POPULAR INC
Form 10-Q
November 08, 2018
**Table of Contents**

**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 September 30, 2018**

**Commission File Number: 001-34084**

**POPULAR, INC.**

**(Exact name of registrant as specified in its charter)**

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

**Popular Center Building**

**209 Muñoz Rivera Avenue**

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

**(787) 765-9800**

**(Registrant s telephone number, including area code)**

**NOT APPLICABLE**

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

| | |
|---|---|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer | Smaller reporting company |
| | Emerging growth company |

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

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, 100,352,514 shares outstanding as of November 5, 2018.

Table of Contents

**POPULAR, INC.**

**INDEX**

Table of Contents

**Forward-Looking Information**

This Form 10-Q contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, including, without limitation, statements about Popular Inc. s (the Corporation, Popular, we, u our ) business, financial condition, results of operations, plans, objectives and future performance. These statements are not guarantees of future performance, are based on management s current expectations and, by their nature, involve risks, uncertainties, estimates and assumptions. Potential factors, some of which are beyond the Corporation s control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Risks and uncertainties include without limitation the effect of competitive and economic factors, and our reaction to those factors, 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, the effect of legal proceedings and new accounting standards on the Corporation s financial condition and results of operations, and the impact of Hurricanes Irma and María on the Corporation. 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.

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 in the geographic areas we serve;

the impact of the current fiscal and economic crisis of the Commonwealth of Puerto Rico (the Commonwealth or Puerto Rico ) and the measures taken and to be taken by the Puerto Rico Government and the Federally-appointed oversight board on the economy, our customers and our business;

the impact of the pending debt restructuring proceedings under Title III of the Puerto Rico Oversight, Management and Economic Stability Act ( PROMESA ) and of other actions taken or to be taken to address Puerto Rico s fiscal crisis on the value of our portfolio of Puerto Rico government securities and loans to governmental entities and private borrowers that have relationships with the government, and the possibility that these actions may result in credit losses that are higher than currently expected;

the impact of Hurricanes Irma and Maria, and the measures taken to recover from these hurricanes (including the availability of relief funds and insurance proceeds), on the economy of Puerto Rico, the U.S. Virgin Islands and the British Virgin Islands, and on our customers and our business;

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;

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 ability to successfully integrate the auto finance business acquired from Wells Fargo & Company, as well as unexpected costs, including, without limitation, costs due to exposure to any unrecorded liabilities or issues not identified during the due diligence investigation of the business or that are not subject to indemnification or reimbursement, and risks that the business may suffer as a result of the transaction, including due to adverse effects on relationships with customers, employees and service providers;

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;

Table of Contents

- competition in the financial services industry;
- additional Federal Deposit Insurance Corporation ( FDIC ) assessments;
- possible legislative, tax or regulatory changes; and
- a failure in or breach of our operational or security systems or infrastructure or those of EVERTEC, Inc., our provider of core financial transaction processing and information technology services, as a result of cyberattacks, including e-fraud, denial-of-services and computer intrusion, that might result in loss or breach of customer data, disruption of services, reputational damage or additional costs to Popular.

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, including as a result of Hurricanes Irma and Maria, that adversely affect 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 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;
- 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/or juries. Investors should refer to the Corporation s Annual Report on Form 10-K for the year ended December 31, 2017 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 Form 10-Q are based upon information available to Popular as of the date of this Form 10-Q 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 or information which speak as of their respective dates.

Table of Contents

**POPULAR, INC.**

**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

**(UNAUDITED)**

| (In thousands, except share information) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Assets: | | |
| Cash and due from banks | $ 400,949 | $ 402,857 |
| Money market investments: | | |
| Time deposits with other banks | 4,609,061 | 5,255,119 |
| Total money market investments | 4,609,061 | 5,255,119 |
| Trading account debt securities, at fair value: | | |
| Pledged securities with creditors right to repledge | 600 | 625 |
| Other trading securities | 37,131 | 33,301 |
| Debt securities available-for-sale, at fair value: | | |
| Pledged securities with creditors right to repledge | 295,437 | 393,634 |
| Other investment securities available-for-sale | 12,752,180 | 9,783,289 |
| Debt securities held-to-maturity, at amortized cost (fair value 2018 - $105,074; 2017 - $97,501) | 101,238 | 107,019 |
| Equity securities (realizable value 2018 -$162,741); (2017 - $168,417) | 157,962 | 165,103 |
| Loans held-for-sale, at lower of cost or fair value | 51,742 | 132,395 |
| Loans held-in-portfolio: | | |
| Loans not covered under loss-sharing agreements with the FDIC | 26,661,951 | 24,423,427 |
| Loans covered under loss-sharing agreements with the FDIC | | 517,274 |
| Less Unearned income | 149,783 | 130,633 |
| Allowance for loan losses | 633,718 | 623,426 |
| Total loans held-in-portfolio, net | 25,878,450 | 24,186,642 |
| FDIC loss-share asset | | 45,192 |
| Premises and equipment, net | 557,104 | 547,142 |
| Other real estate not covered under loss-sharing agreements with the FDIC | 133,780 | 169,260 |
| Other real estate covered under loss-sharing agreements with the FDIC | | 19,595 |
| Accrued income receivable | 163,443 | 213,844 |
| Mortgage servicing assets, at fair value | 162,779 | 168,031 |
| Other assets | 1,900,850 | 1,991,323 |
| Goodwill | 687,536 | 627,294 |
| Other intangible assets | 29,186 | 35,672 |
| Total assets | $ 47,919,428 | $ 44,277,337 |

| | | |
|---|---|---|
| Liabilities and Stockholders Equity | | |
| Liabilities: | | |
| Deposits: | | |
| Non-interest bearing | $ 8,803,752 | $ 8,490,945 |
| Interest bearing | 30,845,075 | 26,962,563 |
| Total deposits | 39,648,827 | 35,453,508 |
| Assets sold under agreements to repurchase | 300,116 | 390,921 |
| Other short-term borrowings | 1,200 | 96,208 |
| Notes payable | 1,744,687 | 1,536,356 |
| Other liabilities | 980,249 | 1,696,439 |
| Total liabilities | 42,675,079 | 39,173,432 |
| Commitments and contingencies (Refer to Note 22) | | |
| 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; 104,304,529 shares issued (2017 - 104,238,159) and 100,336,341 shares outstanding (2017 - 102,068,981) | 1,043 | 1,042 |
| Surplus | 4,281,515 | 4,298,503 |
| Retained earnings | 1,629,692 | 1,194,994 |
| Treasury stock - at cost, 3,968,188 shares (2017 - 2,169,178) | (183,872) | (90,142) |
| Accumulated other comprehensive loss, net of tax | (534,189) | (350,652) |
| Total stockholders equity | 5,244,349 | 5,103,905 |
| Total liabilities and stockholders equity | $ 47,919,428 | $ 44,277,337 |

*The accompanying notes are an integral part of these Consolidated Financial Statements.*

5

Table of Contents

**POPULAR, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(UNAUDITED)**

| | Quarters ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (In thousands, except per share information) | 2018 | 2017 | 2018 | 2017 |
| **Interest income:** | | | | |
| Loans | $ 430,637 | $ 371,979 | $ 1,190,498 | $ 1,102,784 |
| Money market investments | 27,581 | 15,529 | 86,258 | 33,233 |
| Investment securities | 70,147 | 48,375 | 185,537 | 144,594 |
| Total interest income | 528,365 | 435,883 | 1,462,293 | 1,280,611 |
| **Interest expense:** | | | | |
| Deposits | 55,134 | 37,058 | 139,050 | 104,907 |
| Short-term borrowings | 1,622 | 1,524 | 5,387 | 3,734 |
| Long-term debt | 20,140 | 19,130 | 59,204 | 57,222 |
| Total interest expense | 76,896 | 57,712 | 203,641 | 165,863 |
| Net interest income | 451,469 | 378,171 | 1,258,652 | 1,114,748 |
| Provision for loan losses - non-covered loans | 54,387 | 157,659 | 183,774 | 249,681 |
| Provision for loan losses - covered loans | | 3,100 | 1,730 | 4,255 |
| Net interest income after provision for loan losses | 397,082 | 217,412 | 1,073,148 | 860,812 |
| Service charges on deposit accounts | 38,147 | 39,273 | 111,704 | 119,882 |
| Other service fees | 64,316 | 53,481 | 187,794 | 168,824 |
| Mortgage banking activities (Refer to Note 11) | 11,269 | 5,239 | 33,408 | 27,349 |
| Net gain on sale of debt securities | | 83 | | 83 |
| Other-than-temporary impairment losses on debt securities | | | | (8,299) |
| Net gain (loss), including impairment on equity securities | 370 | 20 | (42) | 201 |
| Net (loss) profit on trading account debt securities | (122) | 253 | (299) | (680) |
| Net loss on sale of loans, including valuation adjustments on loans held-for-sale | | (420) | | (420) |
| Adjustments (expense) to indemnity reserves on loans sold | (3,029) | (6,406) | (6,482) | (11,302) |
| FDIC loss-share (expense) income (Refer to Note 29) | | (3,948) | 94,725 | (12,680) |
| Other operating income | 40,070 | 12,799 | 78,519 | 50,078 |
| Total non-interest income | 151,021 | 100,374 | 499,327 | 333,036 |
| **Operating expenses:** | | | | |

| | | | | |
|---|---|---|---|---|
| Personnel costs | 139,757 | 117,769 | 389,941 | 358,457 |
| Net occupancy expenses | 18,602 | 22,254 | 63,829 | 65,295 |
| Equipment expenses | 18,303 | 16,457 | 53,284 | 48,677 |
| Other taxes | 11,923 | 10,858 | 33,701 | 32,567 |
| Professional fees | 83,860 | 70,772 | 260,748 | 212,956 |
| Communications | 6,054 | 5,394 | 17,342 | 17,242 |
| Business promotion | 15,478 | 15,216 | 44,265 | 40,158 |
| FDIC deposit insurance | 8,610 | 6,271 | 22,534 | 18,936 |
| Other real estate owned (OREO) expenses | 7,950 | 11,724 | 21,028 | 41,212 |
| Other operating expenses | 52,576 | 38,028 | 111,462 | 92,707 |
| Amortization of intangibles | 2,324 | 2,345 | 6,973 | 7,034 |
| Total operating expenses | 365,437 | 317,088 | 1,025,107 | 935,241 |
| Income before income tax | 182,666 | 698 | 547,368 | 258,607 |
| Income tax expense (benefit) | 42,018 | (19,966) | 35,613 | 48,772 |
| **Net Income** | $ 140,648 | $ 20,664 | $ 511,755 | $ 209,835 |
| **Net Income Applicable to Common Stock** | $ 139,718 | $ 19,734 | $ 508,963 | $ 207,043 |
| **Net Income per Common Share Basic** | $ 1.38 | $ 0.19 | $ 5.01 | $ 2.03 |
| **Net Income per Common Share Diluted** | $ 1.38 | $ 0.19 | $ 5.00 | $ 2.03 |

*The accompanying notes are an integral part of these Consolidated Financial Statements.*

Table of Contents

**POPULAR, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(UNAUDITED)**

| | Quarters ended, September 30, | | Nine months ended, September 30, | |
|---|---|---|---|---|
| (In thousands) | 2018 | 2017 | 2018 | 2017 |
| Net income | $ 140,648 | $ 20,664 | $ 511,755 | $ 209,835 |
| Reclassification to retained earnings due to cumulative effect of accounting change | | | (605) | |
| Other comprehensive (loss) income before tax: | | | | |
| Foreign currency translation adjustment | (605) | (390) | (3,968) | (1,839) |
| Amortization of net losses of pension and postretirement benefit plans | 5,386 | 5,606 | 16,157 | 16,819 |
| Amortization of prior service credit of pension and postretirement benefit plans | (868) | (950) | (2,603) | (2,850) |
| Unrealized holding (losses) gains on debt securities arising during the period | (43,781) | 9,180 | (201,193) | 14,912 |
| Other-than-temporary impairment included in net income | | | | 8,299 |
| Reclassification adjustment for gains included in net income | | (83) | | (83) |
| Unrealized holding gains on equity securities arising during the period | | 60 | | 225 |
| Reclassification adjustment for gains included in net income | | (20) | | (201) |
| Unrealized net gains (losses) on cash flow hedges | 341 | (410) | 1,296 | (1,424) |
| Reclassification adjustment for net losses (gains) included in net income | 147 | 232 | (870) | 2,122 |
| Other comprehensive (loss) income before tax | (39,380) | 13,225 | (191,786) | 35,980 |
| Income tax benefit (expense) | 1,983 | (1,614) | 8,249 | (7,026) |
| Total other comprehensive (loss) income, net of tax | (37,397) | 11,611 | (183,537) | 28,954 |
| Comprehensive income, net of tax | $ 103,251 | $ 32,275 | $ 328,218 | $ 238,789 |

**Tax effect allocated to each component of other comprehensive (loss) income:**

| | Quarters ended September 30, | | Nine months ended, September 30, | |
|---|---|---|---|---|
| (In thousands) | 2018 | 2017 | 2018 | 2017 |
| Amortization of net losses of pension and postretirement benefit plans | $ (2,101) | $ (2,185) | $ (6,301) | $ (6,556) |

| | | | | |
|---|---|---|---|---|
| Amortization of prior service credit of pension and postretirement benefit plans | 339 | 370 | 1,016 | 1,110 |
| Unrealized holding (losses) gains on debt securities arising during the period | 3,936 | 122 | 13,701 | 239 |
| Other-than-temporary impairment included in net income | | | | (1,559) |
| Reclassification adjustment for gains included in net income | | 17 | | 17 |
| Unrealized holding gains on equity securities arising during the period | | (12) | | (45) |
| Reclassification adjustment for gains included in net income | | 4 | | 40 |
| Unrealized net gains (losses) on cash flow hedges | (133) | 160 | (506) | 555 |
| Reclassification adjustment for net losses (gains) included in net income | (58) | (90) | 339 | (827) |
| Income tax benefit (expense) | $ 1,983 | $ (1,614) | $ 8,249 | $ (7,026) |

*The accompanying notes are an integral part of the Consolidated Financial Statements.*

7

Table of Contents

**POPULAR, INC.**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**

**(UNAUDITED)**

| (In thousands) | Common stock | Preferred stock | Surplus | Retained earnings | Treasury stock | Accumulated other comprehensive loss | Total |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2016 | $ 1,040 | $ 50,160 | $ 4,255,022 | $ 1,220,307 | $ (8,286) | $ (320,286) | $ 5,197,957 |
| Net income | | | | 209,835 | | | 209,835 |
| Issuance of stock | 2 | | 5,513 | | | | 5,515 |
| Dividends declared: | | | | | | | |
| Common stock | | | | (76,620) | | | (76,620) |
| Preferred stock | | | | (2,792) | | | (2,792) |
| Common stock purchases | | | 4,518 | | (81,936) | | (77,418) |
| Other comprehensive income, net of tax | | | | | | 28,954 | 28,954 |
| Balance at September 30, 2017 | $ 1,042 | $ 50,160 | $ 4,265,053 | $ 1,350,730 | $ (90,222) | $ (291,332) | $ 5,285,431 |
| Balance at December 31, 2017 | $ 1,042 | $ 50,160 | $ 4,298,503 | $ 1,194,994 | $ (90,142) | $ (350,652) | $ 5,103,905 |
| Cumulative effect of accounting change | | | | 1,935 | | | 1,935 |
| Net income | | | | 511,755 | | | 511,755 |
| Issuance of stock | 1 | | 2,564 | | | | 2,565 |
| Dividends declared: | | | | | | | |
| Common stock | | | | (76,200) | | | (76,200) |
| Preferred stock | | | | (2,792) | | | (2,792) |
| Common stock purchases | | | (23,020) | | (104,423) | | (127,443) |
| Common stock reissuance | | | 143 | | 2,008 | | 2,151 |
| Stock based compensation | | | 3,325 | | 8,685 | | 12,010 |
| Other comprehensive income, net of tax | | | | | | (183,537) | (183,537) |
| Balance at September 30, 2018 | $ 1,043 | $ 50,160 | $ 4,281,515 | $ 1,629,692 | $ (183,872) | $ (534,189) | $ 5,244,349 |

| **Disclosure of changes in number of shares:** | September 30, 2018 | September 30, 2017 |
|---|---|---|
| Preferred Stock: | | |
| Balance at beginning and end of period | 2,006,391 | 2,006,391 |
| Common Stock Issued: | | |
| Balance at beginning of period | 104,238,159 | 104,058,684 |
| Issuance of stock | 66,370 | 138,840 |
| Balance at end of period | 104,304,529 | 104,197,524 |
| Treasury stock | (3,968,188) | (2,171,107) |
| Common Stock Outstanding | 100,336,341 | 102,026,417 |

*The accompanying notes are an integral part of these Consolidated Financial Statements.*

Table of Contents

**POPULAR, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(UNAUDITED)**

| | Nine months ended September 30, | |
|---|---|---|
| (In thousands) | 2018 | 2017 |
| **Cash flows from operating activities:** | | |
| Net income | $ 511,755 | $ 209,835 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 185,504 | 253,936 |
| Amortization of intangibles | 6,973 | 7,034 |
| Depreciation and amortization of premises and equipment | 39,083 | 35,966 |
| Net accretion of discounts and amortization of premiums and deferred fees | (43,533) | (17,371) |
| Share-based compensation | 5,962 | |
| Impairment losses on long-lived assets | 272 | 11,286 |
| Other-than-temporary impairment on debt securities | | 8,299 |
| Fair value adjustments on mortgage servicing rights | 13,123 | 24,262 |
| FDIC loss share (income) expense | (94,725) | 12,680 |
| Adjustments (expense) to indemnity reserves on loans sold | 6,482 | 11,302 |
| Earnings from investments under the equity method, net of dividends or distributions | (14,772) | (11,514) |
| Deferred income tax (benefit) expense | (97,708) | 30,471 |
| Loss (gain) on: | | |
| Disposition of premises and equipment and other productive assets | 17,694 | 5,018 |
| Proceeds from insurance claims | (14,411) | |
| Sale and valuation adjustments of debt securities | | (83) |
| Sale of loans, including valuation adjustments on loans held-for-sale and mortgage banking activities | (6,734) | (16,455) |
| Sale of foreclosed assets, including write-downs | (638) | 19,228 |
| Acquisitions of loans held-for-sale | (173,644) | (204,813) |
| Proceeds from sale of loans held-for-sale | 51,131 | 68,326 |
| Net originations on loans held-for-sale | (186,063) | (283,709) |
| Net decrease (increase) in: | | |
| Trading debt securities | 346,455 | 499,714 |
| Equity securities | (2,480) | (613) |
| Accrued income receivable | 51,868 | (8,297) |
| Other assets | 234,836 | (1,882) |
| Net (decrease) increase in: | | |
| Interest payable | (9,933) | (9,299) |
| Pension and other postretirement benefits obligation | 3,392 | (13,760) |
| Other liabilities | (197,035) | 15,178 |

| | | |
|---|---|---|
| Total adjustments | 121,099 | 434,904 |
| Net cash provided by operating activities | 632,854 | 644,739 |
| **Cash flows from investing activities:** | | |
| Net increase (decrease) in money market investments | 647,519 | (2,600,853) |
| Purchases of investment securities: | | |
| Available-for-sale | (6,968,920) | (2,356,385) |
| Equity | (11,304) | (23,822) |
| Proceeds from calls, paydowns, maturities and redemptions of investment securities: | | |
| Available-for-sale | 3,925,362 | 1,225,915 |
| Held-to-maturity | 7,184 | 6,229 |
| Proceeds from sale of investment securities: | | |
| Available-for-sale | | 14,423 |
| Equity | 20,925 | 17,675 |
| Net disbursements on loans | (15,604) | (77,400) |
| Proceeds from sale of loans | 1,354 | 415 |
| Acquisition of loan portfolios | (461,117) | (448,121) |
| Net payments (to) from FDIC under loss sharing agreements | (25,012) | (11,520) |
| Payments to acquire businesses, net of cash acquired | (1,830,050) | |
| Return of capital from equity method investments | 2,501 | 8,056 |
| Acquisition of premises and equipment | (53,144) | (40,158) |
| Proceeds from insurance claims | 14,411 | |
| Proceeds from sale of: | | |
| Premises and equipment and other productive assets | 6,991 | 6,982 |
| Foreclosed assets | 85,622 | 85,705 |
| Net cash used in investing activities | (4,653,282) | (4,192,859) |
| **Cash flows from financing activities:** | | |
| Net increase (decrease) in: | | |
| Deposits | 4,193,859 | 3,751,367 |
| Assets sold under agreements to repurchase | (90,805) | (105,020) |
| Other short-term borrowings | (95,008) | 239,398 |
| Payments of notes payable | (226,976) | (89,375) |
| Proceeds from issuance of notes payable | 434,706 | 45,000 |
| Proceeds from issuance of common stock | 10,852 | 5,515 |
| Dividends paid | (79,115) | (69,162) |
| Net payments for repurchase of common stock | (125,326) | (75,662) |
| Payments related to tax withholding for share-based compensation | (2,205) | (1,756) |
| Net cash provided by financing activities | 4,019,982 | 3,700,305 |
| Net (decrease) increase in cash and due from banks, and restricted cash | (446) | 152,185 |
| Cash and due from banks, and restricted cash at beginning of period | 412,629 | 374,196 |
| Cash and due from banks, and restricted cash at the end of the period | $ 412,183 | $ 526,381 |

*The accompanying notes are an integral part of these Consolidated Financial Statements.*

Table of Contents

**Notes to Consolidated Financial**

**Statements (Unaudited)**

Table of Contents

## Note 1 Nature of operations

Popular, Inc. (the Corporation or Popular ) 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 mainland United States and U.S. and British Virgin Islands. In Puerto Rico, the Corporation provides retail, mortgage, and commercial banking services through its principal banking subsidiary, Banco Popular de Puerto Rico ( BPPR ), as well as investment banking, broker-dealer, auto and equipment leasing and financing, and insurance services through specialized subsidiaries. In the U.S. mainland, the Corporation provides retail, mortgage and commercial banking services through its New York-chartered banking subsidiary, Popular Bank ( PB ), which has branches located in New York, New Jersey and Florida.

Prior to April 9, 2018, PB operated under the legal name of Banco Popular North America and conducted business under the assumed name of Popular Community Bank.

On August 1, 2018, Popular, Inc., through its subsidiary Popular Auto, LLC, acquired and assumed from Reliable Financial Services, Inc. and Reliable Finance Holding Co. ( Reliable ), subsidiaries of Wells Fargo & Company, certain assets and liabilities related to their auto finance business in Puerto Rico (the Reliable Transaction or Transaction ). Refer to Note 4, Business combination, for further details on the Reliable Transaction.

Table of Contents

## Note 2 Basis of Presentation and Summary of Significant Accounting Policies

*Basis of Presentation*

The consolidated interim financial statements have been prepared without audit. The consolidated statement of financial condition data at December 31, 2017 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 2017 Consolidated Financial Statements and notes to the financial statements to conform to the 2018 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, 2017, included in the Corporation s 2017 Form 10-K. 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.

*Business Combination*

The Corporation determined that the acquisition of certain assets and assumption of certain liabilities in connection with the Reliable Transaction constitutes a business combination as defined by the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 805 Business Combinations . The assets and liabilities, both tangible and intangible, were initially recorded at their estimated fair values. Fair values were determined based on the requirements of FASB ASC Topic 820 Fair Value Measurements . These fair value estimates are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair value becomes available. Acquisition-related costs are expensed as incurred. Refer to Note 4, Business combination, for additional information of assets acquired and liabilities assumed in connection with the Transaction.

## Note 3 New accounting pronouncements

*Recently Adopted Accounting Standards Updates*

*FASB Accounting Standards Update ( ASU ) 2018-03, Technical Corrections and Improvements to Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities*

The FASB issued ASU 2018-03 in February 2018, which clarifies certain aspects of the guidance in ASU 2016-01, principally related to equity securities without a readily determinable fair value.

The Corporation was not impacted by these technical corrections and improvements upon adoption of this ASU.

*FASB Accounting Standards Update ( ASU ) 2017-07, Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*

The FASB issued ASU 2017-07 in March 2017, which requires that an employer disaggregate the service cost component from the other components of net benefit cost of pension and postretirement benefit plans. The amendments also provide guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization.

As a result of the adoption of this accounting pronouncement, the Corporation recognized $6.7 million during the nine months ended September 30, 2018 (September 30, 2017 $5.6 million) as components of net periodic benefit cost other than service cost in the other operating expenses caption, which would have otherwise previously been recognized as personnel cost. The presentation for prior periods has been adjusted to reflect the new classification. Effective January 1, 2018, these expenses are no longer capitalized as part of loan origination costs.

*FASB Accounting Standards Update ( ASU ) 2017-05, Other Income Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*

The FASB issued ASU 2017-05 in February 2017, which, among other things, clarifies the scope of the derecognition of nonfinancial assets, the definition of in substance financial assets, and impacts the accounting for partial sales of nonfinancial assets by requiring full gain recognition upon the sale.

The adoption of this standard during the first quarter of 2018 did not have a material impact on the Corporation s financial statements.

*FASB Accounting Standards Update ( ASU ) 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business*

The FASB issued ASU 2017-01 in January 2017, which revises the definition of a business by providing an initial screen to determine when an integrated set of assets and activities ( set ) is not a business. Also, the amendments, among other things, specify the minimum inputs and processes required for a set to meet the definition of a business when the initial screen is not met and narrow the definition of the term output so that the term is consistent with Topic 606.

The Corporation adopted ASU 2017-01 during the first quarter of 2018. As such, the Corporation will consider this guidance in any business combinations completed after the effective date. Refer to Note 4, Business combination, for additional information on assets acquired and liabilities assumed in connection with the Reliable Transaction.

*FASB Accounting Standards Update (   ASU   ) 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash*

The FASB issued ASU 2016-18 in November 2016, which requires entities to present the changes in total cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The new guidance also requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet if restricted cash and restricted cash equivalents are presented in a different line item in the balance sheet.

As a result of the adoption of this accounting pronouncement, the Corporation included restricted cash and restricted cash equivalents within money market investments of $11.2 million at September 30, 2018 (September 30, 2017   $8.9 million) in the Consolidated Statements of Cash Flows. In addition, the Corporation presented a reconciliation of the totals in the Consolidated Statements of Cash Flows to the related captions in the Consolidated Statements of Condition in Note 33, Supplemental disclosure on the consolidated statements of cash flows.

**Table of Contents**

*FASB Accounting Standards Update ( ASU ) 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*

The FASB issued ASU 2016-16 in October 2016, which eliminates the exception for all intra-entity sales of assets other than inventory that requires deferral of the tax effects until the transferred asset is sold to a third party or otherwise recovered through use. The new guidance requires a reporting entity to recognize the tax impact from the sale of the asset in the seller s tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. Any deferred tax asset that arises in the buyer s jurisdiction would also be recognized at the time of the transfer.

As a result of the adoption of this accounting pronouncement during the first quarter of 2018, the Corporation recorded a positive cumulative effect adjustment of $1.3 million to retained earnings to reflect the net tax benefit resulting from intra-entity sales of assets.

*FASB Accounting Standards Update ( ASU ) 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*

The FASB issued ASU 2016-15 in August 2016, which addresses specific cash flow issues with the objective of reducing existing diversity in practice, which may lead to a difference in the classification of transactions between operating, financing or investing activities. Among other things, the guidance provides an accounting policy election for classifying distributions received from equity method investees and clarifies the application of the predominance principle.

As a result of the adoption of this accounting pronouncement, the Corporation reclassified from investing to operating activities $0.5 million in the Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 as a result of electing the cumulative earnings approach for classifying distributions received from equity investees.

*FASB Accounting Standards Updates ( ASUs ), Revenue from Contracts with Customers (Topic 606)*

The FASB has issued a series of ASUs which, among other things, clarify the principles for recognizing revenue and develop a common revenue standard. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services, that is, the satisfaction of performance obligations, to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. A five-step process is defined to achieve this core principle. The new guidance also requires disclosures to enable users of financial statements to understand the nature, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Corporation adopted this accounting pronouncement during the first quarter of 2018 using the modified retrospective approach. The Corporation elected the practical expedient that permits an entity to expense incremental costs of obtaining contracts, given the amortization periods were one year or less. There were no material changes in the presentation and timing of when revenues are recognized. ASC Topic 606 was applied to contracts that were not completed as of January 1, 2018. There was no impact in the evaluation of these contracts. Refer to additional disclosures on Note 28, Revenue from contracts with customers.

*FASB Accounting Standards Update ( ASU ) 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*

The FASB issued ASU 2016-01 in January 2016, which primarily affects the accounting for equity investments and financial liabilities under the fair value option as follows: require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; simplify the impairment assessment of equity investments without readily determinable fair values; require changes in fair value due to instrument-specific credit risk to be presented separately in other comprehensive income for financial liabilities under the fair value option; and clarify that the need for a valuation allowance on a deferred tax asset related to available-for-sale securities should be evaluated in combination with the entity s other deferred tax assets. In addition, the ASU also impacts the presentation and disclosure requirements of financial instruments.

**Table of Contents**

As a result of the adoption of this accounting pronouncement during the first quarter of 2018, the Corporation aggregated $11 million previously classified as available-for-sale and as trading to those under the other investment securities caption and reclassified under the caption of equity securities. In addition, a positive cumulative effect adjustment of $0.6 million was recognized due to the reclassification of unrealized gains of equity securities available-for-sale, net of tax, from accumulated other comprehensive loss to retained earnings.

The adoption of *FASB Accounting Standards Update ( ASU ) 2017-09, Compensation Stock Compensation (Topic 718): Scope of Modification Accounting*, effective during the first quarter of 2018, did not have a significant impact on the Consolidated Financial Statements.

*Recently Issued Accounting Standards Updates*

*FASB Accounting Standards Update ( ASU ) 2018-18, Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606*

The FASB issued ASU 2018-18 in November 2018 which, among other things, provides guidance on how to assess whether certain collaborative arrangement transactions should be accounted for under Topic 606.

The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted.

The Corporation does not expect to be impacted by these amendments since it does not have collaborative arrangements.

*FASB Accounting Standards Update ( ASU ) 2018-17, Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*

The FASB issued ASU 2018-17 in October 2018, which requires entities to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety when determining whether a decision-making fee is a variable interest.

The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. These amendments should be applied retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented.

The Corporation does not expect to be materially impacted by these amendments.

*FASB Accounting Standards Update ( ASU ) 2018-16, Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes*

The FASB issued ASU 2018-16 in October 2018 which permit use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815 in addition to other permissible U.S. benchmark rates.

The amendments in this ASU are required to be adopted concurrently with the amendments in ASU 2017-12, which are effective in the first quarter of 2019. The amendments should be adopted on a prospective basis for qualifying new or re-designated hedging relationships entered into on or after the date of adoption.

The Corporation will consider this guidance for qualifying new hedging relationships entered into on or after the effective date.

*FASB Accounting Standards Update ( ASU ) 2018-15, Intangibles Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*

The FASB issued ASU 2018-15 in August 2018 which, among other things, aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software, and clarifies the term over which such capitalized implementation costs should be amortized.

The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted.

The Corporation does not expect to be materially impacted by these amendments.

*FASB Accounting Standards Update ( ASU ) 2018-14, Compensation Retirement Benefits Defined Benefit Plans General (Subtopic 715-20): Disclosure Framework Changes to the Disclosure Requirements for Defined Benefit Plans*

The FASB issued ASU 2018-14 in August 2018, which modifies the disclosure requirements for employers that sponsor defined benefit pension or postretirement plans. The most significant changes include the removal of the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year and the effects of a one-percentage point change in assumed health care cost trend rates on the aggregate of the service and interest cost components of net periodic benefit costs and benefit obligation for postretirement health care benefits. In addition, certain disclosure requirements were added which include, but are not limited to, an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period.

The amendments in this ASU are effective for fiscal years ending after December 15, 2020, with early adoption permitted. The amendments in this ASU should be applied on a retrospective basis to all periods presented.

Upon adoption of this standard, the Corporation will be impacted principally by the simplified disclosures on defined benefit plans.

*FASB Accounting Standards Update ( ASU ) 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement*

The FASB issued ASU 2018-13 in August 2018, which modifies the disclosure requirements on fair value measurements. The most significant changes include, among other things, the removal of the requirements to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurements. In addition, certain disclosure requirements were added, which include but are not limited to, how the weighted average of significant unobservable inputs used to develop Level 3 fair value measurements was calculated.

The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted.

Upon adoption of this standard, the Corporation will be impacted principally by the simplified disclosures on fair value measurements.

*FASB Accounting Standards Update ( ASU ) 2018-12, Financial Services Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*

The FASB issued ASU 2018-12 in August 2018, which makes targeted improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity.

The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted.

The Corporation does not anticipate that the adoption of this accounting pronouncement will have a significant impact on its Consolidated Financial Statements.

*FASB Accounting Standards Update ( ASU ) 2018-11, Leases (Topic 842): Targeted Improvements*

The FASB issued ASU 2018-11 in July 2018, which provides entities with an additional and optional transition method that allows entities to apply the transition provisions of the new leases standard at the adoption date, instead of at the earliest comparative period presented. If elected, comparative periods will continue to be presented in accordance with ASC Topic 840. Also, the amendments provide lessors with a practical expedient, by class of underlying asset, to not separate nonlease components, subject to certain circumstances.

The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

The Corporation will elect this optional transition method to initially apply the new leases standard as of January 1, 2019. On the other hand, the Corporation does not expect to elect the practical expedient provided to lessors.

**Table of Contents**

*FASB Accounting Standards Update ( ASU ) 2018-10, Codification Improvements to Topic 842, Leases*

The FASB issued ASU 2018-10 in July 2018, which makes various technical corrections to clarify how to apply certain aspects of the new leases standard such as lease reassessment of lease classification, variable lease payments that depend on an index or a rate, lease term and purchase option, certain transition adjustments, among others.

The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

The Corporation does not expect to be materially impacted by these Codification improvements.

*FASB Accounting Standards Update ( ASU ) 2018-09, Codification Improvements*

The FASB issued ASU 2018-09 in July 2018, which makes various codification improvements in the areas of excess tax benefits on share-based compensation awards, income tax accounting for business combinations, derivatives offsetting, liability or equity-classified financial instruments, among others.

The amendments in this ASU are effective immediately, except for amendments that require transition guidance, which are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018; and amendments to guidance not yet effective which are effective on the same date as the original Updates.

The Corporation does not expect to be materially impacted by these Codification improvements.

*FASB Accounting Standards Update ( ASU ) 2018-07, Compensation Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*

The FASB issued ASU 2018-07 in June 2018, which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees, although differences remain in the accounting for attribution and a contractual term election for valuing nonemployee equity share options.

The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted.

The Corporation does not expect to be impacted by these amendments since it does not enter into share-based payment transactions for acquiring goods and services from nonemployees.

*FASB Accounting Standards Update ( ASU ) 2018-06, Codification Improvements to Topic 942, Financial Services Depository and Lending*

The FASB issued ASU 2018-06 in May 2018, which removes outdated guidance related to the Comptroller of the Currency s Banking Circular 202, Accounting for Net Deferred Taxes in ASC Topic 942.

The amendments in this ASU were effective upon issuance of the Update. The Corporation was not impacted by this Codification improvement.

*FASB Accounting Standards Update ( ASU ) 2016-02, Leases (Topic 842)*

The FASB issued ASU 2016-02 in February 2016, which supersedes ASC Topic 840 and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessors and lessees. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset ( ROU ) and a lease liability for all leases with a term greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases.

The amendments of this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted.

The ASU is expected to impact the Corporation s Consolidated Financial Statements since the Corporation has operating and land lease arrangements for which it is the lessee. The Corporation expects to recognize lease liabilities of approximately $0.2 billion, with a corresponding recognition of ROU assets on its operating leases.

For other recently issued Accounting Standards Updates not yet effective, refer to Note 4 to the Consolidated Financial Statements included in the 2017 Form 10-K.

Table of Contents

## Note 4 Business combination

On August 1, 2018, Popular Auto, LLC ( Popular Auto ), Banco Popular de Puerto Rico s auto finance subsidiary, completed the acquisition of certain assets and the assumption of certain liabilities related to Wells Fargo & Company s ( Wells Fargo ) auto finance business in Puerto Rico ( Reliable ). Popular Auto acquired approximately $1.6 billion in retail auto loans and $341 million in primarily auto-related commercial loans. Reliable will continue operating as a Division of Popular Auto in parallel with Popular Auto s existing operations for a period after closing to provide continuity of service to Reliable customers while allowing Popular to assess best practices before completing the integration of the two operations.

Wells Fargo retained approximately $398 million in retail auto loans and has separately entered into a loan servicing agreement with Popular Auto with respect to such loans.

Popular entered into the Transaction as part of its growth strategy to increase its market share in the auto finance business in Puerto Rico.

The following table presents the fair values of the consideration and major classes of identifiable assets acquired and liabilities assumed by the Corporation as of August 1, 2018.

| (In thousands) | Book value prior to purchase accounting adjustments | Fair value adjustments | As recorded by Popular, Inc. |
|---|---|---|---|
| Cash consideration | $ 1,843,256 | $ | $ 1,843,256 |
| Assets: | | | |
| Loans | 1,912,866 | (126,908)[1] | 1,785,958 |
| Premises and equipment | 1,246 | | 1,246 |
| Accrued income receivable | 1,466 | | 1,466 |
| Other assets | 5,020 | | 5,020 |
| Trademark | | 488 | 488 |
| Total assets | $ 1,920,598 | $ (126,420) | $ 1,794,178 |
| Liabilities: | | | |
| Other liabilities | $ 11,164 | $ | $ 11,164 |
| Total liabilities | $ 11,164 | $ | $ 11,164 |
| Net assets acquired | $ 1,909,434 | $ (126,420) | $ 1,783,014 |
| Goodwill on acquisition | | | $ 60,242 |

[1] The fair value discount is comprised of $118 million related to the retail auto loans portfolio and $9 million related to the commercial loans portfolio.

The fair values initially assigned to the assets acquired and liabilities assumed are preliminary and are subject to refinement for up to one year after the closing date of the acquisition as new information relative to closing date fair values becomes available. Because of the short time period between the August 1, 2018 closing of the transaction and the September 30, 2018 reporting date, the Corporation continues to analyze its estimates of fair value on loans acquired. As the Corporation finalizes its analyses, there may be adjustments to the recorded carrying values, and thus the recognized goodwill may increase or decrease.

Following is a description of the methods used to determine the fair values of significant assets acquired on the Reliable Transaction:

*Loans*

*Retail Auto Loans*

Fair values for retail auto loans were based on a discounted cash flow methodology. Aggregation into pools considered characteristics such as payment terms, remaining terms, and credit quality. Principal and interest projections considered prepayment rates and credit loss expectations. The discount rates were developed based on the relative risk of the cash flows as of the valuation date, taking into account the expected life of the loans. Retail auto loans were accounted for under ASC Subtopic 310-20. As of August 1, 2018, contractual cash flows amounted to $1.8 billion, from which $112 million are not expected to be collected.

**Table of Contents**

*Commercial Loans*

Fair values for commercial loans were based on a probability of default/loss given default ( PD/LGD ) methodology. The PD was determined based on characteristics such as payment terms, remaining terms, and credit quality. Commercial loans were accounted for under ASC Subtopic 310-20. As of August 1, 2018, contractual cash flows amounted to $348 million, from which $8 million are not expected to be collected.

*Goodwill*

The amount of goodwill is the residual difference between the consideration transferred to Wells Fargo and the fair value of the assets acquired, net of the liabilities assumed. The goodwill is deductible for income tax purposes.

*Trademark*

The fair value of the Reliable trademark was calculated using the relief-from-royalty method. The Reliable trademark is subject to amortization, since Popular intends to use the trademark for a limited period of time.

The operating results of the Corporation for the quarter ended September 30, 2018 include the operating results produced by the acquired assets and liabilities assumed for the period of August 1, 2018 to September 30, 2018. This includes approximately $35.7 million in gross revenues, including $13.4 million in accretion of the fair value discount, and approximately $8.6 million in operating expenses, including $3.8 million of transaction-related expenses. The Corporation believes that given the amount of assets and liabilities assumed and the size of the operations acquired in relation to Popular s operations, the historical results of Reliable are not significant to Popular s results, and thus no pro forma information is presented.

Table of Contents

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

The Corporation s banking subsidiaries, BPPR and PB, are required by federal and state regulatory agencies to maintain average reserve balances with the Federal Reserve Bank of New York (the Fed ) or other banks. Those required average reserve balances amounted to $1.5 billion at September 30, 2018 (December 31, 2017 $1.4 billion). Cash and due from banks, as well as other highly liquid securities, are used to cover the required average reserve balances.

At September 30, 2018, the Corporation held $47 million in restricted assets in the form of funds deposited in money market accounts, debt securities available for sale and equity securities (December 31, 2017 $41 million). The restricted assets held in debt securities available for sale and equity securities consist primarily of assets held for the Corporation s non-qualified retirement plans and fund deposits guaranteeing possible liens or encumbrances over the title of insured properties.

Table of Contents

**Note 6 Debt securities available-for-sale**

The following tables present the amortized cost, gross unrealized gains and losses, approximate fair value, weighted average yield and contractual maturities of debt securities available-for-sale at September 30, 2018 and December 31, 2017.

| | At September 30, 2018 | | | | |
|---|---|---|---|---|---|
| (In thousands) | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value | Weighted average yield |
| U.S. Treasury securities | | | | | |
| Within 1 year | $ 3,305,842 | $ 16 | $ 6,510 | $ 3,299,348 | 1.75% |
| After 1 to 5 years | 4,348,322 | | 76,258 | 4,272,064 | 2.22 |
| After 5 to 10 years | 295,352 | 9 | 4,811 | 290,550 | 2.64 |
| Total U.S. Treasury securities | 7,949,516 | 25 | 87,579 | 7,861,962 | 2.04 |
| Obligations of U.S. Government sponsored entities | | | | | |
| Within 1 year | 220,063 | 1 | 1,081 | 218,983 | 1.46 |
| After 1 to 5 years | 188,811 | 4 | 4,004 | 184,811 | 1.45 |
| Total obligations of U.S. Government sponsored entities | 408,874 | 5 | 5,085 | 403,794 | 1.45 |
| Obligations of Puerto Rico, States and political subdivisions | | | | | |
| After 1 to 5 years | 6,861 | | 182 | 6,679 | 1.33 |
| Total obligations of Puerto Rico, States and political subdivisions | 6,861 | | 182 | 6,679 | 1.33 |
| Collateralized mortgage obligations federal agencies | | | | | |
| After 1 to 5 years | 906 | | 8 | 898 | 1.92 |
| After 5 to 10 years | 115,854 | | 6,397 | 109,457 | 1.67 |
| After 10 years | 681,359 | 1,208 | 34,310 | 648,257 | 2.10 |
| Total collateralized mortgage obligations federal agencies | 798,119 | 1,208 | 40,715 | 758,612 | 2.03 |
| Mortgage-backed securities | | | | | |
| Within 1 year | 879 | 11 | | 890 | 4.46 |
| After 1 to 5 years | 4,748 | 23 | 148 | 4,623 | 2.31 |
| After 5 to 10 years | 351,597 | 949 | 11,726 | 340,820 | 2.21 |
| After 10 years | 3,834,855 | 9,383 | 174,558 | 3,669,680 | 2.43 |

| | | | | | |
|---|---|---|---|---|---|
| Total mortgage-backed securities | 4,192,079 | 10,366 | 186,432 | 4,016,013 | 2.41 |
| Other | | | | | |
| After 5 to 10 years | 556 | 1 | | 557 | 3.62 |
| Total other | 556 | 1 | | 557 | 3.62 |
| Total debt securities available-for-sale[1] | $ 13,356,005 | $ 11,605 | $ 319,993 | $ 13,047,617 | 2.14% |

[1] Includes $8.5 billion pledged to secure public and trust deposits, assets sold under agreements to repurchase, credit facilities and loan servicing agreements that the secured parties are not permitted to sell or repledge the collateral, of which $7.6 billion serve as collateral for public funds.

22

Table of Contents

| (In thousands) | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value | Weighted average yield |
|---|---|---|---|---|---|
| | At December 31, 2017 | | | | |
| U.S. Treasury securities | | | | | |
| Within 1 year | $ 1,112,791 | $ 8 | $ 2,101 | $ 1,110,698 | 1.06% |
| After 1 to 5 years | 2,550,116 | | 26,319 | 2,523,797 | 1.55 |
| After 5 to 10 years | 293,579 | 281 | 191 | 293,669 | 2.24 |
| Total U.S. Treasury securities | 3,956,486 | 289 | 28,611 | 3,928,164 | 1.46 |
| Obligations of U.S. Government sponsored entities | | | | | |
| Within 1 year | 276,304 | 21 | 818 | 275,507 | 1.26 |
| After 1 to 5 years | 336,922 | 22 | 3,518 | 333,426 | 1.48 |
| Total obligations of U.S. Government sponsored entities | 613,226 | 43 | 4,336 | 608,933 | 1.38 |
| Obligations of Puerto Rico, States and political subdivisions | | | | | |
| After 1 to 5 years | 6,668 | | 59 | 6,609 | 2.30 |
| Total obligations of Puerto Rico, States and political subdivisions | 6,668 | | 59 | 6,609 | 2.30 |
| Collateralized mortgage obligations - federal agencies | | | | | |
| Within 1 year | 40 | | | 40 | 2.60 |
| After 1 to 5 years | 16,972 | 173 | 75 | 17,070 | 2.90 |
| After 5 to 10 years | 36,186 | 57 | 526 | 35,717 | 2.31 |
| After 10 years | 914,568 | 2,789 | 26,431 | 890,926 | 2.01 |
| Total collateralized mortgage obligations - federal agencies | 967,766 | 3,019 | 27,032 | 943,753 | 2.03 |
| Mortgage-backed securities | | | | | |
| Within 1 year | 484 | 8 | | 492 | 4.23 |
| After 1 to 5 years | 14,599 | 206 | 211 | 14,594 | 3.50 |
| After 5 to 10 years | 339,161 | 2,390 | 3,765 | 337,786 | 2.21 |
| After 10 years | 4,385,368 | 19,493 | 69,071 | 4,335,790 | 2.46 |
| Total mortgage-backed securities | 4,739,612 | 22,097 | 73,047 | 4,688,662 | 2.44 |
| Other | | | | | |
| After 5 to 10 years | 789 | 13 | | 802 | 3.62 |
| Total other | 789 | 13 | | 802 | 3.62 |

| | | | | | |
|---|---|---|---|---|---|
| Total debt securities available-for-sale[1] | $ 10,284,547 | $ 25,461 | $ 133,085 | $ 10,176,923 | 1.96% |

[1] Includes $6.6 billion pledged to secure public and trust deposits, assets sold under agreements to repurchase, credit facilities and loan servicing agreements that the secured parties are not permitted to sell or repledge the collateral, of which $5.6 billion serve as collateral for public funds.

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 based on the period of final contractual maturity. The expected maturities of collateralized mortgage obligations, mortgage-backed securities and certain other securities may differ from their contractual maturities because they may be subject to prepayments or may be called by the issuer.

There were no securities sold during the nine months ended September 30, 2018. During the nine months ended September 30, 2017, the Corporation sold obligations from the Puerto Rico government and its political subdivisions with a realized gain of $83 thousand. The proceeds from these sales were $14.4 million.

The following tables present the Corporation s fair value and gross unrealized losses of debt 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, 2018 and December 31, 2017.

**Table of Contents**

| | At September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 5,699,061 | $ 57,506 | $ 1,617,265 | $ 30,073 | $ 7,316,326 | $ 87,579 |
| Obligations of U.S. Government sponsored entities | 62,347 | 135 | 340,364 | 4,950 | 402,711 | 5,085 |
| Obligations of Puerto Rico, States and political subdivisions | 6,679 | 182 | | | 6,679 | 182 |
| Collateralized mortgage obligations federal agencies | 122,520 | 2,481 | 576,298 | 38,234 | 698,818 | 40,715 |
| Mortgage-backed securities | 973,548 | 35,262 | 2,760,024 | 151,170 | 3,733,572 | 186,432 |
| Total debt securities available-for-sale in an unrealized loss position | $ 6,864,155 | $ 95,566 | $ 5,293,951 | $ 224,427 | $ 12,158,106 | $ 319,993 |

| | At December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 2,608,473 | $ 14,749 | $ 1,027,066 | $ 13,862 | $ 3,635,539 | $ 28,611 |
| Obligations of U.S. Government sponsored entities | 214,670 | 1,108 | 376,807 | 3,228 | 591,477 | 4,336 |
| Obligations of Puerto Rico, States and political subdivisions | 6,609 | 59 | | | 6,609 | 59 |
| Collateralized mortgage obligations federal agencies | 153,336 | 2,110 | 595,339 | 24,922 | 748,675 | 27,032 |
| Mortgage-backed securities | 1,515,295 | 12,529 | 2,652,359 | 60,518 | 4,167,654 | 73,047 |
| Total debt securities available-for-sale in an unrealized loss position | $ 4,498,383 | $ 30,555 | $ 4,651,571 | $ 102,530 | $ 9,149,954 | $ 133,085 |

As of September 30, 2018, the portfolio of available-for-sale debt securities reflects gross unrealized losses of approximately $320 million, driven mainly by mortgage-backed securities, U.S. Treasury securities, and collateralized mortgage obligations.

Management evaluates debt 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. The OTTI analysis requires management to consider various factors, which include, but are not limited to: (1) the length of time and the extent to which fair value has been less than the amortized cost basis, (2) the financial condition of the issuer or issuers, (3) actual collateral attributes, (4) the payment structure of the debt security and the likelihood of the issuer being able to make payments, (5) any rating changes by a rating agency, (6) adverse conditions specifically related to the security, industry, or a geographic area, and (7) management s intent to sell the debt security or whether it is more likely than not that the Corporation would be required to sell the debt security before a forecasted recovery occurs.

At September 30, 2018, management performed its quarterly analysis of all debt securities in an unrealized loss position. Based on the analysis performed, management concluded that no individual debt security was other-than-temporarily impaired as of such date. At September 30, 2018, the Corporation did not have the intent to sell debt securities in an unrealized loss position and it was not more likely than not that the Corporation would have to sell the debt securities prior to recovery of their amortized cost basis.

The following table states the name of issuers, and the aggregate amortized cost and fair value of the debt securities of such issuer (includes available-for-sale and held-to-maturity debt securities), in which the aggregate amortized cost of such securities exceeds 10% of stockholders equity. This information excludes debt 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, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| (In thousands) | Amortized cost | Fair value | Amortized cost | Fair value |
| FNMA | $ 3,132,301 | $ 2,993,841 | $ 3,621,537 | $ 3,572,474 |
| Freddie Mac | 1,119,833 | 1,066,880 | 1,358,708 | 1,335,685 |

24

Table of Contents

## Note 7 Debt 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 debt securities held-to-maturity at September 30, 2018 and December 31, 2017.

| | At September 30, 2018 | | | | |
|---|---|---|---|---|---|
| (In thousands) | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value | Weighted average yield |
| Obligations of Puerto Rico, States and political subdivisions | | | | | |
| Within 1 year | $ 3,510 | $ 8 | $ 3 | $ 3,515 | 6.00% |
| After 1 to 5 years | 16,505 | 497 | 1 | 17,001 | 6.07 |
| After 5 to 10 years | 23,885 | 1,127 | 575 | 24,437 | 3.61 |
| After 10 years | 45,221 | 3,004 | 219 | 48,006 | 1.87 |
| Total obligations of Puerto Rico, States and political subdivisions | 89,121 | 4,636 | 798 | 92,959 | 3.28 |
| Collateralized mortgage obligations - federal agencies | | | | | |
| After 5 to 10 years | 56 | 3 | | 59 | 5.45 |
| Total collateralized mortgage obligations - federal agencies | 56 | 3 | | 59 | 5.45 |
| Trust preferred securities | | | | | |
| After 10 years | 11,561 | | | 11,561 | 6.51 |
| Total trust preferred securities | 11,561 | | | 11,561 | 6.51 |
| Other | | | | | |
| After 1 to 5 years | 500 | | 5 | 495 | 2.97 |
| Total other | 500 | | 5 | 495 | 2.97 |
| Total debt securities held-to-maturity[1] | $ 101,238 | $ 4,639 | $ 803 | $ 105,074 | 3.65% |

[1] Includes $89.1 million pledged to secure public and trust deposits that the secured parties are not permitted to sell or repledge the collateral.

| | At December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | | Gross | Gross | | Weighted |

| (In thousands) | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value | Weighted average yield |
|---|---|---|---|---|---|
| Obligations of Puerto Rico, States and political subdivisions | | | | | |
| Within 1 year | $ 3,295 | $ | $ 79 | $ 3,216 | 5.96% |
| After 1 to 5 years | 15,485 | | 4,143 | 11,342 | 6.05 |
| After 5 to 10 years | 29,240 | | 8,905 | 20,335 | 3.89 |
| After 10 years | 44,734 | 3,834 | 222 | 48,346 | 1.93 |
| Total obligations of Puerto Rico, States and political subdivisions | 92,754 | 3,834 | 13,349 | 83,239 | 3.38 |
| Collateralized mortgage obligations - federal agencies | | | | | |
| After 5 to 10 years | 67 | 4 | | 71 | 5.45 |
| Total collateralized mortgage obligations - federal agencies | 67 | 4 | | 71 | 5.45 |
| Trust preferred securities | | | | | |
| After 5 to 10 years | 1,637 | | | 1,637 | 8.33 |
| After 10 years | 11,561 | | | 11,561 | 6.51 |
| Total trust preferred securities | 13,198 | | | 13,198 | 6.73 |
| Other | | | | | |
| Within 1 year | 500 | | 7 | 493 | 1.96 |
| After 1 to 5 years | 500 | | | 500 | 2.97 |
| Total other | 1,000 | | 7 | 993 | 2.47 |
| Total debt securities held-to-maturity[1] | $ 107,019 | $ 3,838 | $ 13,356 | $ 97,501 | 3.79% |

[1] Includes $92.8 million pledged to secure public and trust deposits that the secured parties are not permitted to sell or repledge the collateral.

Debt 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 debt 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, 2018 and December 31, 2017.

Table of Contents

| | At September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 17,359 | $ 219 | $ 14,431 | $ 579 | $ 31,790 | $ 798 |
| Other | | | 495 | 5 | 495 | 5 |
| Total debt securities held-to-maturity in an unrealized loss position | $ 17,359 | $ 219 | $ 14,926 | $ 584 | $ 32,285 | $ 803 |

| | At December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ | $ | $ 35,696 | $ 13,349 | $ 35,696 | $ 13,349 |
| Other | | | 743 | 7 | 743 | 7 |
| Total debt securities held-to-maturity in an unrealized loss position | $ | $ | $ 36,439 | $ 13,356 | $ 36,439 | $ 13,356 |

As indicated in Note 6 to these Consolidated Financial Statements, management evaluates debt 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, 2018 are primarily associated with securities issued by municipalities of Puerto Rico and are generally not rated by a credit rating agency. This includes $45 million of general and special obligation bonds issued by three municipalities of Puerto Rico, which are payable primarily from, and have a lien on, certain property taxes imposed by the issuing municipality. In the case of general obligations, they also benefit from a pledge of the full faith, credit and unlimited taxing power of the issuing municipality and issuing municipalities are required by law to levy property taxes in an amount sufficient for the payment of debt service on such general obligations bonds.

The portfolio also includes $44 million in securities for which the underlying source of payment is not the central government, but in which a government instrumentality provides a guarantee in the event of default. The Corporation performs periodic credit quality reviews on these issuers. Based on the quarterly analysis performed, management concluded that no individual debt security held-to-maturity was other-than-temporarily impaired at September 30, 2018. Further deterioration of the Puerto Rico economy or of the fiscal crisis of the Government of Puerto Rico (including if any of the issuing municipalities become subject to a debt restructuring proceeding under PROMESA) could further affect the value of these securities, resulting in losses to the Corporation. The Corporation does not have the intent to sell debt securities held-to-maturity and it is more likely than not that the Corporation will not have to sell these investment securities prior to recovery of their amortized cost basis.

Refer to Note 22 for additional information on the Corporation s exposure to the Puerto Rico Government.

Table of Contents

## Note 8 Loans

For a summary of the accounting policies related to loans, interest recognition and allowance for loan losses refer to Note 3 - Summary of significant accounting policies of the 2017 Form 10-K.

The Corporation has presented the loans covered by the loss-sharing agreements with the FDIC separately as covered loans since the risk of loss was significantly different than those not covered under the loss-sharing agreements, due to the loss protection provided by the FDIC. As discussed in Note 10, on May 22, 2018, the Corporation entered into a Termination Agreement with the FDIC to terminate all loss-share arrangements in connection with the Westernbank FDIC-assisted transaction. As a result of the Termination Agreement, assets that were covered by the loss share agreement, including covered loans in the amount of approximately $514.6 million as of March 31, 2018, were reclassified as non-covered. The Corporation now recognizes entirely all future credit losses, expenses, gains, and recoveries related to the formerly covered assets with no offset due to or from the FDIC.

As previously disclosed in Note 4, as a result of the Reliable Transaction completed on August 1, 2018, Popular Auto, LLC, acquired approximately $1.6 billion in retail auto loans and $341 million in primarily auto-related commercial loans. These loans are included in the information presented in this note.

During the quarter and nine months ended September 30, 2018, the Corporation recorded purchases (including repurchases) of mortgage loans amounting to $147 million and $480 million, respectively and consumer loans of $48 million and $152 million, respectively. During the quarter and nine months ended September 30, 2017, the Corporation recorded purchases (including repurchases) of mortgage loans amounting to $104 million and $364 million, respectively; consumer loans of $133 million and $283 million, respectively; and leases of $2 million, for the nine months ended September 30, 2017.

The Corporation performed whole-loan sales involving approximately $19 million and $45 million of residential mortgage loans during the quarter and nine months ended September 30, 2018, respectively (September 30, 2017 - $9 million and $63 million, respectively). Also, the Corporation securitized approximately $110 million and $320 million of mortgage loans into Government National Mortgage Association ( GNMA ) mortgage-backed securities during the quarter and nine months ended September 30, 2018, respectively (September 30, 2017 - $86 million and $369 million, respectively). Furthermore, the Corporation securitized approximately $26 million and $72 million of mortgage loans into Federal National Mortgage Association ( FNMA ) mortgage-backed securities during the quarter and nine months ended September 30, 2018, respectively (September 30, 2017 - $21 million and $86 million, respectively).

*Delinquency status*

The following table presents the composition of loans held-in-portfolio ( HIP ), net of unearned income, by past due status, and by loan class including those that are in non-performing status or that are accruing interest but are past due 90 days or more at September 30, 2018 and December 31, 2017.

Table of Contents

September 30, 2018
Puerto Rico

| (In thousands) | Past due 30-59 days | 60-89 days | 90 days or more | Total past due | Current | Loans HIP | Past due 90 days or more Non-accrual loans | Accruing loans[1] |
|---|---|---|---|---|---|---|---|---|
| Commercial multi-family | $ 466 | $ 242 | $ 2,061 | $ 2,769 | $ 145,459 | $ 148,228 | $ 577 | $ |
| Commercial real estate: | | | | | | | | |
| Non-owner occupied | 34,587 | 1,612 | 86,831 | 123,030 | 2,234,301 | 2,357,331 | 29,288 | |
| Owner occupied | 12,947 | 3,260 | 120,401 | 136,608 | 1,598,897 | 1,735,505 | 93,192 | |
| Commercial and industrial | 8,313 | 503 | 48,425 | 57,241 | 3,109,171 | 3,166,412 | 48,214 | 211 |
| Construction | 2,306 | | 1,829 | 4,135 | 73,658 | 77,793 | 1,829 | |
| Mortgage | 285,917 | 136,265 | 1,215,269 | 1,637,451 | 4,893,825 | 6,531,276 | 348,779 | 735,454 |
| Leasing | 7,416 | 2,259 | 3,009 | 12,684 | 890,856 | 903,540 | 3,009 | |
| Consumer: | | | | | | | | |
| Credit cards | 9,515 | 6,178 | 16,768 | 32,461 | 1,005,372 | 1,037,833 | | 16,768 |
| Home equity lines of credit | 159 | 391 | 107 | 657 | 4,824 | 5,481 | 11 | 96 |
| Personal | 12,609 | 7,162 | 19,780 | 39,551 | 1,203,845 | 1,243,396 | 18,939 | 1 |
| Auto | 53,347 | 10,783 | 22,165 | 86,295 | 2,382,315 | 2,468,610 | 22,097 | 68 |
| Other | 443 | 92 | 15,344 | 15,879 | 132,069 | 147,948 | 14,868 | 476 |
| Total | $ 428,025 | $ 168,747 | $ 1,551,989 | $ 2,148,761 | $ 17,674,592 | $ 19,823,353 | $ 580,803 | $ 753,074 |

[1] Loans HIP of $218 million accounted for under ASC Subtopic 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.

September 30, 2018
Popular U.S.

| (In thousands) | Past due 30-59 days | 60-89 days | 90 days or more | Total past due | Current | Loans HIP | Past due 90 days or more Non-accrual loans | Accruing loans[1] |
|---|---|---|---|---|---|---|---|---|
| Commercial multi-family | $ 2,581 | $ 17 | $ | $ 2,598 | $ 1,325,974 | $ 1,328,572 | $ | $ |
| Commercial real estate: | | | | | | | | |
| Non-owner occupied | | 13,993 | 365 | 14,358 | 1,885,035 | 1,899,393 | 365 | |
| Owner occupied | 1,578 | 618 | 389 | 2,585 | 285,820 | 288,405 | 389 | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Commercial and industrial | 1,350 | 2,036 | 86,220 | 89,606 | 980,255 | 1,069,861 | 660 | |
| Construction | 20,588 | | 17,866 | 38,454 | 827,118 | 865,572 | 17,866 | |
| Mortgage | 932 | 3,112 | 12,306 | 16,350 | 756,544 | 772,894 | 12,306 | |
| Legacy | 23 | 269 | 3,403 | 3,695 | 23,871 | 27,566 | 3,403 | |
| Consumer: | | | | | | | | |
| Credit cards | 1 | | 5 | 6 | 57 | 63 | 5 | |
| Home equity lines of credit | 1,739 | 594 | 13,938 | 16,271 | 129,274 | 145,545 | 13,938 | |
| Personal | 2,164 | 1,778 | 2,753 | 6,695 | 283,966 | 290,661 | 2,753 | |
| Other | | 4 | | 4 | 279 | 283 | | |
| Total | $ 30,956 | $ 22,421 | $ 137,245 | $ 190,622 | $ 6,498,193 | $ 6,688,815 | $ 51,685 | $ |

[1] Loans HIP of $86 million accounted for under ASC Subtopic 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.

28

Table of Contents

September 30, 2018
Popular, Inc.

| (In thousands) | Past due 30-59 days | Past due 60-89 days | Past due 90 days or more | Total past due | Current | Loans HIP[3] [4] | Past due 90 days or more Non-accrual loans | Past due 90 days or more Accruing loans[5] |
|---|---|---|---|---|---|---|---|---|
| Commercial multi-family | $ 3,047 | $ 259 | $ 2,061 | $ 5,367 | $ 1,471,433 | $ 1,476,800 | $ 577 | $ |
| Commercial real estate: | | | | | | | | |
| Non-owner occupied | 34,587 | 15,605 | 87,196 | 137,388 | 4,119,336 | 4,256,724 | 29,653 | |
| Owner occupied | 14,525 | 3,878 | 120,790 | 139,193 | 1,884,717 | 2,023,910 | 93,581 | |
| Commercial and industrial | 9,663 | 2,539 | 134,645 | 146,847 | 4,089,426 | 4,236,273 | 48,874 | 211 |
| Construction | 22,894 | | 19,695 | 42,589 | 900,776 | 943,365 | 19,695 | |
| Mortgage[1] | 286,849 | 139,377 | 1,227,575 | 1,653,801 | 5,650,369 | 7,304,170 | 361,085 | 735,454 |
| Leasing | 7,416 | 2,259 | 3,009 | 12,684 | 890,856 | 903,540 | 3,009 | |
| Legacy[2] | 23 | 269 | 3,403 | 3,695 | 23,871 | 27,566 | 3,403 | |
| Consumer: | | | | | | | | |
| Credit cards | 9,516 | 6,178 | 16,773 | 32,467 | 1,005,429 | 1,037,896 | 5 | 16,768 |
| Home equity lines of credit | 1,898 | 985 | 14,045 | 16,928 | 134,098 | 151,026 | 13,949 | 96 |
| Personal | 14,773 | 8,940 | 22,533 | 46,246 | 1,487,811 | 1,534,057 | 21,692 | 1 |
| Auto | 53,347 | 10,783 | 22,165 | 86,295 | 2,382,315 | 2,468,610 | 22,097 | 68 |
| Other | 443 | 96 | 15,344 | 15,883 | 132,348 | 148,231 | 14,868 | 476 |
| Total | $ 458,981 | $ 191,168 | $ 1,689,234 | $ 2,339,383 | $ 24,172,785 | $ 26,512,168 | $ 632,488 | $ 753,074 |

[1] It is the Corporation s policy to report delinquent residential mortgage loans insured by FHA or guaranteed by the VA as accruing loans past due 90 days or more as opposed to non-performing since the principal repayment is insured.

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

[3] Loans held-in-portfolio are net of $150 million in unearned income and exclude $52 million in loans held-for-sale.

[4] Includes $7.2 billion pledged to secure credit facilities and public funds that the secured parties are not permitted to sell or repledge the collateral, of which $4.7 billion were pledged at the Federal Home Loan Bank ( FHLB ) as collateral for borrowings, $2.1 billion at the Federal Reserve Bank ( FRB ) for discount window borrowings and $0.4 billion serve as collateral for public funds.

[5] Loans HIP of $304 million accounted for under ASC Subtopic 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.

| | December 31, 2017 Puerto Rico | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Past due | | | | | | Past due 90 days or more | |
| (In thousands) | 30-59 days | 60-89 days | 90 days or more | Total past due | Current | Non-covered loans HIP | Non-accrual loans | Accruing loans[1] |
| Commercial multi-family | $ | $ 426 | $ 1,210 | $ 1,636 | $ 144,763 | $ 146,399 | $ 1,115 | $ |
| Commercial real estate: | | | | | | | | |
| Non-owner occupied | 39,617 | 131 | 28,045 | 67,793 | 2,336,766 | 2,404,559 | 18,866 | |
| Owner occupied | 7,997 | 2,291 | 123,929 | 134,217 | 1,689,397 | 1,823,614 | 101,068 | |
| Commercial and industrial | 3,556 | 1,251 | 40,862 | 45,669 | 2,845,658 | 2,891,327 | 40,177 | 685 |
| Construction | | | 170 | 170 | 95,199 | 95,369 | | |
| Mortgage | 217,890 | 77,833 | 1,596,763 | 1,892,486 | 4,684,293 | 6,576,779 | 306,697 | 1,204,691 |
| Leasing | 10,223 | 1,490 | 2,974 | 14,687 | 795,303 | 809,990 | 2,974 | |
| Consumer: | | | | | | | | |
| Credit cards | 7,319 | 4,464 | 18,227 | 30,010 | 1,063,211 | 1,093,221 | | 18,227 |
| Home equity lines of credit | 438 | 395 | 257 | 1,090 | 4,997 | 6,087 | | 257 |
| Personal | 13,926 | 6,857 | 19,981 | 40,764 | 1,181,548 | 1,222,312 | 19,460 | 141 |
| Auto | 24,405 | 5,197 | 5,466 | 35,068 | 815,745 | 850,813 | 5,466 | |
| Other | 537 | 444 | 16,765 | 17,746 | 139,842 | 157,588 | 15,617 | 1,148 |
| Total | $ 325,908 | $ 100,779 | $ 1,854,649 | $ 2,281,336 | $ 15,796,722 | $ 18,078,058 | $ 511,440 | $ 1,225,149 |

[1] Non-covered loans HIP of $118 million accounted for under ASC Subtopic 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.

Table of Contents

December 31, 2017
Popular U.S.

| (In thousands) | Past due 30-59 days | Past due 60-89 days | Past due 90 days or more | Total past due | Current | Non-covered loans HIP | Past due 90 days or more Non-accrual loans | Past due 90 days or more Accruing loans[1] |
|---|---|---|---|---|---|---|---|---|
| Commercial multi-family | $ 395 | $ | $ 784 | $ 1,179 | $ 1,209,514 | $ 1,210,693 | $ 784 | $ |
| Commercial real estate: | | | | | | | | |
| Non-owner occupied | 4,028 | 1,186 | 1,599 | 6,813 | 1,681,498 | 1,688,311 | 1,599 | |
| Owner occupied | 2,684 | | 862 | 3,546 | 315,429 | 318,975 | 862 | |
| Commercial and industrial | 1,121 | 5,278 | 97,427 | 103,826 | 901,157 | 1,004,983 | 594 | |
| Construction | | | | | 784,660 | 784,660 | | |
| Mortgage | 13,453 | 6,148 | 14,852 | 34,453 | 659,175 | 693,628 | 14,852 | |
| Legacy | 291 | 417 | 3,039 | 3,747 | 29,233 | 32,980 | 3,039 | |
| Consumer: | | | | | | | | |
| Credit cards | 3 | 2 | 11 | 16 | 84 | 100 | 11 | |
| Home equity lines of credit | 4,653 | 3,675 | 14,997 | 23,325 | 158,760 | 182,085 | 14,997 | |
| Personal | 3,342 | 2,149 | 2,779 | 8,270 | 289,732 | 298,002 | 2,779 | |
| Other | | | | | 319 | 319 | | |
| Total | $ 29,970 | $ 18,855 | $ 136,350 | $ 185,175 | $ 6,029,561 | $ 6,214,736 | $ 39,517 | $ |

[1] Non-covered loans HIP of $97 million accounted for under ASC Subtopic 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.

December 31, 2017
Popular, Inc.

| (In thousands) | Past due 30-59 days | Past due 60-89 days | Past due 90 days or more | Total past due | Current | Non-covered loans HIP[3] [4] | Past due 90 days or more Non-accrual loans | Past due 90 days or more Accruing loans[5] |
|---|---|---|---|---|---|---|---|---|
| Commercial multi-family | $ 395 | $ 426 | $ 1,994 | $ 2,815 | $ 1,354,277 | $ 1,357,092 | $ 1,899 | $ |
| Commercial real estate: | | | | | | | | |
| Non-owner occupied | 43,645 | 1,317 | 29,644 | 74,606 | 4,018,264 | 4,092,870 | 20,465 | |
| Owner occupied | 10,681 | 2,291 | 124,791 | 137,763 | 2,004,826 | 2,142,589 | 101,930 | |
| | 4,677 | 6,529 | 138,289 | 149,495 | 3,746,815 | 3,896,310 | 40,771 | 685 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Commercial and industrial | | | | | | | | |
| Construction | | | 170 | 170 | 879,859 | 880,029 | | |
| Mortgage[1] | 231,343 | 83,981 | 1,611,615 | 1,926,939 | 5,343,468 | 7,270,407 | 321,549 | 1,204,691 |
| Leasing | 10,223 | 1,490 | 2,974 | 14,687 | 795,303 | 809,990 | 2,974 | |
| Legacy[2] | 291 | 417 | 3,039 | 3,747 | 29,233 | 32,980 | 3,039 | |
| Consumer: | | | | | | | | |
| Credit cards | 7,322 | 4,466 | 18,238 | 30,026 | 1,063,295 | 1,093,321 | 11 | 18,227 |
| Home equity lines of credit | 5,091 | 4,070 | 15,254 | 24,415 | 163,757 | 188,172 | 14,997 | 257 |
| Personal | 17,268 | 9,006 | 22,760 | 49,034 | 1,471,280 | 1,520,314 | 22,239 | 141 |
| Auto | 24,405 | 5,197 | 5,466 | 35,068 | 815,745 | 850,813 | 5,466 | |
| Other | 537 | 444 | 16,765 | 17,746 | 140,161 | 157,907 | 15,617 | 1,148 |
| Total | $ 355,878 | $ 119,634 | $ 1,990,999 | $ 2,466,511 | $ 21,826,283 | $ 24,292,794 | $ 550,957 | $ 1,225,149 |

[1] It is the Corporation s policy to report delinquent residential mortgage loans insured by FHA or guaranteed by the VA as accruing loans past due 90 days or more as opposed to non-performing since the principal repayment is insured.

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

[3] Loans held-in-portfolio are net of $131 million in unearned income and exclude $132 million in loans held-for-sale.

[4] Includes $7.1 billion pledged to secure credit facilities and public funds that the secured parties are not permitted to sell or repledge the collateral, of which $4.6 billion were pledged at the FHLB as collateral for borrowings, $2.0 billion at the FRB for discount window borrowings and $0.5 billion serve as collateral for public funds.

[5] Non-covered loans HIP of $215 million accounted for under ASC Subtopic 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.

Table of Contents

At September 30, 2018, mortgage loans held-in-portfolio include $1.4 billion of loans insured by the Federal Housing Administration ( FHA ), or guaranteed by the U.S. Department of Veterans Affairs ( VA ) of which $739 million are 90 days or more past due, including $195 million of loans rebooked under the GNMA buyback option, discussed below (December 31, 2017 $1.8 billion, $1.2 billion and $840 million, respectively). Within this portfolio, loans in a delinquency status of 90 days or more are reported as accruing loans as opposed to non-performing since the principal repayment is insured. These balances include $238 million of residential mortgage loans in Puerto Rico that are no longer accruing interest as of September 30, 2018 (December 31, 2017 - $178 million). Additionally, the Corporation has approximately $53 million in reverse mortgage loans in Puerto Rico which are guaranteed by FHA, but which are currently not accruing interest at September 30, 2018 (December 31, 2017 $58 million).

Loans with a delinquency status of 90 days past due as of September 30, 2018 include $195 million in loans previously pooled into GNMA securities (December 31, 2017 $840 million). Under the GNMA program, issuers such as BPPR have the option but not the obligation to repurchase loans that are 90 days or more past due. For accounting purposes, these loans subject to the repurchase option are required to be reflected on the financial statements of the Bank with an offsetting liability.

*Covered loans*

The following table presents the composition of covered loans held-in-portfolio by past due status, and by loan class that are in non-performing status or are accruing interest but are past due 90 days or more at December 31, 2017.

| | December 31, 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Past due | | | | | | Past due 90 days or more | |
| (In thousands) | 30-59 days | 60-89 days | 90 days or more | Total past due | Current | Covered loans HIP [2] | Non-accrual loans | Accruing loans |
| Mortgage | $ 16,640 | $ 5,453 | $ 59,018 | $ 81,111 | $ 421,818 | $ 502,929 | $ 3,165 | $ |
| Consumer | 518 | 147 | 988 | 1,653 | 12,692 | 14,345 | 188 | |
| Total covered loans[1] | $ 17,158 | $ 5,600 | $ 60,006 | $ 82,764 | $ 434,510 | $ 517,274 | $ 3,353 | $ |

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

[2] Includes $279 million pledged to secure credit facilities at the FHLB which are not permitted to sell or repledge the collateral.

*Loans acquired with deteriorated credit quality accounted for under ASC 310-30*

The following provides information of loans acquired with evidence of credit deterioration as of the acquisition date, accounted for under the guidance of ASC 310-30.

The outstanding principal balance of acquired loans accounted pursuant to ASC Subtopic 310-30, amounted to $2.3 billion at September 30, 2018 (December 31, 2017 $2.5 billion). The carrying amount of these loans consisted of loans determined to be impaired at the time of acquisition, which are accounted for in accordance with ASC Subtopic 310-30 ( credit impaired loans ), and loans that were considered to be performing at the acquisition date, accounted for by analogy to ASC Subtopic 310-30 ( non-credit impaired loans ).

The following table provides the carrying amount of acquired loans accounted for under ASC 310-30 by portfolio at September 30, 2018 and December 31, 2017.

Table of Contents

| (In thousands) | Carrying amount September 30, 2018 | December 31, 2017 |
|---|---|---|
| Commercial real estate | $ 876,521 | $ 923,424 |
| Commercial and industrial | 86,000 | 88,130 |
| Construction | | 170 |
| Mortgage | 1,012,789 | 1,079,611 |
| Consumer | 15,312 | 17,658 |
| Carrying amount | 1,990,622 | 2,108,993 |
| Allowance for loan losses | (168,559) | (119,505) |
| Carrying amount, net of allowance | $ 1,822,063 | $ 1,989,488 |

At September 30, 2018, none of the acquired loans 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.

Changes in the carrying amount and the accretable yield for the loans accounted pursuant to the ASC Subtopic 310-30, for the quarters and the nine months ended September 30, 2018 and 2017, were as follows:

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

| | For the quarter ended | | For the nine months ended | |
|---|---|---|---|---|
| (In thousands) | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Beginning balance | $ 2,033,457 | $ 2,168,664 | $ 2,108,993 | $ 2,301,024 |
| Additions | 3,062 | 4,792 | 8,334 | 14,671 |
| Accretion | 38,886 | 42,735 | 121,752 | 133,373 |
| Collections / loan sales / charge-offs | (84,783) | (82,245) | (248,457) | (315,122) |
| Ending balance[1] | $ 1,990,622 | $ 2,133,946 | $ 1,990,622 | $ 2,133,946 |
| Allowance for loan losses | (168,559) | (138,030) | (168,559) | (138,030) |
| Ending balance, net of ALLL | $ 1,822,063 | $ 1,995,916 | $ 1,822,063 | $ 1,995,916 |

[1] At September 30, 2018, includes $1.5 billion of loans considered non-credit impaired at the acquisition date (September 30, 2017 - $1.6 billion).

Activity in the accretable yield of acquired loans accounted for pursuant to ASC 310-30

| | For the quarter ended | | For the nine months ended | |
|---|---|---|---|---|
| (In thousands) | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Beginning balance | $ 1,178,042 | $ 1,245,672 | $ 1,214,488 | $ 1,288,983 |
| Additions | 315 | 2,882 | 3,752 | 8,737 |

| | | | | |
|---|---|---|---|---|
| Accretion | (38,886) | (42,735) | (121,752) | (133,373) |
| Change in expected cash flows | (16,739) | (6,475) | 26,244 | 34,997 |
| Ending balance[1] | $ 1,122,732 | $ 1,199,344 | $ 1,122,732 | $ 1,199,344 |

[1] At September 30, 2018, includes $0.8 billion of loans considered non-credit impaired at the acquisition date (September 30, 2017 - $0.9 billion).

32

Table of Contents

## Note 9 Allowance for loan losses

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

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

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

Base net loss rates, which are based on the moving average of annualized net loss rates computed over a 5-year historical loss period for the commercial and construction loan portfolios, and an 18-month period for the consumer and mortgage loan portfolios. The base net loss rates are applied by loan type and by legal entity.

Recent loss trend adjustment, which replaces the base loss rate with a 12-month average loss rate, when these trends are higher than the respective base loss rates. The objective of this adjustment is to allow for a more recent loss trend to be captured and reflected in the ALLL estimation process.

For the period ended September 30, 2018, 80% (September 30, 2017 45%) of the ALLL for the BPPR segment loan portfolios utilized the recent loss trend adjustment instead of the base loss. The recent loss trends were impacted by charge-off activity related to the impact of Hurricanes Irma and Maria. The effect of replacing the base loss with the recent loss trend adjustment was mainly concentrated in the mortgage, leasing and overall consumer portfolios for 2018 and in the leasing, credit cards, personal, auto and other consumer loans for 2017.

For the period ended September 30, 2018, 6% (September 30, 2017 5 %) of the Popular U.S. segment loan portfolios utilized the recent loss trend adjustment instead of the base loss. The effect of replacing the base loss with the recent loss trend adjustment was concentrated in the consumer portfolio for 2018 and 2017.

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

During the third quarter of 2018, management completed the annual review of the components of the ALLL models. As part of this review, management updated core metrics related to the estimation process for evaluating the adequacy of the general ALLL. These updates to the ALLL models, which are described in the paragraph below, were implemented as of September 30, 2018 and resulted in a net decrease to the ALLL of $6.1 million.

Management made the following revisions to the ALLL models during the third quarter of 2018:

- Annual review and recalibration of the environmental factors adjustments. The environmental factors adjustments are developed by performing regression analyses on selected credit and economic indicators for each applicable loan segment. During the third quarter of 2018, the environmental factor models used to account for changes in current credit and macroeconomic conditions were reviewed and recalibrated based on the latest applicable trends.

The effect of the recalibration to the environmental factors adjustments resulted in a decrease to the ALLL of $5.9 million and $0.2 million at the BPPR and Popular U.S. segments, respectively.

The following tables present the changes in the allowance for loan losses, loan ending balances and whether such loans and the allowance pertain to loans individually or collectively evaluated for impairment for the quarters and nine months ended September 30, 2018 and 2017.

Table of Contents

| (In thousands) | For the quarter ended September 30, 2018 Puerto Rico Commercial | Construction | Mortgage | Leasing | Consumer | Total |
|---|---|---|---|---|---|---|
| **Allowance for credit losses:** | | | | | | |
| Beginning balance | $ 190,926 | $ 765 | $ 182,103 | $ 14,285 | $ 179,066 | $ 567,145 |
| Provision (reversal of provision) | 21,548 | (12) | 10,145 | (422) | 20,618 | 51,877 |
| Charge-offs | (7,335) | (21) | (23,526) | (2,088) | (42,180) | (75,150) |
| Recoveries | 4,966 | 146 | 1,564 | 531 | 9,097 | 16,304 |
| Ending balance | $ 210,105 | $ 878 | $ 170,286 | $ 12,306 | $ 166,601 | $ 560,176 |
| Specific ALLL | $ 52,250 | $ | $ 43,841 | $ 297 | $ 24,906 | $ 121,294 |
| General ALLL | $ 157,855 | $ 878 | $ 126,445 | $ 12,009 | $ 141,695 | $ 438,882 |
| **Loans held-in-portfolio:** | | | | | | |
| Impaired non-covered loans | $ 356,007 | $ 1,829 | $ 508,258 | $ 931 | $ 107,184 | $ 974,209 |
| Non-covered loans held-in-portfolio excluding impaired loans | 7,051,469 | 75,964 | 6,023,018 | 902,609 | 4,796,084 | 18,849,144 |
| Total non-covered loans held-in-portfolio | $ 7,407,476 | $ 77,793 | $ 6,531,276 | $ 903,540 | $ 4,903,268 | $ 19,823,353 |

| (In thousands) | For the quarter ended September 30, 2018 Popular U.S. Commercial | Construction | Mortgage | Legacy | Consumer | Total |
|---|---|---|---|---|---|---|
| **Allowance for credit losses:** | | | | | | |
| Beginning balance | $ 50,920 | $ 6,937 | $ 4,363 | $ 700 | $ 12,953 | $ 75,873 |
| Provision (reversal of provision) | (14,744) | 7,305 | (65) | (1,008) | 11,022 | 2,510 |
| Charge-offs | (2,792) | | (17) | (81) | (5,015) | (7,905) |
| Recoveries | 1,051 | | 20 | 766 | 1,227 | 3,064 |
| Ending balance | $ 34,435 | $ 14,242 | $ 4,301 | $ 377 | $ 20,187 | $ 73,542 |
| Specific ALLL | $ | $ 5,530 | $ 2,364 | $ | $ 1,349 | $ 9,243 |
| General ALLL | $ 34,435 | $ 8,712 | $ 1,937 | $ 377 | $ 18,838 | $ 64,299 |
| **Loans held-in-portfolio:** | | | | | | |
| Impaired loans | $ | $ 17,866 | $ 8,825 | $ | $ 7,388 | $ 34,079 |
| Loans held-in-portfolio excluding impaired loans | 4,586,231 | 847,706 | 764,069 | 27,566 | 429,164 | 6,654,736 |
| Total loans held-in-portfolio | $ 4,586,231 | $ 865,572 | $ 772,894 | $ 27,566 | $ 436,552 | $ 6,688,815 |

| For the quarter ended September 30, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Popular, Inc. | | | | | | | |
| (In thousands) | Commercial | Construction | Mortgage | Legacy | Leasing | Consumer | Total |
| **Allowance for credit losses:** | | | | | | | |
| Beginning balance | $ 241,846 | $ 7,702 | $ 186,466 | $ 700 | $ 14,285 | $ 192,019 | $ 643,018 |
| Provision (reversal of provision) | 6,804 | 7,293 | 10,080 | (1,008) | (422) | 31,640 | 54,387 |
| Charge-offs | (10,127) | (21) | (23,543) | (81) | (2,088) | (47,195) | (83,055) |
| Recoveries | 6,017 | 146 | 1,584 | 766 | 531 | 10,324 | 19,368 |
| Ending balance | $ 244,540 | $ 15,120 | $ 174,587 | $ 377 | $ 12,306 | $ 186,788 | $ 633,718 |
| Specific ALLL | $ 52,250 | $ 5,530 | $ 46,205 | $ | $ 297 | $ 26,255 | $ 130,537 |
| General ALLL | $ 192,290 | $ 9,590 | $ 128,382 | $ 377 | $ 12,009 | $ 160,533 | $ 503,181 |
| **Loans held-in-portfolio:** | | | | | | | |
| Impaired loans | $ 356,007 | $ 19,695 | $ 517,083 | $ | $ 931 | $ 114,572 | $ 1,008,288 |
| Loans held-in-portfolio excluding impaired loans | 11,637,700 | 923,670 | 6,787,087 | 27,566 | 902,609 | 5,225,248 | 25,503,880 |
| Total loans held-in-portfolio | $ 11,993,707 | $ 943,365 | $ 7,304,170 | $ 27,566 | $ 903,540 | $ 5,339,820 | $ 26,512,168 |

34

Table of Contents

| (In thousands) | Commercial | Construction | Mortgage | Leasing | Consumer | Total |
|---|---|---|---|---|---|---|
| | For the nine months ended September 30, 2018 Puerto Rico - Non-covered loans | | | | | |
| **Allowance for credit losses:** | | | | | | |
| Beginning balance | $ 171,531 | $ 1,286 | $ 159,081 | $ 11,991 | $ 174,215 | $ 518,104 |
| Provision (reversal of provision) | 52,846 | (1,042) | 24,564 | 5,022 | 71,610 | 153,000 |
| Charge-offs | (25,626) | 9 | (50,164) | (6,404) | (101,703) | (183,888) |
| Recoveries | 11,354 | 625 | 3,383 | 1,697 | 22,291 | 39,350 |
| Allowance transferred from covered loans [1] | | | 33,422 | | 188 | 33,610 |
| Ending balance | $ 210,105 | $ 878 | $ 170,286 | $ 12,306 | $ 166,601 | $ 560,176 |
| Specific ALLL | $ 52,250 | $ | $ 43,841 | $ 297 | $ 24,906 | $ 121,294 |
| General ALLL | $ 157,855 | $ 878 | $ 126,445 | $ 12,009 | $ 141,695 | $ 438,882 |
| **Loans held-in-portfolio:** | | | | | | |
| Impaired non-covered loans | $ 356,007 | $ 1,829 | $ 508,258 | $ 931 | $ 107,184 | $ 974,209 |
| Non-covered loans held-in-portfolio excluding impaired loans | 7,051,469 | 75,964 | 6,023,018 | 902,609 | 4,796,084 | 18,849,144 |
| Total non-covered loans held-in-portfolio | $ 7,407,476 | $ 77,793 | $ 6,531,276 | $ 903,540 | $ 4,903,268 | $ 19,823,353 |

[1] Represents the allowance transferred from covered to non-covered loans at June 30, 2018, due to the Termination Agreement with the FDIC.

| (In thousands) | Commercial | Construction | Mortgage | Leasing | Consumer | Total |
|---|---|---|---|---|---|---|
| | For the nine months ended September 30, 2018 Puerto Rico - Covered loans | | | | | |
| **Allowance for credit losses:** | | | | | | |
| Beginning balance | $ | $ | $ 32,521 | $ | $ 723 | $ 33,244 |
| Provision (reversal of provision) | | | 2,265 | | (535) | 1,730 |
| Charge-offs | | | (1,446) | | (2) | (1,448) |
| Recoveries | | | 82 | | 2 | 84 |
| Allowance transferred to non-covered loans | | | (33,422) | | (188) | (33,610) |
| Ending balance | $ | $ | $ | $ | $ | $ |
| Specific ALLL | $ | $ | $ | $ | $ | $ |
| General ALLL | $ | $ | $ | $ | $ | $ |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Loans held-in-portfolio:** | | | | | | |
| Impaired covered loans | $ | $ | $ | $ | $ | $ |
| Covered loans held-in-portfolio excluding impaired loans | | | | | | |
| Total covered loans held-in-portfolio | $ | $ | $ | $ | $ | $ |

35

Table of Contents

| | For the nine months ended September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Popular U.S. | | | | | |
| (In thousands) | Commercial | Construction | Mortgage | Legacy | Consumer | Total |
| **Allowance for credit losses:** | | | | | | |
| Beginning balance | $ 44,134 | $ 7,076 | $ 4,541 | $ 798 | $ 15,529 | $ 72,078 |
| Provision (reversal of provision) | 9,004 | 7,166 | (529) | (1,714) | 16,847 | 30,774 |
| Charge-offs | (22,435) | | (160) | (252) | (16,329) | (39,176) |
| Recoveries | 3,732 | | 449 | 1,545 | 4,140 | 9,866 |
| Ending balance | $ 34,435 | $ 14,242 | $ 4,301 | $ 377 | $ 20,187 | $ 73,542 |
| Specific ALLL | $ | $ 5,530 | $ 2,364 | $ | $ 1,349 | $ 9,243 |
| General ALLL | $ 34,435 | $ 8,712 | $ 1,937 | $ 377 | $ 18,838 | $ 64,299 |
| **Loans held-in-portfolio:** | | | | | | |
| Impaired loans | $ | $ 17,866 | $ 8,825 | $ | $ 7,388 | $ 34,079 |
| Loans held-in-portfolio excluding impaired loans | 4,586,231 | 847,706 | 764,069 | 27,566 | 429,164 | 6,654,736 |
| Total loans held-in-portfolio | $ 4,586,231 | $ 865,572 | $ 772,894 | $ 27,566 | $ 436,552 | $ 6,688,815 |

| | For the nine months ended September 30, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Popular, Inc. | | | | | | |
| (In thousands) | Commercial | Construction | Mortgage | Legacy | Leasing | Consumer | Total |
| **Allowance for credit losses:** | | | | | | | |
| Beginning balance | $ 215,665 | $ 8,362 | $ 196,143 | $ 798 | $ 11,991 | $ 190,467 | $ 623,426 |
| Provision (reversal of provision) | 61,850 | 6,124 | 26,300 | (1,714) | 5,022 | 87,922 | 185,504 |
| Charge-offs | (48,061) | 9 | (51,770) | (252) | (6,404) | (118,034) | (224,512) |
| Recoveries | 15,086 | 625 | 3,914 | 1,545 | 1,697 | 26,433 | 49,300 |
| Ending balance | $ 244,540 | $ 15,120 | $ 174,587 | $ 377 | $ 12,306 | $ 186,788 | $ 633,718 |
| Specific ALLL | $ 52,250 | $ 5,530 | $ 46,205 | $ | $ 297 | $ 26,255 | $ 130,537 |
| General ALLL | $ 192,290 | $ 9,590 | $ 128,382 | $ 377 | $ 12,009 | $ 160,533 | $ 503,181 |
| **Loans held-in-portfolio:** | | | | | | | |
| Impaired loans | $ 356,007 | $ 19,695 | $ 517,083 | $ | $ 931 | $ 114,572 | $ 1,008,288 |
| Loans held-in-portfolio excluding impaired loans | 11,637,700 | 923,670 | 6,787,087 | 27,566 | 902,609 | 5,225,248 | 25,503,880 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total loans held-in-portfolio | $ 11,993,707 | $ 943,365 | $ 7,304,170 | $ 27,566 | $ 903,540 | $ 5,339,820 | $ 26,512,168 |

For the quarter ended September 30, 2017
Puerto Rico - Non-covered loans

| (In thousands) | Commercial | Construction | Mortgage | Leasing | Consumer | Total |
|---|---|---|---|---|---|---|
| **Allowance for credit losses:** | | | | | | |
| Beginning balance | $ 174,189 | $ 1,473 | $ 147,866 | $ 8,003 | $ 122,904 | $ 454,435 |
| Provision | 31,059 | 176 | 38,838 | 3,924 | 41,118 | 115,115 |
| Charge-offs | (5,573) | 9 | (17,460) | (1,733) | (31,793) | (56,550) |
| Recoveries | 6,011 | 41 | 389 | 238 | 4,570 | 11,249 |
| Ending balance | $ 205,686 | $ 1,699 | $ 169,633 | $ 10,432 | $ 136,799 | $ 524,249 |
| Specific ALLL | $ 40,863 | $ | $ 49,129 | $ 450 | $ 21,730 | $ 112,172 |
| General ALLL | $ 164,823 | $ 1,699 | $ 120,504 | $ 9,982 | $ 115,069 | $ 412,077 |
| **Loans held-in-portfolio:** | | | | | | |
| Impaired non-covered loans | $ 328,704 | $ | $ 510,134 | $ 1,468 | $ 101,948 | $ 942,254 |
| Non-covered loans held-in-portfolio excluding impaired loans | 6,840,907 | 87,705 | 5,305,371 | 753,413 | 3,188,422 | 16,175,818 |
| Total non-covered loans held-in-portfolio | $ 7,169,611 | $ 87,705 | $ 5,815,505 | $ 754,881 | $ 3,290,370 | $ 17,118,072 |

36

Table of Contents

| (In thousands) | For the quarter ended September 30, 2017 Puerto Rico - Covered Loans Commercial | Construction | Mortgage | Leasing | Consumer | Total |
|---|---|---|---|---|---|---|
| **Allowance for credit losses:** | | | | | | |
| Beginning balance | $ | $ | $ 30,284 | $ | $ 524 | $ 30,808 |
| Provision | | | 2,538 | | 562 | 3,100 |
| Charge-offs | | | (863) | | (24) | (887) |
| Recoveries | | | 32 | | 4 | 36 |
| Ending balance | $ | $ | $ 31,991 | $ | $ 1,066 | $ 33,057 |
| Specific ALLL | $ | $ | $ | $ | $ | $ |
| General ALLL | $ | $ | $ 31,991 | $ | $ 1,066 | $ 33,057 |
| **Loans held-in-portfolio:** | | | | | | |
| Impaired covered loans | $ | $ | $ | $ | $ | $ |
| Covered loans held-in-portfolio excluding impaired loans | | | 510,211 | | 14,643 | 524,854 |
| Total covered loans held-in-portfolio | $ | $ | $ 510,211 | $ | $ 14,643 | $ 524,854 |

| (In thousands) | For the quarter ended September 30, 2017 Popular U.S. Commercial | Construction | Mortgage | Legacy | Consumer | Total |
|---|---|---|---|---|---|---|
| **Allowance for credit losses:** | | | | | | |
| Beginning balance | $ 28,319 | $ 6,528 | $ 4,122 | $ 993 | $ 14,809 | $ 54,771 |
| Provision (reversal of provision) | 39,246 | 595 | (39) | (418) | 3,160 | 42,544 |
| Charge-offs | (4,553) | | (113) | (86) | (4,957) | (9,709) |
| Recoveries | 271 | | 287 | 383 | 1,060 | 2,001 |
| Ending balance | $ 63,283 | $ 7,123 | $ 4,257 | $ 872 | $ 14,072 | $ 89,607 |
| Specific ALLL | $ | $ | $ 2,292 | $ | $ 727 | $ 3,019 |
| General ALLL | $ 63,283 | $ 7,123 | $ 1,965 | $ 872 | $ 13,345 | $ 86,588 |
| **Loans held-in-portfolio:** | | | | | | |
| Impaired loans | $ | $ | $ 9,094 | $ | $ 3,439 | $ 12,533 |
| Loans held-in-portfolio excluding impaired loans | 4,057,484 | 735,620 | 704,636 | 37,508 | 507,597 | 6,042,845 |
| Total loans held-in-portfolio | $ 4,057,484 | $ 735,620 | $ 713,730 | $ 37,508 | $ 511,036 | $ 6,055,378 |

For the quarter ended September 30, 2017
Popular, Inc.

| (In thousands) | Commercial | Construction | Mortgage | Legacy | Leasing | Consumer | Total |
|---|---|---|---|---|---|---|---|
| **Allowance for credit losses:** | | | | | | | |
| Beginning balance | $ 202,508 | $ 8,001 | $ 182,272 | $ 993 | $ 8,003 | $ 138,237 | $ 540,014 |
| Provision (reversal of provision) | 70,305 | 771 | 41,337 | (418) | 3,924 | 44,840 | 160,759 |
| Charge-offs | (10,126) | 9 | (18,436) | (86) | (1,733) | (36,774) | (67,146) |
| Recoveries | 6,282 | 41 | 708 | 383 | 238 | 5,634 | 13,286 |
| Ending balance | $ 268,969 | $ 8,822 | $ 205,881 | $ 872 | $ 10,432 | $ 151,937 | $ 646,913 |
| Specific ALLL | $ 40,863 | $ | $ 51,421 | $ | $ 450 | $ 22,457 | $ 115,191 |
| General ALLL | $ 228,106 | $ 8,822 | $ 154,460 | $ 872 | $ 9,982 | $ 129,480 | $ 531,722 |
| **Loans held-in-portfolio:** | | | | | | | |
| Impaired loans | $ 328,704 | $ | $ 519,228 | $ | $ 1,468 | $ 105,387 | $ 954,787 |
| Loans held-in-portfolio excluding impaired loans | 10,898,391 | 823,325 | 6,520,218 | 37,508 | 753,413 | 3,710,662 | 22,743,517 |
| Total loans held-in-portfolio | $ 11,227,095 | $ 823,325 | $ 7,039,446 | $ 37,508 | $ 754,881 | $ 3,816,049 | $ 23,698,304 |

37

Table of Contents

| For the nine months ended September 30, 2017 Puerto Rico - Non-covered loans | | | | | | |
|---|---|---|---|---|---|---|
| (In thousands) | Commercial | Construction | Mortgage | Leasing | Consumer | Total |
| **Allowance for credit losses:** | | | | | | |
| Beginning balance | $ 189,686 | $ 1,353 | $ 143,320 | $ 7,662 | $ 125,963 | $ 467,984 |
| Provision (reversal of provision) | 29,945 | (2,218) | 77,692 | 6,516 | 76,831 | 188,766 |
| Charge-offs | (38,219) | (3,646) | (53,936) | (5,030) | (81,607) | (182,438) |
| Recoveries | 24,274 | 6,210 | 2,557 | 1,284 | 15,612 | 49,937 |
| Ending balance | $ 205,686 | $ 1,699 | $ 169,633 | $ 10,432 | $ 136,799 | $ 524,249 |
| Specific ALLL | $ 40,863 | $ | $ 49,129 | $ 450 | $ 21,730 | $ 112,172 |
| General ALLL | $ 164,823 | $ 1,699 | $ 120,504 | $ 9,982 | $ 115,069 | $ 412,077 |
| **Loans held-in-portfolio:** | | | | | | |
| Impaired non-covered loans | $ 328,704 | $ | $ 510,134 | $ 1,468 | $ 101,948 | $ 942,254 |
| Non-covered loans held-in-portfolio excluding impaired loans | 6,840,907 | 87,705 | 5,305,371 | 753,413 | 3,188,422 | 16,175,818 |
| Total non-covered loans held-in-portfolio | $ 7,169,611 | $ 87,705 | $ 5,815,505 | $ 754,881 | $ 3,290,370 | $ 17,118,072 |

| For the nine months ended September 30, 2017 Puerto Rico - Covered Loans | | | | | | |
|---|---|---|---|---|---|---|
| (In thousands) | Commercial | Construction | Mortgage | Leasing | Consumer | Total |
| **Allowance for credit losses:** | | | | | | |
| Beginning balance | $ | $ | $ 30,159 | $ | $ 191 | $ 30,350 |
| Provision | | | 3,253 | | 1,002 | 4,255 |
| Charge-offs | | | (2,700) | | (134) | (2,834) |
| Recoveries | | | 1,279 | | 7 | 1,286 |
| Ending balance | $ | $ | $ 31,991 | $ | $ 1,066 | $ 33,057 |
| Specific ALLL | $ | $ | $ | $ | $ | $ |
| General ALLL | $ | $ | $ 31,991 | $ | $ 1,066 | $ 33,057 |
| **Loans held-in-portfolio:** | | | | | | |
| Impaired covered loans | $ | $ | $ | $ | $ | $ |
| Covered loans held-in-portfolio excluding impaired loans | | | 510,211 | | 14,643 | 524,854 |
| | $ | $ | $ 510,211 | $ | $ 14,643 | $ 524,854 |

Total covered loans
held-in-portfolio

| For the nine months ended September 30, 2017 | | | | | | |
|---|---|---|---|---|---|---|
| | Popular U.S. | | | | | |
| (In thousands) | Commercial | Construction | Mortgage | Legacy | Consumer | Total |
| **Allowance for credit losses:** | | | | | | |
| Beginning balance | $ 12,968 | $ 8,172 | $ 4,614 | $ 1,343 | $ 15,220 | $ 42,317 |
| Provision (reversal of provision) | 53,491 | (1,049) | (173) | (1,554) | 10,200 | 60,915 |
| Charge-offs | (4,774) | | (1,064) | (669) | (14,476) | (20,983) |
| Recoveries | 1,598 | | 880 | 1,752 | 3,128 | 7,358 |
| Ending balance | $ 63,283 | $ 7,123 | $ 4,257 | $ 872 | $ 14,072 | $ 89,607 |
| Specific ALLL | $ | $ | $ 2,292 | $ | $ 727 | $ 3,019 |
| General ALLL | $ 63,283 | $ 7,123 | $ 1,965 | $ 872 | $ 13,345 | $ 86,588 |
| **Loans held-in-portfolio:** | | | | | | |
| Impaired loans | $ | $ | $ 9,094 | $ | $ 3,439 | $ 12,533 |
| Loans held-in-portfolio excluding impaired loans | 4,057,484 | 735,620 | 704,636 | 37,508 | 507,597 | 6,042,845 |
| Total loans held-in-portfolio | $ 4,057,484 | $ 735,620 | $ 713,730 | $ 37,508 | $ 511,036 | $ 6,055,378 |

38

Table of Contents

| | For the nine months ended September 30, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Popular, Inc. | | | | | | |
| (In thousands) | Commercial | Construction | Mortgage | Legacy | Leasing | Consumer | Total |
| **Allowance for credit losses:** | | | | | | | |
| Beginning balance | $ 202,654 | $ 9,525 | $ 178,093 | $ 1,343 | $ 7,662 | $ 141,374 | $ 540,651 |
| Provision (reversal of provision) | 83,436 | (3,267) | 80,772 | (1,554) | 6,516 | 88,033 | 253,936 |
| Charge-offs | (42,993) | (3,646) | (57,700) | (669) | (5,030) | (96,217) | (206,255) |
| Recoveries | 25,872 | 6,210 | 4,716 | 1,752 | 1,284 | 18,747 | 58,581 |
| Ending balance | $ 268,969 | $ 8,822 | $ 205,881 | $ 872 | $ 10,432 | $ 151,937 | $ 646,913 |
| Specific ALLL | $ 40,863 | $ | $ 51,421 | $ | $ 450 | $ 22,457 | $ 115,191 |
| General ALLL | $ 228,106 | $ 8,822 | $ 154,460 | $ 872 | $ 9,982 | $ 129,480 | $ 531,722 |
| **Loans held-in-portfolio:** | | | | | | | |
| Impaired loans | $ 328,704 | $ | $ 519,228 | $ | $ 1,468 | $ 105,387 | $ 954,787 |
| Loans held-in-portfolio excluding impaired loans | 10,898,391 | 823,325 | 6,520,218 | 37,508 | 753,413 | 3,710,662 | 22,743,517 |
| Total loans held-in-portfolio | $ 11,227,095 | $ 823,325 | $ 7,039,446 | $ 37,508 | $ 754,881 | $ 3,816,049 | $ 23,698,304 |

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

| | ASC 310-30 | | | |
|---|---|---|---|---|
| | For the quarters ended | | For the nine months ended | |
| (In thousands) | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Balance at beginning of period | $ 156,328 | $ 103,597 | $ 119,505 | $ 91,308 |
| Provision | 17,854 | 41,683 | 78,317 | 64,336 |
| Net charge-offs | (5,623) | (7,250) | (29,263) | (17,614) |
| Balance at end of period | $ 168,559 | $ 138,030 | $ 168,559 | $ 138,030 |

***Impaired loans***

The following tables present loans individually evaluated for impairment at September 30, 2018 and December 31, 2017.

| | September 30, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Puerto Rico | | | | | | | |
| | Impaired Loans With an Allowance | | | Impaired Loans With No Allowance | | Impaired Loans - Total | | |
| (In thousands) | Recorded investment | Unpaid principal balance | Related allowance | Recorded investment | Unpaid principal balance | Recorded investment | Unpaid principal balance | Related allowance |
| Commercial multi-family | $ 1,501 | $ 1,501 | $ 13 | $ | $ | $ 1,501 | $ 1,501 | $ 13 |
| Commercial real estate non-owner occupied | 85,259 | 86,091 | 27,582 | 48,690 | 61,520 | 133,949 | 147,611 | 27,582 |
| Commercial real estate owner occupied | 116,746 | 138,880 | 8,489 | 29,740 | 63,750 | 146,486 | 202,630 | 8,489 |
| Commercial and industrial | 64,437 | 66,344 | 16,166 | 9,634 | 19,878 | 74,071 | 86,222 | 16,166 |
| Construction | | | | 1,829 | 1,829 | 1,829 | 1,829 | |
| Mortgage | 444,980 | 506,941 | 43,841 | 63,278 | 84,504 | 508,258 | 591,445 | 43,841 |
| Leasing | 931 | 931 | 297 | | | 931 | 931 | 297 |
| Consumer: | | | | | | | | |
| Credit cards | 30,674 | 30,674 | 5,193 | | | 30,674 | 30,674 | 5,193 |
| Personal | 74,114 | 74,114 | 19,296 | | | 74,114 | 74,114 | 19,296 |
| Auto | 1,099 | 1,099 | 225 | | | 1,099 | 1,099 | 225 |
| Other | 1,297 | 1,297 | 192 | | | 1,297 | 1,297 | 192 |
| Total Puerto Rico | $ 821,038 | $ 907,872 | $ 121,294 | $ 153,171 | $ 231,481 | $ 974,209 | $ 1,139,353 | $ 121,294 |

Table of Contents

September 30, 2018
Popular U.S.

| (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 |
|---|---|---|---|---|---|---|---|---|
| Construction | $ 17,866 | $ 18,128 | $ 5,530 | $ | $ | $ 17,866 | $ 18,128 | $ 5,530 |
| Mortgage | 6,629 | 8,231 | 2,364 | 2,196 | 3,137 | 8,825 | 11,368 | 2,364 |
| Consumer: | | | | | | | | |
| HELOCs | 5,335 | 5,366 | 1,102 | 1,288 | 1,354 | 6,623 | $ 6,720 | $ 1,102 |
| Personal | 633 | 633 | 247 | 132 | 132 | 765 | $ 765 | $ 247 |
| Total Popular U.S. | $ 30,463 | $ 32,358 | $ 9,243 | $ 3,616 | $ 4,623 | $ 34,079 | $ 36,981 | $ 9,243 |

September 30, 2018
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 multi-family | $ 1,501 | $ 1,501 | $ 13 | $ | $ | $ 1,501 | $ 1,501 | $ 13 |
| Commercial real estate non-owner occupied | 85,259 | 86,091 | 27,582 | 48,690 | 61,520 | 133,949 | 147,611 | 27,582 |
| Commercial real estate owner occupied | 116,746 | 138,880 | 8,489 | 29,740 | 63,750 | 146,486 | 202,630 | 8,489 |
| Commercial and industrial | 64,437 | 66,344 | 16,166 | 9,634 | 19,878 | 74,071 | 86,222 | 16,166 |
| Construction | 17,866 | 18,128 | 5,530 | 1,829 | 1,829 | 19,695 | 19,957 | 5,530 |
| Mortgage | 451,609 | 515,172 | 46,205 | 65,474 | 87,641 | 517,083 | 602,813 | 46,205 |
| Leasing | 931 | 931 | 297 | | | 931 | 931 | 297 |
| Consumer: | | | | | | | | |
| Credit Cards | 30,674 | 30,674 | 5,193 | | | 30,674 | 30,674 | 5,193 |
| HELOCs | 5,335 | 5,366 | 1,102 | 1,288 | 1,354 | 6,623 | 6,720 | 1,102 |
| Personal | 74,747 | 74,747 | 19,543 | 132 | 132 | 74,879 | 74,879 | 19,543 |
| Auto | 1,099 | 1,099 | 225 | | | 1,099 | 1,099 | 225 |
| Other | 1,297 | 1,297 | 192 | | | 1,297 | 1,297 | 192 |
| Total Popular, Inc. | $ 851,501 | $ 940,230 | $ 130,537 | $ 156,787 | $ 236,104 | $ 1,008,288 | $ 1,176,334 | $ 130,537 |

| (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 |
|---|---|---|---|---|---|---|---|---|
| December 31, 2017 Puerto Rico | | | | | | | | |
| Commercial multi-family | $ 206 | $ 206 | $ 32 | $ | $ | $ 206 | $ 206 | $ 32 |
| Commercial real estate non-owner occupied | 101,485 | 102,262 | 23,744 | 11,454 | 27,522 | 112,939 | 129,784 | 23,744 |
| Commercial real estate owner occupied | 127,634 | 153,495 | 10,221 | 24,634 | 57,219 | 152,268 | 210,714 | 10,221 |
| Commercial and industrial | 43,493 | 46,918 | 2,985 | 14,549 | 23,977 | 58,042 | 70,895 | 2,985 |
| Mortgage | 450,226 | 504,006 | 46,354 | 58,807 | 75,228 | 509,033 | 579,234 | 46,354 |
| Leasing | 1,456 | 1,456 | 475 | | | 1,456 | 1,456 | 475 |
| Consumer: | | | | | | | | |
| Credit cards | 33,676 | 33,676 | 5,569 | | | 33,676 | 33,676 | 5,569 |
| Personal | 62,488 | 62,488 | 15,690 | | | 62,488 | 62,488 | 15,690 |
| Auto | 2,007 | 2,007 | 425 | | | 2,007 | 2,007 | 425 |
| Other | 1,009 | 1,009 | 165 | | | 1,009 | 1,009 | 165 |
| Total Puerto Rico | $ 823,680 | $ 907,523 | $ 105,660 | $ 109,444 | $ 183,946 | $ 933,124 | $ 1,091,469 | $ 105,660 |

| (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 |
|---|---|---|---|---|---|---|---|---|
| December 31, 2017 Popular U.S. | | | | | | | | |
| Mortgage | $ 6,774 | $ 8,439 | $ 2,478 | $ 2,468 | $ 3,397 | $ 9,242 | $ 11,836 | $ 2,478 |
| Consumer: | | | | | | | | |
| HELOCs | 3,530 | 3,542 | 722 | 761 | 780 | 4,291 | 4,322 | 722 |
| Personal | 542 | 542 | 231 | 224 | 224 | 766 | 766 | 231 |
| Total Popular U.S. | $ 10,846 | $ 12,523 | $ 3,431 | $ 3,453 | $ 4,401 | $ 14,299 | $ 16,924 | $ 3,431 |

Table of Contents

| | December 31, 2017 Popular, Inc. | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Impaired Loans With an Allowance | | | Impaired Loans With No Allowance | | Impaired Loans - Total | | |
| (In thousands) | Recorded investment | Unpaid principal balance | Related allowance | Recorded investment | Unpaid principal balance | Recorded investment | Unpaid principal balance | Related allowance |
| Commercial multi-family | $ 206 | $ 206 | $ 32 | $ | $ | $ 206 | $ 206 | $ 32 |
| Commercial real estate non-owner occupied | 101,485 | 102,262 | 23,744 | 11,454 | 27,522 | 112,939 | 129,784 | 23,744 |
| Commercial real estate owner occupied | 127,634 | 153,495 | 10,221 | 24,634 | 57,219 | 152,268 | 210,714 | 10,221 |
| Commercial and industrial | 43,493 | 46,918 | 2,985 | 14,549 | 23,977 | 58,042 | 70,895 | 2,985 |
| Mortgage | 457,000 | 512,445 | 48,832 | 61,275 | 78,625 | 518,275 | 591,070 | 48,832 |
| Leasing | 1,456 | 1,456 | 475 | | | 1,456 | 1,456 | 475 |
| Consumer: | | | | | | | | |
| Credit Cards | 33,676 | 33,676 | 5,569 | | | 33,676 | 33,676 | 5,569 |
| HELOCs | 3,530 | 3,542 | 722 | 761 | 780 | 4,291 | 4,322 | 722 |
| Personal | 63,030 | 63,030 | 15,921 | 224 | 224 | 63,254 | 63,254 | 15,921 |
| Auto | 2,007 | 2,007 | 425 | | | 2,007 | 2,007 | 425 |
| Other | 1,009 | 1,009 | 165 | | | 1,009 | 1,009 | 165 |
| Total Popular, Inc. | $ 834,526 | $ 920,046 | $ 109,091 | $ 112,897 | $ 188,347 | $ 947,423 | $ 1,108,393 | $ 109,091 |

The following tables present the average recorded investment and interest income recognized on impaired loans for the quarters and nine months ended September 30, 2018 and 2017.

| | For the quarter ended September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Puerto Rico | | Popular U.S. | | Popular, Inc. | |
| (In thousands) | Average recorded investment | Interest income recognized | Average recorded investment | Interest income recognized | Average recorded investment | Interest income recognized |
| Commercial multi-family | $ 1,100 | $ 9 | $ | $ | $ 1,100 | $ 9 |
| Commercial real estate non-owner occupied | 132,927 | 1,371 | | | 132,927 | 1,371 |
| Commercial real estate owner occupied | 148,931 | 1,636 | | | 148,931 | 1,636 |
| Commercial and industrial | 74,770 | 1,053 | | | 74,770 | 1,053 |
| Construction | 2,194 | | 17,884 | | 20,078 | |
| Mortgage | 507,919 | 3,561 | 9,277 | 43 | 517,196 | 3,604 |
| Leasing | 1,031 | | | | 1,031 | |
| Consumer: | | | | | | |
| Credit cards | 31,998 | | | | 31,998 | |

| | | | | | | |
|---|---|---|---|---|---|---|
| HELOCs | | | 6,208 | | 6,208 | |
| Personal | 72,353 | 65 | 768 | | 73,121 | 65 |
| Auto | 1,067 | | | | 1,067 | |
| Other | 1,136 | | | | 1,136 | |
| Total Popular, Inc. | $ 975,426 | $ 7,695 | $ 34,137 | $ 43 | $ 1,009,563 | $ 7,738 |

| | For the quarter ended September 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Puerto Rico | | Popular U.S. | | Popular, Inc. | |
| (In thousands) | Average recorded investment | Interest income recognized | Average recorded investment | Interest income recognized | Average recorded investment | Interest income recognized |
| Commercial multi-family | $ 141 | $ 1 | $ | $ | $ 141 | $ 1 |
| Commercial real estate non-owner occupied | 117,650 | 1,272 | | | 117,650 | 1,272 |
| Commercial real estate owner occupied | 151,580 | 1,413 | | | 151,580 | 1,413 |
| Commercial and industrial | 61,950 | 531 | | | 61,950 | 531 |
| Mortgage | 507,689 | 3,211 | 8,995 | 60 | 516,684 | 3,271 |
| Leasing | 1,568 | | | | 1,568 | |
| Consumer: | | | | | | |
| Credit cards | 35,727 | | | | 35,727 | |
| HELOCs | | | 2,572 | | 2,572 | |
| Personal | 64,091 | | 763 | | 64,854 | |
| Auto | 2,065 | | | | 2,065 | |
| Other | 991 | | | | 991 | |
| Total Popular, Inc. | $ 943,452 | $ 6,428 | $ 12,330 | $ 60 | $ 955,782 | $ 6,488 |

Table of Contents

For the nine months ended September 30, 2018

| (In thousands) | Puerto Rico Average recorded investment | Puerto Rico Interest income recognized | Popular U.S. Average recorded investment | Popular U.S. Interest income recognized | Popular, Inc. Average recorded investment | Popular, Inc. Interest income recognized |
|---|---|---|---|---|---|---|
| Commercial multi-family | $ 634 | $ 28 | $ | $ | $ 634 | $ 28 |
| Commercial real estate non-owner occupied | 128,143 | 4,278 | | | 128,143 | 4,278 |
| Commercial real estate owner occupied | 151,192 | 4,786 | | | 151,192 | 4,786 |
| Commercial and industrial | 67,775 | 2,793 | | | 67,775 | 2,793 |
| Construction | 2,170 | 25 | 8,942 | | 11,112 | 25 |
| Mortgage | 508,930 | 13,790 | 9,217 | 130 | 518,147 | 13,920 |
| Leasing | 1,220 | | | | 1,220 | |
| Consumer: | | | | | | |
| Credit cards | 32,734 | | | | 32,734 | |
| HELOCs | | | 5,446 | | 5,446 | |
| Personal | 67,049 | 320 | 769 | | 67,818 | 320 |
| Auto | 1,476 | | | | 1,476 | |
| Other | 1,246 | | | | 1,246 | |
| Total Popular, Inc. | $ 962,569 | $ 26,020 | $ 24,374 | $ 130 | $ 986,943 | $ 26,150 |

For the nine months ended September 30, 2017

| (In thousands) | Puerto Rico Average recorded investment | Puerto Rico Interest income recognized | Popular U.S. Average recorded investment | Popular U.S. Interest income recognized | Popular, Inc. Average recorded investment | Popular, Inc. Interest income recognized |
|---|---|---|---|---|---|---|
| Commercial multi-family | $ 111 | $ 4 | $ | $ | $ 111 | $ 4 |
| Commercial real estate non-owner occupied | 118,243 | 3,997 | | | 118,243 | 3,997 |
| Commercial real estate owner occupied | 158,046 | 4,640 | | | 158,046 | 4,640 |
| Commercial and industrial | 61,072 | 1,682 | | | 61,072 | 1,682 |
| Mortgage | 503,628 | 11,394 | 8,947 | 156 | 512,575 | 11,550 |
| Leasing | 1,689 | | | | 1,689 | |
| Consumer: | | | | | | |
| Credit cards | 36,718 | | | | 36,718 | |
| HELOCs | | | 2,632 | | 2,632 | |
| Personal | 64,962 | | 440 | | 65,402 | |
| Auto | 2,079 | | | | 2,079 | |
| Other | 891 | | | | 891 | |
| Total Popular, Inc. | $ 947,439 | $ 21,717 | $ 12,019 | $ 156 | $ 959,458 | $ 21,873 |

***Modifications***

A modification of a loan constitutes a troubled debt restructuring when a borrower is experiencing financial difficulty and the modification constitutes a concession. For a summary of the accounting policy related to troubled debt restructurings ( TDRs ), refer to the Summary of Significant Accounting Policies included in Note 3 to the 2017 Form 10-K.

TDRs amounted to $1.4 billion at September 30, 2018 (December 31, 2017 $1.3 billion). The amount of outstanding commitments to lend additional funds to debtors owing receivables whose terms have been modified in TDRs amounted to $17 million related to the commercial loan portfolio at September 30, 2018 (December 31, 2017 $8 million).

At September 30, 2018, the mortgage loan TDRs include $503 million guaranteed by U.S. sponsored entities at BPPR, compared to $449 million at December 31, 2017.

The following table presents the non-covered and covered loans classified as TDRs according to their accruing status and the related allowance at September 30, 2018 and December 31, 2017.

Table of Contents

| | Popular, Inc. | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | September 30, 2018 | | | | December 31, 2017 | | | |
| (In thousands) | Accruing | Non-Accruing | Total | Related Allowance | Accruing | Non-Accruing | Total | Related Allowance |
| Non-covered loans held-in-portfolio: | | | | | | | | |
| Commercial | $ 200,196 | $ 119,250 | $ 319,446 | $ 46,694 | $ 161,220 | $ 59,626 | $ 220,846 | $ 32,472 |
| Construction | | 1,829 | 1,829 | 5,530 | | | | |
| Mortgage | 863,654 | 133,708 | 997,362 | 46,205 | 803,278 | 126,798 | 930,076 | 48,832 |
| Leases | 772 | 220 | 992 | 297 | 863 | 393 | 1,256 | 475 |
| Consumer | 96,279 | 15,104 | 111,383 | 25,354 | 93,916 | 12,233 | 106,149 | 22,802 |
| Non-covered loans held-in-portfolio | 1,160,901 | $ 270,111 | $ 1,431,012 | $ 124,080 | $ 1,059,277 | $ 199,050 | $ 1,258,327 | $ 104,581 |
| Covered loans held-in-portfolio: | | | | | | | | |
| Mortgage | $ | $ | $ | $ | $ 2,658 | $ 3,227 | $ 5,885 | $ |
| Covered loans held-in-portfolio | $ | $ | $ | $ | $ 2,658 | $ 3,227 | $ 5,885 | $ |

The following tables present the loan count by type of modification for those loans modified in a TDR during the quarters and nine months ended September 30, 2018 and 2017. Loans modified as TDRs for the U.S. operations are considered insignificant to the Corporation.

| | Popular, Inc. | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | For the quarter ended September 30, 2018 | | | | For the nine months ended September 30, 2018 | | | |
| | 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 multi-family | | 1 | | | | 2 | | |
| Commercial real estate non-owner occupied | 1 | 3 | | | 3 | 14 | | |
| Commercial real estate owner occupied | 1 | 12 | | | 4 | 54 | | |
| Commercial and industrial | 2 | 25 | | | 6 | 75 | | |
| Construction | | | | | 1 | | | |
| Mortgage | 28 | 7 | 70 | 11 | 73 | 17 | 173 | 56 |
| Leasing | | | 3 | | | | 4 | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Consumer: | | | | | | | | |
| Credit cards | 115 | | | 72 | 426 | | 3 | 382 |
| HELOCs | | 8 | 1 | 1 | | 20 | 8 | 1 |
| Personal | 511 | 1 | | | 1,139 | 4 | | |
| Auto | | 4 | 1 | | | 6 | 2 | |
| Other | 1 | | 1 | | 21 | | 2 | |
| Total | 659 | 61 | 76 | 84 | 1,673 | 192 | 192 | 439 |

43

**Table of Contents**

| | Popular, Inc. | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | For the quarter ended September 30, 2017 | | | | For the nine months ended September 30, 2017 | | | |
| | Reduction in interest rate | Extension of maturity date | Combination of reduction in interest rate and extension of maturity date | Other | Reduction in interest rate | Extension of maturity date | Combination of reduction in interest rate and extension of maturity date | Other |
| Commercial real estate non-owner occupied | | | | | 4 | 1 | | |
| Commercial real estate owner occupied | | 3 | | | 3 | 12 | | |
| Commercial and industrial | 1 | 15 | | | 3 | 36 | | |
| Mortgage | 13 | 14 | 83 | 16 | 45 | 35 | 301 | 116 |
| Leasing | | | 1 | | | 1 | 6 | |
| Consumer: | | | | | | | | |
| Credit cards | 140 | | 4 | 114 | 425 | | 5 | 424 |
| HELOCs | | | 2 | | | 1 | 3 | |
| Personal | 187 | 2 | 1 | 2 | 699 | 6 | 1 | 3 |
| Auto | | 1 | 2 | | | 5 | 4 | 1 |
| Other | 11 | | | | 27 | 1 | | 1 |
| Total | 352 | 35 | 93 | 132 | 1,206 | 98 | 320 | 545 |

The following tables present by class, quantitative information related to loans modified as TDRs during the quarters and nine months ended September 30, 2018 and 2017.

| | Popular, Inc. | | | |
|---|---|---|---|---|
| | For the quarter ended September 30, 2018 | | | |
| (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 multi-family | 1 | $ 810 | $ 808 | $ 63 |
| Commercial real estate non-owner occupied | 4 | 1,523 | 1,521 | 100 |
| Commercial real estate owner occupied | 13 | 7,578 | 7,525 | 160 |
| Commercial and industrial | 27 | 2,411 | 2,388 | 139 |
| Mortgage | 116 | 15,143 | 13,507 | 640 |
| Leasing | 3 | 75 | 73 | 23 |
| Consumer: | | | | |
| Credit cards | 187 | 1,693 | 1,838 | 234 |
| HELOCs | 10 | 913 | 906 | 66 |
| Personal | 512 | 8,026 | 8,025 | 2,660 |
| Auto | 5 | 63 | 63 | 11 |
| Other | 2 | 392 | 392 | 67 |
| Total | 880 | $ 38,627 | $ 37,046 | $ 4,163 |

Popular, Inc.
For the quarter ended September 30, 2017

| (Dollars in thousands) | Loan count | Pre-modification outstanding recorded investment | Post-modification outstanding recorded investment | Increase (decrease) in the allowance for loan losses as a result of modification |
|---|---|---|---|---|
| Commercial real estate owner occupied | 3 | $ 272 | $ 269 | $ 29 |
| Commercial and industrial | 16 | 1,022 | 1,044 | 111 |
| Mortgage | 126 | 17,692 | 16,633 | 1,103 |
| Leasing | 1 | 27 | 27 | 8 |
| Consumer: | | | | |
| Credit cards | 258 | 2,881 | 3,114 | 375 |
| HELOCs | 2 | 203 | 203 | 23 |
| Personal | 192 | 2,945 | 2,944 | 673 |
| Auto | 3 | 42 | 42 | 8 |
| Other | 11 | 46 | 46 | 6 |
| Total | 612 | $ 25,130 | $ 24,322 | $ 2,336 |

Table of Contents

Popular, Inc.
For the nine months ended September 30, 2018

| (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 multi-family | 2 | $ 1,377 | $ 1,375 | $ 106 |
| Commercial real estate non-owner occupied | 17 | 28,969 | 28,908 | 6,854 |
| Commercial real estate owner occupied | 58 | 27,648 | 26,433 | 1,143 |
| Commercial and industrial | 81 | 49,633 | 48,882 | 13,963 |
| Construction | 1 | 4,210 | 4,293 | 474 |
| Mortgage | 319 | 40,741 | 36,442 | 1,874 |
| Leasing | 4 | 98 | 96 | 30 |
| Consumer: | | | | |
| Credit cards | 811 | 8,097 | 8,642 | 1,086 |
| HELOCs | 29 | 2,638 | 2,579 | 440 |
| Personal | 1,143 | 18,351 | 18,346 | 5,390 |
| Auto | 8 | 139 | 122 | 21 |
| Other | 23 | 595 | 593 | 98 |
| Total | 2,496 | $ 182,496 | $ 176,711 | $ 31,479 |

Popular, Inc.
For the nine months ended September 30, 2017

| (Dollars in thousands) | Loan count | Pre-modification outstanding recorded investment | Post-modification outstanding recorded investment | Increase (decrease) in the allowance for loan losses as a result of modification |
|---|---|---|---|---|
| Commercial real estate non-owner occupied | 5 | $ 2,069 | $ 1,901 | $ 145 |
| Commercial real estate owner occupied | 15 | 2,975 | 2,951 | 172 |
| Commercial and industrial | 39 | 1,850 | 3,967 | 579 |
| Mortgage | 497 | 58,777 | 54,965 | 3,343 |
| Leasing | 7 | 263 | 262 | 74 |
| Consumer: | | | | |
| Credit cards | 854 | 7,785 | 8,514 | 1,019 |
| HELOCs | 4 | 689 | 686 | 36 |
| Personal | 709 | 11,979 | 11,982 | 2,704 |
| Auto | 10 | 2,043 | 1,999 | 362 |
| Other | 29 | 2,002 | 2,002 | 70 |
| Total | 2,169 | $ 90,432 | $ 89,229 | $ 8,504 |

The following tables present by class, TDRs that were subject to payment default and that had been modified as a TDR during the twelve months preceding the default date. Payment default is defined as a restructured loan becoming 90 days past due after being modified, foreclosed or charged-off, whichever occurs first. The recorded investment at September 30, 2018 is inclusive of all partial paydowns and charge-offs since the modification date. Loans modified as a TDR that were fully paid down, charged-off or foreclosed upon by period end are not reported.

| Popular, Inc. | | | | |
|---|---|---|---|---|
| | Defaulted during the quarter ended September 30, 2018 | | Defaulted during the nine months ended September 30, 2018 | |
| (Dollars in thousands) | Loan count | Recorded investment as of first default date | Loan count | Recorded investment as of first default date |
| Commercial real estate non-owner occupied | | $ | 1 | $ 17 |
| Commercial real estate owner occupied | 1 | 255 | 4 | 392 |
| Commercial and industrial | 1 | 5 | 7 | 81 |
| Mortgage | 42 | 5,280 | 74 | 9,520 |
| Consumer: | | | | |
| Credit cards | 86 | 707 | 150 | 2,301 |
| HELOCs | 1 | 144 | 1 | 144 |
| Personal | 27 | 362 | 67 | 1,656 |
| Auto | | | 3 | 79 |
| Other | 1 | 3 | 2 | 10 |
| Total | 159 | $ 6,756 | 309 | $ 14,200 |

| Popular, Inc. | | | | |
|---|---|---|---|---|
| | Defaulted during the quarter ended September 30, 2017 | | Defaulted during the nine months ended September 30, 2017 | |
| (Dollars in thousands) | Loan count | Recorded investment as of first default date | Loan count | Recorded investment as of first default date |
| Commercial real estate non-owner occupied | | $ | 2 | $ 457 |
| Commercial real estate owner occupied | | | 3 | 1,749 |
| Commercial and industrial | 1 | 36 | 4 | 601 |
| Mortgage | 48 | 4,216 | 110 | 10,112 |
| Consumer: | | | | |
| Credit cards | 135 | 1,212 | 274 | 2,661 |
| HELOCs | | | 1 | 97 |
| Personal | 67 | 1,222 | 138 | 3,230 |
| Auto | 1 | 19 | 5 | 99 |
| Other | | | 1 | 9 |
| Total | 252 | $ 6,705 | 538 | $ 19,015 |

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

*Credit Quality*

The following table presents the outstanding balance, net of unearned income, of loans held-in-portfolio based on the Corporation s assignment of obligor risk ratings as defined at September 30, 2018 and December 31, 2017. For the definitions of the obligor risk ratings, refer to the Credit Quality section of Note 10 to the Consolidated Financial Statements included in the Corporation s Form 10K for the year ended December 31, 2017.

46

Table of Contents

| | September 30, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (In thousands) | Watch | Special Mention | Substandard | Doubtful | Loss | Sub-total | Pass/ Unrated | Total |
| **Puerto Rico** | | | | | | | | |
| Commercial multi-family | $ 2,137 | $ 4,605 | $ 4,223 | $ | $ | $ 10,965 | $ 137,263 | $ 148,228 |
| Commercial real estate non-owner occupied | 494,377 | 237,756 | 413,077 | | | 1,145,210 | 1,212,121 | 2,357,331 |
| Commercial real estate owner occupied | 323,248 | 129,932 | 381,435 | 2,192 | | 836,807 | 898,698 | 1,735,505 |
| Commercial and industrial | 787,901 | 145,193 | 178,806 | 198 | 157 | 1,112,255 | 2,054,157 | 3,166,412 |
| Total Commercial | 1,607,663 | 517,486 | 977,541 | 2,390 | 157 | 3,105,237 | 4,302,239 | 7,407,476 |
| Construction | | 889 | 1,829 | | | 2,718 | 75,075 | 77,793 |
| Mortgage | 3,475 | 1,994 | 169,236 | | | 174,705 | 6,356,571 | 6,531,276 |
| Leasing | | | 2,928 | | 81 | 3,009 | 900,531 | 903,540 |
| Consumer: | | | | | | | | |
| Credit cards | | | 16,768 | | | 16,768 | 1,021,065 | 1,037,833 |
| HELOCs | | | 108 | | | 108 | 5,373 | 5,481 |
| Personal | 636 | 160 | 19,854 | | | 20,650 | 1,222,746 | 1,243,396 |
| Auto | | | 22,003 | | 162 | 22,165 | 2,446,445 | 2,468,610 |
| Other | 102 | | 15,222 | | 158 | 15,482 | 132,466 | 147,948 |
| Total Consumer | 738 | 160 | 73,955 | | 320 | 75,173 | 4,828,095 | 4,903,268 |
| Total Puerto Rico | $ 1,611,876 | $ 520,529 | $ 1,225,489 | $ 2,390 | $ 558 | $ 3,360,842 | $ 16,462,511 | $ 19,823,353 |
| **Popular U.S.** | | | | | | | | |
| Commercial multi-family | $ 52,062 | $ 8,010 | $ 6,048 | $ | $ | $ 66,120 | $ 1,262,452 | $ 1,328,572 |
| Commercial real estate non-owner occupied | 79,381 | 9,027 | 36,692 | | | 125,100 | 1,774,293 | 1,899,393 |
| Commercial real estate owner occupied | 46,366 | 7,624 | 8,955 | | | 62,945 | 225,460 | 288,405 |
| Commercial and industrial | 5,437 | 117 | 89,879 | | | 95,433 | 974,428 | 1,069,861 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total Commercial | 183,246 | 24,778 | 141,574 | | | 349,598 | 4,236,633 | 4,586,231 |
| Construction | 69,547 | 15,698 | 64,493 | | | 149,738 | 715,834 | 865,572 |
| Mortgage | | | 12,306 | | | 12,306 | 760,588 | 772,894 |
| Legacy | 565 | 228 | 2,495 | | | 3,288 | 24,278 | 27,566 |
| Consumer: | | | | | | | | |
| Credit cards | | | 4 | | | 4 | 59 | 63 |
| HELOCs | | | 2,049 | | 11,889 | 13,938 | 131,607 | 145,545 |
| Personal | | | 1,864 | | 888 | 2,752 | 287,909 | 290,661 |
| Other | | | | | | | 283 | 283 |
| Total Consumer | | | 3,917 | | 12,777 | 16,694 | 419,858 | 436,552 |
| Total Popular U.S. | $ 253,358 | $ 40,704 | $ 224,785 | $ | $ 12,777 | $ 531,624 | $ 6,157,191 | $ 6,688,815 |
| **Popular, Inc.** | | | | | | | | |
| Commercial multi-family | $ 54,199 | $ 12,615 | $ 10,271 | $ | $ | $ 77,085 | $ 1,399,715 | $ 1,476,800 |
| Commercial real estate non-owner occupied | 573,758 | 246,783 | 449,769 | | | 1,270,310 | 2,986,414 | 4,256,724 |
| Commercial real estate owner occupied | 369,614 | 137,556 | 390,390 | 2,192 | | 899,752 | 1,124,158 | 2,023,910 |
| Commercial and industrial | 793,338 | 145,310 | 268,685 | 198 | 157 | 1,207,688 | 3,028,585 | 4,236,273 |
| Total Commercial | 1,790,909 | 542,264 | 1,119,115 | 2,390 | 157 | 3,454,835 | 8,538,872 | 11,993,707 |
| Construction | 69,547 | 16,587 | 66,322 | | | 152,456 | 790,909 | 943,365 |
| Mortgage | 3,475 | 1,994 | 181,542 | | | 187,011 | 7,117,159 | 7,304,170 |
| Legacy | 565 | 228 | 2,495 | | | 3,288 | 24,278 | 27,566 |
| Leasing | | | 2,928 | | 81 | 3,009 | 900,531 | 903,540 |
| Consumer: | | | | | | | | |
| Credit cards | | | 16,772 | | | 16,772 | 1,021,124 | 1,037,896 |
| HELOCs | | | 2,157 | | 11,889 | 14,046 | 136,980 | 151,026 |
| Personal | 636 | 160 | 21,718 | | 888 | 23,402 | 1,510,655 | 1,534,057 |
| Auto | | | 22,003 | | 162 | 22,165 | 2,446,445 | 2,468,610 |
| Other | 102 | | 15,222 | | 158 | 15,482 | 132,749 | 148,231 |
| Total Consumer | 738 | 160 | 77,872 | | 13,097 | 91,867 | 5,247,953 | 5,339,820 |
| Total Popular, Inc. | $ 1,865,234 | $ 561,233 | $ 1,450,274 | $ 2,390 | $ 13,335 | $ 3,892,466 | $ 22,619,702 | $ 26,512,168 |

47

Table of Contents

The following table presents the weighted average obligor risk rating at September 30, 2018 for those classifications that consider a range of rating scales.

| **Weighted average obligor risk rating** | (Scales 11 and 12) Substandard | (Scales 1 through 8) Pass |
|---|---|---|
| **Puerto Rico:** | | |
| Commercial multi-family | 11.18 | 5.73 |
| Commercial real estate non-owner occupied | 11.07 | 6.91 |
| Commercial real estate owner occupied | 11.23 | 7.16 |
| Commercial and industrial | 11.27 | 7.05 |
| Total Commercial | 11.17 | 7.01 |
| Construction | 12.00 | 7.55 |

| | Substandard | Pass |
|---|---|---|
| **Popular U.S. :** | | |
| Commercial multi-family | 11.00 | 7.35 |
| Commercial real estate non-owner occupied | 11.01 | 6.77 |
| Commercial real estate owner occupied | 11.04 | 7.50 |
| Commercial and industrial | 11.97 | 6.49 |
| Total Commercial | 11.62 | 6.91 |
| Construction | 11.28 | 7.77 |
| Legacy | 11.16 | 7.94 |

Table of Contents

| | December 31, 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (In thousands) | Watch | Special Mention | Substandard | Doubtful | Loss | Sub-total | Pass/ Unrated | Total |
| **Puerto Rico**[1] | | | | | | | | |
| Commercial multi-family | $ 1,387 | $ 1,708 | $ 6,831 | $ | $ | $ 9,926 | $ 136,473 | $ 146,399 |
| Commercial real estate non-owner occupied | 327,811 | 335,011 | 307,579 | | | 970,401 | 1,434,158 | 2,404,559 |
| Commercial real estate owner occupied | 243,966 | 215,652 | 354,990 | 2,124 | | 816,732 | 1,006,882 | 1,823,614 |
| Commercial and industrial | 453,546 | 108,554 | 241,695 | 471 | 126 | 804,392 | 2,086,935 | 2,891,327 |
| Total Commercial | 1,026,710 | 660,925 | 911,095 | 2,595 | 126 | 2,601,451 | 4,664,448 | 7,265,899 |
| Construction | 110 | 4,122 | 1,545 | | | 5,777 | 89,592 | 95,369 |
| Mortgage | 2,748 | 3,564 | 155,074 | | | 161,386 | 6,415,393 | 6,576,779 |
| Leasing | | | 1,926 | | 1,048 | 2,974 | 807,016 | 809,990 |
| Consumer: | | | | | | | | |
| Credit cards | | | 18,227 | | | 18,227 | 1,074,994 | 1,093,221 |
| HELOCs | | | 257 | | | 257 | 5,830 | 6,087 |
| Personal | 429 | 659 | 20,790 | | | 21,878 | 1,200,434 | 1,222,312 |
| Auto | | | 5,446 | | 20 | 5,466 | 845,347 | 850,813 |
| Other | | | 16,324 | | 440 | 16,764 | 140,824 | 157,588 |
| Total Consumer | 429 | 659 | 61,044 | | 460 | 62,592 | 3,267,429 | 3,330,021 |
| Total Puerto Rico | $ 1,029,997 | $ 669,270 | $ 1,130,684 | $ 2,595 | $ 1,634 | $ 2,834,180 | $ 15,243,878 | $ 18,078,058 |
| **Popular U.S.** | | | | | | | | |
| Commercial multi-family | $ 11,808 | $ 6,345 | $ 7,936 | $ | $ | $ 26,089 | $ 1,184,604 | $ 1,210,693 |
| Commercial real estate non-owner occupied | 46,523 | 16,561 | 37,178 | | | 100,262 | 1,588,049 | 1,688,311 |
| Commercial real estate owner occupied | 28,183 | 30,893 | 8,590 | | | 67,666 | 251,309 | 318,975 |
| Commercial and industrial | 4,019 | 603 | 123,935 | | | 128,557 | 876,426 | 1,004,983 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total Commercial | 90,533 | 54,402 | 177,639 | | | 322,574 | 3,900,388 | 4,222,962 |
| Construction | 36,858 | 8,294 | 54,276 | | | 99,428 | 685,232 | 784,660 |
| Mortgage | | | 14,852 | | | 14,852 | 678,776 | 693,628 |
| Legacy | 688 | 426 | 3,302 | | | 4,416 | 28,564 | 32,980 |
| Consumer: | | | | | | | | |
| Credit cards | | | 11 | | | 11 | 89 | 100 |
| HELOCs | | | 6,084 | | 8,914 | 14,998 | 167,087 | 182,085 |
| Personal | | | 2,069 | | 704 | 2,773 | 295,229 | 298,002 |
| Other | | | | | | | 319 | 319 |
| Total Consumer | | | 8,164 | | 9,618 | 17,782 | 462,724 | 480,506 |
| Total Popular U.S. | $ 128,079 | $ 63,122 | $ 258,233 | $ | $ 9,618 | $ 459,052 | $ 5,755,684 | $ 6,214,736 |
| **Popular, Inc.** | | | | | | | | |
| Commercial multi-family | $ 13,195 | $ 8,053 | $ 14,767 | $ | $ | $ 36,015 | $ 1,321,077 | $ 1,357,092 |
| Commercial real estate non-owner occupied | 374,334 | 351,572 | 344,757 | | | 1,070,663 | 3,022,207 | 4,092,870 |
| Commercial real estate owner occupied | 272,149 | 246,545 | 363,580 | 2,124 | | 884,398 | 1,258,191 | 2,142,589 |
| Commercial and industrial | 457,565 | 109,157 | 365,630 | 471 | 126 | 932,949 | 2,963,361 | 3,896,310 |
| Total Commercial | 1,117,243 | 715,327 | 1,088,734 | 2,595 | 126 | 2,924,025 | 8,564,836 | 11,488,861 |
| Construction | 36,968 | 12,416 | 55,821 | | | 105,205 | 774,824 | 880,029 |
| Mortgage | 2,748 | 3,564 | 169,926 | | | 176,238 | 7,094,169 | 7,270,407 |
| Legacy | 688 | 426 | 3,302 | | | 4,416 | 28,564 | 32,980 |
| Leasing | | | 1,926 | | 1,048 | 2,974 | 807,016 | 809,990 |
| Consumer: | | | | | | | | |
| Credit cards | | | 18,238 | | | 18,238 | 1,075,083 | 1,093,321 |
| HELOCs | | | 6,341 | | 8,914 | 15,255 | 172,917 | 188,172 |
| Personal | 429 | 659 | 22,859 | | 704 | 24,651 | 1,495,663 | 1,520,314 |
| Auto | | | 5,446 | | 20 | 5,466 | 845,347 | 850,813 |
| Other | | | 16,324 | | 440 | 16,764 | 141,143 | 157,907 |
| Total Consumer | 429 | 659 | 69,208 | | 10,078 | 80,374 | 3,730,153 | 3,810,527 |
| Total Popular, Inc. | $ 1,158,076 | $ 732,392 | $ 1,388,917 | $ 2,595 | $ 11,252 | $ 3,293,232 | $ 20,999,562 | $ 24,292,794 |

49

Table of Contents

The following table presents the weighted average obligor risk rating at December 31, 2017 for those classifications that consider a range of rating scales.

| **Weighted average obligor risk rating** | (Scales 11 and 12) Substandard | (Scales 1 through 8) Pass |
|---|---|---|
| **Puerto Rico:[1]** | | |
| Commercial multi-family | 11.16 | 5.89 |
| Commercial real estate non-owner occupied | 11.06 | 6.99 |
| Commercial real estate owner occupied | 11.28 | 7.14 |
| Commercial and industrial | 11.16 | 7.11 |
| Total Commercial | 11.17 | 7.06 |
| Construction | 11.00 | 7.76 |

| | Substandard | Pass |
|---|---|---|
| **Popular U.S.:** | | |
| Commercial multi-family | 11.00 | 7.28 |
| Commercial real estate non-owner occupied | 11.04 | 6.74 |
| Commercial real estate owner occupied | 11.10 | 7.14 |
| Commercial and industrial | 11.82 | 6.17 |
| Total Commercial | 11.59 | 6.80 |
| Construction | 11.00 | 7.70 |
| Legacy | 11.11 | 7.93 |

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

The increase in the Watch category for Puerto Rico commercial loans of $581 million, from December 31, 2017, is impacted by the $341 million auto-related commercial loan portfolio acquired as part of the Reliable Transaction. These loans were placed in Watch status until the Corporation completes its internal review process.

Table of Contents

## Note 10 FDIC loss-share asset and true-up payment obligation

In connection with the Westernbank FDIC-assisted transaction, BPPR entered into loss-share arrangements with the FDIC with respect to the covered loans and other real estate owned. Pursuant to the terms of the loss-share arrangements, the FDIC s obligation to reimburse BPPR for losses with respect to covered assets began with the first dollar of loss incurred. The FDIC reimbursed BPPR for 80% of losses with respect to covered assets, and BPPR reimbursed the FDIC for 80% of recoveries with respect to losses for which the FDIC paid reimbursement under loss-share arrangements. The loss-share component of the arrangements applicable to commercial (including construction) and consumer loans expired during the quarter ended June 30, 2015, but the arrangement provided for reimbursement of recoveries to the FDIC to continue through the quarter ending June 30, 2018, and for the single family mortgage loss-share component of such agreement to expire in the quarter ended June 30, 2020.

As of March 31, 2018, the Corporation had an FDIC loss share asset of $45.6 million, net of amounts owed to the FDIC of $1.1 million, related to the covered assets. As part of the loss-share agreements, BPPR had agreed to make a true-up payment to the FDIC 45 days following the last day (such day, the true-up measurement date ) of the final shared-loss month, or upon the final disposition of all covered assets under the loss-share agreements, in the event losses on the loss-share agreements fail to reach expected levels. The estimated fair value of such true-up payment obligation at March 31, 2018 was approximately $171 million (December 31, 2017 - $165 million) and was included as a contingent consideration within the caption of other liabilities in the Consolidated Statements of Financial Condition.

On May 22, 2018, the Corporation entered into a Termination Agreement (the Termination Agreement ) with the FDIC to terminate all loss-share arrangements in connection with the Westernbank FDIC-assisted transaction. Under the terms of the Termination Agreement, BPPR made a payment of approximately $23.7 million (the Termination Payment ) to the FDIC as consideration for the termination of the loss-share agreements. Popular recorded a gain of $102.8 million within the FDIC loss share (expense) income caption in the Consolidated Statements of Operations calculated based on the difference between the Termination Payment and the net amount of the true-up payment obligation and the FDIC loss share asset.

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

| | Quarters ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (In thousands) | 2018 | 2017 | 2018 | 2017 |
| Balance at beginning of period | $ | $ 53,070 | $ 46,316 | $ 69,334 |
| FDIC loss-share Termination Agreement | | | (45,659) | |
| Accretion (amortization) | | 567 | (934) | (62) |
| Credit impairment losses (reversal) to be covered under loss-sharing agreements | | (329) | 104 | 1,945 |
| Reimbursable expenses | | 588 | 537 | 2,232 |
| Net payments from FDIC under loss-sharing agreements | | (4,502) | (364) | (18,505) |
| Other adjustments attributable to FDIC loss-sharing agreements | | | | (5,550) |
| Balance at end of period | $ | $ 49,394 | $ | $ 49,394 |

| | | | | |
|---|---|---|---|---|
| Balance due to the FDIC for recoveries on covered assets | | (924) | | (924) |
| Balance at end of period | $ | $ 48,470 | $ | $ 48,470 |

Table of Contents

As a result of the Termination Agreement, assets that were covered by the loss share agreement, including covered loans in the amount of approximately $514.6 million and covered real estate owned assets in the amount of approximately $15.3 million as of March 31, 2018, were reclassified as non-covered. The Corporation now recognizes entirely all future credit losses, expenses, gains, and recoveries related to the formerly covered assets with no offset due to or from the FDIC.

Table of Contents

**Note 11 Mortgage banking activities**

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

The following table presents the components of mortgage banking activities:

| | Quarters ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (In thousands) | 2018 | 2017 | 2018 | 2017 |
| Mortgage servicing fees, net of fair value adjustments: | | | | |
| Mortgage servicing fees | $ 12,324 | $ 12,012 | $ 37,205 | $ 38,485 |
| Mortgage servicing rights fair value adjustments | (4,194) | (10,262) | (13,123) | (24,262) |
| Total mortgage servicing fees, net of fair value adjustments | 8,130 | 1,750 | 24,082 | 14,223 |
| Net gain on sale of loans, including valuation on loans held-for-sale | 3,014 | 4,244 | 6,531 | 16,875 |
| Trading account profit (loss): | | | | |
| Unrealized gains (losses) on outstanding derivative positions | 45 | (147) | (131) | (104) |
| Realized gains (losses) on closed derivative positions | 80 | (608) | 2,926 | (3,645) |
| Total trading account profit (loss) | 125 | (755) | 2,795 | (3,749) |
| Total mortgage banking activities | $ 11,269 | $ 5,239 | $ 33,408 | $ 27,349 |

53

Table of Contents

## Note 12 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. As seller, the Corporation has made certain representations and warranties with respect to the originally transferred loans and, in the past, has sold certain loans with credit recourse to a government-sponsored entity, namely FNMA. Refer to Note 21 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, 2018 and 2017 because they did not contain any credit recourse arrangements. During the quarter and nine months ended September 30, 2018, the Corporation recorded a net gain of $2.9 million and $6.2 million, respectively (September 30, 2017 $3.9 million and $15.0 million, respectively) related to the residential mortgage loans securitized.

The following tables present the initial fair value of the assets obtained as proceeds from residential mortgage loans securitized during the quarters and nine months ended September 30, 2018 and 2017:

| | Proceeds Obtained During the Quarter Ended September 30, 2018 | | | |
|---|---|---|---|---|
| (In thousands) | Level 1 | Level 2 | Level 3 | Initial Fair Value |
| Assets | | | | |
| Debt securities available-for-sale: | | | | |
| Mortgage-backed securities - FNMA | $ | $ 2,498 | $ | $ 2,498 |
| Total debt securities available-for-sale | $ | $ 2,498 | $ | $ 2,498 |
| Trading account debt securities: | | | | |
| Mortgage-backed securities - GNMA | $ | $ 109,911 | $ | $ 109,911 |
| Mortgage-backed securities - FNMA | | 23,625 | | 23,625 |
| Total trading account debt securities | $ | $ 133,536 | $ | $ 133,536 |
| Mortgage servicing rights | $ | $ | $ 2,625 | $ 2,625 |
| Total | $ | $ 136,034 | $ 2,625 | $ 138,659 |

| | Proceeds Obtained During the Nine Months Ended September 30, 2018 | | | |
|---|---|---|---|---|
| (In thousands) | Level 1 | Level 2 | Level 3 | Initial Fair Value |
| Assets | | | | |
| Debt securities available-for-sale: | | | | |
| Mortgage-backed securities - FNMA | $ | $ 9,458 | $ | $ 9,458 |
| Total debt securities available-for-sale | $ | $ 9,458 | $ | $ 9,458 |
| Trading account debt securities: | | | | |
| Mortgage-backed securities - GNMA | $ | $ 319,769 | $ | $ 319,769 |

| | | | | |
|---|---|---|---|---|
| Mortgage-backed securities - FNMA | | 62,853 | | 62,853 |
| Total trading account debt securities | $ | $ 382,622 | $ | $ 382,622 |
| Mortgage servicing rights | $ | $ | $ 7,198 | $ 7,198 |
| Total | $ | $ 392,080 | $ 7,198 | $ 399,278 |

54

Table of Contents

| (In thousands) | Proceeds Obtained During the Quarter Ended September 30, 2017 Level 1 | Level 2 | Level 3 | Initial Fair Value |
|---|---|---|---|---|
| Assets | | | | |
| Debt securities available-for-sale: | | | | |
| Mortgage-backed securities - FNMA | $ | $ 4,329 | $ | $ 4,329 |
| Total debt securities available-for-sale | $ | $ 4,329 | $ | $ 4,329 |
| Trading account debt securities: | | | | |
| Mortgage-backed securities - GNMA | $ | $ 85,722 | $ | $ 85,722 |
| Mortgage-backed securities - FNMA | | 16,452 | | 16,452 |
| Total trading account debt securities | $ | $ 102,174 | $ | $ 102,174 |
| Mortgage servicing rights | $ | $ | $ 1,588 | $ 1,588 |
| Total | $ | $ 106,503 | $ 1,588 | $ 108,091 |

| (In thousands) | Proceeds Obtained During the Nine Months Ended September 30, 2017 Level 1 | Level 2 | Level 3 | Initial Fair Value |
|---|---|---|---|---|
| Assets | | | | |
| Debt securities available-for-sale: | | | | |
| Mortgage-backed securities - FNMA | $ | $ 16,049 | $ | $ 16,049 |
| Total debt securities available-for-sale | $ | $ 16,049 | $ | $ 16,049 |
| Trading account debt securities: | | | | |
| Mortgage-backed securities - GNMA | $ | $ 368,660 | $ | $ 368,660 |
| Mortgage-backed securities - FNMA | | 69,798 | | 69,798 |
| Total trading account debt securities | $ | $ 438,458 | $ | $ 438,458 |
| Mortgage servicing rights | $ | $ | $ 6,766 | $ 6,766 |
| Total | $ | $ 454,507 | $ 6,766 | $ 461,273 |

During the nine months ended September 30, 2018, the Corporation retained servicing rights on whole loan sales involving approximately $43 million in principal balance outstanding (September 30, 2017 $49 million), with realized gains of approximately $0.6 million (September 30, 2017 gains of $1.8 million). All loan sales performed during the nine months ended September 30, 2018 and 2017 were without credit recourse agreements.

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

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

The following table presents the changes in MSRs measured using the fair value method for the nine months ended September 30, 2018 and 2017.

Table of Contents

| Residential MSRs | | |
|---|---|---|
| (In thousands) | September 30, 2018 | September 30, 2017 |
| Fair value at beginning of period | $ 168,031 | $ 196,889 |
| Additions | 7,871 | 7,530 |
| Changes due to payments on loans[1] | (10,194) | (12,794) |
| Reduction due to loan repurchases | (2,929) | (1,605) |
| Changes in fair value due to changes in valuation model inputs or assumptions | | (9,863) |
| Fair value at end of period | $ 162,779 | $ 180,157 |

[1] Represents changes due to collection / realization of expected cash flows over time.

Residential mortgage loans serviced for others were $15.9 billion at September 30, 2018 (December 31, 2017 -$16.1 billion).

Net mortgage servicing fees, a component of mortgage banking activities in the Consolidated Statements of Operations, include the changes from period to period in the fair value of the MSRs, including changes due to collection / realization of expected cash flows. The banking subsidiaries receive servicing fees based on a percentage of the outstanding loan balance. These servicing fees are credited to income when they are collected. At September 30, 2018, those weighted average mortgage servicing fees were 0.30% (September 30, 2017 0.29%). 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 derived from loans securitized or sold by the Corporation during the quarters and nine months ended September 30, 2018 and 2017 were as follows:

| | Quarters ended | | Nine months ended | |
|---|---|---|---|---|
| | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Prepayment speed | 4.4% | 4.9% | 4.4% | 4.3% |
| Weighted average life (in years) | 11.4 | 10.5 | 11.4 | 10.9 |
| Discount rate (annual rate) | 11.0% | 10.9% | 11.1% | 10.9% |

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 servicing rights purchased from other financial institutions, and the sensitivity to immediate changes in those assumptions, were as follows as of the end of the periods reported:

| | Originated MSRs | | Purchased MSRs | |
|---|---|---|---|---|
| (In thousands) | September 30, 2018 | December 31, 2017 | September 30, 2018 | December 31, 2017 |
| Fair value of servicing rights | $ 67,545 | $ 73,951 | $ 95,234 | $ 94,080 |

| | | | | |
|---|---|---|---|---|
| Weighted average life (in years) | 7.2 | 7.3 | 6.7 | 6.5 |
| Weighted average prepayment speed (annual rate) | 5.0% | 5.1% | 5.4% | 5.7% |
| Impact on fair value of 10% adverse change | $ (1,371) | $ (1,503) | $ (2,023) | $ (2,070) |
| Impact on fair value of 20% adverse change | $ (2,702) | $ (2,976) | $ (3,982) | $ (3,999) |
| Weighted average discount rate (annual rate) | 11.5% | 11.5% | 11.0% | 11.0% |
| Impact on fair value of 10% adverse change | $ (3,005) | $ (3,091) | $ (4,071) | $ (3,785) |
| Impact on fair value of 20% adverse change | $ (5,789) | $ (5,971) | $ (7,850) | $ (7,235) |

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.

Table of Contents

At September 30, 2018, the Corporation serviced $1.4 billion (December 31, 2017 $1.5 billion) in residential mortgage loans with credit recourse to the Corporation.

Under the GNMA securitizations, the Corporation, as servicer, has the right to repurchase (but not the obligation), at its option and without GNMA s prior authorization, any loan that is collateral for a GNMA guaranteed mortgage-backed security when certain delinquency criteria are met. At the time that individual loans meet GNMA s specified delinquency criteria and are eligible for repurchase, the Corporation is deemed to have regained effective control over these loans if the Corporation was the pool issuer. At September 30, 2018, the Corporation had recorded $195 million in mortgage loans on its Consolidated Statements of Financial Condition related to this buy-back option program (December 31, 2017 $840 million). As long as the Corporation continues to service the loans that continue to be collateral in a GNMA guaranteed mortgage-backed security, the MSR is recognized by the Corporation. During the nine months ended September 30, 2018, the Corporation repurchased approximately $264 million (September 30, 2017 $113 million) of mortgage loans under the GNMA buy-back option program. The determination to repurchase these loans was based on the economic benefits of the transaction, which results in a reduction of the servicing costs for these severely delinquent loans, mostly related to principal and interest advances. Furthermore, due to their guaranteed nature, the risk associated with the loans is minimal. The Corporation places these loans under its loss mitigation programs and once brought back to current status, these may be either retained in portfolio or re-sold in the secondary market.

Table of Contents

**Note 13 Other real estate owned**

The following tables present the activity related to Other Real Estate Owned ( OREO ), for the quarters and nine months ended September 30, 2018 and 2017.

| (In thousands) | For the quarter ended September 30, 2018 Non-covered OREO Commercial/Construction | Non-covered OREO Mortgage | Total |
|---|---|---|---|
| Balance at beginning of period | $ 25,262 | $ 116,801 | $ 142,063 |
| Write-downs in value | (487) | (2,584) | (3,071) |
| Additions | 2,006 | 11,517 | 13,523 |
| Sales | (1,309) | (17,296) | (18,605) |
| Other adjustments | | (130) | (130) |
| Ending balance | $ 25,472 | $ 108,308 | $ 133,780 |

| (In thousands) | For the nine months ended September 30, 2018 Non-covered OREO Commercial/Construction | Non-covered OREO Mortgage | Covered OREO Mortgage | Total |
|---|---|---|---|---|
| Balance at beginning of period | $ 21,411 | $ 147,849 | $ 19,595 | $ 188,855 |
| Write-downs in value | (1,889) | (9,123) | (287) | (11,299) |
| Additions | 9,047 | 17,047 | | 26,094 |
| Sales | (3,932) | (62,051) | (3,282) | (69,265) |
| Other adjustments | 835 | (747) | (693) | (605) |
| Transfer to non-covered status[1] | | 15,333 | (15,333) | |
| Ending balance | $ 25,472 | $ 108,308 | $ | $ 133,780 |

[1] Represents the reclassification of OREOs to the non-covered category, pursuant to the Termination Agreement of all shared-loss agreements with the Federal Deposit Insurance Corporation related to loans acquired from Westernbank, that was completed on May 22, 2018.

| (In thousands) | For the quarter ended September 30, 2017 Non-covered OREO Commercial/Construction | Non-covered OREO Mortgage | Covered OREO Mortgage | Total |
|---|---|---|---|---|
| Balance at beginning of period | $ 23,949 | $ 157,147 | $ 25,350 | $ 206,446 |
| Write-downs in value[1] | (2,702) | (2,856) | (234) | (5,792) |
| Additions | 982 | 18,669 | 1,560 | 21,211 |

| | | | | |
|---|---|---|---|---|
| Sales | (743) | (18,185) | (4,395) | (23,323) |
| Other adjustments | | 467 | (736) | (269) |
| Ending balance | $ 21,486 | $ 155,242 | $ 21,545 | $ 198,273 |

[1] Includes $2.7 million related to the damages from Hurricane Maria, of which $1.3 million were for commercial and $1.4 million for residential.

| | For the nine months ended September 30, 2017 | | | |
|---|---|---|---|---|
| (In thousands) | Non-covered OREO Commercial/Construction | Non-covered OREO Mortgage | Covered OREO Mortgage | Total |
| Balance at beginning of period | $ 20,401 | $ 160,044 | $ 32,128 | $ 212,573 |
| Write-downs in value[1] | (4,681) | (14,715) | (2,980) | (22,376) |
| Additions | 8,604 | 69,585 | 9,775 | 87,964 |
| Sales | (2,707) | (61,068) | (15,184) | (78,959) |
| Other adjustments | (131) | 1,396 | (2,194) | (929) |
| Ending balance | $ 21,486 | $ 155,242 | $ 21,545 | $ 198,273 |

[1] Includes $2.7 million related to the damages from Hurricane Maria, of which $1.3 million were for commercial and $1.4 million for residential.

58

Table of Contents

## Note 14 Other assets

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

| (In thousands) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Net deferred tax assets (net of valuation allowance) | $ 1,144,417 | $ 1,035,110 |
| Investments under the equity method | 223,222 | 215,349 |
| Prepaid taxes | 34,859 | 168,852 |
| Other prepaid expenses | 80,131 | 84,771 |
| Derivative assets | 18,977 | 16,539 |
| Trades receivable from brokers and counterparties | 57,290 | 7,514 |
| Receivables from investments maturities | 51,000 | 70,000 |
| Principal, interest and escrow servicing advances | 94,298 | 107,299 |
| Guaranteed mortgage loan claims receivable | 77,704 | 163,819 |
| Others | 118,952 | 122,070 |
| Total other assets | $ 1,900,850 | $ 1,991,323 |

Table of Contents

## Note 15 Goodwill and other intangible assets

*Goodwill*

The changes in the carrying amount of goodwill for the nine months ended September 30, 2018, allocated by reportable segments, were as follows (refer to Note 34 for the definition of the Corporation s reportable segments):

| | 2018 | | | | |
|---|---|---|---|---|---|
| (In thousands) | Balance at January 1, 2018 | Goodwill on acquisition | Purchase accounting adjustments | Goodwill impairment | Balance at September 30,2018 |
| Banco Popular de Puerto Rico | $ 276,420 | $ 60,242 | $ | $ | $ 336,662 |
| Popular U.S. | 350,874 | | | | 350,874 |
| Total Popular, Inc. | $ 627,294 | $ 60,242 | $ | $ | $ 687,536 |

The goodwill recognized during the quarter ended September 30, 2018 in the reportable segment of Banco Popular de Puerto Rico of $60.2 million was related to the Reliable Transaction. Refer to Note 4, Business combination, for additional information.

There were no changes in the carrying amount of goodwill for the nine months ended September 30, 2017.

*Other Intangible Assets*

At September 30, 2018 and December 31, 2017, the Corporation had $6.1 million of identifiable intangible assets with indefinite useful lives, mostly associated with the E-LOAN trademark.

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

| (In thousands) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value |
|---|---|---|---|
| September 30, 2018 | | | |
| Core deposits | $ 37,224 | $ 25,139 | $ 12,085 |
| Other customer relationships | 35,632 | 25,182 | 10,450 |
| Trademark | 488 | 17 | 471 |
| Total other intangible assets | $ 73,344 | $ 50,338 | $ 23,006 |
| December 31, 2017 | | | |
| Core deposits | $ 37,224 | $ 22,347 | $ 14,877 |
| Other customer relationships | 35,683 | 21,051 | 14,632 |
| Total other intangible assets | $ 72,907 | $ 43,398 | $ 29,509 |

The trademark recognized during the quarter ended September 30, 2018 of $0.5 million was related to the Reliable Transaction. Refer to Note 4, Business combination, for additional information.

During the quarter ended September 30, 2018, the Corporation recognized $2.3 million in amortization expense related to other intangible assets with definite useful lives (September 30, 2017  $2.3 million). During the nine months ended September 30, 2018, the Corporation recognized $7.0 million in amortization related to other intangible assets with definite useful lives (September 30, 2017  $7.0 million).

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

| (In thousands) | |
|---|---|
| Remaining 2018 | $ 2,337 |
| Year 2019 | 9,140 |
| Year 2020 | 5,065 |
| Year 2021 | 2,254 |
| Year 2022 | 1,378 |
| Year 2023 | 1,338 |
| Later years | 1,494 |

*Results of the Annual Goodwill Impairment Test*

The Corporation s goodwill and other identifiable intangible assets having an indefinite useful life are tested for impairment, at least annually and on a more frequent basis if events or circumstances indicate impairment could have taken place. Such events could include, among others, a significant adverse change in the business climate, an adverse action by a regulator, an unanticipated change in the competitive environment and a decision to change the operations or dispose of a reporting unit.

Under applicable accounting standards, goodwill impairment analysis is a two-step test. The first step of the goodwill impairment test involves comparing the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, the second step must be performed. The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated possible impairment. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangibles (including any unrecognized intangible assets, such as unrecognized core deposits and trademark) as if the reporting unit was being acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The Corporation estimates the fair values of the assets and liabilities of a reporting unit, consistent with the requirements of the fair value measurements accounting standard, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of the assets and liabilities reflects market conditions, thus volatility in prices could have a material impact on the determination of the implied fair value of the reporting unit goodwill at the impairment test date. The adjustments to measure the assets, liabilities and intangibles at fair value are for the purpose of measuring the implied fair value of goodwill and such adjustments are not reflected in the consolidated statement of condition. If the implied fair value of goodwill exceeds the goodwill assigned to the reporting unit, there is no impairment. If the goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted under applicable accounting standards.

The Corporation performed the annual goodwill impairment evaluation for the entire organization during the third quarter of 2018 using July 31, 2018 as the annual evaluation date. The reporting units utilized for this evaluation were those that are one level below the business segments, which are the legal entities within the reportable segment. The Corporation follows push-down accounting, as such all goodwill is assigned to the reporting units when carrying out a business combination.

In determining the fair value of a reporting unit, the Corporation generally uses a combination of methods, including market price multiples of comparable companies and transactions, as well as discounted cash flow analysis. Management evaluates the particular circumstances of each reporting unit in order to determine the most appropriate valuation methodology. The Corporation evaluates the results obtained under each valuation methodology to identify and understand the key value drivers in order to ascertain that the results obtained are reasonable and appropriate under the circumstances. Elements considered include current market and economic conditions, developments in specific lines of business, and any particular features in the individual reporting units.

The computations require management to make estimates and assumptions. Critical assumptions that are used as part of these evaluations include:

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

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

For purposes of the discounted cash flows ( DCF ) approach, the valuation is based on estimated future cash flows. The financial projections used in the DCF valuation analysis for each reporting unit are based on the most recent (as of the valuation date) financial projections presented to the Corporation s Asset / Liability Management Committee ( ALCO ). The growth assumptions included in these projections are based on management s expectations for each reporting unit s financial prospects considering economic and industry conditions as well as particular plans of each entity (i.e. restructuring plans, de-leveraging, etc.). The cost of equity used to discount the cash flows was calculated using the Ibbotson Build-Up Method and ranged from 11.42% to 13.93% for the 2018 analysis. The Ibbotson Build-Up Method builds up a cost of equity starting with the rate of return of a risk-free asset (20-year U.S. Treasury note) and adds to it additional risk elements such as equity risk premium, size premium and industry risk premium. The resulting discount rates were analyzed in terms of reasonability given the current market conditions and adjustments were made when necessary.

BPPR passed Step 1 in the annual test as of July 31, 2018. The results indicated that the average estimated fair value calculated in Step 1 using all valuation methodologies exceeded BPPR s equity value by approximately $2.4 billion or 77%. Accordingly, there was no indication of impairment on the goodwill recorded in BPPR at July 31, 2018 and there was no need for a Step 2 analysis.

PB passed Step 1 in the annual test as of July 31, 2018. The results indicated that the average estimated fair value calculated in Step 1 using all valuation methodologies exceeded PB s equity value by approximately $407 million or 28%. Accordingly, there was no indication of impairment on the goodwill recorded in PB at July 31, 2018 and there was no need for a Step 2 analysis.

The goodwill balance of BPPR and PB, as legal entities, represented approximately 98% of the Corporation s total goodwill balance as of the July 31, 2018 valuation date.

Furthermore, as part of the analyses, management performed a reconciliation of the aggregate fair values determined for the reporting units to the market capitalization of the Corporation concluding that the fair value results determined for the reporting units in the July 31, 2018 annual assessment were reasonable.

The goodwill impairment evaluation process requires the Corporation to make estimates and assumptions with regard to the fair value of the reporting units. Actual values may differ significantly from these estimates. Such differences could result in future impairment of goodwill that would, in turn, negatively impact the Corporation s results of operations and the reporting units where the goodwill is recorded. Declines in the Corporation s market capitalization could increase the risk of goodwill impairment in the future.

Management monitors events or changes in circumstances between annual tests to determine if these events or changes in circumstances would more likely than not reduce the fair value of a reporting unit below its carrying amount.

62

Table of Contents

The following tables present the gross amount of goodwill and accumulated impairment losses by reportable segments.

| | September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| (In thousands) | Balance at January 1, 2018 (gross amounts) | Accumulated impairment losses | Balance at January 1, 2018 (net amounts) | Balance at September 30, 2018 (gross amounts) | Accumulated impairment losses | Balance at September 30, 2018 (net amounts) |
| Banco Popular de Puerto Rico | $ 280,221 | $ 3,801 | $ 276,420 | $ 340,463 | $ 3,801 | $ 336,662 |
| Popular U.S. | 515,285 | 164,411 | 350,874 | 515,285 | 164,411 | 350,874 |
| Total Popular, Inc. | $ 795,506 | $ 168,212 | $ 627,294 | $ 855,748 | $ 168,212 | $ 687,536 |

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| (In thousands) | Balance at January 1, 2017 (gross amounts) | Accumulated impairment losses | Balance at January 1, 2017 (net amounts) | Balance at December 31, 2017 (gross amounts) | Accumulated impairment losses | Balance at December 31, 2017 (net amounts) |
| Banco Popular de Puerto Rico | $ 280,221 | $ 3,801 | $ 276,420 | $ 280,221 | $ 3,801 | $ 276,420 |
| Popular U.S. | 515,285 | 164,411 | 350,874 | 515,285 | 164,411 | 350,874 |
| Total Popular, Inc. | $ 795,506 | $ 168,212 | $ 627,294 | $ 795,506 | $ 168,212 | $ 627,294 |

Table of Contents

**Note 16 Deposits**

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

| (In thousands) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Savings accounts | $ 9,711,063 | $ 8,561,718 |
| NOW, money market and other interest bearing demand deposits | 13,721,732 | 10,885,967 |
| Total savings, NOW, money market and other interest bearing demand deposits | 23,432,795 | 19,447,685 |
| Certificates of deposit: | | |
| Under $100,000 | 3,346,204 | 3,446,575 |
| $100,000 and over | 4,066,076 | 4,068,303 |
| Total certificates of deposit | 7,412,280 | 7,514,878 |
| Total interest bearing deposits | $ 30,845,075 | $ 26,962,563 |

A summary of certificates of deposit by maturity at September 30, 2018 follows:

| (In thousands) | |
|---|---|
| 2018 | $ 1,969,701 |
| 2019 | 2,233,844 |
| 2020 | 1,361,441 |
| 2021 | 829,654 |
| 2022 | 513,048 |
| 2023 and thereafter | 504,592 |
| Total certificates of deposit | $ 7,412,280 |

At September 30, 2018, the Corporation had brokered deposits amounting to $0.5 billion (December 31, 2017 $0.5 billion).

The aggregate amount of overdrafts in demand deposit accounts that were reclassified to loans was $3 million at September 30, 2018 (December 31, 2017 $4 million).

Table of Contents

## Note 17 Borrowings

The following table presents the balances of assets sold under agreements to repurchase at September 30, 2018 and December 31, 2017.

| (In thousands) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Assets sold under agreements to repurchase | $ 300,116 | $ 390,921 |
| Total assets sold under agreements to repurchase | $ 300,116 | $ 390,921 |

The Corporation s repurchase transactions are overcollateralized with the securities detailed in the table below. The Corporation s repurchase agreements have a right of set-off with the respective counterparty under the supplemental terms of the master repurchase agreements. In an event of default each party has a right of set-off against the other party for amounts owed in the related agreement and any other amount or obligation owed in respect of any other agreement or transaction between them.

The following table presents information related to the Corporation s repurchase transactions accounted for as secured borrowings that are collateralized with debt securities available-for-sale, other assets held-for-trading purposes or which have been obtained under agreements to resell. It is the Corporation s policy to maintain effective control over assets sold under agreements to repurchase; accordingly, such securities continue to be carried on the Consolidated Statements of Financial Condition.

*Repurchase agreements accounted for as secured borrowings*

| (In thousands) | September 30, 2018 Repurchase liability | December 31, 2017 Repurchase liability |
|---|---|---|
| U.S. Treasury securities | | |
| Within 30 days | $ 93,129 | $ 148,516 |
| After 30 to 90 days | 19,831 | 87,357 |
| After 90 days | 159,292 | 43,500 |
| Total U.S. Treasury securities | 272,252 | 279,373 |
| Obligations of U.S. government sponsored entities | | |
| Within 30 days | | 30,656 |
| After 30 to 90 days | | 19,463 |
| After 90 days | 6,055 | 15,937 |
| Total obligations of U.S. government sponsored entities | 6,055 | 66,056 |

| | | | | |
|---|---|---|---|---|
| Mortgage-backed securities | | | | |
| Within 30 days | | 12,228 | | 31,383 |
| Total mortgage-backed securities | | 12,228 | | 31,383 |
| Collateralized mortgage obligations | | | | |
| Within 30 days | | 9,581 | | 14,109 |
| Total collateralized mortgage obligations | | 9,581 | | 14,109 |
| Total | $ | 300,116 | $ | 390,921 |

Repurchase agreements in this portfolio are generally short-term, often overnight. As such our risk is very limited. We manage the liquidity risks arising from secured funding by sourcing funding globally from a diverse group of counterparties, providing a range of securities collateral and pursuing longer durations, when appropriate.

The following table presents information related to the Corporation s other short-term borrowings for the periods ended September 30, 2018 and December 31, 2017.

Table of Contents

| (In thousands) | September 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| Advances with the FHLB | $ | | $ | 95,000 |
| Others | | 1,200 | | 1,208 |
| Total other short-term borrowings | $ | 1,200 | $ | 96,208 |

Note: Refer to the Corporation s 2017 Form 10-K for rates information at December 31, 2017.

During the quarter ended September 30, 2018, Popular North America, Inc. ( PNA ), a wholly-owned subsidiary of the Corporation, redeemed all outstanding capital securities issued by BanPonce Trust I (the Trust ), a statutory trust established by PNA, along with the common securities issued by the Trust, which resulted in the concurrent extinguishment of the related junior subordinated debentures with an aggregate book value of $55 million. Refer to Note 18 for additional information on the redemption of these trust preferred securities.

Also, during the quarter ended September 30, 2018, the Corporation issued an aggregate of $300 million principal amount of its 6.125% senior notes due 2023 and recorded debt issuance costs of $6.3 million. On October 15, 2018, the Corporation used the net proceeds, together with available cash, to redeem $450 million of its outstanding 7.00% senior notes due 2019.

The following table presents the composition of notes payable at September 30, 2018 and December 31, 2017.

| (In thousands) | September 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| Advances with the FHLB with maturities ranging from 2018 through 2029 paying interest at monthly fixed rates ranging from 0.89% to 4.19 % | $ | 567,031 | $ | 572,307 |
| Advances with the FHLB with maturing in 2019 paying interest monthly at a floating rate of 0.34% over the 1 month LIBOR | | 13,000 | | 34,164 |
| Advances with the FHLB with maturing in 2019 paying interest quarterly at a floating rate from 0.12% to 0.24% over the 3 month LIBOR | | 19,724 | | 25,019 |
| Unsecured senior debt securities with maturities ranging from 2019 through 2023 paying interest semiannually at fixed rates ranging from of 6.125% to 7.00%, net of debt issuance costs of $7,841 | | 742,159 | | 446,873 |
| Junior subordinated deferrable interest debentures (related to trust preferred securities) with maturities ranging from 2033 to 2034 with fixed interest rates ranging from 6.125% to 6.7%, net of debt issuance costs of $429 | | 384,869 | | 439,351 |
| Others | | 17,904 | | 18,642 |

| | | | | |
|---|---|---|---|---|
| Total notes payable | $ | 1,744,687 | $ | 1,536,356 |

Note: Refer to the Corporation s 2017 Form 10-K for rates information at December 31, 2017.

A breakdown of borrowings by contractual maturities at September 30, 2018 is included in the table below.

| (In thousands) | Assets sold under agreements to repurchase | Short-term borrowings | Notes payable | Total |
|---|---|---|---|---|
| 2018 | $ 134,769 | $ 1,200 | $ 83,103 | $ 219,072 |
| 2019 | 165,347 | | 650,159[1] | 815,506 |
| 2020 | | | 111,960 | 111,960 |
| 2021 | | | 21,877 | 21,877 |
| 2022 | | | 105,175 | 105,175 |
| Later years | | | 772,413 | 772,413 |
| Total borrowings | $ 300,116 | $ 1,200 | $ 1,744,687 | $ 2,046,003 |

[1] On October 15, 2018, the Corporation redeemed $450 million principal amount of its senior notes due on 2019.

Table of Contents

At September 30, 2018 and December 31, 2017, the Corporation had FHLB borrowing facilities whereby the Corporation could borrow up to $3.4 billion and $3.9 billion, respectively, of which $600 million and $726 million, respectively, were used. In addition, at September 30, 2018 and December 31, 2017, the Corporation had placed $1.1 billion and $260 million, respectively, of the available FHLB credit facility as collateral for a municipal letter of credit to secure deposits. The FHLB borrowing facilities are collateralized with loans held-in-portfolio, and do not have restrictive covenants or callable features.

Also, at September 30, 2018, the Corporation has a borrowing facility at the discount window of the Federal Reserve Bank of New York amounting to $1.2 billion (2017 $1.1 billion), which remained unused at September 30, 2018 and December 31, 2017. The facility is a collateralized source of credit that is highly reliable even under difficult market conditions.

**Note 18 Trust preferred securities**

Statutory trusts established by the Corporation (BanPonce Trust I, Popular Capital Trust I, Popular North America Capital Trust I and Popular Capital Trust II) had issued trust preferred securities (also referred to as capital securities ) to the public. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts (the common securities ), were used by the trusts to purchase junior subordinated deferrable interest debentures (the junior subordinated debentures ) issued by the Corporation.

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

The junior subordinated debentures are included by the Corporation as notes payable in the Consolidated Statements of Financial Condition, while the common securities issued by the issuer trusts are included as other investment securities. The common securities of each trust are wholly-owned, or indirectly wholly-owned, by the Corporation.

During the quarter ended September 30, 2018, Popular North America, Inc. ( PNA ), a wholly-owned subsidiary of the Corporation, redeemed all outstanding capital securities issued by BanPonce Trust I (the Trust ), a statutory trust established by PNA, with an aggregate book value of $53 million, along with the common securities issued by the Trust, which resulted in the concurrent extinguishment of the related junior subordinated debentures amounting to $55 million, as discussed in Note 17.

The following tables present financial data pertaining to the different trusts at September 30, 2018 and December 31, 2017.

| (Dollars in thousands) | As of September 30, 2018 | | |
|---|---|---|---|
| Issuer | Popular Capital Trust I | Popular North America Capital Trust I | Popular Capital Trust II |
| Capital securities | $ 181,063 | $ 91,651 | $ 101,023 |
| Distribution rate | 6.700% | 6.564% | 6.125% |
| Common securities | $ 5,601 | $ 2,835 | $ 3,125 |
| Junior subordinated debentures aggregate liquidation amount | $ 186,664 | $ 94,486 | $ 104,148 |
| Stated maturity date | November 2033 | September 2034 | December 2034 |
| Reference notes | [2],[4],[5] | [1],[3],[5] | [2],[4],[5] |

[1] Statutory business trust that is wholly-owned by PNA and indirectly wholly-owned by the Corporation.
[2] Statutory business trust that is wholly-owned by the Corporation.
[3] The obligations of PNA under the junior subordinated debentures and its guarantees of the capital securities under the trust are fully and unconditionally guaranteed on a subordinated basis by the Corporation to the extent set forth in the applicable guarantee agreement.
[4]

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

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

| (Dollars in thousands) | As of December 31, 2017 | | | |
|---|---|---|---|---|
| Issuer | BanPonce Trust I | Popular Capital Trust I | Popular North America Capital Trust I | Popular Capital Trust II |
| Capital securities | $ 52,865 | $ 181,063 | $ 91,651 | $ 101,023 |
| Distribution rate | 8.327% | 6.700% | 6.564% | 6.125% |
| Common securities | $ 1,637 | $ 5,601 | $ 2,835 | $ 3,125 |
| Junior subordinated debentures aggregate liquidation amount | $ 54,502 | $ 186,664 | $ 94,486 | $ 104,148 |
| Stated maturity date | February 2027 | November 2033 | September 2034 | December 2034 |
| Reference notes | [1],[3],[6] | [2],[4],[5] | [1],[3],[5] | [2],[4],[5] |

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

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

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

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

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

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

At September 30, 2018, the Corporation had $374 million in trust preferred securities outstanding which do not qualify for Tier 1 capital treatment, but instead qualify for Tier 2 capital treatment, compared to $427 million at December 31, 2017, as a result of the previously mentioned redemption by PNA.

Table of Contents

**Note 19 Stockholders equity**

As of September 30, 2018, stockholder s equity totaled $5.2 billion. During the nine months ended September 30, 2018, the Corporation declared dividends on its common stock of $ 76.2 million. The quarterly dividend declared to shareholders of record as of the close of business on August 23, 2018, which amounted to $25.1 million, was paid on October 1, 2018. Dividends per share declared for the quarter and nine months ended September 30, 2018 were $0.25 and $0.75, respectively (2017 - $0.25 and $0.75, respectively).

During the quarter ended September 30, 2018, the Corporation entered into a $125 million accelerated share repurchase transaction ( ASR ) and, in connection therewith, received an initial delivery of 2,000,000 shares of common stock (the Initial Shares ), which was accounted for as a treasury stock transaction. As a result of the receipt of the Initial Shares, the Corporation recognized in shareholders equity approximately $102 million in treasury stock and $23 million as a reduction of capital surplus. During the fourth quarter of 2018, the Corporation expects to further adjust its treasury stock and capital surplus accounts to reflect the delivery or receipt of cash or shares upon the termination of the ASR agreement, which will depend on the average price of the Corporation s shares during the term of the ASR.

Table of Contents

## Note 20 Other comprehensive loss

The following table presents changes in accumulated other comprehensive loss by component for the quarters and nine months ended September 30, 2018 and 2017.

Changes in Accumulated Other Comprehensive Loss by Component [1]

| (In thousands) | | Quarters ended September 30, 2018 | Quarters ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|---|---|---|---|---|---|
| Foreign currency translation | Beginning Balance | $ (46,397) | $ (41,405) | $ (43,034) | $ (39,956) |
| | Other comprehensive loss | (605) | (390) | (3,968) | (1,839) |
| | Net change | (605) | (390) | (3,968) | (1,839) |
| | Ending balance | $ (47,002) | $ (41,795) | $ (47,002) | $ (41,795) |
| Adjustment of pension and postretirement benefit plans | Beginning Balance | $ (199,895) | $ (205,928) | $ (205,408) | $ (211,610) |
| | Amounts reclassified from accumulated other comprehensive loss for amortization of net losses | 3,285 | 3,421 | 9,856 | 10,263 |
| | Amounts reclassified from accumulated other comprehensive loss for amortization of prior service credit | (529) | (580) | (1,587) | (1,740) |
| | Net change | 2,756 | 2,841 | 8,269 | 8,523 |
| | Ending balance | $ (197,139) | $ (203,087) | $ (197,139) | $ (203,087) |
| Unrealized net holding losses on debt securities | Beginning Balance | $ (250,422) | $ (56,414) | $ (102,775) | $ (69,003) |
| | Other comprehensive (loss) income before reclassifications | (39,845) | 9,302 | (187,492) | 15,151 |
| | Other-than-temporary impairment amount reclassified from accumulated other comprehensive loss | | | | 6,740 |
| | Amounts reclassified from accumulated other comprehensive loss for gains | | (66) | | (66) |

| | | | | | |
|---|---|---|---|---|---|
| | on securities | | | | |
| | Net change | (39,845) | 9,236 | (187,492) | 21,825 |
| | Ending balance | $ (290,267) | $ (47,178) | $ (290,267) | $ (47,178) |
| Unrealized holding gains on equity securities | Beginning Balance | $ | $ 672 | $ 605 | $ 685 |
| | Reclassification to retained earnings due to cumulative effect adjustment of accounting change | | | (605) | |
| | Other comprehensive income before reclassifications | | 48 | | 180 |
| | Amounts reclassified from accumulated other comprehensive income for gains on securities | | (16) | | (161) |
| | Net change | | 32 | (605) | 19 |
| | Ending balance | $ | $ 704 | $ | $ 704 |
| Unrealized net (losses) gains | | | | | |

71

**Table of Contents**

| | | | | | |
|---|---|---|---|---|---|
| on cash flow hedges | Beginning Balance | $ (78) | $ 132 | $ (40) | $ (402) |
| | Other comprehensive income (loss) before reclassifications | 208 | (250) | 790 | (869) |
| | Amounts reclassified from accumulated other comprehensive (loss) income | 89 | 142 | (531) | 1,295 |
| | Net change | 297 | (108) | 259 | 426 |
| | Ending balance | $ 219 | $ 24 | $ 219 | $ 24 |
| | Total | $ (534,189) | $ (291,332) | $ (534,189) | $ (291,332) |

[1] All amounts presented are net of tax.

The following table presents the amounts reclassified out of each component of accumulated other comprehensive loss during the quarters and nine months ended September 30, 2018 and 2017.

| | | Reclassifications Out of Accumulated Other Comprehensive Loss | | | |
|---|---|---|---|---|---|
| | Affected Line Item in the Consolidated Statements of Operations | Quarters ended September 30, | | Nine months ended September 30, | |
| (In thousands) | | 2018 | 2017 | 2018 | 2017 |
| Adjustment of pension and postretirement benefit plans | | | | | |
| Amortization of net losses | Personnel costs | $ (5,386) | $ (5,606) | $ (16,157) | $ (16,819) |
| Amortization of prior service credit | Personnel costs | 868 | 950 | 2,603 | 2,850 |
| | Total before tax | (4,518) | (4,656) | (13,554) | (13,969) |
| | Income tax benefit | 1,762 | 1,815 | 5,285 | 5,446 |
| | Total net of tax | $ (2,756) | $ (2,841) | $ (8,269) | $ (8,523) |
| Unrealized holding losses on debt securities | | | | | |
| Other-than-temporary impairment | Other-than-temporary impairment losses on available-for-sale debt securities | $ | $ | $ | $ (8,299) |
| Realized gains on sale of debt securities | Net gain on sale of debt securities | | 83 | | 83 |

| | | | | | |
|---|---|---|---|---|---|
| | Total before tax | | 83 | | (8,216) |
| | Income tax (expense) benefit | | (17) | | 1,542 |
| | Total net of tax | $ | $ 66 | $ | $ (6,674) |
| Unrealized holding gains on equity securities | | | | | |
| Realized gain on sale of equity securities | Net gain on equity securities | $ | $ 20 | $ | $ 201 |
| | Total before tax | | 20 | | 201 |
| | Income tax expense | | (4) | | (40) |
| | Total net of tax | $ | $ 16 | $ | $ 161 |
| Unrealized net (losses) gains on cash flow hedges | | | | | |
| Forward contracts | Mortgage banking activities | $ (147) | $ (232) | $ 870 | $ (2,122) |
| | Total before tax | (147) | (232) | 870 | (2,122) |
| | Income tax benefit (expense) | 58 | 90 | (339) | 827 |
| | Total net of tax | $ (89) | $ (142) | $ 531 | $ (1,295) |
| | Total reclassification adjustments, net of tax | $ (2,845) | $ (2,901) | $ (7,738) | $ (16,331) |

Table of Contents

## Note 21 Guarantees

At September 30, 2018, the Corporation recorded a liability of $0.3 million (December 31, 2017 $0.3 million), which represents the unamortized balance of the obligations undertaken in issuing the guarantees under the standby letters of credit. Management does not anticipate any material losses related to these instruments.

From time to time, the Corporation securitized mortgage loans into guaranteed mortgage-backed securities subject to limited, and in certain instances, lifetime credit recourse on the loans that serve as collateral for the mortgage-backed securities. The Corporation has not sold any mortgage loans subject to credit recourse since 2009. At September 30, 2018, the Corporation serviced $1.4 billion (December 31, 2017 $1.5 billion) in residential mortgage loans subject to credit recourse provisions, principally loans associated with FNMA and FHLMC residential mortgage loan securitization programs. In the event of any customer default, pursuant to the credit recourse provided, the Corporation is required to repurchase the loan or reimburse the third party investor for the incurred loss. The maximum potential amount of future payments that the Corporation would be required to make under the recourse arrangements in the event of nonperformance by the borrowers is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. During the quarter and nine months ended September 30, 2018, the Corporation repurchased approximately $4 million and $13 million, respectively, of unpaid principal balance in mortgage loans subject to the credit recourse provisions (September 30, 2017 - $7 million and $22 million, respectively). In the event of nonperformance by the borrower, the Corporation has rights to the underlying collateral securing the mortgage loan. The Corporation suffers ultimate losses on these loans when the proceeds from a foreclosure sale of the property underlying a defaulted mortgage loan are less than the outstanding principal balance of the loan plus any uncollected interest advanced and the costs of holding and disposing the related property. At September 30, 2018, the Corporation s liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to $58 million (December 31, 2017 $59 million).

The following table shows the changes in the Corporation s liability of estimated losses related to loans serviced with credit recourse provisions during the quarters and nine months ended September 30, 2018 and 2017.

| | Quarters ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (In thousands) | 2018 | 2017 | 2018 | 2017 |
| Balance as of beginning of period | $ 57,425 | $ 49,395 | $ 58,820 | $ 54,489 |
| Provision for recourse liability | 3,000 | 6,375 | 5,991 | 11,104 |
| Net charge-offs | (2,678) | (3,718) | (7,064) | (13,541) |
| Balance as of end of period | $ 57,747 | $ 52,052 | $ 57,747 | $ 52,052 |

When the Corporation sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. To the extent the loans do not meet specified characteristics, the Corporation may be required to repurchase such loans or indemnify for losses and bear any subsequent loss related to the loans. During the quarter and nine months ended September 30, 2018, BPPR repurchased $2 million and $12 million, respectively, in loans under representation and warranty arrangements (there were no loan repurchases during the same period of the prior year). A substantial amount of these loans reinstate to performing status or have mortgage insurance, and thus the ultimate losses on the loans are not deemed significant.

From time to time, the Corporation sells loans and agrees to indemnify the purchaser for credit losses or any breach of certain representations and warranties made in connection with the sale. The following table presents the changes in the Corporation s liability for estimated losses associated with indemnifications and representations and warranties related to loans sold by BPPR for the quarters and nine months ended September 30, 2018 and 2017.

Table of Contents

| (In thousands) | Quarters ended September 30, 2018 | 2017 | Nine months ended September 30, 2018 | 2017 |
|---|---|---|---|---|
| Balance as of beginning of period | $ 11,153 | $ 10,545 | $ 11,742 | $ 10,936 |
| Provision (reversal) for representation and warranties | (104) | (140) | 194 | (521) |
| Net charge-offs | (39) | | (926) | (10) |
| Balance as of end of period | $ 11,010 | $ 10,405 | $ 11,010 | $ 10,405 |

Servicing agreements relating to the mortgage-backed securities programs of FNMA and GNMA, and to mortgage loans sold or serviced to certain other investors, including FHLMC, require the Corporation to advance funds to make scheduled payments of principal, interest, taxes and insurance, if such payments have not been received from the borrowers. At September 30, 2018, the Corporation serviced $15.9 billion in mortgage loans for third-parties, including the loans serviced with credit recourse (December 31, 2017 $16.1 billion). The Corporation generally recovers funds advanced pursuant to these arrangements from the mortgage owner, from liquidation proceeds when the mortgage loan is foreclosed or, in the case of FHA/VA loans, under the applicable FHA and VA insurance and guarantees programs. However, in the meantime, the Corporation must absorb the cost of the funds it advances during the time the advance is outstanding. The Corporation must also bear the costs of attempting to collect on delinquent and defaulted mortgage loans. In addition, if a defaulted loan is not cured, the mortgage loan would be canceled as part of the foreclosure proceedings and the Corporation would not receive any future servicing income with respect to that loan. At September 30, 2018, the outstanding balance of funds advanced by the Corporation under such mortgage loan servicing agreements was approximately $94 million (December 31, 2017 $107 million). To the extent the mortgage loans underlying the Corporation s servicing portfolio experience increased delinquencies, the Corporation would be required to dedicate additional cash resources to comply with its obligation to advance funds as well as incur additional administrative costs related to increases in collection efforts.

Popular, Inc. Holding Company ( PIHC ) fully and unconditionally guarantees certain borrowing obligations issued by certain of its wholly-owned consolidated subsidiaries amounting to $94 million and $149 million, respectively, at September 30, 2018 and December 31, 2017. In addition, at September 30, 2018 and December 31, 2017, PIHC fully and unconditionally guaranteed on a subordinated basis $374 million and $427 million, respectively, of capital securities (trust preferred securities) issued by wholly-owned issuing trust entities to the extent set forth in the applicable guarantee agreement. Refer to Note 18 to the Consolidated Financial Statements for further information on the trust preferred securities.

Table of Contents

## Note 22 Commitments and contingencies

*Off-balance sheet risk*

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

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

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

| (In thousands) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Commitments to extend credit: | | |
| Credit card lines | $ 4,462,603 | $ 4,303,256 |
| Commercial and construction lines of credit | 2,772,111 | 3,011,673 |
| Other consumer unused credit commitments | 255,798 | 250,029 |
| Commercial letters of credit | 2,561 | 2,116 |
| Standby letters of credit | 30,036 | 33,633 |
| Commitments to originate or fund mortgage loans | 23,724 | 15,297 |

At September 30, 2018 and December 31, 2017, the Corporation maintained a reserve of approximately $8 million and $10 million, respectively, for potential losses associated with unfunded loan commitments related to commercial and consumer lines of credit.

*Business concentration*

Since the Corporation s business activities are concentrated primarily in Puerto Rico, its results of operations and financial condition are dependent upon the general trends of the Puerto Rico economy and, in particular, the residential and commercial real estate markets. The concentration of the Corporation s operations in Puerto Rico exposes it to greater risk than other banking companies with a wider geographic base. Its asset and revenue composition by geographical area is presented in Note 34 to the Consolidated Financial Statements.

Puerto Rico is in the midst of a profound fiscal and economic crisis. In response to such crisis, the U.S. Congress enacted the Puerto Rico Oversight Management and Economic Stability Act ( PROMESA ) in 2016, which, among other things, established a Fiscal Oversight and Management Board for Puerto Rico (the Oversight Board ) and a framework for the restructuring of the debts of the Commonwealth, its instrumentalities and municipalities. The Commonwealth and several of its instrumentalities have commenced debt restructuring proceedings under PROMESA. As of the date of this report, no municipality has commenced, or has been authorized by the Oversight

Board to commence, any such debt restructuring proceeding under PROMESA.

At September 30, 2018, the Corporation s direct exposure to the Puerto Rico government and its instrumentalities and municipalities amounted to $458 million, which was fully outstanding at quarter-end (compared to a direct exposure of approximately $484 million, which was fully outstanding at December 31, 2017). Of this amount, $413 million consists of loans and $45 million are securities ($435 million and $49 million at December 31, 2017). Substantially all of the amount outstanding at September 30, 2018 consisted of obligations from various Puerto Rico municipalities. In most cases, these are general obligations of a municipality, to which the applicable municipality has pledged its good faith, credit and unlimited taxing power, or special obligations of a municipality, to which the applicable municipality has pledged other revenues. At September 30, 2018, 75% of the Corporation s exposure to municipal loans and securities was concentrated in the municipalities of San Juan, Guaynabo, Carolina and Bayamón. On July 2, 2018 the Corporation received principal payments amounting to $23 million from various obligations from Puerto Rico municipalities.

Table of Contents

The following table details the loans and investments representing the Corporation s direct exposure to the Puerto Rico government according to their maturities:

| (In thousands) | Investment Portfolio | Loans | Total Outstanding | Total Exposure |
|---|---|---|---|---|
| Central Government | | | | |
| After 1 to 5 years | $ 6 | $ | $ 6 | $ 6 |
| After 5 to 10 years | 43 | | 43 | 43 |
| After 10 years | 27 | | 27 | 27 |
| Total Central Government | 76 | | 76 | 76 |
| Government Development Bank (GDB) | | | | |
| Within 1 year | 4 | | 4 | 4 |
| Total Government Development Bank (GDB) | 4 | | 4 | 4 |
| Puerto Rico Highways and Transportation Authority | | | | |
| After 5 to 10 years | 5 | | 5 | 5 |
| Total Puerto Rico Highways and Transportation Authority | 5 | | 5 | 5 |
| Municipalities | | | | |
| Within 1 year | 3,510 | 15,265 | 18,775 | 18,775 |
| After 1 to 5 years | 16,505 | 198,022 | 214,527 | 214,527 |
| After 5 to 10 years | 23,885 | 101,693 | 125,578 | 125,578 |
| After 10 years | 845 | 98,185 | 99,030 | 99,030 |
| Total Municipalities | 44,745 | 413,165 | 457,910 | 457,910 |
| Total Direct Government Exposure | $ 44,830 | $ 413,165 | $ 457,995 | $ 457,995 |

In addition, at September 30, 2018, the Corporation had $374 million in loans or securities issued or guaranteed by Puerto Rico governmental entities whose principal source of repayment is non-governmental. In such obligations, the Puerto Rico government entity guarantees any shortfall in collateral in the event of borrower default ($386 million at December 31, 2017). These included $299 million in residential mortgage loans guaranteed by the Puerto Rico Housing Finance Authority ( HFA ), an entity that has been designated as a covered entity under PROMESA (December 31, 2017 $310 million). These mortgage loans are secured by the underlying properties and the HFA guarantee serve to cover shortfalls in collateral in the event of a borrower default. Although the Governor is currently authorized by local legislation to impose a temporary moratorium on the financial obligations of the HFA, he has not exercised this power as of the date hereof. Also, at September 30, 2018 and December 31, 2017, the Corporation had $44 million in Puerto Rico housing bonds issued by HFA, which are secured by second mortgage loans on Puerto Rico residential properties, and for which HFA also provides a guarantee to cover shortfalls, $7 million in pass-through securities issued by HFA that have been economically defeased and refunded and for which collateral including U.S. agencies and Treasury obligations has been escrowed, and $24 million of commercial real estate notes issued by government entities, but payable from rent paid by third parties at September 30, 2018 (December 31, 2017 $25 million).

BPPR s commercial loan portfolio also includes loans to private borrowers who are service providers, lessors, suppliers or have other relationships with the government. These borrowers could be negatively affected by the fiscal measures to be implemented to address the Commonwealth s fiscal crisis and the ongoing Title III proceedings under PROMESA described above. Similarly, BPPR s mortgage and consumer loan portfolios include loans to government employees which could also be negatively affected by fiscal measures such as employee layoffs or furloughs.

The Corporation has operations in the United States Virgin Islands (the USVI ) and has approximately $78 million in direct exposure to USVI government entities. The USVI has been experiencing a number of fiscal and economic challenges that could adversely affect the ability of its public corporations and instrumentalities to service their outstanding debt obligations.

*Legal Proceedings*

The nature of Popular s business ordinarily results in a certain number of claims, litigation, investigations, and legal and administrative cases and proceedings ( Legal Proceedings ). When the Corporation determines that it has meritorious defenses to the claims asserted, it vigorously defends itself. The Corporation will consider the settlement of cases (including cases where it has meritorious defenses) when, in management s judgment, it is in the best interest of both the Corporation and its shareholders to do so. On at least a quarterly basis, Popular assesses its liabilities and contingencies relating to outstanding Legal Proceedings utilizing the latest information available. For matters where it is probable that the Corporation will incur a material loss and the amount can be reasonably estimated, the Corporation establishes an accrual for the loss. Once established, the accrual is adjusted on at least a quarterly basis as appropriate to reflect any relevant developments. For matters where a material loss is not probable, or the amount of the loss cannot be reasonably estimated, no accrual is established.

In certain cases, exposure to loss exists in excess of the accrual to the extent such loss is reasonably possible, but not probable. Management believes and estimates that the aggregate range of reasonably possible losses (with respect to those matters where such limits may be determined, in excess of amounts accrued), for current Legal Proceedings ranges from $0 to approximately $24.4 million as of September 30, 2018. For certain other cases, management cannot reasonably estimate the possible loss at this time. Any estimate involves significant judgment, given the varying stages of the Legal Proceedings (including the fact that many of them are currently in preliminary stages), the existence of multiple defendants in several of the current Legal Proceedings whose share of liability has yet to be determined, the numerous unresolved issues in many of the Legal Proceedings, and the inherent uncertainty of the various potential outcomes of such Legal Proceedings. Accordingly, management s estimate will change from time-to-time, and actual losses may be more or less than the current estimate.

While the outcome of Legal Proceedings is inherently uncertain, based on information currently available, advice of counsel, and available insurance coverage, management believes that the amount it has already accrued is adequate and any incremental liability arising from the Legal Proceedings in matters in which a loss amount can be reasonably estimated will not have a material adverse effect on the Corporation s consolidated financial position. However, in the event of unexpected future developments, it is possible that the ultimate resolution of these matters in a reporting period, if unfavorable, could have a material adverse effect on the Corporation s consolidated financial position for that particular period.

Set forth below is a description of the Corporation s significant Legal Proceedings.

BANCO POPULAR DE PUERTO RICO

*Hazard Insurance Commission-Related Litigation*

Popular, Inc., BPPR and Popular Insurance, LLC (the Popular Defendants ) have been named defendants in a putative class action complaint captioned Pérez Díaz v. Popular, Inc., et al, filed before the Court of First Instance, Arecibo Part. The complaint seeks damages and preliminary and permanent injunctive relief on behalf of the purported class against the Popular Defendants, as well as Antilles Insurance Company and MAPFRE-PRAICO Insurance Company (the Defendant Insurance Companies ). Plaintiffs allege that the Popular Defendants have been unjustly enriched by failing to reimburse them for commissions paid by the Defendant Insurance Companies to the insurance agent and/or mortgagee for policy years when no claims were filed against their hazard insurance policies. They demand the reimbursement to the purported class of an estimated $400 million plus legal interest, for the good experience commissions allegedly paid by the Defendant Insurance Companies during the relevant time period, as well as injunctive relief seeking to enjoin the Defendant Insurance Companies from paying commissions to the insurance agent/mortgagee and ordering them to pay those fees directly to the insured. A hearing on the request for preliminary injunction and other matters was held on February 15, 2017, as a result of which plaintiffs withdrew their request for preliminary injunctive relief. A motion for dismissal on the merits, which the Defendant Insurance Companies filed shortly before hearing, was denied with a right to replead following limited targeted discovery. On March 24, 2017, the Popular Defendants filed a certiorari petition with the Puerto Rico Court of Appeals seeking a review of the lower court s denial of the motion to dismiss. The Court of Appeals denied the Popular Defendant s request, and the Popular Defendants appealed this determination to the Puerto Rico Supreme Court, which declined review. On December 21, 2017, plaintiffs sought to amend the complaint and, on January 2018, defendants filed an answer thereto. Separately, on October 26, 2017, the Court entered an order whereby it broadly certified the class; the Popular Defendants filed a certiorari petition before the Puerto Rico Court of Appeals in relation to the class certification, but on March 4, 2018, the Court of Appeals declined to entertain such petition. At a hearing held on November 2, 2017, the Court encouraged the parties to reach agreement on discovery and class notification procedures. Although the case is still in discovery stage, the parties have not yet reached an agreement as to the class notification procedures.

BPPR has separately been named a defendant in a putative class action complaint captioned Ramírez Torres, et al. v. Banco Popular de Puerto Rico, et al, filed before the Puerto Rico Court of First Instance, San Juan Part. The complaint seeks damages and preliminary and permanent injunctive relief on behalf of the purported class against the same Popular Defendants, as well as other financial institutions with insurance brokerage subsidiaries in Puerto Rico. Plaintiffs essentially contend that in November 2015, Antilles

Insurance Company obtained approval from the Puerto Rico Insurance Commissioner to market an endorsement that allowed its customers to obtain reimbursement on their insurance deductible for good experience, but that defendants failed to offer this product or disclose its existence to their customers, favoring other products instead, in violation of their duties as insurance brokers. Plaintiffs seek a determination that defendants unlawfully failed to comply with their duty to disclose the existence of this new insurance product, as well as double or treble damages (the latter subject to a determination that defendants engaged in anti-monopolistic practices in failing to offer this product). Between late March and early April, co-defendants filed motions to dismiss the complaint and opposed the request for preliminary injunctive relief. A co-defendant filed a third-party Complaint against Antilles Insurance Company. A preliminary injunction and class certification hearing originally scheduled for April 6, 2017 was subsequently postponed, pending resolution of the motions to dismiss. On July 31, 2017, the Court dismissed the complaint with prejudice. In August 2017, plaintiffs appealed this judgment and, on March 21, 2018, the Court of Appeals reversed the Court of First Instance s dismissal. On May 18, 2018, defendants each filed Petitions of Certiorari to the Puerto Rico Supreme Court. The Petitions of Certiorari were all denied on June 26, 2018 and all parties but BPPR filed a timely Motion for Reconsideration of such denial. Those Motions for Reconsideration were denied and one defendant filed a Second Motion for Reconsideration to the Puerto Rico Supreme Court, which is still pending.

*Mortgage-Related Litigation and Claims*

BPPR has been named a defendant in a putative class action captioned Lilliam González Camacho, et al. v. Banco Popular de Puerto Rico, et al., filed before the United States District Court for the District of Puerto Rico on behalf of mortgage-holders who have allegedly been subjected to illegal foreclosures and/or loan modifications through their mortgage servicers. Plaintiffs maintain that when they sought to reduce their loan payments, defendants failed to provide them with such reduced loan payments, instead subjecting them to lengthy loss mitigation processes while filing foreclosure claims against them in parallel (or dual tracking). Plaintiffs assert that such actions violate the Home Affordable Modification Program ( HAMP ), the Home Affordable Refinance Program ( HARP ) and other federally sponsored loan modification programs, as well as the Puerto Rico Mortgage Debtor Assistance Act and the Truth in Lending Act ( TILA ). For the alleged violations stated above, plaintiffs request that all defendants (over 20, including all local banks), be held jointly and severally liable in an amount no less than $400 million. BPPR waived service of process in June 2017 and filed a motion to dismiss in August 2017, as did most co-defendants. On March 28, 2018, the Court dismissed the complaint in its entirety. On April 9, 2018, plaintiffs filed a motion for reconsideration of such dismissal, which was denied on August 17, 2018. On August 29, 2018, plaintiffs filed a Notice of Appeal to the U.S. Court of Appeals for the First Circuit. Plaintiffs appellate brief is due on December 3, 2018 and Defendants response brief will be due 30 days thereafter.

BPPR has also been named a defendant in another putative class action captioned Yiries Josef Saad Maura v. Banco Popular, et al., filed by the same counsel who filed the González Camacho action referenced above, on behalf of residential customers of the defendant banks who have allegedly been subject to illegal foreclosures and/or loan modifications through their mortgage servicers. As in González Camacho, plaintiffs contend that when they sought to reduce their loan payments, defendants failed to provide them with such reduced loan payments, instead subjecting them to lengthy loss mitigation processes while filing foreclosure claims against them in parallel, all in violation of TILA, the Real Estate Settlement Procedures Act ( RESPA ), the Equal Credit Opportunity Act ( ECOA ), the Fair Credit Reporting Act ( FCRA ), the Fair Debt Collection Practices Act ( FDCPA ) and other consumer-protection laws and regulations. Plaintiffs did not include a specific amount of damages in their complaint. On January 3, 2018, plaintiffs requested that BPPR waive service of process, which it agreed to do on February 1, 2018. BPPR subsequently filed a motion to dismiss the complaint on the same grounds as those asserted in the González Camacho action (as did most co-defendants, separately). BPPR further filed a motion to oppose class certification, which the Court granted, denying the motion for class certification on September 26, 2018. On October 8, 2018, plaintiffs filed a Motion for Reconsideration of such denial, which BPPR opposed on October 22, 2018. Those motions are still pending.

BPPR has been named a defendant in a complaint for damages and breach of contract captioned Héctor Robles Rodriguez et al. v. Municipio de Ceiba, et al. Plaintiffs are residents of a development called Hacienda Las Lomas. Through the Doral Bank-FDIC assisted transaction, BPPR acquired a significant number of mortgage loans within this development and is currently the primary mortgage lender in the project. Plaintiffs claim damages against the developer, contractor, the relevant insurance companies, and most recently, their mortgage lenders, because of a landslide that occurred in October 2015, affecting various streets and houses within the development. Plaintiffs specifically allege that the mortgage lenders, including BPPR, should be deemed liable for their alleged failure to properly inspect the subject properties. Plaintiffs demand $30 million in damages plus attorney s fees, costs and the annulment of their mortgages. BPPR extended plaintiffs four consecutive six-month payment forbearances, the last of which is still in effect, and it is engaged in settlement discussions with plaintiffs. In November 2017, the FDIC notified BPPR that it had agreed to indemnify the Bank in connection with its Doral Bank-related exposure, pursuant to the terms of the relevant Purchase and Assumption Agreement with the FDIC. The FDIC filed a Notice of Removal to the United States District Court for the District of Puerto Rico ( USDC ) on March 27, 2018 and, on April 11 2018, the state court stayed the proceedings in response thereto. On April 13, 2018, the FDIC requested the USDC to stay the proceedings until plaintiffs have exhausted administrative remedies. This motion is still pending, along with several motions for remand to state court filed by plaintiffs.

*Mortgage-Related Investigations*

The Corporation and its subsidiaries from time to time receive requests for information from departments of the U.S. government that investigate mortgage-related conduct. In particular, BPPR has received subpoenas and other requests for information from the Federal Housing Finance Agency s Office of the Inspector General, the Civil Division of the Department of Justice, the Special Inspector General for the Troubled Asset Relief Program and the Federal Department of Housing and Urban Development s Office of the Inspector General mainly concerning real estate appraisals and residential and construction loans in Puerto Rico. The Corporation is cooperating with these requests and is in discussions regarding the resolution of such matters. There can be no assurances as to the outcome of those discussions.

Separately, in July 2017, management learned that certain letters generated by the Corporation to comply with Consumer Financial Protection Bureau ( CFPB ) rules requiring written notification to borrowers who have submitted a loss mitigation application were not mailed to borrowers over a period of up to approximately three-years due to a systems interface error. Loss mitigation is a process whereby creditors work with mortgage loan borrowers who are having difficulties making their loan payments on their debt. The loss mitigation process applies both to mortgage loans held by the Corporation and to mortgage loans serviced by the Corporation for third parties. The Corporation has corrected the systems interface error that caused the letters not to be sent.

The Corporation notified applicable regulators and conducted a review of its mortgage files to assess the scope of potential customer impact. The review, which has been completed, found that while the mailing error extended to approximately 23,000 residential mortgage loans (approximately 50% of which are serviced by the Corporation for third parties), the number of borrowers actually harmed by the mailing error was substantially lower. This was due to, among other things, the fact that the Corporation regularly uses means other than the mail to communicate with borrowers, including email and hand delivery of written notices at our mortgage servicing centers or bank branches. Importantly, more than half of all borrowers potentially subject to such error actually closed on a loss mitigation alternative.

During the fourth quarter of 2017, the Corporation began outreach to potentially affected borrowers with outstanding loans. These efforts are substantially complete. The Corporation is engaged in ongoing dialogue with applicable regulators with respect to this matter. The Corporation has also engaged in remediation with respect to, and notified regulators of, other printing and mailings incidents in its mortgage servicing operation that occurred after Hurricane Maria. At this point, we are not able to estimate the financial impact of the failure to print and mail letters to mortgage borrowers.

*Other Significant Proceedings*

In June 2017, a syndicate comprised of BPPR and other local banks (the Lenders ) filed an involuntary Chapter 11 bankruptcy proceeding against Betteroads Asphalt and Betterecycling Corporation (the Involuntary Debtors ). This filing followed attempts by the Lenders to restructure and resolve the Involuntary Debtors obligations and outstanding defaults under a certain credit agreement, first through good faith negotiations and subsequently, through the filing of a collection action against the Involuntary Debtors in local court. The involuntary debtors subsequently counterclaimed, asserting damages in excess of $900 million. The Lenders ultimately joined in the commencement of these involuntary bankruptcy proceedings against the Debtors in order to preserve and recover the Involuntary Debtors assets, having confirmed that the Involuntary Debtors were transferring assets out of their estate for little or no consideration. The Involuntary Debtors subsequently filed a motion to dismiss the proceedings and for damages against the syndicate, arguing both that this petition was filed in bad faith and that there was a bona fide dispute as to the petitioners claims, as set forth in the counterclaim filed by the Involuntary Debtors in local court. The court allowed limited discovery to take place prior to an evidentiary hearing to determine the merits of debtors motion to dismiss. At a hearing held in November 2017, the Court determined that it was inclined to rule against the dismissal of the complaint but requested that the parties submit supplemental briefs on the subject, which the parties did; however, no decision has been rendered to date. On September 17, 2018, the Lenders filed a motion requesting the Court to expedite its determination on the motion for Summary Judgment filed by the Lenders on November 2017, since there were continuing acts by Involuntary Debtor insiders to transfer all revenues and assets to such insiders and shield such revenues and assets from the Lenders and other legitimate creditors. This motion is still pending.

POPULAR SECURITIES

*Puerto Rico Bonds and Closed-End Investment Funds*

The volatility in prices and declines in value that Puerto Rico municipal bonds and closed-end investment companies that invest primarily in Puerto Rico municipal bonds have experienced since August 2013 have led to regulatory inquiries, customer complaints and arbitrations for most broker-dealers in Puerto Rico, including Popular Securities. Popular Securities has received customer complaints and is named as a respondent (among other broker-dealers) in 152 arbitration proceedings with aggregate claimed amounts of approximately $260 million, including one arbitration with claimed damages of approximately $78 million in which another Puerto Rico broker-dealer is a co-defendant. While Popular Securities believes it has meritorious defenses to the claims asserted in these proceedings, it has often determined that it is in its best interest to settle certain claims rather than expend the money and resources required to see such cases to completion. The Puerto Rico Government s defaults and non-payment of its various debt obligations, as well as the Commonwealth s and the Financial Oversight Management Board s (the Oversight Board ) decision to pursue restructurings under Title III and Title VI of PROMESA, have increased and may continue to increase the number of customer complaints (and claimed damages) filed against Popular Securities concerning Puerto Rico bonds, including bonds issued by COFINA and GDB, and closed-end investment companies that invest primarily in Puerto Rico bonds. An adverse result in the arbitration proceedings described above, or a significant increase in customer complaints, could have a material adverse effect on Popular.

*Subpoenas for Production of Documents in relation to PROMESA Title III Proceedings*

Popular Securities has, together with Popular, Inc. and BPPR (collectively, the Popular Companies ) filed an appearance in connection with the Commonwealth of Puerto Rico s pending Title III bankruptcy proceeding. Its appearance was prompted by a request by the Commonwealth s Unsecured Creditors Committee ( UCC ) to allow a broad discovery program under Rule 2004 to investigate, among other things, the causes of the Puerto Rico financial crisis. The Rule 2004 request sought broad discovery not only from the Popular Companies, but also from others, spanning in excess of eleven (11) years. The Oversight Board, as well as the Popular Companies and others, opposed the UCC s request. Magistrate Dein denied the UCC s request without prejudice and allowed the law firm of Kobre & Kim to carry out its own independent investigation on behalf of the Oversight Board.

The Popular Companies have separately been served with additional requests for the preservation and voluntary production of certain documents and witnesses from the UCC and the COFINA Agents in connection with the COFINA-Commonwealth adversary complaint, as well as from the Oversight Board s Independent Investigator, Kobre & Kim, with respect to its independent investigation. The Popular Companies cooperated with all such requests and asked that such requests be submitted in the form of a subpoena to address privacy and confidentiality considerations pertaining to some of the documents involved in the production.

On August 20, 2018, Kobre & Kim issued its Final Report, which contained various references to the Popular Companies, including allegations that Popular Securities participated as an underwriter in Commonwealth s 2014 issuance of government obligation bonds notwithstanding having allegedly advised against it. The report discussed that such allegation could give rise to an unjust enrichment claim against the Popular Companies and could also serve as a basis to equitably subordinate any claim it files in the Title III proceeding to other claims.

POPULAR BANK

*Josefina Valle v. Popular Community Bank (now Popular Bank)*

PB has been named a defendant in a putative class action complaint captioned Josefina Valle, et al. v. Popular Community Bank, filed in November 2012 in the New York State Supreme Court (New York County). Plaintiffs, PB customers, alleged among other things that PB engaged in unfair and deceptive acts and trade practices in connection with the assessment of overdraft fees and payment processing on consumer deposit accounts. The complaint further alleged that PB improperly disclosed its consumer overdraft policies and that the overdraft rates and fees assessed by PB violate New York s usury laws. Plaintiffs sought unspecified damages, including punitive damages, interest, disbursements, and attorneys fees and costs.

80

After several procedural steps that included a ruling partially granting PB s motion to dismiss and the filing of an amended complaint that was also partially dismissed, on August 12, 2015, plaintiffs filed a second amended complaint. On September 17, 2015, PB filed a motion to dismiss the second amended complaint and on February 18, 2016, the Court granted it in part and denied it in part, dismissing plaintiffs unfair and deceptive acts and trade practices claim to the extent it sought to recover overdraft fees incurred prior to September 2011. On March 28, 2016, PB filed an answer to the second amended complaint and, on November 13, 2017, the parties reached an agreement in principle. Under this agreement, an amount up to $5.2 million would be paid to qualified claimants. In March 2018, the Court entered an order for the preliminary approval of the settlement. On July 23, 2018, the claims process closed and, on August 6, 2018, the Court granted its final approval of the settlement agreement, entering such final order on August 13, 2018. The settlement became final and unappealable on September 12, 2018.

Table of Contents

## Note 23 Non-consolidated variable interest entities

The Corporation is involved with three statutory trusts which it created to issue trust preferred securities to the public. These trusts are deemed to be variable interest entities ( VIEs ) since the equity investors at risk have no substantial decision-making rights. The Corporation does not hold any variable interest in the trusts, and therefore, cannot be the trusts primary beneficiary. Furthermore, the Corporation concluded that it did not hold a controlling financial interest in these trusts since the decisions of the trusts are predetermined through the trust documents and the guarantee of the trust preferred securities is irrelevant since in substance the sponsor is guaranteeing its own debt.

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

The Corporation holds variable interests in these VIEs in the form of agency mortgage-backed securities and collateralized mortgage obligations, including those securities originated by the Corporation and those acquired from third parties. Additionally, the Corporation holds agency mortgage-backed securities and agency collateralized mortgage obligations issued by third party VIEs in which it has no other form of continuing involvement. Refer to Note 25 to the Consolidated Financial Statements for additional information on the debt securities outstanding at September 30, 2018 and December 31, 2017, which are classified as available-for-sale and trading securities in the Corporation s Consolidated Statements of Financial Condition. In addition, the Corporation holds variable interests in the form of servicing fees, since it retains the right to service the transferred loans in those government-sponsored special purpose entities ( SPEs ) and may also purchase the right to service loans in other government-sponsored SPEs that were transferred to those SPEs by a third-party.

The following table presents the carrying amount and classification of the assets related to the Corporation s variable interests in non-consolidated VIEs and the maximum exposure to loss as a result of the Corporation s involvement as servicer of GNMA and FNMA loans at September 30, 2018 and December 31, 2017.

| (In thousands) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| **Assets** | | |
| Servicing assets: | | |
| Mortgage servicing rights | $ 130,454 | $ 132,692 |
| Total servicing assets | $ 130,454 | $ 132,692 |
| Other assets: | | |
| Servicing advances | $ 37,548 | $ 47,742 |

| | | | | |
|---|---|---|---|---|
| Total other assets | $ | 37,548 | $ | 47,742 |
| Total assets | $ | 168,002 | $ | 180,434 |
| Maximum exposure to loss | $ | 168,002 | $ | 180,434 |

The size of the non-consolidated VIEs, in which the Corporation has a variable interest in the form of servicing fees, measured as the total unpaid principal balance of the loans, amounted to $10.7 billion at September 30, 2018 (December 31, 2017 $11.7 billion).

The Corporation determined that the maximum exposure to loss includes the fair value of the MSRs and the assumption that the servicing advances at September 30, 2018 and December 31, 2017, will not be recovered. The agency debt securities are not included as part of the maximum exposure to loss since they are guaranteed by the related agencies.

In September of 2011, BPPR sold construction and commercial real estate loans to a newly created joint venture, PRLP 2011 Holdings, LLC. In March of 2013, BPPR completed a sale of commercial and construction loans, and commercial and single family real estate owned to a newly created joint venture, PR Asset Portfolio 2013-1 International, LLC.

These joint ventures were created for the limited purpose of acquiring the loans from BPPR; servicing the loans through a third-party servicer; ultimately working out, resolving and/or foreclosing the loans; and indirectly owning, operating, constructing, developing, leasing and selling any real properties acquired by the joint ventures through deed in lieu of foreclosure, foreclosure, or by resolution of any loan.

BPPR provided financing to PRLP 2011 Holdings, LLC and PR Asset Portfolio 2013-1 International, LLC for the acquisition of the assets in an amount equal to the acquisition loan of $86 million and $182 million, respectively. The acquisition loans had a 5-year maturity and bear a variable interest at 30-day LIBOR plus 300 basis points and are secured by a pledge of all of the acquiring entity s assets. In addition, BPPR provided these joint ventures with a non-revolving advance facility (the advance facility ) of $69 million and $35 million, respectively, to cover unfunded commitments and costs-to-complete related to certain construction projects, and a revolving working capital line (the working capital line ) of $20 million and $30 million, respectively, to fund certain operating expenses of the joint venture. As part of these transactions, BPPR received $ 48 million and $92 million, respectively, in cash and a 24.9% equity interest in each joint venture. The Corporation is not required to provide any other financial support to these joint ventures.

BPPR accounted for both transactions as a true sale pursuant to ASC Subtopic 860-10.

The Corporation has determined that PRLP 2011 Holdings, LLC and PR Asset Portfolio 2013-1 International, LLC are VIEs but it is not the primary beneficiary. All decisions are made by Caribbean Property Group ( CPG ) (or an affiliate thereof) (the Manager ), except for certain limited material decisions which would require the unanimous consent of all members. The Manager is authorized to execute and deliver on behalf of the joint ventures any and all documents, contracts, certificates, agreements and instruments, and to take any action deemed necessary in the benefit of the joint ventures.

The Corporation holds variable interests in these VIEs in the form of the 24.9% equity interests and the financing provided to these joint ventures. The equity interest is accounted for under the equity method of accounting pursuant to ASC Subtopic 323-10.

The following tables present the carrying amount and classification of the assets and liabilities related to the Corporation s variable interests in the non-consolidated VIEs, PRLP 2011 Holdings, LLC and PR Asset Portfolio 2013-1 International, LLC, and their maximum exposure to loss at September 30, 2018 and December 31, 2017.

| | PRLP 2011 Holdings, LLC | | PR Asset Portfolio 2013-1 International, LLC | |
|---|---|---|---|---|
| (In thousands) | September 30, 2018 | December 31, 2017 | September 30, 2018 | December 31, 2017 |
| **Assets** | | | | |
| Other assets: | | | | |
| Equity investment | $ 6,942 | $ 7,199 | $ 5,569 | $ 12,874 |
| Total assets | $ 6,942 | $ 7,199 | $ 5,569 | $ 12,874 |

| | | | | |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Deposits | $ (280) | $ (20) | $ (8,433) | $ (10,501) |
| Total liabilities | $ (280) | $ (20) | $ (8,433) | $ (10,501) |
| Total net assets | $ 6,662 | $ 7,179 | $ (2,864) | $ 2,373 |
| Maximum exposure to loss | $ 6,662 | $ 7,179 | $ | $ 2,373 |

The Corporation determined that the maximum exposure to loss under a worst case scenario at September 30, 2018 would be not recovering the net assets held by the Corporation as of the reporting date.

ASU 2009-17 requires that an ongoing primary beneficiary assessment should be made to determine whether the Corporation is the primary beneficiary of any of the VIEs it is involved with. The conclusion on the assessment of these non-consolidated VIEs has not changed since their initial evaluation. The Corporation concluded that it is still not the primary beneficiary of these VIEs, and therefore, these VIEs are not required to be consolidated in the Corporation s financial statements at September 30, 2018.

Table of Contents

## Note 24 Related party transactions

The Corporation considers its equity method investees as related parties. The following provides information on transactions with equity method investees considered related parties.

***EVERTEC***

The Corporation has an investment in EVERTEC, Inc. ( EVERTEC ), which provides various processing and information technology services to the Corporation and its subsidiaries and gives BPPR access to the ATH network owned and operated by EVERTEC. As of September 30, 2018, the Corporation held 11,654,803 shares of EVERTEC, an ownership stake of 16.03%. The Corporation continues to have significant influence over EVERTEC. Accordingly, the investment in EVERTEC is accounted for under the equity method and is evaluated for impairment if events or circumstances indicate that a decrease in value of the investment has occurred that is other than temporary.

The Corporation received $ 0.6 million in dividend distributions during the nine months ended September 30, 2018, from its investments in EVERTEC s holding company (September 30, 2017 $ 3.5 million). The Corporation s equity in EVERTEC is presented in the table which follows and is included as part of other assets in the Consolidated Statements of Financial Condition.

| (In thousands) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Equity investment in EVERTEC | $ 57,839 | $ 47,532 |

The Corporation had the following financial condition balances outstanding with EVERTEC at September 30, 2018 and December 31, 2017. Items that represent liabilities to the Corporation are presented with parenthesis.

| (In thousands) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Accounts receivable (Other assets) | $ 6,233 | $ 6,830 |