

POPULAR INC
Form 10-Q
August 09, 2010

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q**

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2010**

Commission File Number: 001-34084

POPULAR, INC.

(Exact name of registrant as specified in its charter)

Puerto Rico

66-0667416

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification Number)

**Popular Center Building
209 Muñoz Rivera Avenue, Hato Rey
San Juan, Puerto Rico**

00918

(Address of principal executive offices)

(Zip code)

(787) 765-9800

(Registrant's telephone number, including area code)

NOT APPLICABLE

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

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

Yes No

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

Yes No

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

Large accelerated filer

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 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, 1,022,695,797 shares outstanding as of August 5, 2010.

**POPULAR, INC.
INDEX**

	Page
Part I Financial Information	
<u>Item 1. Financial Statements</u>	
<u>Unaudited Consolidated Statements of Condition as of June 30, 2010, December 31, 2009 and June 30, 2009</u>	4
<u>Unaudited Consolidated Statements of Operations for the quarters and six months ended June 30, 2010 and 2009</u>	5
<u>Unaudited Consolidated Statements of Changes in Stockholders' Equity for the six months ended June 30, 2010 and 2009</u>	6
<u>Unaudited Consolidated Statements of Comprehensive (Loss) Income for the quarters and six months ended June 30, 2010 and 2009</u>	7
<u>Unaudited Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and 2009</u>	8
<u>Notes to Unaudited Consolidated Financial Statements</u>	9
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	95
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	146
<u>Item 4. Controls and Procedures</u>	154
Part II Other Information	
<u>Item 1. Legal Proceedings</u>	155
<u>Item 1A. Risk Factors</u>	156
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	159
<u>Item 6. Exhibits</u>	159
<u>Signatures</u>	2

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) financial condition, results of operations, plans, objectives, future performance and business, including, but not limited to, statements with respect to the adequacy of the allowance for loan losses, 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 such as will, 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;

- difficulties in combining the operations of acquired entities, including in connection with our acquisition of certain assets and assumption of certain liabilities of Westernbank Puerto Rico from the Federal Deposit Insurance Corporation (FDIC);

- lower than expected gains related to any sale or potential sale of businesses;

- 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;

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

- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Financial Reform Act) on the Corporation's businesses, business practices and costs of operations;

- 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 FDIC assessments; and

- possible legislative, tax or regulatory changes.

Investors should refer to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2009 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.

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.

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.

ITEM 1. FINANCIAL STATEMENTS**POPULAR, INC.****CONSOLIDATED STATEMENTS OF CONDITION (UNAUDITED)**

(In thousands, except share information)	June 30, 2010	December 31, 2009	June 30, 2009
ASSETS			
Cash and due from banks	\$ 744,769	\$ 677,330	\$ 661,852
Money market investments:			
Federal funds sold	11,540	159,807	106,092
Securities purchased under agreements to resell	299,921	293,125	306,974
Time deposits with other banks	2,132,748	549,865	538,581
Total money market investments	2,444,209	1,002,797	951,647
Trading account securities, at fair value:			
Pledged securities with creditors' right to repledge	371,619	415,653	400,128
Other trading securities	29,924	46,783	87,054
Investment securities available-for-sale, at fair value:			
Pledged securities with creditors' right to repledge	1,981,931	2,330,441	2,599,558
Other investment securities available-for-sale	4,499,256	4,364,273	4,646,901
Investment securities held-to-maturity, at amortized cost (fair value as of June 30, 2010 - \$209,207; December 31, 2009 - \$213,146; June 30, 2009 - \$313,462)	209,416	212,962	320,061
Other investment securities, at lower of cost or realizable value (realizable value as of June 30, 2010 - \$153,845; December 31, 2009 - \$165,497; June 30, 2009 - \$216,551)	152,562	164,149	214,923
Loans held-for-sale measured at lower of cost or fair value	101,251	90,796	242,847
Loans held-in-portfolio:			
Loans not covered under loss sharing agreements with the FDIC	22,576,299	23,827,263	24,717,321
Loans covered under loss sharing agreements with the FDIC	4,079,017		
Less Unearned income	109,911	114,150	111,259
Allowance for loan losses	1,277,016	1,261,204	1,146,239
Total loans held-in-portfolio, net	25,268,389	22,451,909	23,459,823
FDIC loss share indemnification asset	3,345,896		
Premises and equipment, net	573,941	584,853	614,366
Other real estate not covered under loss sharing agreements with the FDIC	142,372	125,483	105,553
Other real estate covered under loss sharing agreements with the FDIC	76,331		
Accrued income receivable	151,245	126,080	135,978
	174,170	172,505	184,189

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Servicing assets (at fair value on June 30, 2010 - \$171,994; December 31, 2009 - \$169,747; June 30, 2009 - \$180,808)

Other assets (See Note 12)	1,402,072	1,322,159	1,214,849
Goodwill	710,579	604,349	607,164
Other intangible assets	63,720	43,803	48,447
Assets from discontinued operations			3,452
Total assets	\$42,443,652	\$ 34,736,325	\$36,498,792

LIABILITIES AND STOCKHOLDERS EQUITY

Liabilities:

Deposits:

Non-interest bearing	\$ 4,793,338	\$ 4,495,301	\$ 4,408,865
Interest bearing	22,320,235	21,429,593	22,504,620

Total deposits	27,113,573	25,924,894	26,913,485
Federal funds purchased and assets sold under agreements to repurchase	2,307,194	2,632,790	2,941,678
Other short-term borrowings	1,263	7,326	1,825
Notes payable	8,237,401	2,648,632	2,643,722
Other liabilities	1,180,773	983,866	1,084,455
Liabilities from discontinued operations			13,926

Total liabilities	38,840,204	32,197,508	33,599,091
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Commitments and contingencies (See Note 19)

Stockholders equity:

Preferred stock, 30,000,000 shares authorized; 2,006,391 shares issued and outstanding at June 30, 2010 and December 31, 2009 (June 30, 2009 - 24,410,000) (aggregate liquidation preference value as of June 30, 2010 and December 31, 2009 - \$50,160 (June 30, 2009 - \$1,521,875))	50,160	50,160	1,487,000
Common stock, \$0.01 par value; 1,700,000,000 shares authorized as of June 30, 2010 (December 31, 2009 and June 30, 2009 - 700,000,000); 1,022,878,228 shares issued as of June 30, 2010 (December 31, 2009 - 639,544,895; June 30, 2009 - 282,034,819) and 1,022,695,797 outstanding as of June 30, 2010 (December 31, 2009 - 639,540,105; June 30, 2009 - 282,031,548)	10,229	6,395	2,820
Surplus	4,094,429	2,804,238	2,185,757
Accumulated deficit	(625,302)	(292,752)	(659,165)
Treasury stock at cost, 182,431 shares as of June 30, 2010 (December 31, 2009 - 4,790 shares; June 30, 2009 - 3,271)	(518)	(15)	(11)
Accumulated other comprehensive income (loss), net of tax expense of \$17,744 (December 31, 2009 - \$33,964; June 30, 2009 - \$67,257)	74,450	(29,209)	(116,700)

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Total stockholders' equity	3,603,448	2,538,817	2,899,701
Total liabilities and stockholders' equity	\$42,443,652	\$ 34,736,325	\$36,498,792

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

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

(In thousands, except per share information)	Quarter ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
INTEREST INCOME:				
Loans	\$ 385,314	\$ 382,244	\$ 739,963	\$ 784,012
Money market investments	1,893	2,381	2,935	5,514
Investment securities	62,915	75,818	127,841	149,301
Trading account securities	6,599	10,603	13,177	21,411
Total interest income	456,721	471,046	883,916	960,238
INTEREST EXPENSE:				
Deposits	90,615	128,452	183,589	276,491
Short-term borrowings	15,552	16,631	30,811	37,334
Long-term debt	71,578	42,903	121,623	90,867
Total interest expense	177,745	187,986	336,023	404,692
Net interest income	278,976	283,060	547,893	555,546
Provision for loan losses	202,258	349,444	442,458	721,973
Net interest income after provision for loan losses	76,718	(66,384)	105,435	(166,427)
Service charges on deposit accounts	50,679	53,463	101,257	107,204
Other service fees (See Note 24)	103,725	102,437	205,045	200,970
Net gain on sale and valuation adjustments of investment securities	397	53,705	478	229,851
Trading account profit	2,464	16,839	2,241	23,662
Loss on sale of loans, including adjustments to indemnity reserves, and valuation adjustments on loans held-for-sale	(9,311)	(13,453)	(21,533)	(27,266)
FDIC loss share income	23,334		23,334	
Fair value change in equity appreciation instrument	24,394		24,394	
Other operating income	20,176	12,848	38,508	26,149
Total non-interest income	215,858	225,839	373,724	560,570
OPERATING EXPENSES:				
Personnel costs:				
Salaries	109,124	107,079	204,997	212,402
Pension and other benefits	28,908	29,127	53,967	69,095
Total personnel costs	138,032	136,206	258,964	281,497
Net occupancy expenses	29,058	26,024	57,934	52,465

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Equipment expenses	25,346	25,202	48,799	51,306
Other taxes	12,459	13,084	24,763	26,260
Professional fees	34,225	27,048	61,274	51,949
Communications	11,342	12,386	22,114	24,213
Business promotion	10,204	9,946	18,499	17,856
Printing and supplies	2,653	3,017	5,022	5,807
FDIC deposit insurance	17,393	36,331	32,711	45,448
Other operating expenses	45,249	38,968	74,745	73,202
Amortization of intangibles	2,455	2,433	4,504	4,839
Total operating expenses	328,416	330,645	609,329	634,842
Loss from continuing operations before income tax	(35,840)	(171,190)	(130,170)	(240,699)
Income tax expense (benefit)	19,988	5,393	10,713	(21,540)
Loss from continuing operations	(55,828)	(176,583)	(140,883)	(219,159)
Loss from discontinued operations, net of income tax		(6,599)		(16,545)
NET LOSS	\$ (55,828)	\$(183,182)	\$(140,883)	\$(235,704)
NET LOSS APPLICABLE TO COMMON STOCK	\$(247,495)	\$(207,810)	\$(332,550)	\$(285,010)
NET LOSS PER COMMON SHARE BASIC				
Net loss from continuing operations	\$ (0.29)	\$ (0.71)	\$ (0.45)	\$ (0.95)
Net loss from discontinued operations		(0.03)		(0.06)
Net loss per common share basic	\$ (0.29)	\$ (0.74)	\$ (0.45)	\$ (1.01)
NET LOSS PER COMMON SHARE DILUTED				
Net loss from continuing operations	\$ (0.29)	\$ (0.71)	\$ (0.45)	\$ (0.95)
Net loss from discontinued operations		(0.03)		(0.06)
Net loss per common share diluted	\$ (0.29)	\$ (0.74)	\$ (0.45)	\$ (1.01)
DIVIDENDS DECLARED PER COMMON SHARE				\$ 0.02

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

POPULAR, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)

(In thousands)	Common stock	Preferred stock	Surplus	Accumulated other comprehensive (loss) income		Total
				deficit		
Balance as of December 31, 2008	\$ 1,566,277	\$ 1,483,525	\$ 621,879	\$(374,488)	\$ (28,829)	\$3,268,364
Net loss				(235,704)		(235,704)
Accretion of discount		3,475 [1]		(3,475) [1]		
Stock options expense on unexercised options, net of forfeitures			45			45
Change in par value	(1,689,389) [2]		1,689,389 [2]			
Dividends declared:						
Common stock				(5,641)		(5,641)
Preferred stock				(39,857)		(39,857)
Common stock reissuance	378					378
Common stock purchases	(13)					(13)
Treasury stock retired	125,556		(125,556)			
Other comprehensive loss, net of tax					(87,871)	(87,871)
Balance as of June 30, 2009	\$ 2,809	\$ 1,487,000	\$2,185,757	\$(659,165)	\$(116,700)	\$2,899,701
Balance as of December 31, 2009	\$ 6,380	\$ 50,160	\$2,804,238	\$(292,752)	\$ (29,209)	\$2,538,817
Net loss				(140,883)		(140,883)
Issuance of stocks		1,150,000 [3]				1,150,000
Issuance of common stock upon conversion	3,834 [3]	(1,150,000) [3]	1,337,833 [3]			191,667

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of preferred stock							
Issuance costs				(47,642) [4]			(47,642)
Deemed dividend							
on preferred							
stock					(191,667)		(191,667)
Common stock							
purchases	(503)						(503)
Other							
comprehensive							
income, net of							
tax						103,659	103,659
Balance as of							
June 30, 2010	\$ 9,711	\$ 50,160	\$4,094,429	\$(625,302)	\$ 74,450	\$3,603,448	

[1] Accretion of preferred stock discount 2008 Series C preferred stock

[2] Change in par value from \$6.00 to \$0.01 (not in thousands)

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

[4] Issuance costs related to issuance and conversion of depositary shares (Preferred stock Series D)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

Disclosure of changes in number of shares:

	June 30, 2010	December 31, 2009	June 30, 2009
Preferred Stock:			
Balance at beginning of period	2,006,391	24,410,000	24,410,000
Issuance of stocks	1,150,000 [1]	(22,403,609) [2]	
Conversion of stocks	(1,150,000) [1]		
Balance at end of period	2,006,391	2,006,391	24,410,000
Common Stock Issued:			
Balance at beginning of period	639,544,895	295,632,080	295,632,080
Issuance of stocks	383,333,333 [1]	357,510,076 [3]	
Treasury stock retired		(13,597,261)	(13,597,261)
Balance at end of period	1,022,878,228	639,544,895	282,034,819
Treasury stock	(182,431)	(4,790)	(3,271)
Common Stock outstanding	1,022,695,797	639,540,105	282,031,548

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

[2] Exchange of 21,468,609 preferred stock

Series A and B
for common
shares, and
exchange of
935,000
preferred stock
Series C for
trust preferred
securities.

[3] Shares issued in
exchange of
Series A and B
preferred stock
and early
extinguishment
of debt
(exchange of
trust preferred
securities for
common stock).

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

POPULAR, INC.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(UNAUDITED)**

(In thousands)	Quarter ended		Six months ended	
	2010	2009	2010	2009
Net loss	\$ (55,828)	\$ (183,182)	\$ (140,883)	\$ (235,704)
Other comprehensive income (loss) before tax:				
Foreign currency translation adjustment	(1,531)	(877)	(577)	(757)
Adjustment of pension and postretirement benefit plans	4,486	1,855	6,236	63,095
Unrealized holding gains (losses) on securities available-for-sale arising during the period	80,801	(34,712)	116,912	(19,399)
Reclassification adjustment for losses (gains) included in net loss	6	(1,410)	16	(177,556)
Unrealized net losses on cash flow hedges	(1,509)	(37)	(1,540)	(1,623)
Reclassification adjustment for losses (gains) included in net loss	31	3,469	(1,168)	5,883
Other comprehensive income (loss) before tax:	82,284	(31,712)	119,879	(130,357)
Income tax (expense) benefit	(12,065)	5,694	(16,220)	42,486
Total other comprehensive income (loss), net of tax	70,219	(26,018)	103,659	(87,871)
Comprehensive income (loss), net of tax	\$ 14,391	\$ (209,200)	\$ (37,224)	\$ (323,575)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**Tax Effects Allocated to Each Component of Other Comprehensive Income (Loss):**

Quarter ended	Six months ended
June 30,	June 30,