	$ 28,839	$ 5,999	$ 65,558	$ 337,794
Charge-offs	(118,877)	(19,874)	(12,598)	(746)	(47,608)	(199,703)
Recoveries	30,682	6,475	1,912	544	4,698	44,311
Provision (reversal of provision)	41,846	(8,023)	(1,508)	(4,952)	25,340	52,703
Net (write-down) recovery related to loans transferred to LHFS	-	-	13,807	-	-	13,807
Ending balance	$ 159,399	$ 10,228	$ 30,452	$ 845	$ 47,988	$ 248,912
Allowance for credit losses:						
Specific ALLL	$ 299	$ 766	$ 11,510	$ -	$ 119	$ 12,694
General ALLL	159,100	9,462	18,942	845	47,869	236,218
Total ALLL	$ 159,399	$ 10,228	$ 30,452	$ 845	$ 47,988	$ 248,912
Loans held-in-portfolio:						
Impaired loans	$ 141,647	$ 118,944	$ 31,549	$ -	$ 4,615	$ 296,755
Loans held-in-portfolio, excluding impaired loans	4,033,783	75,202	801,614	17,943	720,226	5,648,768
Total loans held-in-portfolio	$ 4,175,430	$ 194,146	$ 833,163	$ 17,943	$ 724,841	$ 5,945,523

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For the nine months ended September 30, 2011

Popular, Inc.

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 462,391	$ 47,724	$ 70,868	$ 13,153	$ 199,089	$ 793,225
Charge-offs	(290,983)	(35,952)	(36,590)	(5,298)	(150,763)	(519,586)
Recoveries	52,580	17,712	3,451	2,884	25,642	102,269
Provision (reversal of provision)	257,339	(4,323)	46,641	(5,990)	102,245	395,912
Net (write-down) recovery related to loans transferred to loans held-for-sale	(12,706)	-	13,807	-	-	1,101
Ending balance	$ 468,621	$ 25,161	$ 98,177	$ 4,749	$ 176,213	$ 772,921
Allowance for credit losses:						
Specific ALLL non-covered loans	$ 21,240	$ 1,335	$ 28,192	$ 46	$ 7,665	$ 58,478
General ALLL non-covered loans	383,907	13,900	67,689	4,703	163,823	634,022
ALLL - non-covered loans	405,147	15,235	95,881	4,749	171,488	692,500
Specific ALLL covered loans	1,634	-	-	-	-	1,634
General ALLL covered loans	61,840	9,926	2,296	-	4,725	78,787
ALLL - covered loans	63,474	9,926	2,296	-	4,725	80,421
Total ALLL	$ 468,621	$ 25,161	$ 98,177	$ 4,749	$ 176,213	$ 772,921
Loans held-in-portfolio:						
Impaired non-covered loans	$ 519,827	$ 180,694	$ 313,951	$ 6,568	$ 147,053	$ 1,168,093
Non-covered loans held-in-portfolio excluding impaired loans	10,069,092	177,366	5,152,552	564,500	3,542,283	19,505,793
Non-covered loans held-in-portfolio	10,588,919	358,060	5,466,503	571,068	3,689,336	20,673,886
Impaired covered loans	2,675	-	-	-	-	2,675
Covered loans held-in-portfolio excluding impaired loans	2,571,401	599,990	1,217,434	-	120,923	4,509,748
Covered loans held-in-portfolio	2,574,076	599,990	1,217,434	-	120,923	4,512,423
Total loans held-in-portfolio	$ 13,162,995	$ 958,050	$ 6,683,937	$ 571,068	$ 3,810,259	$ 25,186,309

Impaired loans

Disclosures related to loans that were considered impaired based on ASC Section 310-10-35 are included in the table below.

(In thousands)	September 30, 2011	December 31, 2010	September 30, 2010
Impaired loans with related allowance	$ 540,598	$ 154,349	$ 1,246,697
Impaired loans that do not require an allowance	630,170	644,150	479,416
Total impaired loans	$ 1,170,768	$ 798,499	$ 1,726,113
Allowance for impaired loans	$ 60,112	$ 13,770	$ 351,491
Average balance of impaired loans during the quarter	$ 1,033,039		$ 1,732,592
Interest income recognized on impaired loans during the quarter	$ 4,957		$ 5,231
Average balance of impaired loans during the nine months ended September 30,	$ 922,381		$ 1,723,446
Interest income recognized on impaired loans during the nine months ended September 30,	$ 12,013		$ 14,463

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The following tables present loans individually evaluated for impairment at September 30, 2011 and December 31, 2010.

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September 30, 2011

Puerto Rico

(In thousands)	Impaired Loans With an Allowance			Impaired Loans With No Allowance		Impaired Loans - Total		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Commercial real estate	$ 11,229	$ 11,865	$ 4,715	$ 242,812	$ 295,815	$ 254,041	$ 307,680	$ 4,715
Commercial and industrial	43,278	46,435	16,226	80,861	103,614	124,139	150,049	16,226
Construction	8,670	14,199	569	53,080	97,583	61,750	111,782	569
Mortgage	282,402	285,158	16,682	-	-	282,402	285,158	16,682
Leasing	6,568	6,568	46	-	-	6,568	6,568	46
Consumer	142,438	142,438	7,546	-	-	142,438	142,438	7,546
Covered loans	1,675	1,675	1,634	1,000	1,000	2,675	2,675	1,634
Total Puerto Rico	$ 496,260	$ 508,338	$ 47,418	$ 377,753	$ 498,012	$ 874,013	$ 1,006,350	$ 47,418

September 30, 2011

U.S. Mainland

(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 real estate	$ -	$ -	$ -	$ 114,540	$ 145,697	$ 114,540	$ 145,697	$ -
Commercial and industrial	6,256	6,256	299	20,851	28,951	27,107	35,207	299
Construction	5,740	5,740	766	113,204	181,158	118,944	186,898	766
Mortgage	27,727	28,151	11,510	3,822	3,822	31,549	31,973	11,510
Consumer	4,615	4,615	119	-	-	4,615	4,615	119
	$ 44,338	$ 44,762	$ 12,694	$ 252,417	$ 359,628	$ 296,755	$ 404,390	$ 12,694

Total U.S.
Mainland

September 30, 2011

Popular, Inc.

(In thousands)	Impaired Loans — With an Allowance Recorded Investment	Impaired Loans — With an Allowance Unpaid Principal Balance	Impaired Loans — With an Allowance Related Allowance	Impaired Loans With No Allowance Recorded Investment	Impaired Loans With No Allowance Unpaid Principal Balance	Impaired Loans - Total Recorded Investment	Impaired Loans - Total Unpaid Principal Balance	Impaired Loans - Total Related Allowance
Commercial real estate	$ 11,229	$ 11,865	$ 4,715	$ 357,352	$ 441,512	$ 368,581	$ 453,377	$ 4,715
Commercial and industrial	49,534	52,691	16,525	101,712	132,565	151,246	185,256	16,525
Construction	14,410	19,939	1,335	166,284	278,741	180,694	298,680	1,335
Mortgage	310,129	313,309	28,192	3,822	3,822	313,951	317,131	28,192
Leasing	6,568	6,568	46	-	-	6,568	6,568	46
Consumer	147,053	147,053	7,665	-	-	147,053	147,053	7,665
Covered loans	1,675	1,675	1,634	1,000	1,000	2,675	2,675	1,634
Total Popular, Inc.	$ 540,598	$ 553,100	$ 60,112	$ 630,170	$ 857,640	$ 1,170,768	$ 1,410,740	$ 60,112

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December 31, 2010

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 real estate	$ 11,403	$ 13,613	$ 3,590	$ 208,891	$ 256,858	$ 220,294	$ 270,471	$ 3,590
Commercial and industrial	23,699	28,307	4,960	66,589	79,917	90,288	108,224	4,960
Construction	4,514	10,515	216	61,184	99,016	65,698	109,531	216
Mortgage	114,733	115,595	5,004	6,476	6,476	121,209	122,071	5,004
Total Puerto Rico	$ 154,349	$ 168,030	$ 13,770	$ 343,140	$ 442,267	$ 497,489	$ 610,297	$ 13,770

December 31, 2010

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 real estate	$ -	$ -	$ -	$ 101,856	$ 152,876	$ 101,856	$ 152,876	$ -
Commercial and industrial	-	-	-	33,530	44,443	33,530	44,443	-
Construction	-	-	-	165,624	248,955	165,624	248,955	-
Total U.S. Mainland	$ -	$ -	$ -	$ 301,010	$ 446,274	$ 301,010	$ 446,274	$ -

There were no mortgage loans individually evaluated for impairment in the U.S. Mainland portfolio at December 31, 2010.

December 31, 2010

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 real estate	$ 11,403	$ 13,613	$ 3,590	$ 310,747	$ 409,734	$ 322,150	$ 423,347	$ 3,590
Commercial and industrial	23,699	28,307	4,960	100,119	124,360	123,818	152,667	4,960
Construction	4,514	10,515	216	226,808	347,971	231,322	358,486	216
Mortgage	114,733	115,595	5,004	6,476	6,476	121,209	122,071	5,004
Total Popular, Inc.	$ 154,349	$ 168,030	$ 13,770	$ 644,150	$ 888,541	$ 798,499	$ 1,056,571	$ 13,770

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The following table presents the average recorded investment and interest income recognized on impaired loans for the quarter and nine months ended September 30, 2011.

For the quarter ended September 30, 2011

	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 real estate	$ 255,660	$ 977	$ 115,040	$ 115	$ 370,700	$ 1,092
Commercial and industrial	106,877	288	25,341	130	132,218	418
Construction	63,818	-	126,489	6	190,307	6
Mortgage	239,026	2,974	20,826	391	259,852	3,365
Leasing	3,284	-	-	-	3,284	-
Consumer	71,219	-	2,308	-	73,527	-
Covered loans	3,151	76	-	-	3,151	76
Total Popular, Inc.	$ 743,035	$ 4,315	$ 290,004	$ 642	$ 1,033,039	$ 4,957

For the nine months ended September 30, 2011

	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 real estate	$ 240,660	$ 2,271	$ 105,105	$ 564	$ 345,765	$ 2,835
Commercial and industrial	99,523	866	32,670	527	132,193	1,393
Construction	62,485	49	144,972	158	207,457	207
Mortgage	185,270	6,980	11,715	522	196,985	7,502
Leasing	1,642	-	-	-	1,642	-
Consumer	35,610	-	1,154	-	36,764	-
Covered loans	1,575	76	-	-	1,575	76
Total Popular, Inc.	$ 626,765	$ 10,242	$ 295,616	$ 1,771	$ 922,381	$ 12,013

Modifications

Troubled debt restructurings related to non-covered loan portfolios amounted to $847 million at September 30, 2011 (December 31, 2010 - $561 million). The amount of outstanding commitments to lend additional funds to debtors owing receivables whose terms have been modified in troubled debt restructurings amounted to $410 thousand related to the construction loan portfolio and $3 million related to the commercial loan portfolio at September 30, 2011 (December 31, 2010 - $3 million and $1 million, respectively).

As a result of adopting the amendments in Accounting Standards Update No. 2011-02, the Corporation reassessed all restructurings that occurred on or after January 1, 2011 for identification as troubled debt restructurings. Upon identifying those receivables as troubled debt restructurings, the Corporation identified them as impaired under the guidance in Section 310-10-35. The amendments in Accounting Standards Update No. 2011-02 require prospective application of the impairment measurement guidance in Section 310-10-35 for those receivables newly identified as impaired. As of September 30, 2011, the recorded investment in receivables for which the modified loans were newly considered troubled debt restructurings under the provisions of ASU No. 2011-02 amounted to $30 million. The allowance for credit losses associated with those receivables, on the basis of a current evaluation of loss, was $1.6 million as of September 30, 2011, compared with $1.7 million under the previous evaluation of loss when the loans were not considered troubled debt restructurings.

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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 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. 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 modifications are made infrequently and are not offered if the Corporation also holds the first mortgage. Home equity modifications are uniquely designed to meet the specific needs of each borrower. Occasionally, the terms will be modified to a standalone second lien mortgage, thereby changing their loan class from home equity to residential mortgage. 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.

Loans modified in a TDR that are not accounted pursuant to ASC 310-30 are typically already in non-accrual status at the time of the modification and partial charge-offs have in some cases already been taken against the outstanding loan balance. The TDR loan continues in non-accrual status until the borrower has demonstrated a willingness and ability to make the restructured loan payments (generally at least six months of sustained performance after classified as a TDR) and management has evaluated whether it is probable that the borrower would 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. An allowance for impaired mortgage and commercial loans that have been modified in a TDR is measured based on the present value of expected future cash flows discounted at the loan s effective interest rate, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral dependent. Management exercises significant judgment in developing these estimates.

The following tables present the loan count by type of modification for those loans modified in a TDR during the three and nine months ended September 30, 2011.

	Puerto Rico							
	For the quarter ended September 30, 2011				For the nine months ended September 30, 2011			
	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	17	3	-	-	55	5	-	-
Commercial and Industrial	21	11	-	-	83	16	-	-
Construction	1	-	-	-	2	-	-	-
Leases	-	41	5	-	-	136	16	-
Mortgage	9	106	366	13	35	340	1,220	36

Consumer:								
Credit cards	420	-	-	358	1,149	-	-	959
Personal	607	28	-	-	1,775	52	-	-
Auto	-	-	2	-	-	-	7	-
Other	21	-	-	-	50	-	-	-
Total	1,096	189	373	371	3,149	549	1,243	995

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	U.S. Mainland							
	For the quarter ended September 30, 2011				For the nine months ended September 30, 2011			
	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	-	-	-	1	-	1	-	4
Construction	-	-	-	1	-	-	-	8
Mortgage	13	3	183	3	14	4	254	3
Other consumer	-	-	1	-	-	-	1	-
Total	13	3	184	5	14	5	255	15

	Popular, Inc.							
	For the quarter ended September 30, 2011				For the nine months ended September 30, 2011			
	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of	Other	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other

			maturity date					
Commercial real estate	17	3	-	1	55	6	-	4
Commercial and Industrial	21	11	-	-	83	16	-	-
Construction	1	-	-	1	2	-	-	8
Leases	-	41	5	-	-	136	16	-
Mortgage	22	109	549	16	49	344	1,474	39
Consumer:								
Credit cards	420	-	-	358	1,149	-	-	959
Personal	607	28	-	-	1,775	52	-	-
Auto	-	-	2	-	-	-	7	-
Other	21	-	1	-	50	-	1	-
Total	1,109	192	557	376	3,163	554	1,498	1,010

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The following tables present by class, quantitative information related to loans modified as TDRs during the three and nine months ended September 30, 2011.

Puerto Rico

For the quarter ended September 30, 2011

(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	20	$ 31,436	$ 31,436	$ (1,095)
Commercial and Industrial	32	28,622	28,622	2,518
Construction	1	1,341	1,341	187
Mortgage	494	65,849	68,279	3,122
Leases	46	1,092	1,059	-
Consumer:				
Credit cards	778	6,820	7,622	47
Personal	635	7,525	7,522	-
Auto	2	18	19	-
Other	21	106	105	-
Total	2,029	$ 142,809	$ 146,005	$ 4,779

U.S. Mainland

For the quarter ended September 30, 2011

(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	1	$ 2,043	$ 2,032	$ -
Construction	1	5,715	5,740	(189)
Mortgage	202	20,390	21,606	7,707
Other consumer	1	1,079	1,135	1
Total	205	$ 29,227	$ 30,513	$ 7,519

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Popular, Inc.

For the quarter ended September 30, 2011

(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	21	$ 33,479	$ 33,468	$ (1,095)
Commercial and Industrial	32	28,622	28,622	2,518
Construction	2	7,056	7,081	(2)
Mortgage	696	86,239	89,885	10,829
Leasing	46	1,092	1,059	-
Consumer:				
Credit cards	778	6,820	7,622	47
Personal	635	7,525	7,522	-
Auto	2	18	19	-
Other	22	1,185	1,240	1
Total	2,234	$ 172,036	$ 176,518	$ 12,298

Puerto Rico

For the nine months ended September 30, 2011

(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	60	$ 44,590	$ 44,590	$ (1,210)
Commercial and Industrial	99	39,011	39,011	1,693
Construction	2	2,224	2,224	165
Mortgage	1,631	224,027	242,416	6,092
Leases	152	3,451	3,301	(1)
Consumer:				
Credit cards	2,108	19,438	21,792	143
Personal	1,827	22,459	22,443	(1)

Auto	7	64	67	-
Other	50	210	207	-
Total	5,936	$ 355,474	$ 376,051	$ 6,881

U.S. Mainland

For the nine months ended September 30, 2011

(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	3	$ 12,633	$ 9,355	$ (420)
Commercial and Industrial	2	11,878	9,742	(421)
Construction	8	16,189	10,692	(314)
Mortgage	275	27,486	28,927	10,405
Other consumer	1	1,079	1,135	1
Total	289	$ 69,265	$ 59,851	$ 9,251

Popular, Inc.

For the nine months ended September 30, 2011

(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	63	$ 57,223	$ 53,945	$ (1,630)
Commercial and Industrial	101	50,889	48,753	1,272
Construction	10	18,413	12,916	(149)
Mortgage	1,906	251,513	271,343	16,497
Leases	152	3,451	3,301	(1)
Consumer:				
Credit cards	2,108	19,438	21,792	143
Personal	1,827	22,459	22,443	(1)
Auto	7	64	67	-
Other	51	1,289	1,342	1
Total	6,225	$ 424,739	$ 435,902	$ 16,132

The following tables present by class, loans modified in a TDR from October 1, 2010 through September 30, 2011 that subsequently defaulted during the quarter and nine months ended September 30, 2011. The recorded investment as of September 30, 2011 is inclusive of all partial paydowns and charge-offs since modification date. Loans modified as a TDR that were fully paid down, charged-off or foreclosed upon by period end are not reported.

Puerto Rico

	Defaulted during the quarter ended September 30, 2011		Defaulted during the nine months ended September 30, 2011	
(Dollars In thousands)	Loan count	Recorded investment as of period end	Loan count	Recorded investment as of period end
Commercial Real Estate	18	$ 4,813	19	$ 5,240
Commercial and Industrial	31	17,745	34	20,010
Construction	-	-	1	883
Mortgage	194	28,004	635	90,582

Leases	20	422	415	6,198
Consumer:				
Credit cards	1,026	9,467	1,447	13,881
Personal	506	3,852	624	5,027
Auto	1	5	1	5
Other	7	39	8	48
Total	1,803	$ 64,347	3,184	$ 141,874

U.S. Mainland

	Defaulted during the quarter ended September 30, 2011		Defaulted during the nine months ended September 30, 2011	
(Dollars In thousands)	Loan count	Recorded investment as of period end	Loan count	Recorded investment as of period end
Construction	11	$ 12,383	11	$ 12,383
Mortgage	11	1,491	17	1,936
Total	22	$ 13,874	28	$ 14,319

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Popular, Inc.

(Dollars In thousands)	Defaulted during the quarter ended September 30, 2011 Loan count	Recorded investment as of period end	Defaulted during the nine months ended September 30, 2011 Loan count	Recorded investment as of period end
Commercial Real Estate	18	$ 4,813	19	$ 5,240
Commercial and Industrial	31	17,745	34	20,010
Construction	11	12,383	12	13,266
Mortgage	205	29,495	652	92,518
Leases	20	422	415	6,198
Consumer:				
Credit cards	1,026	9,467	1,447	13,881
Personal	506	3,852	624	5,027
Auto	1	5	1	5
Other	7	39	8	48
Total	1,825	$ 78,221	3,212	$ 156,193

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

Credit Quality

The Corporation has defined a dual risk rating system to assign a rating to all credit exposures, particularly for the commercial and construction loan portfolios. Risk ratings in the aggregate provide the Corporation s management the asset quality profile for the loan portfolio. The dual risk rating system provides for the assignment of ratings at the obligor level based on the financial condition of the borrower, and at the credit facility level based on the collateral supporting the transaction. The Corporation s consumer and mortgage loans are not subject to the dual risk rating system. Consumer and mortgage loans are classified substandard or loss based on their delinquency status. All other consumer and mortgage loans that are not classified as substandard or loss would be considered unrated .

The Corporation s obligor risk rating scales range from rating 1 (Excellent) to rating 14 (Loss). The obligor risk rating reflects the risk of payment default of a borrower in the ordinary course of business.

Pass Credit Classifications:

Pass (Scales 1 through 8) Loans classified as pass have a well defined primary source of repayment very likely to be sufficient, with no apparent risk, strong financial position, minimal operating risk, profitability, liquidity and capitalization better than industry standards.

Watch (Scale 9) Loans classified as watch have acceptable business credit, but borrowers operations, cash flow or financial condition evidence more than average risk, requires above average levels of supervision and attention from Loan Officers.

Special Mention (Scale 10) - Loans classified as special mention have potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Corporation s credit position at some future date.

Adversely Classified Classifications:

Substandard (Scales 11 and 12) - Loans classified as substandard are deemed to be inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Loans classified as such have well-defined weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

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Doubtful (Scale 13) - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the additional characteristic that the weaknesses make the collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss (Scale 14) - Uncollectible and of such little value that continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this asset even though partial recovery may be effected in the future.

Risk ratings scales 10 through 14 conform to regulatory ratings. The assignment of the obligor risk rating is based on relevant information about the ability of borrowers to service their debts such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors.

The Corporation periodically reviews loans classified as watch list or worse, to evaluate if they are properly classified, and to determine impairment, if any. The frequency of these reviews will depend on the amount of the aggregate outstanding debt, and the risk rating classification of the obligor. In addition, during the renewal process of applicable credit facilities, the Corporation evaluates the corresponding loan grades.

Loans classified as pass credits are excluded from the scope of the review process described above until: (a) they become past due; (b) management becomes aware of deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Corporation for a modification. In these circumstances, the credit facilities are specifically evaluated to assign the appropriate risk rating classification.

The Corporation has a Credit Process Review Group within the Corporate Credit Risk Management Division (CCRMD), which performs annual comprehensive credit process reviews of several middle markets, construction, asset-based and corporate banking lending groups in BPPR. This group evaluates the credit risk profile of each originating unit along with each unit s credit administration effectiveness, including the assessment of the risk rating representative of the current credit quality of the loans, and the evaluation of collateral documentation. The monitoring performed by this group contributes to assess compliance with credit policies and underwriting standards, determine the current level of credit risk, evaluate the effectiveness of the credit management process and identify control deficiencies that may arise in the credit-granting process. Based on its findings, the Credit Process Review Group recommends corrective actions, if necessary, that help in maintaining a sound credit process. CCRMD has contracted an outside loan review firm to perform the credit process reviews for the portfolios of commercial and construction loans in the U.S. mainland operations. The CCRMD participates in defining the review plan with the outside loan review firm and actively participates in the discussions of the results of the loan reviews with the business units. The CCRMD may periodically review the work performed by the outside loan review firm. CCRMD reports the results of the credit process reviews to the Risk Management Committee of the Corporation s Board of Directors.

The following table presents the outstanding balance, net of unearned, of non-covered loans held-in-portfolio based on the Corporation s assignment of obligor risk ratings as defined at September 30, 2011 and December 31, 2010.

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	$000,000,000	$000,000,000	$000,000,000	$000,000,000 September 30, 2011	$000,000,000	$000,000,000	$000,000,000	$000,000,000
(In thousands)	Watch	Special Mention	Substandard	Doubtful	Loss	Total	Pass/Unrated	Total
Puerto Rico[1]								
Commercial real estate	$ 357,016	$ 363,653	$ 767,708	$ 6,153	$ -	$ 1,494,530	$ 2,118,235	$ 3,612,765
Commercial and industrial	307,683	274,818	411,659	2,503	1,520	998,183	1,802,541	2,800,724
Total Commercial	664,699	638,471	1,179,367	8,656	1,520	2,492,713	3,920,776	6,413,489
Construction	1,364	33,018	61,837	9,231	-	105,450	58,464	163,914
Mortgage	-	-	594,641	-	-	594,641	4,038,699	4,633,340
Leasing	-	-	12,538	-	5,694	18,232	534,893	553,125
Consumer	-	-	39,362	-	4,556	43,918	2,920,577	2,964,495
Total Puerto Rico	$ 666,063	$ 671,489	$ 1,887,745	$ 17,887	$ 11,770	$ 3,254,954	$ 11,473,409	$ 14,728,363
U.S. Mainland								
Commercial real estate	$ 328,771	$ 95,158	$ 534,952	$ -	$ -	$ 958,881	$ 2,165,901	$ 3,124,782
Commercial and industrial	67,405	27,441	142,780	-	-	237,626	813,022	1,050,648
Total Commercial	396,176	122,599	677,732	-	-	1,196,507	2,978,923	4,175,430
Construction	7,677	26,422	160,047	-	-	194,146	-	194,146
Mortgage	-	-	37,107	-	-	37,107	796,056	833,163
Leasing	-	-	3,966	-	-	3,966	13,977	17,943
Consumer	-	-	8,351	-	6,427	14,778	710,063	724,841
Total U.S. Mainland	$ 403,853	$ 149,021	$ 887,203	$ -	$ 6,427	$ 1,446,504	$ 4,499,019	$ 5,945,523
Popular, Inc.								
Commercial real estate	$ 685,787	$ 458,811	$ 1,302,660	$ 6,153	$ -	$ 2,453,411	$ 4,284,136	$ 6,737,547
Commercial and industrial	375,088	302,259	554,439	2,503	1,520	1,235,809	2,615,563	3,851,372
Total Commercial	1,060,875	761,070	1,857,099	8,656	1,520	3,689,220	6,899,699	10,588,919
Construction	9,041	59,440	221,884	9,231	-	299,596	58,464	358,060
Mortgage	-	-	631,748	-	-	631,748	4,834,755	5,466,503
Leasing	-	-	16,504	-	5,694	22,198	548,870	571,068
Consumer	-	-	47,713	-	10,983	58,696	3,630,640	3,689,336

Total Popular, Inc.	$ 1,069,916	$ 820,510	$ 2,774,948	$ 17,887	$ 18,197	$ 4,701,458	$ 15,972,428	$ 20,673,886

The following table presents the weighted average obligor risk rating at September 30, 2011 for those classifications that consider a range of rating scales.

Weighted average obligor risk rating	(Scales 11 and 12)	(Scales 1 through 8)
Puerto Rico:[1]	Substandard	Pass
Commercial real estate	11.58	6.77
Commercial and industrial	11.37	6.62
Total Commercial	11.51	6.70
Construction	11.79	7.69
U.S. Mainland:	Substandard	Pass
Commercial real estate	11.31	7.13
Commercial and industrial	11.27	6.88
Total Commercial	11.30	7.07
Construction	11.77	-

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

(In thousands)	December 31, 2010 Watch	Special Mention	Substandard	Doubtful	Loss	Total	Pass/Unrated	Total
Puerto Rico [1]								
Commercial real estate	$ 439,004	$ 346,985	$ 622,675	$ 6,302	$ -	$ 1,414,966	$ 2,440,632	$ 3,855,598
Commercial and industrial	608,250	245,250	345,266	3,112	1,436	1,203,314	1,658,104	2,861,418
Total Commercial	1,047,254	592,235	967,941	9,414	1,436	2,618,280	4,098,736	6,717,016
Construction	38,921	12,941	67,271	15,939	-	135,072	33,284	168,356
Mortgage	-	-	550,933	-	-	550,933	3,098,767	3,649,700
Leasing	-	-	5,539	-	5,969	11,508	561,279	572,787
Consumer	-	-	47,907	-	4,227	52,134	2,845,701	2,897,835
Total Puerto Rico	$ 1,086,175	$ 605,176	$ 1,639,591	$ 25,353	$ 11,632	$ 3,367,927	$ 10,637,767	$ 14,005,694
U.S. Mainland								
Commercial real estate	$ 302,347	$ 93,564	$ 650,118	$ -	$ -	$ 1,046,029	$ 2,105,049	$ 3,151,078
Commercial and industrial	62,552	81,224	250,843	-	-	394,619	1,130,772	1,525,391
Total Commercial	364,899	174,788	900,961	-	-	1,440,648	3,235,821	4,676,469
Construction	30,021	40,022	257,651	-	-	327,694	4,801	332,495
Mortgage	-	-	23,587	-	-	23,587	851,435	875,022
Leasing	-	-	-	-	-	-	30,206	30,206
Consumer	-	-	14,240	-	8,825	23,065	785,084	808,149
Total U.S. Mainland	$ 394,920	$ 214,810	$ 1,196,439	$ -	$ 8,825	$ 1,814,994	$ 4,907,347	$ 6,722,341
Popular, Inc.								
Commercial real estate	$ 741,351	$ 440,549	$ 1,272,793	$ 6,302	$ -	$ 2,460,995	$ 4,545,681	$ 7,006,676
Commercial and industrial	670,802	326,474	596,109	3,112	1,436	1,597,933	2,788,876	4,386,809
Total Commercial	1,412,153	767,023	1,868,902	9,414	1,436	4,058,928	7,334,557	11,393,485
Construction	68,942	52,963	324,922	15,939	-	462,766	38,085	500,851
Mortgage	-	-	574,520	-	-	574,520	3,950,202	4,524,722
Leasing	-	-	5,539	-	5,969	11,508	591,485	602,993
Consumer	-	-	62,147	-	13,052	75,199	3,630,785	3,705,984
Total Popular, Inc.	$ 1,481,095	$ 819,986	$ 2,836,030	$ 25,353	$ 20,457	$ 5,182,921	$ 15,545,114	$ 20,728,035

The following table presents the weighted average obligor risk rating at December 31, 2010 for those classifications that consider a range of rating scales.

Weighted average obligor risk rating	(Scales 11 and 12)	(Scales 1 through 8)
Puerto Rico:[1]	Substandard	Pass
Commercial real estate	11.64	6.68
Commercial and industrial	11.24	6.76
Total Commercial	11.49	6.71
Construction	11.77	7.49
United States:	Substandard	Pass
Commercial real estate	11.29	7.11
Commercial and industrial	11.17	6.98
Total Commercial	11.25	7.07
Construction	11.66	8.00

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

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Note 10 FDIC loss share asset

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

In addition, as disclosed in the 2010 Annual Report, BPPR has agreed to make a true-up payment to the FDIC on the date that is 45 days following the last day (the True-Up Measurement Date) of the final shared-loss month, or upon the final disposition of all covered assets under the loss sharing agreements in the event losses on the loss sharing agreements fail to reach expected levels. The estimated true-up payment is recorded as a reduction of the FDIC loss share asset. As of September 30, 2011, the carrying amount (discounted value) of the true-up provision was estimated at approximately $97 million (December 31, 2010 - $92 million; September 30, 2010 - $91 million).

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

(In thousands)		2011		2010
Balance at beginning of year	$	2,318,183	$	-
FDIC loss share indemnification asset recorded at business combination		-		2,337,748
Accretion of loss share indemnification asset, net		8,677		43,812
Credit impairment losses to be covered under loss sharing agreements		71,787		-
Decrease due to reciprocal accounting on the discount accretion for loans and unfunded commitments accounted for under ASC Subtopic 310-20		(32,919)		(66,517)
Payments received from FDIC under loss sharing agreements		(561,111)		-
Other adjustments attributable to FDIC loss sharing agreements		(6,278)		9,935
Balance at September 30	$	1,798,339	$	2,324,978

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

- manage and administer the covered assets and collect and effect charge-offs and recoveries with respect to such covered assets in a manner consistent with its usual and prudent business and banking practices and, with respect to single family shared-loss loans, the procedures (including collection procedures) customarily employed by BPPR in servicing and administering mortgage loans for its own account and the servicing procedures established by FNMA or 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 with or another federal agency for any single-family shared loss loan;
- provide notice with respect to proposed transactions pursuant to which a third party or affiliate will manage, administer or collect any commercial shared-loss assets; and
- file monthly and quarterly certificates with the FDIC specifying the amount of losses, charge-offs and recoveries.

Under the loss share agreements, BPPR is also required to maintain books and records sufficient to ensure and document compliance with the terms of the loss share agreements.

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Note 11 Transfers of financial assets and mortgage servicing assets

The Corporation typically transfers conforming residential mortgage loans in conjunction with GNMA and FNMA 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 and FNMA 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 18 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 nine months ended September 30, 2011 and 2010 because they did not contain any credit recourse arrangements. The Corporation recorded a net gain $1.6 million and $3.0 million, respectively, during the quarters ended September 30, 2011 and 2010 related to these residential mortgage loans securitized. The Corporation recorded a net gain $12.0 million and $13.2 million, respectively, during the nine months ended September 30, 2011 and 2010 related to these 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 nine months ended September 30, 2011 and 2010:

	Proceeds Obtained During the Quarter Ended September 30, 2011			
(In thousands)	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Trading account securities:				
Mortgage-backed securities - GNMA	-	$ 193,731	-	$ 193,731
Mortgage-backed securities - FNMA	-	42,079	-	42,079
Total trading account securities	-	$ 235,810	-	$ 235,810
Mortgage servicing rights	-	-	$ 4,114	$ 4,114
Total	-	$ 235,810	$ 4,114	$ 239,924

	Proceeds Obtained During the Nine Months Ended September 30, 2011			
(In thousands)	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Trading account securities:				
Mortgage-backed securities - GNMA	-	$ 666,601	-	$ 666,601
Mortgage-backed securities - FNMA	-	163,326	-	163,326
Total trading account securities	-	$ 829,927	-	$ 829,927
Mortgage servicing rights	-	-	$ 14,953	$ 14,953
Total	-	$ 829,927	$ 14,953	$ 844,880

	Proceeds Obtained During the Quarter Ended September 30, 2010			
(In thousands)	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Trading account securities:				
Mortgage-backed securities - GNMA	-	$ 168,622	-	$ 168,622
Mortgage-backed securities - FNMA	-	54,136	-	54,136
Total trading account securities	-	$ 222,758	-	$ 222,758
Mortgage servicing rights	-	-	$ 3,932	$ 3,932
Total	-	$ 222,758	$ 3,932	$ 226,690

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	Proceeds Obtained During the Nine Months Ended September 30, 2010			
(In thousands)	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Investments securities available for sale:				
Mortgage-backed securities - GNMA	-	$ 2,810	-	$ 2,810
Mortgage-backed securities - FNMA	-	-	-	-
Total investment securities available-for-sale	-	$ 2,810	-	$ 2,810
Trading account securities:				
Mortgage-backed securities - GNMA	-	$ 496,223	$ 4,147	$ 500,370
Mortgage-backed securities - FNMA	-	130,641	-	130,641
Total trading account securities	-	$ 626,864	$ 4,147	$ 631,011
Mortgage servicing rights	-	-	$ 11,467	$ 11,467
Total	-	$ 629,674	$ 15,614	$ 645,288

During the nine months ended September 30, 2011, the Corporation retained servicing rights on whole loan sales involving approximately $84 million in principal balance outstanding (September 30, 2010 - $63 million), with realized gains of approximately $1.7 million (September 30, 2010 - gains of $1.4 million). All loan sales performed during the nine months ended September 30, 2011 were without credit recourse agreements.

The Corporation recognizes as assets the rights to service loans for others, whether these rights are purchased or result from asset transfers such as sales and securitizations.

Classes of mortgage servicing rights were determined based on the different markets or types of assets being serviced. The Corporation recognizes the servicing rights of its banking subsidiaries that are related to residential mortgage loans as a class of servicing rights. These mortgage servicing rights (MSRs) are measured at fair value. Fair value determination is performed on a subsidiary basis, with assumptions varying in accordance with the types of assets or markets served.

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

The following table presents the changes in MSRs measured using the fair value method for the nine months ended September 30, 2011 and 2010.

Residential MSRs		
(In thousands)	September 30, 2011	September 30, 2010
Fair value at beginning of period	$ 166,907	$ 169,747
Purchases	1,251	4,250
Servicing from securitizations or asset transfers	15,651	11,909
Changes due to payments on loans [1]	(9,770)	(10,311)
Reduction due to loan repurchases	(2,727)	(1,679)

Changes in fair value due to changes in valuation model inputs or assumptions		(13,876)		(7,969)
Other disposals		(210)		-
Fair value at end of period	$	157,226	$	165,947

[1] Represents the change in the market value of the MSR asset principally due to the impact of portfolio principal runoff during the period. It is computed as the sum of the monthly loan principal collections, curtailments, cancellations and repurchases multiplied by the MSR fair value percentage. A reduction in the loan portfolio balance causes a reduction in the contractual servicing fees for future periods.

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Residential mortgage loans serviced for others were $17.4 billion at September 30, 2011 (December 31, 2010 - $18.4 billion; September 30, 2010 - $18.0 billion).

Net mortgage servicing fees, a component of other service fees in the consolidated statements of operations, include the changes from period to period in the fair value of the MSRs, which may result from changes in the valuation model inputs or assumptions (principally reflecting changes in discount rates and prepayment speed assumptions) and other changes, including changes due to collection / realization of expected cash flows. Mortgage servicing fees, excluding fair value adjustments, for the quarter and nine months ended September 30, 2011 amounted to $12.2 million and $37.0 million, respectively (September 30, 2010 - $11.7 million and $35.4 million, respectively). The banking subsidiaries receive servicing fees based on a percentage of the outstanding loan balance. At September 30, 2011, those weighted average mortgage servicing fees were 0.27% (September 30, 2010 0.27%). Under these servicing agreements, the banking subsidiaries do not generally earn significant prepayment penalty fees on the underlying loans serviced.

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

Key economic assumptions used in measuring the servicing rights retained at the date of the residential mortgage loan securitizations and whole loan sales by the banking subsidiaries during the quarter ended September 30, 2011 and the year ended December 31, 2010 were as follows:

	September 30, 2011	December 31, 2010
Prepayment speed	6.3 %	5.9 %
Weighted average life	15.8 years	17.1 years
Discount rate (annual rate)	11.6 %	11.4 %

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 at September 30, 2011 and December 31, 2010 were as follows:

Originated MSRs		
(In thousands)	September 30, 2011	December 31, 2010
Fair value of retained interests	$ 99,901	$ 101,675
Weighted average life	10.6 years	12.5 years
Weighted average prepayment speed (annual rate)	9.4 %	8.0 %
Impact on fair value of 10% adverse change	$ (3,724)	$ (3,413)
Impact on fair value of 20% adverse change	$ (7,331)	$ (6,651)
Weighted average discount rate (annual rate)	12.6 %	12.8 %
Impact on fair value of 10% adverse change	$ (4,177)	$ (4,479)
Impact on fair value of 20% adverse change	$ (8,123)	$ (8,605)

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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 at September 30, 2011 and December 31, 2010 were as follows:

Purchased MSRs

(In thousands)	September 30, 2011	December 31, 2010
Fair value of retained interests	$ 57,325	$ 65,232
Weighted average life	10.9 years	12.7 years
Weighted average prepayment speed (annual rate)	9.2 %	7.9 %
Impact on fair value of 10% adverse change	$ (2,458)	$ (1,963)
Impact on fair value of 20% adverse change	$ (4,401)	$ (3,956)
Weighted average discount rate (annual rate)	11.4 %	11.5 %
Impact on fair value of 10% adverse change	$ (2,550)	$ (2,353)
Impact on fair value of 20% adverse change	$ (4,552)	$ (4,671)

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

At September 30, 2011 the Corporation serviced $3.6 billion (December 31, 2010 - $4.0 billion; September 30, 2010 - $4.1 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 September 30, 2011 the Corporation had recorded $163 million in mortgage loans on its financial statements related to this buy-back option program (December 31, 2010 - $168 million; September 30, 2010 - $163 million). During the nine months ended September 30, 2011 and 2010, the Corporation did not exercise its option to repurchase delinquency loans that meet the criteria indicated above. 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.

Note 12 Other assets

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

(In thousands)	September 30, 2011	December 31, 2010	September 30, 2010
Net deferred tax assets (net of valuation allowance)	$ 341,648	$ 388,466	$ 329,768
Investments under the equity method	304,470	299,185	292,493
Bank-owned life insurance program	241,542	237,997	236,824
Prepaid FDIC insurance assessment	78,397	147,513	164,190
Other prepaid expenses	88,754	75,149	91,193
Derivative assets	67,582		