

POPULAR INC
Form 10-Q
August 11, 2014
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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 June 30, 2014**

Commission File Number: 001-34084

POPULAR, INC.

(Exact name of registrant as specified in its charter)

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

66-0667416
(IRS Employer
Identification Number)

Popular Center Building

209 Muñoz Rivera Avenue

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

00918
(Zip code)

(787) 765-9800

(Registrant's telephone number, including area code)

NOT APPLICABLE

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

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

Yes No

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

Yes No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Yes No

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

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Forward-Looking Information

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

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

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

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

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

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

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

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

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

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

the performance of the stock and bond markets;

competition in the financial services industry;

additional Federal Deposit Insurance Corporation (FDIC) assessments;

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

possible legislative, tax or regulatory changes.

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

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

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

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

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

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

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

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

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