POPULAR INC
Form 10-Q
May 10, 2018
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**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 March 31, 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 | (Do not check if a smaller reporting company) | 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, 102,285,819 shares outstanding as of May 7, 2018.

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**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 about Popular, Inc. s (the Corporation, Popular, we, us, our ), including without limitation statements about Popular s 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 expressions and future or conditional verbs such as will, would, could, might, can, may or similar expressions are 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 length of time and the receipt of regulatory approvals necessary to consummate our acquisition and assumption of certain assets and liabilities related to Wells Fargo s auto finance business in Puerto Rico, as well as the ability to successfully transition and integrate the business, unexpected costs, including, without limitation, costs due to exposure to any unrecorded liabilities or issues not identified during 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;

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- the performance of the stock and bond markets;
- 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.

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**POPULAR, INC.**

**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

**(UNAUDITED)**

| (In thousands, except share information) | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Assets: | | |
| Cash and due from banks | $ 280,077 | $ 402,857 |
| Money market investments: | | |
| Time deposits with other banks | 6,984,009 | 5,255,119 |
| Total money market investments | 6,984,009 | 5,255,119 |
| Trading account debt securities, at fair value: | | |
| Pledged securities with creditors right to repledge | 622 | 625 |
| Other trading securities | 41,764 | 33,301 |
| Debt securities available-for-sale, at fair value: | | |
| Pledged securities with creditors right to repledge | 380,644 | 393,634 |
| Other investment securities available-for-sale | 10,039,945 | 9,783,289 |
| Debt securities held-to-maturity, at amortized cost (fair value 2018 - $98,740; 2017 - $97,501) | 104,817 | 107,019 |
| Equity securities (realizable value 2018 -$169,340); (2017 - $168,417) | 165,218 | 165,103 |
| Loans held-for-sale, at lower of cost or fair value | 77,701 | 132,395 |
| Loans held-in-portfolio: | | |
| Loans not covered under loss-sharing agreements with the FDIC | 24,224,793 | 24,423,427 |
| Loans covered under loss-sharing agreements with the FDIC | 514,611 | 517,274 |
| Less Unearned income | 136,856 | 130,633 |
| Allowance for loan losses | 640,578 | 623,426 |
| Total loans held-in-portfolio, net | 23,961,970 | 24,186,642 |
| FDIC loss-share asset | 44,469 | 45,192 |
| Premises and equipment, net | 544,109 | 547,142 |
| Other real estate not covered under loss-sharing agreements with the FDIC | 153,061 | 169,260 |
| Other real estate covered under loss-sharing agreements with the FDIC | 15,333 | 19,595 |
| Accrued income receivable | 157,340 | 213,844 |
| Mortgage servicing assets, at fair value | 166,281 | 168,031 |
| Other assets | 1,978,760 | 1,991,323 |
| Goodwill | 627,294 | 627,294 |
| Other intangible assets | 33,347 | 35,672 |
| Total assets | $ 45,756,761 | $ 44,277,337 |

| | | |
|---|---|---|
| Liabilities and Stockholders Equity | | |
| Liabilities: | | |
| Deposits: | | |
| Non-interest bearing | $ 8,698,610 | $ 8,490,945 |
| Interest bearing | 28,435,483 | 26,962,563 |
| Total deposits | 37,134,093 | 35,453,508 |
| Assets sold under agreements to repurchase | 380,061 | 390,921 |
| Other short-term borrowings | 186,200 | 96,208 |
| Notes payable | 1,564,204 | 1,536,356 |
| Other liabilities | 1,427,294 | 1,696,439 |
| Total liabilities | 40,691,852 | 39,173,432 |
| Commitments and contingencies (Refer to Note 21) 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; 104,263,919 shares issued (2017 - 104,238,159) and 102,189,914 shares outstanding (2017 - 102,068,981) | 1,043 | 1,042 |
| Surplus | 4,300,936 | 4,298,503 |
| Retained earnings | 1,261,775 | 1,194,994 |
| Treasury stock - at cost, 2,074,005 shares (2017 - 2,169,178) | (86,167) | (90,142) |
| Accumulated other comprehensive loss, net of tax | (462,838) | (350,652) |
| Total stockholders equity | 5,064,909 | 5,103,905 |
| Total liabilities and stockholders equity | $ 45,756,761 | $ 44,277,337 |

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

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**POPULAR, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(UNAUDITED)**

| (In thousands, except per share information) | Quarters ended March 31, 2018 | Quarters ended March 31, 2017 |
|---|---|---|
| **Interest income:** | | |
| Loans | $ 373,584 | $ 363,136 |
| Money market investments | 22,285 | 6,573 |
| Investment securities | 57,209 | 46,286 |
| Total interest income | 453,078 | 415,995 |
| **Interest expense:** | | |
| Deposits | 38,688 | 33,757 |
| Short-term borrowings | 2,013 | 1,095 |
| Long-term debt | 19,330 | 19,045 |
| Total interest expense | 60,031 | 53,897 |
| Net interest income | 393,047 | 362,098 |
| Provision for loan losses non-covered loans | 69,333 | 42,057 |
| Provision (reversal) for loan losses covered loans | 1,730 | (1,359) |
| Net interest income after provision for loan losses | 321,984 | 321,400 |
| Service charges on deposit accounts | 36,455 | 39,536 |
| Other service fees | 60,602 | 56,175 |
| Mortgage banking activities (Refer to Note 10) | 12,068 | 11,369 |
| Net (loss) gain, including impairment, on equity securities | (646) | 162 |
| Net loss on trading account debt securities | (198) | (278) |
| Adjustments (expense) to indemnity reserves on loans sold | (2,926) | (1,966) |
| FDIC loss share expense (Refer to Note 28) | (8,027) | (8,257) |
| Other operating income | 16,169 | 19,128 |
| Total non-interest income | 113,497 | 115,869 |
| **Operating expenses:** | | |
| Personnel costs | 125,852 | 123,740 |
| Net occupancy expenses | 22,802 | 20,776 |
| Equipment expenses | 17,206 | 15,970 |
| Other taxes | 10,902 | 10,969 |
| Professional fees | 82,985 | 69,250 |

| | | |
|---|---|---|
| Communications | 5,906 | 5,949 |
| Business promotion | 12,009 | 11,576 |
| FDIC deposit insurance | 6,920 | 6,493 |
| Other real estate owned (OREO) expenses | 6,131 | 12,818 |
| Other operating expenses | 28,964 | 31,432 |
| Amortization of intangibles | 2,325 | 2,345 |
| Total operating expenses | 322,002 | 311,318 |
| Income before income tax | 113,479 | 125,951 |
| Income tax expense | 22,155 | 33,006 |
| **Net Income** | $ 91,324 | $ 92,945 |
| **Net Income Applicable to Common Stock** | $ 90,393 | $ 92,014 |
| **Net Income per Common Share Basic** | $ 0.89 | $ 0.89 |
| **Net Income per Common Share Diluted** | $ 0.89 | $ 0.89 |
| **Dividends Declared per Common Share** | $ 0.25 | $ 0.25 |

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

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**POPULAR, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**

**(UNAUDITED)**

| (In thousands) | Quarters ended March 31, 2018 | 2017 |
|---|---|---|
| Net income | $ 91,324 | $ 92,945 |
| Reclassification to retained earnings due to cumulative effect of accounting change (Note 3) | (605) | |
| Other comprehensive (loss) income before tax: | | |
| Foreign currency translation adjustment | 93 | 139 |
| Amortization of net losses of pension and postretirement benefit plans | 5,386 | 5,607 |
| Amortization of prior service credit of pension and postretirement benefit plans | (867) | (950) |
| Unrealized holding losses on debt securities arising during the period | (121,189) | (3,026) |
| Unrealized holding gains on equity securities arising during the period | | 119 |
| Reclassification adjustment for gains included in net income | | (162) |
| Unrealized net gains (losses) on cash flow hedges | 1,225 | (637) |
| Reclassification adjustment for net (gains) losses included in net income | (1,267) | 855 |
| Other comprehensive (loss) income before tax | (117,224) | 1,945 |
| Income tax benefit (expense) | 5,038 | (1,571) |
| Total other comprehensive (loss) income, net of tax | (112,186) | 374 |
| Comprehensive (loss) income, net of tax | $ (20,862) | $ 93,319 |

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

| (In thousands) | Quarters ended March 31, 2018 | 2017 |
|---|---|---|
| Amortization of net losses of pension and postretirement benefit plans | $ (2,101) | $ (2,186) |
| Amortization of prior service credit of pension and postretirement benefit plans | 338 | 370 |
| Unrealized holding losses on debt securities arising during the period | 6,785 | 322 |
| Unrealized holding gains on equity securities arising during the period | | (24) |
| Reclassification adjustment for gains included in net income | | 32 |
| Unrealized net gains (losses) on cash flow hedges | (478) | 248 |
| Reclassification adjustment for net (gains) losses included in net income | 494 | (333) |
| Income tax benefit (expense) | $ 5,038 | $ (1,571) |

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

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**POPULAR, INC.**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**

**(UNAUDITED)**

| (In thousands) | Common stock | 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 | | | | 92,945 | | | 92,945 |
| Issuance of stock | 1 | | 1,806 | | | | 1,807 |
| Dividends declared: | | | | | | | |
| Common stock | | | | (25,615) | | | (25,615) |
| Preferred stock | | | | (931) | | | (931) |
| Common stock purchases | | | 4,518 | | (80,842) | | (76,324) |
| Other comprehensive income, net of tax | | | | | | 374 | 374 |
| Balance at March 31, 2017 | $ 1,041 | $ 50,160 | $ 4,261,346 | $ 1,286,706 | $ (89,128) | $ (319,912) | $ 5,190,213 |
| 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 | | | | 91,324 | | | 91,324 |
| Issuance of stock | 1 | | 880 | | | | 881 |
| Dividends declared: | | | | | | | |
| Common stock | | | | (25,547) | | | (25,547) |
| Preferred stock | | | | (931) | | | (931) |
| Common stock purchases | | | | | (1,328) | | (1,328) |
| Common stock reissuance | | | (16) | | 738 | | 722 |
| Stock based compensation | | | 1,569 | | 4,565 | | 6,134 |
| Other comprehensive income, net of tax | | | | | | (112,186) | (112,186) |
| Balance at March 31, 2018 | $ 1,043 | $ 50,160 | $ 4,300,936 | $ 1,261,775 | $ (86,167) | $ (462,838) | $ 5,064,909 |

| **Disclosure of changes in number of shares:** | March 31, 2018 | March 31, 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 | 25,760 | 42,934 |
| Balance at end of period | 104,263,919 | 104,101,618 |
| Treasury stock | (2,074,005) | (2,144,878) |
| Common Stock Outstanding | 102,189,914 | 101,956,740 |

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

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**POPULAR, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(UNAUDITED)**

| (In thousands) | Quarters ended March 31, 2018 | 2017 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 91,324 | $ 92,945 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 71,063 | 40,698 |
| Amortization of intangibles | 2,325 | 2,345 |
| Depreciation and amortization of premises and equipment | 12,836 | 11,799 |
| Net accretion of discounts and amortization of premiums and deferred fees | (7,006) | (6,463) |
| Share-based compensation | 3,112 | |
| Impairment losses on long-lived assets | 272 | |
| Fair value adjustments on mortgage servicing rights | 4,307 | 5,954 |
| FDIC loss share expense | 8,027 | 8,257 |
| Adjustments (expense) to indemnity reserves on loans sold | 2,926 | 1,966 |
| Earnings from investments under the equity method, net of dividends or distributions | (7,370) | (9,213) |
| Deferred income tax expense | 10,758 | 25,060 |
| (Gain) loss on: | | |
| Disposition of premises and equipment and other productive assets | (72) | 6,466 |
| Sale of loans, including valuation adjustments on loans held-for-sale and mortgage banking activities | (1,116) | (5,381) |
| Sale of foreclosed assets, including write-downs | (99) | 4,512 |
| Acquisitions of loans held-for-sale | (47,335) | (73,043) |
| Proceeds from sale of loans held-for-sale | 12,036 | 29,364 |
| Net originations on loans held-for-sale | (48,375) | (123,336) |
| Net decrease (increase) in: | | |
| Trading debt securities | 93,998 | 176,937 |
| Equity securities | (130) | 435 |
| Accrued income receivable | 56,504 | 10,024 |
| Other assets | 36,014 | 11,995 |
| Net (decrease) increase in: | | |
| Interest payable | (10,614) | (11,281) |
| Pension and other postretirement benefits obligation | 1,225 | 331 |
| Other liabilities | (94,529) | (13,654) |
| Total adjustments | 98,757 | 93,772 |
| Net cash provided by operating activities | 190,081 | 186,717 |

| | | |
|---|---|---|
| **Cash flows from investing activities:** | | |
| Net increase in money market investments | (1,728,858) | (766,208) |
| Purchases of investment securities: | | |
| Available-for-sale | (1,311,382) | (1,216,880) |
| Equity | (9,730) | (225) |
| Proceeds from calls, paydowns, maturities and redemptions of investment securities: | | |
| Available-for-sale | 1,016,203 | 222,677 |
| Held-to-maturity | 2,639 | 2,184 |
| Proceeds from sale of investment securities: | | |
| Equity | 9,745 | 1,757 |
| Net disbursements on loans | 93,482 | 99,306 |
| Acquisition of loan portfolios | (161,295) | (109,098) |
| Net payments (to) from FDIC under loss sharing agreements | (1,263) | (23,574) |
| Return of capital from equity method investments | | 3,362 |
| Acquisition of premises and equipment | (13,046) | (18,646) |
| Proceeds from insurance claims | 258 | |
| Proceeds from sale of: | | |
| Premises and equipment and other productive assets | 3,033 | 3,011 |
| Foreclosed assets | 25,746 | 27,547 |
| Net cash used in investing activities | (2,074,468) | (1,774,787) |
| **Cash flows from financing activities:** | | |
| Net increase (decrease) in: | | |
| Deposits | 1,678,029 | 1,715,958 |
| Federal funds purchased and assets sold under agreements to repurchase | (10,860) | (44,711) |
| Other short-term borrowings | 89,992 | |
| Payments of notes payable | (12,680) | (17,408) |
| Proceeds from issuance of notes payable | 40,000 | |
| Proceeds from issuance of common stock | 4,712 | 1,806 |
| Dividends paid | (26,138) | (16,499) |
| Net payments for repurchase of common stock | (193) | (75,604) |
| Payments related to tax withholding for share-based compensation | (1,223) | (719) |
| Net cash provided by financing activities | 1,761,639 | 1,562,823 |
| Net decrease in cash and due from banks, and restricted cash | (122,748) | (25,247) |
| 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 | $ 289,881 | $ 348,949 |

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

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**Notes to Consolidated Financial**

**Statements (Unaudited)**

**Note 1 Nature of operations**

Popular, Inc. (the Corporation ) is a diversified, publicly-owned financial holding company subject to the supervision and regulation of the Board of Governors of the Federal Reserve System. The Corporation has operations in Puerto Rico, the 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.

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

*Principles of Consolidation and Basis of Presentation*

The consolidated interim financial statements have been prepared without audit. The consolidated statement of financial condition data at December 31, 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 with 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.

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## Note 3 New accounting pronouncements

*Recently Adopted Accounting Standards Updates*

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 during the first quarter of 2018, the Corporation recognized $2.2 million (March 31, 2017 $1.9 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.

*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 require 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 during the first quarter of 2018, the Corporation included restricted cash and restricted cash equivalents within money market investments of $9.8 million at March 31, 2018 (March 31, 2017   $8.7 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 32, Supplemental disclosure on the consolidated statements of cash flows.

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*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 during the first quarter of 2018, the Corporation reclassified from investing to operating activities $0.5 million in the Consolidated Statements of Cash Flows for the quarter ended March 31, 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 27, 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.

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 which amounted to $165.2 million at March 31, 2018 (December 31, 2017 $165.1 million). 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.

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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) 2018-03, 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 amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. Early adoption is permitted.

The Corporation does not expect to be significantly impacted by these technical corrections and improvements.

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

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**Note 4 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 March 31, 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 March 31, 2018, the Corporation held $39 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 amounts held in debt securities available for sale and equity securities consist primarily of restricted assets held for the Corporation s non-qualified retirement plans and fund deposits guaranteeing possible liens or encumbrances over the title of insured properties.

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**Note 5 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 March 31, 2018 and December 31, 2017.

| | At March 31, 2018 | | | | |
|---|---|---|---|---|---|
| (In thousands) | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value | Weighted average yield |
| U.S. Treasury securities | | | | | |
| Within 1 year | $ 1,148,842 | $ 9 | $ 2,845 | $ 1,146,006 | 1.22% |
| After 1 to 5 years | 2,881,995 | 176 | 49,382 | 2,832,789 | 1.69 |
| After 5 to 10 years | 538,364 | | 4,764 | 533,600 | 2.44 |
| Total U.S. Treasury securities | 4,569,201 | 185 | 56,991 | 4,512,395 | 1.66 |
| Obligations of U.S. Government sponsored entities | | | | | |
| Within 1 year | 319,734 | 29 | 1,176 | 318,587 | 1.33 |
| After 1 to 5 years | 268,528 | 2 | 4,343 | 264,187 | 1.48 |
| Total obligations of U.S. Government sponsored entities | 588,262 | 31 | 5,519 | 582,774 | 1.39 |
| Obligations of Puerto Rico, States and political subdivisions | | | | | |
| After 1 to 5 years | 6,731 | | 119 | 6,612 | 2.07 |
| Total obligations of Puerto Rico, States and political subdivisions | 6,731 | | 119 | 6,612 | 2.07 |
| Collateralized mortgage obligations federal agencies | | | | | |
| Within 1 year | 17 | | | 17 | 1.47 |
| After 1 to 5 years | 16,648 | 72 | 111 | 16,609 | 2.90 |
| After 5 to 10 years | 75,511 | 9 | 3,058 | 72,462 | 1.85 |
| After 10 years | 825,468 | 1,723 | 32,646 | 794,545 | 2.05 |
| Total collateralized mortgage obligations federal agencies | 917,644 | 1,804 | 35,815 | 883,633 | 2.04 |
| Mortgage-backed securities | | | | | |
| Within 1 year | 928 | 6 | | 934 | 4.18 |
| After 1 to 5 years | 11,871 | 134 | 211 | 11,794 | 3.56 |
| After 5 to 10 years | 331,616 | 1,827 | 7,102 | 326,341 | 2.22 |

| | | | | | |
|---|---|---|---|---|---|
| After 10 years | 4,222,400 | 15,163 | 142,211 | 4,095,352 | 2.45 |
| Total mortgage-backed securities | 4,566,815 | 17,130 | 149,524 | 4,434,421 | 2.44 |
| Other | | | | | |
| After 5 to 10 years | 748 | 6 | | 754 | 3.62 |
| Total other | 748 | 6 | | 754 | 3.62 |
| Total debt securities available-for-sale[1] | $ 10,649,401 | $ 19,156 | $ 247,968 | $ 10,420,589 | 2.01% |

[1] Includes $7.0 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 $6.1 billion serve as collateral for public funds.

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| | At December 31, 2017 | | | | |
|---|---|---|---|---|---|
| (In thousands) | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value | Weighted average yield |
| 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 debt securities available-for-sale is based on amortized cost; therefore, it does not give effect to changes in fair value.

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

There were no securities sold during the quarters ended March 31, 2018 and March 31, 2017.

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 March 31, 2018 and December 31, 2017.

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| | At March 31, 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 | $ 2,782,548 | $ 38,901 | $ 1,332,915 | $ 18,090 | $ 4,115,463 | $ 56,991 |
| Obligations of U.S. Government sponsored entities | 228,285 | 1,532 | 351,070 | 3,987 | 579,355 | 5,519 |
| Obligations of Puerto Rico, States and political subdivisions | 6,613 | 119 | | | 6,613 | 119 |
| Collateralized mortgage obligations federal agencies | 208,888 | 3,646 | 578,882 | 32,169 | 787,770 | 35,815 |
| Mortgage-backed securities | 1,542,995 | 41,063 | 2,512,508 | 108,461 | 4,055,503 | 149,524 |
| Total debt securities available-for-sale in an unrealized loss position | $ 4,769,329 | $ 85,261 | $ 4,775,375 | $ 162,707 | $ 9,544,704 | $ 247,968 |

| | 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 March 31, 2018, the portfolio of available-for-sale debt securities reflects gross unrealized losses of approximately $248 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 March 31, 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 March 31, 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.

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| | March 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| (In thousands) | Amortized cost | Fair value | Amortized cost | Fair value |
| FNMA | $ 3,500,042 | $ 3,392,654 | $ 3,621,537 | $ 3,572,474 |
| Freddie Mac | 1,279,650 | 1,236,594 | 1,358,708 | 1,335,685 |

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## Note 6 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 March 31, 2018 and December 31, 2017.

| | At March 31, 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 | $ 3,445 | $ | $ 271 | $ 3,174 | 5.98% |
| After 1 to 5 years | 16,195 | | 3,281 | 12,914 | 6.06 |
| After 5 to 10 years | 26,140 | | 5,588 | 20,552 | 3.62 |
| After 10 years | 45,023 | 3,312 | 249 | 48,086 | 1.91 |
| Total obligations of Puerto Rico, States and political subdivisions | 90,803 | 3,312 | 9,389 | 84,726 | 3.30 |
| Collateralized mortgage obligations - federal agencies | | | | | |
| After 5 to 10 years | 66 | 4 | | 70 | 5.45 |
| Total collateralized mortgage obligations - federal agencies | 66 | 4 | | 70 | 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 | 250 | | | 250 | 2.44 |
| After 1 to 5 years | 500 | | 4 | 496 | 2.97 |
| Total other | 750 | | 4 | 746 | 2.79 |
| Total debt securities held-to-maturity[1] | $ 104,817 | $ 3,316 | $ 9,393 | $ 98,740 | 3.73% |

[1] Includes $90.8 million pledged to secure public and trust deposits that the secured parties are not permitted to sell or repledge the collateral.

| (In thousands) | At December 31, 2017 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 March 31, 2018 and December 31, 2017.

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| | At March 31, 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 | $ 9,980 | $ 101 | $ 37,517 | $ 9,288 | $ 47,497 | $ 9,389 |
| Other | 250 | | 496 | 4 | 746 | 4 |
| Total debt securities held-to-maturity in an unrealized loss position | $ 10,230 | $ 101 | $ 38,013 | $ 9,292 | $ 48,243 | $ 9,393 |

| | 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 5 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 March 31, 2018 are primarily associated with securities issued by municipalities of Puerto Rico and are generally not rated by a credit rating agency. This includes $47 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 March 31, 2018. Further deterioration of the fiscal crisis of the Government of Puerto Rico or of Puerto Rico s economy 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 21 for additional information on the Corporation s exposure to the Puerto Rico Government.

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## Note 7 Loans

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

The risks on loans acquired in the FDIC-assisted transaction are significantly different from the risks on loans not covered under the FDIC loss sharing agreements because of the loss protection provided by the FDIC. Accordingly, the Corporation presents loans subject to the loss sharing agreements as covered loans in the information below and loans that are not subject to the FDIC loss sharing agreements as non-covered loans . The FDIC loss sharing agreements expired on June 30, 2015 for commercial (including construction) and consumer loans, and expires on June 30, 2020 for single-family residential mortgage loans, as explained in Note 9.

During the quarter ended March 31, 2018, the Corporation recorded purchases (including repurchases) of mortgage loans amounting to $156 million and consumer loans of $51 million, compared to purchases (including repurchases) of mortgage loans of $136 million, consumer loans of $42 million and leases of $2 million, during the quarter ended March 31, 2017.

The Corporation performed whole-loan sales involving approximately $10 million of residential mortgage loans during the quarter ended March 31, 2018 (March 31, 2017 - $28 million). Also, during the quarter ended March 31, 2018, the Corporation securitized approximately $112 million of mortgage loans into Government National Mortgage Association ( GNMA ) mortgage-backed securities and $26 million of mortgage loans into Federal National Mortgage Association ( FNMA ) mortgage-backed securities, compared to $147 million and $28 million, respectively, during the quarter ended March 31, 2017.

*Non-covered loans*

The following table presents the composition of non-covered loans held-in-portfolio ( HIP ), net of unearned income, by past due status at March 31, 2018 and December 31, 2017, including loans previously covered by the commercial FDIC loss sharing agreements.

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| (In thousands) | 30-59 days | 60-89 days | 90 days or more | Total past due | Current | Non-covered loans HIP Puerto Rico |
|---|---|---|---|---|---|---|
| | March 31, 2018 Puerto Rico Past due | | | | | |
| Commercial multi-family | $ 5,296 | $ 211 | $ 2,876 | $ 8,383 | $ 142,706 | $ 151,089 |
| Commercial real estate non-owner occupied | 106,662 | 3,383 | 27,890 | 137,935 | 2,243,092 | 2,381,027 |
| Commercial real estate owner occupied | 31,295 | 16,783 | 121,620 | 169,698 | 1,598,786 | 1,768,484 |
| Commercial and industrial | 38,309 | 4,712 | 36,832 | 79,853 | 2,742,343 | 2,822,196 |
| Construction | 1,369 | | 4,463 | 5,832 | 88,026 | 93,858 |
| Mortgage | 281,846 | 185,748 | 1,558,078 | 2,025,672 | 4,330,034 | 6,355,706 |
| Leasing | 8,899 | 2,962 | 3,957 | 15,818 | 822,565 | 838,383 |
| Consumer: | | | | | | |
| Credit cards | 15,418 | 21,379 | 11,004 | 47,801 | 1,007,076 | 1,054,877 |
| Home equity lines of credit | 404 | 176 | 329 | 909 | 4,524 | 5,433 |
| Personal | 15,259 | 10,791 | 21,963 | 48,013 | 1,182,928 | 1,230,941 |
| Auto | 26,996 | 10,329 | 13,356 | 50,681 | 835,793 | 886,474 |
| Other | 1,303 | 510 | 15,789 | 17,602 | 133,610 | 151,212 |
| Total | $ 533,056 | $ 256,984 | $ 1,818,157 | $ 2,608,197 | $ 15,131,483 | $ 17,739,680 |

| (In thousands) | 30-59 days | 60-89 days | 90 days or more | Total past due | Current | Loans HIP Popular U.S. |
|---|---|---|---|---|---|---|
| | March 31, 2018 Popular U.S. Past due | | | | | |
| Commercial multi-family | $ 20 | $ | $ | $ 20 | $ 1,249,577 | $ 1,249,597 |
| Commercial real estate non-owner occupied | 4,965 | 126 | 365 | 5,456 | 1,786,075 | 1,791,531 |
| Commercial real estate owner occupied | 2,771 | | 405 | 3,176 | 265,507 | 268,683 |
| Commercial and industrial | 5,616 | 2,115 | 94,141 | 101,872 | 934,028 | 1,035,900 |
| Construction | 20,021 | | | 20,021 | 779,512 | 799,533 |
| Mortgage | 15,600 | 948 | 11,647 | 28,195 | 680,743 | 708,938 |
| Legacy | 1,597 | 8 | 3,137 | 4,742 | 26,425 | 31,167 |
| Consumer: | | | | | | |
| Credit cards | 1 | 8 | 7 | 16 | 57 | 73 |
| Home equity lines of credit | 1,402 | 2,791 | 14,731 | 18,924 | 147,493 | 166,417 |
| Personal | 2,399 | 1,575 | 2,604 | 6,578 | 289,628 | 296,206 |
| Other | | | 7 | 7 | 205 | 212 |
| Total | $ 54,392 | $ 7,571 | $ 127,044 | $ 189,007 | $ 6,159,250 | $ 6,348,257 |

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| (In thousands) | 30-59 days | 60-89 days | 90 days or more | Total past due | Current | Non-covered loans HIP Popular, Inc.[1] [2] |
|---|---|---|---|---|---|---|
| | March 31, 2018 Popular, Inc. Past due | | | | | |
| Commercial multi-family | $ 5,316 | $ 211 | $ 2,876 | $ 8,403 | $ 1,392,283 | $ 1,400,686 |
| Commercial real estate non-owner occupied | 111,627 | 3,509 | 28,255 | 143,391 | 4,029,167 | 4,172,558 |
| Commercial real estate owner occupied | 34,066 | 16,783 | 122,025 | 172,874 | 1,864,293 | 2,037,167 |
| Commercial and industrial | 43,925 | 6,827 | 130,973 | 181,725 | 3,676,371 | 3,858,096 |
| Construction | 21,390 | | 4,463 | 25,853 | 867,538 | 893,391 |
| Mortgage | 297,446 | 186,696 | 1,569,725 | 2,053,867 | 5,010,777 | 7,064,644 |
| Leasing | 8,899 | 2,962 | 3,957 | 15,818 | 822,565 | 838,383 |
| Legacy[3] | 1,597 | 8 | 3,137 | 4,742 | 26,425 | 31,167 |
| Consumer: | | | | | | |
| Credit cards | 15,419 | 21,387 | 11,011 | 47,817 | 1,007,133 | 1,054,950 |
| Home equity lines of credit | 1,806 | 2,967 | 15,060 | 19,833 | 152,017 | 171,850 |
| Personal | 17,658 | 12,366 | 24,567 | 54,591 | 1,472,556 | 1,527,147 |
| Auto | 26,996 | 10,329 | 13,356 | 50,681 | 835,793 | 886,474 |
| Other | 1,303 | 510 | 15,796 | 17,609 | 133,815 | 151,424 |
| Total | $ 587,448 | $ 264,555 | $ 1,945,201 | $ 2,797,204 | $ 21,290,733 | $ 24,087,937 |

[1] Non-covered loans held-in-portfolio are net of $137 million in unearned income and exclude $78 million in loans held-for-sale.

[2] 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 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.

[3] 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.

| (In thousands) | 30-59 days | 60-89 days | 90 days or more | Total past due | Current | Non-covered loans HIP Puerto Rico |
|---|---|---|---|---|---|---|
| | December 31, 2017 Puerto Rico Past due | | | | | |
| Commercial multi-family | $ | $ 426 | $ 1,210 | $ 1,636 | $ 144,763 | $ 146,399 |
| Commercial real estate non-owner occupied | 39,617 | 131 | 28,045 | 67,793 | 2,336,766 | 2,404,559 |
| Commercial real estate owner occupied | 7,997 | 2,291 | 123,929 | 134,217 | 1,689,397 | 1,823,614 |
| Commercial and industrial | 3,556 | 1,251 | 40,862 | 45,669 | 2,845,658 | 2,891,327 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Construction | | | 170 | 170 | 95,199 | 95,369 |
| Mortgage | 217,890 | 77,833 | 1,596,763 | 1,892,486 | 4,684,293 | 6,576,779 |
| Leasing | 10,223 | 1,490 | 2,974 | 14,687 | 795,303 | 809,990 |
| Consumer: | | | | | | |
| Credit cards | 7,319 | 4,464 | 18,227 | 30,010 | 1,063,211 | 1,093,221 |
| Home equity lines of credit | 438 | 395 | 257 | 1,090 | 4,997 | 6,087 |
| Personal | 13,926 | 6,857 | 19,981 | 40,764 | 1,181,548 | 1,222,312 |
| Auto | 24,405 | 5,197 | 5,466 | 35,068 | 815,745 | 850,813 |
| Other | 537 | 444 | 16,765 | 17,746 | 139,842 | 157,588 |
| Total | $ 325,908 | $ 100,779 | $ 1,854,649 | $ 2,281,336 | $ 15,796,722 | $ 18,078,058 |

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| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Popular U.S. | | | | | |
| | Past due | | | | | |
| (In thousands) | 30-59 days | 60-89 days | 90 days or more | Total past due | Current | Loans HIP Popular U.S. |
| Commercial multi-family | $ 395 | $ | $ 784 | $ 1,179 | $ 1,209,514 | $ 1,210,693 |
| Commercial real estate non-owner occupied | 4,028 | 1,186 | 1,599 | 6,813 | 1,681,498 | 1,688,311 |
| Commercial real estate owner occupied | 2,684 | | 862 | 3,546 | 315,429 | 318,975 |
| Commercial and industrial | 1,121 | 5,278 | 97,427 | 103,826 | 901,157 | 1,004,983 |
| Construction | | | | | 784,660 | 784,660 |
| Mortgage | 13,453 | 6,148 | 14,852 | 34,453 | 659,175 | 693,628 |
| Legacy | 291 | 417 | 3,039 | 3,747 | 29,233 | 32,980 |
| Consumer: | | | | | | |
| Credit cards | 3 | 2 | 11 | 16 | 84 | 100 |
| Home equity lines of credit | 4,653 | 3,675 | 14,997 | 23,325 | 158,760 | 182,085 |
| Personal | 3,342 | 2,149 | 2,779 | 8,270 | 289,732 | 298,002 |
| Other | | | | | 319 | 319 |
| Total | $ 29,970 | $ 18,855 | $ 136,350 | $ 185,175 | $ 6,029,561 | $ 6,214,736 |

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Popular, Inc. | | | | | |
| | Past due | | | | | |
| (In thousands) | 30-59 days | 60-89 days | 90 days or more | Total past due | Current | Non-covered loans HIP Popular, Inc.[1] [2] |
| Commercial multi-family | $ 395 | $ 426 | $ 1,994 | $ 2,815 | $ 1,354,277 | $ 1,357,092 |
| Commercial real estate non-owner occupied | 43,645 | 1,317 | 29,644 | 74,606 | 4,018,264 | 4,092,870 |
| Commercial real estate owner occupied | 10,681 | 2,291 | 124,791 | 137,763 | 2,004,826 | 2,142,589 |
| Commercial and industrial | 4,677 | 6,529 | 138,289 | 149,495 | 3,746,815 | 3,896,310 |
| Construction | | | 170 | 170 | 879,859 | 880,029 |
| Mortgage | 231,343 | 83,981 | 1,611,615 | 1,926,939 | 5,343,468 | 7,270,407 |
| Leasing | 10,223 | 1,490 | 2,974 | 14,687 | 795,303 | 809,990 |
| Legacy[3] | 291 | 417 | 3,039 | 3,747 | 29,233 | 32,980 |
| Consumer: | | | | | | |
| Credit cards | 7,322 | 4,466 | 18,238 | 30,026 | 1,063,295 | 1,093,321 |
| Home equity lines of credit | 5,091 | 4,070 | 15,254 | 24,415 | 163,757 | 188,172 |
| Personal | 17,268 | 9,006 | 22,760 | 49,034 | 1,471,280 | 1,520,314 |
| Auto | 24,405 | 5,197 | 5,466 | 35,068 | 815,745 | 850,813 |
| Other | 537 | 444 | 16,765 | 17,746 | 140,161 | 157,907 |
| Total | $ 355,878 | $ 119,634 | $ 1,990,999 | $ 2,466,511 | $ 21,826,283 | $ 24,292,794 |

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

[2] 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.

[3] 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.

The level of delinquencies for mortgage loans was impacted by the loan moratorium implemented by the Corporation as part of its hurricane relief measures. Also, loans with a delinquency status of 90 days past due as of March 31, 2018 include approximately $535 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. While the borrowers for our serviced GNMA portfolio benefited from the loan payment moratorium, the delinquency status of these loans continued to be reported to GNMA without considering the moratorium. Management will continue to monitor the effect of the moratorium as the period comes to an end and the loan repayment schedule is resumed.

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The following tables present non-covered loans held-in-portfolio by loan class that are in non-performing status or are accruing interest but are past due 90 days or more at March 31, 2018 and December 31, 2017. Accruing loans past due 90 days or more consist primarily of credit cards, Federal Housing Administration ( FHA ) / U.S. Department of Veterans Affairs ( VA ) and other insured mortgage loans, and delinquent mortgage loans which are included in the Corporation s financial statements pursuant to GNMA s buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

| At March 31, 2018 | Puerto Rico | | Popular U.S. | | Popular, Inc. | |
|---|---|---|---|---|---|---|
| (In thousands) | Non-accrual loans | Accruing loans past-due 90 days or more [1] | Non-accrual loans | Accruing loans past-due 90 days or more [1] | Non-accrual loans | Accruing loans past-due 90 days or more [1] |
| Commercial multi-family | $ 1,396 | $ | $ | $ | $ 1,396 | $ |
| Commercial real estate non-owner occupied | 18,205 | | 365 | | 18,570 | |
| Commercial real estate owner occupied | 100,777 | | 405 | | 101,182 | |
| Commercial and industrial | 36,754 | 78 | 377 | | 37,131 | 78 |
| Construction | 4,293 | | | | 4,293 | |
| Mortgage[3] | 357,967 | 1,117,460 | 11,647 | | 369,614 | 1,117,460 |
| Leasing | 3,957 | | | | 3,957 | |
| Legacy | | | 3,137 | | 3,137 | |
| Consumer: | | | | | | |
| Credit cards | | 11,004 | 7 | | 7 | 11,004 |
| Home equity lines of credit | | 329 | 14,731 | | 14,731 | 329 |
| Personal | 21,852 | 91 | 2,604 | | 24,456 | 91 |
| Auto | 13,356 | | | | 13,356 | |
| Other | 14,959 | 830 | 7 | | 14,966 | 830 |
| Total[2] | $ 573,516 | $ 1,129,792 | $ 33,280 | $ | $ 606,796 | $ 1,129,792 |

[1] Non-covered loans of $209 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.

[2] For purposes of this table non-performing loans exclude non-performing loans held-for-sale.

[3] It is the Corporation s policy to report delinquent residential mortgage loans insured by FHA or guaranteed by the VA as accruing loans past due 90 days or more as opposed to non-performing since the principal repayment is insured. These balances include $194 million of residential mortgage loans in Puerto Rico insured by FHA or guaranteed by the VA that are no longer accruing interest as of March 31, 2018. These balances also include approximately $535 million of loans rebooked due to a repurchase option with GNMA. 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 BPPR with an offsetting liability. The Corporation has approximately $57 million in reverse mortgage loans in Puerto Rico which are guaranteed by FHA, but which are currently not accruing interest. Due to the guaranteed nature of the loans, it is the Corporation s policy to exclude these balances from non-performing assets.

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| At December 31, 2017 | | | | | | |
|---|---|---|---|---|---|---|
| | Puerto Rico | | Popular U.S. | | Popular, Inc. | |
| (In thousands) | Non-accrual loans | Accruing loans past-due 90 days or more [1] | Non-accrual loans | Accruing loans past-due 90 days or more [1] | Non-accrual loans | Accruing loans past-due 90 days or more [1] |
| Commercial multi-family | $ 1,115 | $ | $ 784 | $ | $ 1,899 | $ |
| Commercial real estate non-owner occupied | 18,866 | | 1,599 | | 20,465 | |
| Commercial real estate owner occupied | 101,068 | | 862 | | 101,930 | |
| Commercial and industrial | 40,177 | 685 | 594 | | 40,771 | 685 |
| Mortgage[3] | 306,697 | 1,204,691 | 14,852 | | 321,549 | 1,204,691 |
| Leasing | 2,974 | | | | 2,974 | |
| Legacy | | | 3,039 | | 3,039 | |
| Consumer: | | | | | | |
| Credit cards | | 18,227 | 11 | | 11 | 18,227 |
| Home equity lines of credit | | 257 | 14,997 | | 14,997 | 257 |
| Personal | 19,460 | 141 | 2,779 | | 22,239 | 141 |
| Auto | 5,466 | | | | 5,466 | |
| Other | 15,617 | 1,148 | | | 15,617 | 1,148 |
| Total[2] | $ 511,440 | $ 1,225,149 | $ 39,517 | $ | $ 550,957 | $ 1,225,149 |

[1] Non-covered loans 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.

[2] For purposes of this table non-performing loans exclude non-performing loans held-for-sale.

[3] It is the Corporation s policy to report delinquent residential mortgage loans insured by FHA or guaranteed by the VA as accruing loans past due 90 days or more as opposed to non-performing since the principal repayment is insured. These balances include $178 million of residential mortgage loans in Puerto Rico insured by FHA or guaranteed by the VA that are no longer accruing interest as of December 31, 2017. These balances also include approximately $840 million of loans rebooked due to a repurchase option with GNMA. 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 BPPR with an offsetting liability. The Corporation has approximately $58 million in reverse mortgage loans in Puerto Rico which are guaranteed by FHA, but which are currently not accruing interest. Due to the guaranteed nature of the loans, it is the Corporation s policy to exclude these balances from non-performing assets.

*Covered loans*

The following tables present the composition of loans by past due status at March 31, 2018 and December 31, 2017 for covered loans held-in-portfolio. The information considers covered loans accounted for under ASC Subtopic 310-20 and ASC Subtopic 310-30.

March 31, 2018

| (In thousands) | Past due 30-59 days | 60-89 days | 90 days or more | Total past due | Current | Covered loans HIP [1] |
|---|---|---|---|---|---|---|
| Mortgage | $ 44,199 | $ 2,753 | $ 67,652 | $ 114,604 | $ 386,079 | $ 500,683 |
| Consumer | 1,231 | | 1,026 | 2,257 | 11,671 | 13,928 |
| Total covered loans | $ 45,430 | $ 2,753 | $ 68,678 | $ 116,861 | $ 397,750 | $ 514,611 |

[1] Includes $268 million pledged to secure credit facilities at the FHLB which are not permitted to sell or repledge the collateral.

December 31, 2017

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

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

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The following table presents covered loans in non-performing status and accruing loans past-due 90 days or more by loan class at March 31, 2018 and December 31, 2017.

| | March 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| (In thousands) | Non-accrual loans | Accruing loans past due 90 days or more | Non-accrual loans | Accruing loans past due 90 days or more |
| Mortgage | $ 3,413 | $ | $ 3,165 | $ |
| Consumer | 182 | | 188 | |
| Total[1] | $ 3,595 | $ | $ 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.

The Corporation accounts for lines of credit with revolving privileges under the accounting guidance of ASC Subtopic 310-20, which requires that any differences between the contractually required loans payment receivable in excess of the initial investment in the loans be accreted into interest income over the life of the loans, if the loan is accruing interest. Covered loans accounted for under ASC Subtopic 310-20 amounted to $10 million at March 31, 2018 (December 31, 2017 $10 million).

*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.

*Loans acquired from Westernbank as part of an FDIC-assisted transaction*

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

| | March 31, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Carrying amount | | | Carrying amount | | |
| (In thousands) | Non-credit impaired loans | Credit impaired loans | Total | Non-credit impaired loans | Credit impaired loans | Total |
| Commercial real estate | $ 898,172 | $ 13,543 | $ 911,715 | $ 909,389 | $ 14,035 | $ 923,424 |
| Commercial and industrial | 86,447 | | 86,447 | 88,130 | | 88,130 |
| Construction | | 170 | 170 | | 170 | 170 |
| Mortgage | 538,352 | 21,605 | 559,957 | 542,182 | 21,357 | 563,539 |
| Consumer | 16,096 | 758 | 16,854 | 16,900 | 758 | 17,658 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Carrying amount [1] | 1,539,067 | 36,076 | 1,575,143 | 1,556,601 | 36,320 | 1,592,921 |
| Allowance for loan losses | (84,801) | (4,962) | (89,763) | (64,520) | (5,609) | (70,129) |
| Carrying amount, net of allowance | $ 1,454,266 | $ 31,114 | $ 1,485,380 | $ 1,492,081 | $ 30,711 | $ 1,522,792 |

[1] The carrying amount of loans acquired from Westernbank and accounted for under ASC 310-30 which remains subject to the loss sharing agreement with the FDIC amounted to approximately $505 million as of March 31, 2018 and $507 million as of December 31, 2017.

The outstanding principal balance of Westernbank loans accounted pursuant to ASC Subtopic 310-30, amounted to $1.9 billion at March 31, 2018 (December 31, 2017 - $1.9 billion). At March 31, 2018, none of the acquired loans from the Westernbank FDIC-assisted transaction accounted for under ASC Subtopic 310-30 were considered non-performing loans. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, was recognized on all acquired loans.

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Changes in the carrying amount and the accretable yield for the Westernbank loans accounted pursuant to the ASC Subtopic 310-30, for the quarters ended March 31, 2018 and 2017, were as follows:

| | Activity in the accretable yield Westernbank loans ASC 310-30 For the quarters ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2018 | | | March 31, 2017 | | |
| (In thousands) | Non-credit impaired loans | Credit impaired loans | Total | Non-credit impaired loans | Credit impaired loans | Total |
| Beginning balance | $ 875,837 | $ 4,878 | $ 880,715 | $ 1,001,908 | $ 8,179 | $ 1,010,087 |
| Accretion | (34,349) | (659) | (35,008) | (36,016) | (876) | (36,892) |
| Change in expected cash flows | 28,798 | (130) | 28,668 | 7,789 | 222 | 8,011 |
| Ending balance | $ 870,286 | $ 4,089 | $ 874,375 | $ 973,681 | $ 7,525 | $ 981,206 |

| | Carrying amount of Westernbank loans accounted for pursuant to ASC 310-30 For the quarters ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2018 | | | March 31, 2017 | | |
| (In thousands) | Non-credit impaired loans | Credit impaired loans | Total | Non-credit impaired loans | Credit impaired loans | Total |
| Beginning balance | $ 1,556,601 | $ 36,320 | $ 1,592,921 | $ 1,695,381 | $ 42,948 | $ 1,738,329 |
| Accretion | 34,349 | 659 | 35,008 | 36,016 | 876 | 36,892 |
| Collections / loan sales / charge-offs | (51,883) | (903) | (52,786) | (83,069) | (3,252) | (86,321) |
| Ending balance[1] | $ 1,539,067 | $ 36,076 | $ 1,575,143 | $ 1,648,328 | $ 40,572 | $ 1,688,900 |
| Allowance for loan losses ASC 310-30 Westernbank loans | (84,801) | (4,962) | (89,763) | (59,283) | (7,261) | (66,544) |
| Ending balance, net of ALLL | $ 1,454,266 | $ 31,114 | $ 1,485,380 | $ 1,589,045 | $ 33,311 | $ 1,622,356 |

[1] The carrying amount of loans acquired from Westernbank and accounted for under ASC 310-30 which remain subject to the loss sharing agreement with the FDIC amounted to approximately $ 505 million as of March 31, 2018 (March 31, 2017- $542 million).

*Other loans acquired with deteriorated credit quality*

The outstanding principal balance of other acquired loans accounted pursuant to ASC Subtopic 310-30, amounted to $552 million at March 31, 2018 (December 31, 2017 $556 million). At March 31, 2018, none of the other acquired loans accounted under ASC Subtopic 310-30 were considered non-performing loans. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, was recognized on all acquired loans.

Changes in the carrying amount and the accretable yield for the other acquired loans accounted pursuant to the ASC Subtopic 310-30, for the quarters ended March 31, 2018 and 2017 were as follows:

Activity in the accretable yield - Other acquired loans ASC 310-30

| | For the quarters ended | |
|---|---|---|
| (In thousands) | March 31, 2018 | March 31, 2017 |
| Beginning balance | $ 333,773 | $ 278,896 |
| Additions | 3,437 | 3,254 |
| Accretion | (7,052) | (8,836) |
| Change in expected cash flows | 193 | 36,464 |
| Ending balance | $ 330,351 | $ 309,778 |

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

| (In thousands) | For the quarters ended March 31, 2018 | March 31, 2017 |
|---|---|---|
| Beginning balance | $ 516,072 | $ 562,695 |
| Additions | 5,272 | 5,581 |
| Accretion | 7,052 | 8,836 |
| Collections and charge-offs | (18,348) | (20,388) |
| Ending balance | $ 510,048 | $ 556,724 |
| Allowance for loan losses ASC 310-30 non-covered loans | (56,357) | (28,909) |
| Ending balance, net of allowance for loan losses | $ 453,691 | $ 527,815 |

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## Note 8 Allowance for loan losses

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

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

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

Base net loss rates, which are based on the moving average of annualized net loss rates computed over a 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 March 31, 2018, 45% (March 31, 2017 55%) of the ALLL for non-covered BPPR 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 mainly concentrated in the mortgage, leasing, credit cards and auto loans portfolios for 2018 and in the mortgage, other consumer and commercial real estate owner occupied portfolios for 2017.

For the period ended March 31, 2018, 5.41% (March 31, 2017 0.35%) of our 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 portfolios for 2018 and in the commercial multifamily loan and legacy portfolios for 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 reserve of the allowance for loan losses.

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 ended March 31, 2018 and 2017.

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For the quarter ended March 31, 2018
Puerto Rico - Non-covered loans

| (In thousands) | Commercial | Construction | Mortgage | Leasing | Consumer | Total |
|---|---|---|---|---|---|---|
| **Allowance for credit losses:** | | | | | | |
| Beginning balance | $ 171,531 | $ 1,286 | $ 159,081 | $ 11,991 | $ 174,215 | $ 518,104 |
| Provision (reversal of provision) | 20,934 | 1,163 | 7,464 | 2,914 | 24,243 | 56,718 |
| Charge-offs | (6,789) | 48 | (13,791) | (2,513) | (28,372) | (51,417) |
| Recoveries | 2,846 | 160 | 547 | 520 | 6,117 | 10,190 |
| Ending balance | $ 188,522 | $ 2,657 | $ 153,301 | $ 12,912 | $ 176,203 | $ 533,595 |
| Specific ALLL | $ 45,028 | $ 474 | $ 44,419 | $ 448 | $ 22,955 | $ 113,324 |
| General ALLL | $ 143,494 | $ 2,183 | $ 108,882 | $ 12,464 | $ 153,248 | $ 420,271 |
| **Loans held-in-portfolio:** | | | | | | |
| Impaired non-covered loans | $ 352,064 | $ 4,293 | $ 510,849 | $ 1,361 | $ 97,730 | $ 966,297 |
| Non-covered loans held-in-portfolio excluding impaired loans | 6,770,732 | 89,565 | 5,844,857 | 837,022 | 3,231,207 | 16,773,383 |
| Total non-covered loans held-in-portfolio | $ 7,122,796 | $ 93,858 | $ 6,355,706 | $ 838,383 | $ 3,328,937 | $ 17,739,680 |

For the quarter ended March 31, 2018
Puerto Rico - Covered loans

| (In thousands) | Commercial | Construction | Mortgage | Leasing | Consumer | Total |
|---|---|---|---|---|---|---|
| **Allowance for credit losses:** | | | | | | |
| Beginning balance | $ | $ | $ 32,521 | $ | $ 723 | $ 33,244 |
| Provision | | | 2,265 | | (535) | 1,730 |
| Charge-offs | | | (1,446) | | (2) | (1,448) |
| Recoveries | | | 82 | | 2 | 84 |
| Ending balance | $ | $ | $ 33,422 | $ | $ 188 | $ 33,610 |
| Specific ALLL | $ | $ | $ | $ | $ | $ |
| General ALLL | $ | $ | $ 33,422 | $ | $ 188 | $ 33,610 |
| **Loans held-in-portfolio:** | | | | | | |
| Impaired covered loans | $ | $ | $ | $ | $ | $ |
| Covered loans held-in-portfolio excluding impaired loans | | | 500,683 | | 13,928 | 514,611 |
| Total covered loans held-in-portfolio | $ | $ | $ 500,683 | $ | $ 13,928 | $ 514,611 |

For the quarter ended March 31, 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) | 10,555 | 16 | (118) | (477) | 2,639 | 12,615 |
| Charge-offs | (8,396) | | (82) | (157) | (6,316) | (14,951) |
| Recoveries | 1,566 | | 386 | 488 | 1,191 | 3,631 |
| Ending balance | $ 47,859 | $ 7,092 | $ 4,727 | $ 652 | $ 13,043 | $ 73,373 |
| Specific ALLL | $ | $ | $ 2,496 | $ | $ 1,195 | $ 3,691 |
| General ALLL | $ 47,859 | $ 7,092 | $ 2,231 | $ 652 | $ 11,848 | $ 69,682 |
| **Loans held-in-portfolio:** | | | | | | |
| Impaired loans | $ | $ | $ 9,073 | $ | $ 5,853 | $ 14,926 |
| Loans held-in-portfolio excluding impaired loans | 4,345,711 | 799,533 | 699,865 | 31,167 | 457,055 | 6,333,331 |
| Total loans held-in-portfolio | $ 4,345,711 | $ 799,533 | $ 708,938 | $ 31,167 | $ 462,908 | $ 6,348,257 |

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For the quarter ended March 31, 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) | 31,489 | 1,179 | 9,611 | (477) | 2,914 | 26,347 | 71,063 |
| Charge-offs | (15,185) | 48 | (15,319) | (157) | (2,513) | (34,690) | (67,816) |
| Recoveries | 4,412 | 160 | 1,015 | 488 | 520 | 7,310 | 13,905 |
| Ending balance | $ 236,381 | $ 9,749 | $ 191,450 | $ 652 | $ 12,912 | $ 189,434 | $ 640,578 |
| Specific ALLL | $ 45,028 | $ 474 | $ 46,915 | $ | $ 448 | $ 24,150 | $ 117,015 |
| General ALLL | $ 191,353 | $ 9,275 | $ 144,535 | $ 652 | $ 12,464 | $ 165,284 | $ 523,563 |
| **Loans held-in-portfolio:** | | | | | | | |
| Impaired loans | $ 352,064 | $ 4,293 | $ 519,922 | $ | $ 1,361 | $ 103,583 | $ 981,223 |
| Loans held-in-portfolio excluding impaired loans | 11,116,443 | 889,098 | 7,045,405 | 31,167 | 837,022 | 3,702,190 | 23,621,325 |
| Total loans held-in-portfolio | $ 11,468,507 | $ 893,391 | $ 7,565,327 | $ 31,167 | $ 838,383 | $ 3,805,773 | $ 24,602,548 |

For the quarter ended March 31, 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) | 583 | 464 | 15,172 | 1,048 | 14,211 | 31,478 |
| Charge-offs | (11,071) | (3,587) | (14,983) | (1,341) | (21,812) | (52,794) |
| Recoveries | 8,433 | 3,731 | 1,428 | 528 | 5,729 | 19,849 |
| Ending balance | $ 187,631 | $ 1,961 | $ 144,937 | $ 7,897 | $ 124,091 | $ 466,517 |
| Specific ALLL | $ 51,276 | $ | $ 41,067 | $ 522 | $ 22,331 | $ 115,196 |
| General ALLL | $ 136,355 | $ 1,961 | $ 103,870 | $ 7,375 | $ 101,760 | $ 351,321 |
| **Loans held-in-portfolio:** | | | | | | |
| Impaired non-covered loans | $ 348,823 | $ | $ 501,647 | $ 1,803 | $ 106,236 | $ 958,509 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Non-covered loans held-in-portfolio excluding impaired loans | 6,715,507 | 95,459 | 5,368,071 | 717,840 | 3,120,843 | 16,017,720 |
| Total non-covered loans held-in-portfolio | $ 7,064,330 | $ 95,459 | $ 5,869,718 | $ 719,643 | $ 3,227,079 | $ 16,976,229 |

For the quarter ended March 31, 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 (reversal of provision) | | | (1,690) | | 331 | (1,359) |
| Charge-offs | | | (1,231) | | (93) | (1,324) |
| Recoveries | | | 103 | | 1 | 104 |
| Ending balance | $ | $ | $ 27,341 | $ | $ 430 | $ 27,771 |
| Specific ALLL | $ | $ | $ | $ | $ | $ |
| General ALLL | $ | $ | $ 27,341 | $ | $ 430 | $ 27,771 |
| **Loans held-in-portfolio:** | | | | | | |
| Impaired covered loans | $ | $ | $ | $ | $ | $ |
| Covered loans held-in-portfolio excluding impaired loans | | | 536,287 | | 15,693 | 551,980 |
| Total covered loans held-in-portfolio | $ | $ | $ 536,287 | $ | $ 15,693 | $ 551,980 |

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| For the quarter ended March 31, 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) | 7,622 | (136) | (436) | (665) | 4,194 | 10,579 |
| Charge-offs | (70) | | (106) | (41) | (4,733) | (4,950) |
| Recoveries | 533 | | 210 | 529 | 990 | 2,262 |
| Ending balance | $ 21,053 | $ 8,036 | $ 4,282 | $ 1,166 | $ 15,671 | $ 50,208 |
| Specific ALLL | $ | $ | $ 2,197 | $ | $ 679 | $ 2,876 |
| General ALLL | $ 21,053 | $ 8,036 | $ 2,085 | $ 1,166 | $ 14,992 | $ 47,332 |
| **Loans held-in-portfolio:** | | | | | | |
| Impaired loans | $ | $ | $ 8,921 | $ | $ 2,780 | $ 11,701 |
| Loans held-in-portfolio excluding impaired loans | 3,747,370 | 735,846 | 749,348 | 40,688 | 473,539 | 5,746,791 |
| Total loans held-in-portfolio | $ 3,747,370 | $ 735,846 | $ 758,269 | $ 40,688 | $ 476,319 | $ 5,758,492 |

| For the quarter ended March 31, 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) | 8,205 | 328 | 13,046 | (665) | 1,048 | 18,736 | 40,698 |
| Charge-offs | (11,141) | (3,587) | (16,320) | (41) | (1,341) | (26,638) | (59,068) |
| Recoveries | 8,966 | 3,731 | 1,741 | 529 | 528 | 6,720 | 22,215 |
| Ending balance | $ 208,684 | $ 9,997 | $ 176,560 | $ 1,166 | $ 7,897 | $ 140,192 | $ 544,496 |
| Specific ALLL | $ 51,276 | $ | $ 43,264 | $ | $ 522 | $ 23,010 | $ 118,072 |
| General ALLL | $ 157,408 | $ 9,997 | $ 133,296 | $ 1,166 | $ 7,375 | $ 117,182 | $ 426,424 |
| **Loans held-in-portfolio:** | | | | | | | |
| Impaired loans | $ 348,823 | $ | $ 510,568 | $ | $ 1,803 | $ 109,016 | $ 970,210 |
| Loans held-in-portfolio excluding impaired loans | 10,462,877 | 831,305 | 6,653,706 | 40,688 | 717,840 | 3,610,075 | 22,316,491 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total loans held-in-portfolio | $ 10,811,700 | $ 831,305 | $ 7,164,274 | $ 40,688 | $ 719,643 | $ 3,719,091 | $ 23,286,701 |

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

| | ASC 310-30 Westernbank loans For the quarters ended | |
|---|---|---|
| (In thousands) | March 31, 2018 | March 31, 2017 |
| Balance at beginning of period | $ 70,129 | $ 68,877 |
| Provision for loan losses (reversal of provision) | 21,570 | (322) |
| Net charge-offs | (1,936) | (2,011) |
| Balance at end of period | $ 89,763 | $ 66,544 |

***Impaired loans***

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

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March 31, 2018

Puerto Rico

| (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 | $ 129 | $ 129 | $ 3 | $ | $ | $ 129 | $ 129 | $ 3 |
| Commercial real estate non-owner occupied | 118,828 | 119,540 | 29,904 | 14,951 | 30,032 | 133,779 | 149,572 | 29,904 |
| Commercial real estate owner occupied | 130,676 | 154,775 | 11,652 | 23,962 | 53,495 | 154,638 | 208,270 | 11,652 |
| Commercial and industrial | 50,123 | 53,199 | 3,469 | 13,395 | 22,823 | 63,518 | 76,022 | 3,469 |
| Construction | 4,293 | 4,293 | 474 | | | 4,293 | 4,293 | 474 |
| Mortgage | 457,759 | 517,106 | 44,419 | 53,090 | 67,730 | 510,849 | 584,836 | 44,419 |
| Leasing | 1,361 | 1,361 | 448 | | | 1,361 | 1,361 | 448 |
| Consumer: | | | | | | | | |
| Credit cards | 33,265 | 33,265 | 5,892 | | | 33,265 | 33,265 | 5,892 |
| Personal | 61,001 | 61,001 | 16,467 | | | 61,001 | 61,001 | 16,467 |
| Auto | 1,763 | 1,763 | 355 | | | 1,763 | 1,763 | 355 |
| Other | 1,701 | 1,701 | 241 | | | 1,701 | 1,701 | 241 |
| Total Puerto Rico | $ 860,899 | $ 948,133 | $ 113,324 | $ 105,398 | $ 174,080 | $ 966,297 | $ 1,122,213 | $ 113,324 |

March 31, 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 |
|---|---|---|---|---|---|---|---|---|
| Mortgage | $ 6,851 | $ 8,533 | $ 2,496 | $ 2,222 | $ 3,155 | $ 9,073 | $ 11,688 | $ 2,496 |
| Consumer: | | | | | | | | |
| HELOCs | 3,952 | 3,955 | 959 | 1,127 | 1,150 | 5,079 | $ 5,105 | $ 959 |
| Personal | 552 | 553 | 236 | 222 | 222 | 774 | $ 775 | $ 236 |
| Total Popular U.S. | $ 11,355 | $ 13,041 | $ 3,691 | $ 3,571 | $ 4,527 | $ 14,926 | $ 17,568 | $ 3,691 |

March 31, 2018

Popular, Inc.

| (In thousands) | Impaired Loans With an Allowance Recorded investment | Unpaid principal balance | Related allowance | Impaired Loans With No Allowance Recorded investment | Unpaid principal balance | Impaired Loans Total Recorded investment | Unpaid principal balance | Related allowance |
|---|---|---|---|---|---|---|---|---|
| Commercial multi-family | $ 129 | $ 129 | $ 3 | $ | $ | $ 129 | $ 129 | $ 3 |
| Commercial real estate non-owner occupied | 118,828 | 119,540 | 29,904 | 14,951 | 30,032 | 133,779 | 149,572 | 29,904 |
| Commercial real estate owner occupied | 130,676 | 154,775 | 11,652 | 23,962 | 53,495 | 154,638 | 208,270 | 11,652 |
| Commercial and industrial | 50,123 | 53,199 | 3,469 | 13,395 | 22,823 | 63,518 | 76,022 | 3,469 |
| Construction | 4,293 | 4,293 | 474 | | | 4,293 | 4,293 | 474 |
| Mortgage | 464,610 | 525,639 | 46,915 | 55,312 | 70,885 | 519,922 | 596,524 | 46,915 |
| Leasing | 1,361 | 1,361 | 448 | | | 1,361 | 1,361 | 448 |
| Consumer: | | | | | | | | |
| Credit Cards | 33,265 | 33,265 | 5,892 | | | 33,265 | 33,265 | 5,892 |
| HELOCs | 3,952 | 3,955 | 959 | 1,127 | 1,150 | 5,079 | 5,105 | 959 |
| Personal | 61,553 | 61,554 | 16,703 | 222 | 222 | 61,775 | 61,776 | 16,703 |
| Auto | 1,763 | 1,763 | 355 | | | 1,763 | 1,763 | 355 |
| Other | 1,701 | 1,701 | 241 | | | 1,701 | 1,701 | 241 |
| Total Popular, Inc. | $ 872,254 | $ 961,174 | $ 117,015 | $ 108,969 | $ 178,607 | $ 981,223 | $ 1,139,781 | $ 117,015 |

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December 31, 2017
Puerto Rico

| (In thousands) | Impaired Loans With an Allowance | | | Impaired Loans With No Allowance | | Impaired Loans Total | | |
|---|---|---|---|---|---|---|---|---|
| | Recorded investment | Unpaid principal balance | Related allowance | Recorded investment | Unpaid principal balance | Recorded investment | Unpaid principal balance | Related allowance |
| Commercial multi-family | $ 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 |

December 31, 2017
Popular U.S.

| (In thousands) | Impaired Loans With an Allowance | | | Impaired Loans With No Allowance | | Impaired Loans Total | | |
|---|---|---|---|---|---|---|---|---|
| | Recorded investment | Unpaid principal balance | Related allowance | Recorded investment | Unpaid principal balance | Recorded investment | Unpaid principal balance | Related allowance |
| 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 |

December 31, 2017
Popular, Inc.

| (In thousands) | Impaired Loans With an Allowance Recorded investment | Unpaid principal balance | Related allowance | Impaired Loans With No Allowance Recorded investment | Unpaid principal balance | Impaired Loans Total 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 ended March 31, 2018 and 2017.

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For the quarter ended March 31, 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 | $ 168 | $ 2 | $ | $ | $ 168 | $ 2 |
| Commercial real estate non-owner occupied | 123,359 | 1,366 | | | 123,359 | 1,366 |
| Commercial real estate owner occupied | 153,453 | 1,486 | | | 153,453 | 1,486 |
| Commercial and industrial | 60,780 | 582 | | | 60,780 | 582 |
| Construction | 2,147 | | | | 2,147 | |
| Mortgage | 509,941 | 6,580 | 9,158 | 43 | 519,099 | 6,623 |
| Leasing | 1,409 | | | | 1,409 | |
| Consumer: | | | | | | |
| Credit cards | 33,471 | | | | 33,471 | |
| Helocs | | | 4,685 | | 4,685 | |
| Personal | 61,745 | | 771 | | 62,516 | |
| Auto | 1,885 | | | | 1,885 | |
| Other | 1,355 | | | | 1,355 | |
| Total Popular, Inc. | $ 949,713 | $ 10,016 | $ 14,614 | $ 43 | $ 964,327 | $ 10,059 |

For the quarter ended March 31, 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 | $ 81 | $ 1 | $ | $ | $ 81 | $ 1 |
| Commercial real estate non-owner occupied | 118,836 | 1,375 | | | 118,836 | 1,375 |
| Commercial real estate owner occupied | 164,512 | 1,598 | | | 164,512 | 1,598 |
| Commercial and industrial | 60,195 | 497 | | | 60,195 | 497 |
| Mortgage | 499,568 | 3,369 | 8,899 | 44 | 508,467 | 3,413 |
| Leasing | 1,810 | | | | 1,810 | |
| Consumer: | | | | | | |
| Credit cards | 37,708 | | | | 37,708 | |
| Helocs | | | 2,693 | | 2,693 | |
| Personal | 65,833 | | 117 | | 65,950 | |
| Auto | 2,094 | | | | 2,094 | |
| Other | 792 | | | | 792 | |
| Total Popular, Inc. | $ 951,429 | $ 6,840 | $ 11,709 | $ 44 | $ 963,138 | $ 6,884 |

Modifications

Troubled debt restructurings ( TDRs ) related to non-covered loan portfolios amounted to $ 1.3 billion at March 31, 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 $16 million related to the commercial loan portfolio at March 31, 2018 (December 31, 2017 - $8 million).

At March 31, 2018, the mortgage loan TDRs include $463 million guaranteed by U.S. sponsored entities at BPPR, compared to $449 million at December 31, 2017.

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

The following tables present the non-covered and covered loans classified as TDRs according to their accruing status and the related allowance at March 31, 2018 and December 31, 2017.

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Popular, Inc.
Non-Covered Loans

| (In thousands) | March 31, 2018 Accruing | Non-Accruing | Total | Related Allowance | December 31, 2017 Accruing | Non-Accruing | Total | Related Allowance |
|---|---|---|---|---|---|---|---|---|
| Commercial | $ 227,254 | $ 57,951 | $ 285,205 | $ 40,293 | $ 161,220 | $ 59,626 | $ 220,846 | $ 32,472 |
| Construction | | 4,293 | 4,293 | 474 | | | | |
| Mortgage | 811,361 | 133,626 | 944,987 | 46,915 | 803,278 | 126,798 | 930,076 | 48,832 |
| Leases | 1,015 | 346 | 1,361 | 448 | 863 | 393 | 1,256 | 475 |
| Consumer | 93,280 | 14,364 | 107,644 | 24,150 | 93,916 | 12,233 | 106,149 | 22,802 |
| Total | $ 1,132,910 | $ 210,580 | $ 1,343,490 | $ 112,280 | $ 1,059,277 | $ 199,050 | $ 1,258,327 | $ 104,581 |

Popular, Inc.
Covered Loans

| (In thousands) | March 31, 2018 Accruing | Non-Accruing | Total | Related Allowance | December 31, 2017 Accruing | Non-Accruing | Total | Related Allowance |
|---|---|---|---|---|---|---|---|---|
| Mortgage | $ 3,362 | $ 2,768 | $ 6,130 | $ | $ 2,658 | $ 3,227 | $ 5,885 | $ |
| Total | $ 3,362 | $ 2,768 | $ 6,130 | $ | $ 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 ended March 31, 2018 and 2017. Loans modified as TDRs for the U.S. operations are considered insignificant to the Corporation.

Popular, Inc.
For the quarter ended March 31, 2018

| | Reduction in interest rate | Extension of maturity date | Combination of reduction in interest rate and extension of maturity date | Other |
|---|---|---|---|---|
| Commercial real estate non-owner occupied | 2 | 5 | | |
| Commercial real estate owner occupied | | 19 | | |
| Commercial and industrial | 3 | 19 | | |
| Construction | 1 | | | |
| Mortgage | 19 | 4 | 36 | 23 |
| Leasing | | | | |
| Consumer: | | | | |
| Credit cards | 131 | | | 150 |
| HELOCs | | 5 | 4 | |
| Personal | 160 | 2 | | |
| Auto | | | 1 | |
| Other | 7 | | 1 | |

| | | | | |
|---|---|---|---|---|
| Total | 323 | 54 | 42 | 173 |

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Popular, Inc.
For the quarter ended March 31, 2017

| | Reduction in interest rate | Extension of maturity date | Combination of reduction in interest rate and extension of maturity date | Other |
|---|---|---|---|---|
| Commercial real estate non-owner occupied | | 1 | | |
| Commercial real estate owner occupied | 2 | 1 | | |
| Commercial and industrial | 2 | 6 | | |
| Mortgage | 14 | 6 | 104 | 68 |
| Leasing | | | 3 | |
| Consumer: | | | | |
| Credit cards | 126 | | 1 | 158 |
| Personal | 262 | 4 | | 1 |
| Auto | | 1 | 1 | |
| Other | 8 | | | |
| Total | 414 | 19 | 109 | 227 |

The following tables present, by class, quantitative information related to loans modified as TDRs during the quarters ended March 31, 2018 and 2017.

Popular, Inc.
For the quarter ended March 31, 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 real estate non-owner occupied | 7 | $ 22,986 | $ 22,923 | $ 6,800 |
| Commercial real estate owner occupied | 19 | 4,974 | 4,269 | 138 |
| Commercial and industrial | 22 | 11,069 | 10,523 | (110) |
| Construction | 1 | 4,210 | 4,293 | 474 |
| Mortgage | 82 | 10,273 | 8,919 | 457 |
| Consumer: | | | | |
| Credit cards | 281 | 2,926 | 3,301 | 454 |
| HELOCs | 9 | 865 | 856 | 267 |
| Personal | 162 | 3,072 | 3,070 | 1,010 |
| Auto | 1 | 134 | 132 | 23 |
| Other | 8 | 157 | 155 | 26 |
| Total | 592 | $ 60,666 | $ 58,441 | $ 9,539 |

Popular, Inc.
For the quarter ended March 31, 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 | 1 | $ 141 | $ 139 | $ (11) |
| Commercial real estate owner occupied | 3 | 1,157 | 1,147 | 56 |
| Commercial and industrial | 8 | 319 | 2,388 | 419 |
| Mortgage | 192 | 21,068 | 19,513 | 1,014 |
| Leasing | 3 | 114 | 115 | 32 |
| Consumer: | | | | |
| Credit cards | 285 | 2,402 | 2,643 | 312 |
| Personal | 267 | 4,598 | 4,595 | 1,033 |
| Auto | 2 | 36 | 37 | 6 |
| Other | 8 | 65 | 65 | 9 |
| Total | 769 | $ 29,900 | $ 30,642 | $ 2,870 |

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 March 31, 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 March 31, 2018

| (Dollars in thousands) | Loan count | Recorded investment as of first default date | |
|---|---|---|---|
| Commercial real estate owner occupied | 2 | $ | 86 |
| Commercial and industrial | 5 | | 72 |
| Mortgage | 17 | | 2,572 |
| Consumer: | | | |
| Credit cards | 48 | | 1,342 |
| Personal | 30 | | 889 |
| Total | 102 | $ | 4,961 |

Popular, Inc.
Defaulted during the quarter ended March 31, 2017

| (Dollars in thousands) | Loan count | Recorded investment as of first default date | |
|---|---|---|---|
| Commercial real estate non-owner occupied | 1 | $ | 262 |
| Commercial real estate owner occupied | 1 | | 267 |
| Commercial and industrial | 2 | | 544 |
| Mortgage | 36 | | 3,695 |
| Leasing | 1 | | 45 |
| Consumer: | | | |
| Credit cards | 128 | | 1,349 |
| HELOCs | 1 | | 97 |
| Personal | 42 | | 1,024 |
| Auto | 2 | | 57 |
| Total | 214 | $ | 7,340 |

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

*Credit Quality*

The following table presents the outstanding balance, net of unearned income, of non-covered loans held-in-portfolio based on the Corporation s assignment of obligor risk ratings as defined at March 31, 2018 and December 31, 2017.

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| | March 31, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (In thousands) | Watch | Special Mention | Substandard | Doubtful | Loss | Sub-total | Pass/Unrated | Total |
| **Puerto Rico[1]** | | | | | | | | |
| Commercial multi-family | $ 1,357 | $ 1,717 | $ 7,241 | $ | $ | $ 10,315 | $ 140,774 | $ 151,089 |
| Commercial real estate non-owner occupied | 479,890 | 245,430 | 322,409 | | | 1,047,729 | 1,333,298 | 2,381,027 |
| Commercial real estate owner occupied | 273,456 | 157,457 | 414,022 | 2,477 | | 847,412 | 921,072 | 1,768,484 |
| Commercial and industrial | 488,714 | 110,852 | 211,204 | 387 | 99 | 811,256 | 2,010,940 | 2,822,196 |
| Total Commercial | 1,243,417 | 515,456 | 954,876 | 2,864 | 99 | 2,716,712 | 4,406,084 | 7,122,796 |
| Construction | | | 5,819 | | | 5,819 | 88,039 | 93,858 |
| Mortgage | 3,222 | 2,930 | 183,900 | | | 190,052 | 6,165,654 | 6,355,706 |
| Leasing | | | 3,801 | | 156 | 3,957 | 834,426 | 838,383 |
| Consumer: | | | | | | | | |
| Credit cards | | | 11,004 | | | 11,004 | 1,043,873 | 1,054,877 |
| HELOCs | | | 329 | | | 329 | 5,104 | 5,433 |
| Personal | 484 | 575 | 22,864 | | | 23,923 | 1,207,018 | 1,230,941 |
| Auto | | | 13,216 | | 140 | 13,356 | 873,118 | 886,474 |
| Other | | | 15,602 | | 187 | 15,789 | 135,423 | 151,212 |
| Total Consumer | 484 | 575 | 63,015 | | 327 | 64,401 | 3,264,536 | 3,328,937 |
| Total Puerto Rico | $ 1,247,123 | $ 518,961 | $ 1,211,411 | $ 2,864 | $ 582 | $ 2,980,941 | $ 14,758,739 | $ 17,739,680 |
| **Popular U.S.** | | | | | | | | |
| Commercial multi-family | $ 25,718 | $ 6,303 | $ 7,093 | $ | $ | $ 39,114 | $ 1,210,483 | $ 1,249,597 |
| Commercial real estate non-owner occupied | 51,304 | 11,580 | 35,742 | | | 98,626 | 1,692,905 | 1,791,531 |
| Commercial real estate owner occupied | 32,835 | 3,263 | 8,109 | | | 44,207 | 224,476 | 268,683 |
| Commercial and industrial | 3,441 | 104 | 115,256 | | | 118,801 | 917,099 | 1,035,900 |
| Total Commercial | 113,298 | 21,250 | 166,200 | | | 300,748 | 4,044,963 | 4,345,711 |
| Construction | 44,193 | 11,919 | 56,539 | | | 112,651 | 686,882 | 799,533 |
| Mortgage | | | 11,647 | | | 11,647 | 697,291 | 708,938 |
| Legacy | 521 | 386 | 3,017 | | | 3,924 | 27,243 | 31,167 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Consumer: | | | | | | | | |
| Credit cards | | | | | | | 73 | 73 |
| HELOCs | | | 5,522 | | 9,209 | 14,731 | 151,686 | 166,417 |
| Personal | | | 1,648 | | 944 | 2,592 | 293,614 | 296,206 |
| Other | | | 7 | | | 7 | 205 | 212 |
| Total Consumer | | | 7,177 | | 10,153 | 17,330 | 445,578 | 462,908 |
| Total Popular U.S. | $ 158,012 | $ 33,555 | $ 244,580 | $ | $ 10,153 | $ 446,300 | $ 5,901,957 | $ 6,348,257 |
| **Popular, Inc.** | | | | | | | | |
| Commercial multi-family | $ 27,075 | $ 8,020 | $ 14,334 | $ | $ | $ 49,429 | $ 1,351,257 | $ 1,400,686 |
| Commercial real estate non-owner occupied | 531,194 | 257,010 | 358,151 | | | 1,146,355 | 3,026,203 | 4,172,558 |
| Commercial real estate owner occupied | 306,291 | 160,720 | 422,131 | 2,477 | | 891,619 | 1,145,548 | 2,037,167 |
| Commercial and industrial | 492,155 | 110,956 | 326,460 | 387 | 99 | 930,057 | 2,928,039 | 3,858,096 |
| Total Commercial | 1,356,715 | 536,706 | 1,121,076 | 2,864 | 99 | 3,017,460 | 8,451,047 | 11,468,507 |
| Construction | 44,193 | 11,919 | 62,358 | | | 118,470 | 774,921 | 893,391 |
| Mortgage | 3,222 | 2,930 | 195,547 | | | 201,699 | 6,862,945 | 7,064,644 |
| Legacy | 521 | 386 | 3,017 | | | 3,924 | 27,243 | 31,167 |
| Leasing | | | 3,801 | | 156 | 3,957 | 834,426 | 838,383 |
| Consumer: | | | | | | | | |
| Credit cards | | | 11,004 | | | 11,004 | 1,043,946 | 1,054,950 |
| HELOCs | | | 5,851 | | 9,209 | 15,060 | 156,790 | 171,850 |
| Personal | 484 | 575 | 24,512 | | 944 | 26,515 | 1,500,632 | 1,527,147 |
| Auto | | | 13,216 | | 140 | 13,356 | 873,118 | 886,474 |
| Other | | | 15,609 | | 187 | 15,796 | 135,628 | 151,424 |
| Total Consumer | 484 | 575 | 70,192 | | 10,480 | 81,731 | 3,710,114 | 3,791,845 |
| Total Popular, Inc. | $ 1,405,135 | $ 552,516 | $ 1,455,991 | $ 2,864 | $ 10,735 | $ 3,427,241 | $ 20,660,696 | $ 24,087,937 |

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The following table presents the weighted average obligor risk rating at March 31, 2018 for those classifications that consider a range of rating scales.

| **Weighted average obligor risk rating** | (Scales 11 and 12) | (Scales 1 through 8) |
|---|---|---|
| **Puerto Rico:**[1] | Substandard | Pass |
| Commercial multi-family | 11.19 | 5.76 |
| Commercial real estate non-owner occupied | 11.07 | 6.98 |
| Commercial real estate owner occupied | 11.24 | 7.12 |
| Commercial and industrial | 11.18 | 7.09 |
| Total Commercial | 11.17 | 7.04 |
| Construction | 11.74 | 7.80 |
| **Popular U.S. :** | Substandard | Pass |
| Commercial multi-family | 11.00 | 7.27 |
| Commercial real estate non-owner occupied | 11.01 | 6.63 |
| Commercial real estate owner occupied | 11.05 | 7.30 |
| Commercial and industrial | 11.85 | 6.24 |
| Total Commercial | 11.60 | 6.77 |
| Construction | 11.00 | 7.69 |
| Legacy | 11.15 | 7.94 |

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

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| (In thousands) | Watch | Special Mention | Substandard | Doubtful | Loss | Sub-total | Pass/Unrated | Total |
|---|---|---|---|---|---|---|---|---|
| | December 31, 2017 | | | | | | | |
| **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 |

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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) | (Scales 1 through 8) |
|---|---|---|
| **Puerto Rico:**[1] | Substandard | Pass |
| 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 |
| **Popular U.S.:** | Substandard | Pass |
| 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.

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## Note 9 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 begins with the first dollar of loss incurred. The FDIC reimburses BPPR for 80% of losses with respect to covered assets, and BPPR reimburses the FDIC for 80% of recoveries with respect to losses for which the FDIC paid reimbursement under loss-share arrangements. The loss-share agreement applicable to single-family residential mortgage loans provides for FDIC loss and recoveries sharing for ten years expiring at the end of the quarter ending June 30, 2020.

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

| | Quarters ended March 31, | |
|---|---|---|
| (In thousands) | 2018 | 2017 |
| Balance at beginning of period | $ 46,316 | $ 69,334 |
| Amortization of loss-share indemnification asset | (934) | (776) |
| Credit impairment losses to be covered under loss-sharing agreements | 104 | 148 |
| Reimbursable expenses | 537 | 921 |
| Net payments from FDIC under loss-sharing agreements | (364) | |
| Other adjustments attributable to FDIC loss-sharing agreements | | (5,550) |
| Balance at end of period | $ 45,659 | $ 64,077 |
| Balance due to the FDIC for recoveries on covered assets | (1,190) | (5,284) |
| Balance at end of period | $ 44,469 | $ 58,793 |

The loss-share component of the arrangements applicable to commercial (including construction) and consumer loans expired during the quarter ended June 30, 2015. The agreement provides 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 on the quarter ended June 30, 2020.

The weighted average life of the single family loan portfolio accounted for under ASC 310-30 subject to the FDIC loss-sharing agreement at March 31, 2018 is 7.1 years.

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

FDIC); plus (C) the sum of the period servicing amounts for every consecutive twelve-month period prior to and ending on the true-up measurement date in respect of each of the loss-sharing agreements during which the loss-sharing provisions of the applicable loss-sharing agreement is in effect (defined as the product of the simple average of the principal amount of shared- loss loans and shared-loss assets at the beginning and end of such period times 1%).

Of the four components used to estimate the true-up payment obligation (intrinsic loss estimate, asset discount, cumulative shared-loss payments, and period servicing amounts) only the cumulative shared-loss payments and the period servicing amounts will change on a quarterly basis. These two variables are the main drivers of changes in the undiscounted true-up payment obligation. In order to estimate the true-up obligation, actual and expected portfolio performance for loans under both the commercial and residential loss sharing agreement are contemplated. The cumulative shared loss payments and cumulative servicing amounts are derived from our quarterly loss reassessment process for covered loans accounted for under ASC 310-30.

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Once the undiscounted true-up payment obligation is determined, the fair value is estimated based on the contractual remaining term to settle the obligation and a discount rate that is composed of the sum of the interpolated U.S. Treasury Note ( T Note ), defined by the remaining term of the true-up payment obligation, and a risk premium determined by the spread of the Corporation s outstanding senior unsecured debt over the equivalent T Note.

The following table provides the fair value and the undiscounted amount of the true-up payment obligation at March 31, 2018 and December 31, 2017.

| (In thousands) | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Carrying amount (fair value) | $ 170,970 | $ 164,858 |
| Undiscounted amount | $ 189,449 | $ 188,958 |

The increase in the fair value of the true-up payment obligation was principally driven by a decrease in the discount rate from 5.47% in 2017 to 4.57% in 2018 due to a lower risk premium. The discount rate reflects Popular s credit risk for the term remaining before the payment. Therefore, a significant component of the discount rate is the credit spreads on Popular s publicly traded debt securities. This spread has been impacted by the effect of the hurricanes, resulting in volatility in the fair value of the true-up payment obligation, even though the undiscounted value of the liability has not varied signififcantly. The estimated fair value of the true-up payment obligation corresponds to the difference between the initial estimated losses to be reimbursed by the FDIC and the revised estimate of reimbursable losses. As the amount of estimated reimbursable losses decreases, the value of the true-up payment obligation increases.

As described above, the estimate of the true-up payment obligation is determined by applying the provisions of the loss sharing agreements and will change on a quarterly basis. The amount of the estimate of the true-up payment obligation is expected to change in future periods and may be subject to the interpretation of provisions of the loss sharing agreements.

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

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

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

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

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

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

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

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

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

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

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## Note 10 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 March 31, | |
|---|---|---|
| (In thousands) | 2018 | 2017 |
| Mortgage servicing fees, net of fair value adjustments: | | |
| Mortgage servicing fees | $ 12,456 | $ 13,452 |
| Mortgage servicing rights fair value adjustments | (4,307) | (5,954) |
| Total mortgage servicing fees, net of fair value adjustments | 8,149 | 7,498 |
| Net gain on sale of loans, including valuation on loans held-for-sale | 1,057 | 5,381 |
| Trading account profit (loss): | | |
| Unrealized losses on outstanding derivative positions | (221) | (40) |
| Realized gains (losses) on closed derivative positions | 3,083 | (1,470) |
| Total trading account profit (loss) | 2,862 | (1,510) |
| Total mortgage banking activities | $ 12,068 | $ 11,369 |

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### Note 11 Transfers of financial assets and mortgage servicing assets

The Corporation typically transfers conforming residential mortgage loans in conjunction with GNMA and FNMA securitization transactions whereby the loans are exchanged for cash or securities and servicing rights. 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 20 to the Consolidated Financial Statements for a description of such arrangements.

No liabilities were incurred as a result of these securitizations during the quarters ended March 31, 2018 and 2017 because they did not contain any credit recourse arrangements. During the quarter ended March 31, 2018, the Corporation recorded a net gain of $1.0 million (March 31, 2017 - $5.0 million) related to the residential mortgage loans securitized.

The following tables present the initial fair value of the assets obtained as proceeds from residential mortgage loans securitized during the quarters ended March 31, 2018 and 2017:

| | Proceeds Obtained During the Quarter Ended March 31, 2018 | | | |
|---|---|---|---|---|
| (In thousands) | Level 1 | Level 2 | Level 3 | Initial Fair Value |
| Assets | | | | |
| Debt securities available for sale: | | | | |
| Mortgage-backed securities FNMA | $ | $ 5,722 | $ | $ 5,722 |
| Total debt securities available-for-sale | $ | $ 5,722 | $ | $ 5,722 |
| Trading account debt securities: | | | | |
| Mortgage-backed securities GNMA | $ | $ 112,495 | $ | $ 112,495 |
| Mortgage-backed securities FNMA | | 20,025 | | 20,025 |
| Total trading account debt securities | $ | $ 132,520 | $ | $ 132,520 |
| Mortgage servicing rights | $ | $ | $ 2,415 | $ 2,415 |
| Total | $ | $ 138,242 | $ 2,415 | $ 140,657 |

| | Proceeds Obtained During the Quarter Ended March 31, 2017 | | | |
|---|---|---|---|---|
| (In thousands) | Level 1 | Level 2 | Level 3 | Initial Fair Value |
| Assets | | | | |
| Debt securities available for sale: | | | | |
| Mortgage-backed securities FNMA | $ | $ 4,752 | $ | $ 4,752 |
| Total debt securities available-for-sale | $ | $ 4,752 | $ | $ 4,752 |
| Trading account debt securities: | | | | |
| Mortgage-backed securities GNMA | $ | $ 146,977 | $ | $ 146,977 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Mortgage-backed securities FNMA | | | | 22,891 | | | | 22,891 |
| Total trading account debt securities | $ | | $ | 169,868 | $ | | $ | 169,868 |
| Mortgage servicing rights | $ | | $ | | $ | 2,470 | $ | 2,470 |
| Total | $ | | $ | 174,620 | $ | 2,470 | $ | 177,090 |

During the quarter ended March 31, 2018, the Corporation retained servicing rights on whole loan sales involving approximately $10.0 million in principal balance outstanding (March 31, 2017 - $18.2 million), with realized gains of approximately $0.1 million (March 31, 2017 - gains of $0.4 million). All loan sales performed during the quarters ended March 31, 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.

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The following table presents the changes in MSRs measured using the fair value method for the quarters ended March 31, 2018 and 2017.

| Residential MSRs | | |
|---|---|---|
| (In thousands) | March 31, 2018 | March 31, 2017 |
| Fair value at beginning of period | $ 168,031 | $ 196,889 |
| Additions | 2,557 | 2,763 |
| Changes due to payments on loans[1] | (3,335) | (4,587) |
| Reduction due to loan repurchases | (972) | (644) |
| Changes in fair value due to changes in valuation model inputs or assumptions | | (723) |
| Fair value at end of period | $ 166,281 | $ 193,698 |

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

Residential mortgage loans serviced for others were $16.1 billion at March 31, 2018 and December 31, 2017, which in part was impacted by a reduction of $535 million (December 31, 2017 - $840 million), in mortgage loans at BPPR due to the rebooking of loans previously pooled into GNMA securities.

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 March 31, 2018 and 2017, those weighted average mortgage servicing fees were 0.30%. 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 ended March 31, 2018 and 2017 were as follows:

| | Quarters ended | |
|---|---|---|
| | March 31, 2018 | March 31, 2017 |
| Prepayment speed | 5.6% | 4.4% |
| Weighted average life (in years) | 9.1 | 10.9 |
| Discount rate (annual rate) | 10.8% | 11.0% |

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:

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| | Originated MSRs | | Purchased MSRs | |
|---|---|---|---|---|
| (In thousands) | March 31, 2018 | December 31, 2017 | March 31, 2018 | December 31, 2017 |
| Fair value of servicing rights | $ 71,837 | $ 73,951 | $ 94,444 | $ 94,080 |
| Weighted average life (in years) | 7.6 | 7.3 | 6.8 | 6.5 |
| Weighted average prepayment speed (annual rate) | 4.5% | 5.1% | 5.1% | 5.7% |
| Impact on fair value of 10% adverse change | $ (1,333) | $ (1,503) | $ (1,830) | $ (2,070) |
| Impact on fair value of 20% adverse change | $ (2,630) | $ (2,976) | $ (3,608) | $ (3,999) |
| Weighted average discount rate (annual rate) | 11.5% | 11.5% | 11.0% | 11.0% |
| Impact on fair value of 10% adverse change | $ (3,171) | $ (3,091) | $ (3,980) | $ (3,785) |
| Impact on fair value of 20% adverse change | $ (6,106) | $ (5,971) | $ (7,671) | $ (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.

At March 31, 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 March 31, 2018, the Corporation had recorded $535 million in mortgage loans on its Consolidated Statements of Financial Condition related to this buy-back option program (December 31, 2017 - $840 million). While the borrowers for our serviced GNMA portfolio benefited from the loan payment moratorium, the delinquency status of these loans continued to be reported to GNMA without considering the moratorium. 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 quarter ended March 31, 2018, the Corporation repurchased approximately $85 million (March 31, 2017 - $45 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.

## Note 12 Other real estate owned

The following tables present the activity related to Other Real Estate Owned ( OREO ), for the quarters ended March 31, 2018 and 2017.

| | For the quarter ended March 31, 2018 | | | |
|---|---|---|---|---|
| (In thousands) | 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 | (654) | (2,514) | (287) | (3,455) |
| Additions | 4,403 | 2,984 | | 7,387 |
| Sales | (389) | (20,305) | (3,282) | (23,976) |
| Other adjustments | 864 | (588) | (693) | (417) |
| Ending balance | $ 25,635 | $ 127,426 | $ 15,333 | $ 168,394 |

| | For the quarter ended March 31, 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 | (1,259) | (2,755) | (772) | (4,786) |
| Additions | 4,538 | 26,254 | 4,109 | 34,901 |
| Sales | (993) | (20,409) | (5,397) | (26,799) |
| Other adjustments | (133) | 148 | (142) | (127) |
| Ending balance | $ 22,554 | $ 163,282 | $ 29,926 | $ 215,762 |

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## Note 13 Other assets

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

| (In thousands) | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Net deferred tax assets (net of valuation allowance) | $ 1,031,360 | $ 1,035,110 |
| Investments under the equity method | 222,811 | 215,349 |
| Prepaid taxes | 150,104 | 168,852 |
| Other prepaid expenses | 92,909 | 84,771 |
| Derivative assets | 15,418 | 16,539 |
| Trades receivable from brokers and counterparties | 41,683 | 7,514 |
| Receivables from investments maturities | 50,000 | 70,000 |
| Principal, interest and escrow servicing advances | 110,076 | 107,299 |
| Guaranteed mortgage loan claims receivable | 134,293 | 163,819 |
| Others | 130,106 | 122,070 |
| Total other assets | $ 1,978,760 | $ 1,991,323 |

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## Note 14 Goodwill and other intangible assets

*Goodwill*

There were no changes in the carrying amount of goodwill for the quarters ended March 31, 2018 and 2017.

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

| | March 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| (In thousands) | Balance at January 1, 2018 (gross amounts) | Accumulated impairment losses | Balance at January 1, 2018 (net amounts) | Balance at March 31, 2018 (gross amounts) | Accumulated impairment losses | Balance at March 31, 2018 (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 |

| | 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 |

*Other Intangible Assets*

At March 31, 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 |
|---|---|---|---|
| March 31, 2018 | | | |
| Core deposits | $ 37,224 | $ 23,278 | $ 13,946 |
| Other customer relationships | 35,632 | 22,395 | 13,237 |

| | | | |
|---|---|---|---|
| Total other intangible assets | $ 72,856 | $ 45,673 | $ 27,183 |
| 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 |

During the quarter ended March 31, 2018, the Corporation recognized $ 2.3 million in amortization expense related to other intangible assets with definite useful lives (March 31, 2017 - $ 2.3 million).

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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 | $ 6,960 |
| Year 2019 | 9,042 |
| Year 2020 | 4,967 |
| Year 2021 | 2,157 |
| Year 2022 | 1,281 |
| Year 2023 | 1,281 |
| Later years | 1,495 |

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## Note 15 Deposits

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

| (In thousands) | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Savings accounts | $ 9,161,138 | $ 8,561,718 |
| NOW, money market and other interest bearing demand deposits | 11,479,102 | 10,885,967 |
| Total savings, NOW, money market and other interest bearing demand deposits | 20,640,240 | 19,447,685 |
| Certificates of deposit: | | |
| Under $100,000 | 3,459,634 | 3,446,575 |
| $100,000 and over | 4,335,609 | 4,068,303 |
| Total certificates of deposit | 7,795,243 | 7,514,878 |
| Total interest bearing deposits | $ 28,435,483 | $ 26,962,563 |

A summary of certificates of deposit by maturity at March 31, 2018 follows:

| (In thousands) | |
|---|---|
| 2018 | $ 3,715,239 |
| 2019 | 1,404,036 |
| 2020 | 1,149,907 |
| 2021 | 766,327 |
| 2022 | 550,150 |
| 2023 and thereafter | 209,584 |
| Total certificates of deposit | $ 7,795,243 |

At March 31, 2018, the Corporation had brokered deposits amounting to $ 0.6 billion (December 31, 2017 - $ 0.5 billion).

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

## Note 16 Borrowings

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

| (In thousands) | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Assets sold under agreements to repurchase | $ 380,061 | $ 390,921 |
| Total assets sold under agreements to repurchase | $ 380,061 | $ 390,921 |

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) | March 31, 2018 Repurchase liability | December 31, 2017 Repurchase liability |
|---|---|---|
| U.S. Treasury Securities | | |
| Within 30 days | $ 54,013 | $ 148,516 |
| After 30 to 90 days | 53,921 | 87,357 |
| After 90 days | 181,698 | 43,500 |
| Total U.S. Treasury Securities | 289,632 | 279,373 |
| Obligations of U.S. government sponsored entities | | |
| Within 30 days | 62,098 | 30,656 |
| After 30 to 90 days | | 19,463 |
| After 90 days | | 15,937 |
| Total obligations of U.S. government sponsored entities | 62,098 | 66,056 |
| Mortgage-backed securities | | |
| Within 30 days | 4,645 | 31,383 |
| After 90 days | 13,085 | |
| Total mortgage-backed securities | 17,730 | 31,383 |

| | | |
|---|---|---|
| Collateralized mortgage obligations | | |
| Within 30 days | 10,601 | 14,109 |
| Total collateralized mortgage obligations | 10,601 | 14,109 |
| Total | $ 380,061 | $ 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 March 31, 2018 and December 31, 2017.

| (In thousands) | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Advances with the FHLB paying interest at maturity with fixed rates ranging from 1.63% to 2.02% | $ 185,000 | $ 95,000 |
| Others | 1,200 | 1,208 |
| Total other short-term borrowings | $ 186,200 | $ 96,208 |

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

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

| (In thousands) | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Advances with the FHLB with maturities ranging from 2018 through 2029 paying interest at monthly fixed rates ranging from 0.84% to 4.19 % | $ 599,954 | $ 572,307 |
| Advances with the FHLB with maturities ranging from 2018 through 2019 paying interest monthly at a floating rate ranging from 0.22% to 0.34% over the 1 month LIBOR | 34,164 | 34,164 |
| Advances with the FHLB with maturities ranging from 2018 through 2019 paying interest quarterly at a floating rate from 0.09% to 0.24% over the 3 month LIBOR | 25,019 | 25,019 |
| Unsecured senior debt securities maturing on 2019 paying interest semiannually at a fixed rate of 7.00%, net of debt issuance costs of $2,606 | 447,394 | 446,873 |
| Junior subordinated deferrable interest debentures (related to trust preferred securities) with maturities ranging from 2027 to 2034 with fixed interest rates ranging from 6.125% to 8.327%, net of debt issuance costs of $443 | 439,357 | 439,351 |
| Others | 18,316 | 18,642 |
| Total notes payable | $ 1,564,204 | $ 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 March 31, 2018 is included in the table below.

| (In thousands) | Assets sold under agreements to repurchase | Short-term borrowings | Notes payable | Total |
|---|---|---|---|---|
| 2018 | $ 380,061 | $ 186,200 | $ 242,635 | $ 808,896 |
| 2019 | | | 649,382 | 649,382 |
| 2020 | | | 112,069 | 112,069 |
| 2021 | | | 21,840 | 21,840 |
| 2022 | | | 5,143 | 5,143 |
| Later years | | | 533,135 | 533,135 |
| Total borrowings | $ 380,061 | $ 186,200 | $ 1,564,204 | $ 2,130,465 |

At March 31, 2018 and December 31, 2017, the Corporation had FHLB borrowing facilities whereby the Corporation could borrow up to $3.8 billion and $3.9 billion, respectively, of which $844 million and $726 million, respectively, were used. In addition, at March 31, 2018 and December 31, 2017, the Corporation had placed $435 million 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 March 31, 2018, the Corporation has a borrowing facility at the discount window of the Federal Reserve Bank of New York amounting to $1.1 billion (2017 - $1.1 billion), which remained unused at March 31, 2018 and December 31, 2017. The facility is a collateralized source of credit that is highly reliable even under difficult market conditions.

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## Note 17 Offsetting of financial assets and liabilities

The following tables present the potential effect of rights of setoff associated with the Corporation s recognized financial assets and liabilities at March 31, 2018 and December 31, 2017.

| As of March 31, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | Gross Amounts Not Offset in the Statement of Financial Position | | | |
| (In thousands) | Gross Amount of Recognized Assets | Gross Amounts Offset in the Statement of Financial Position | Net Amounts of Assets Presented in the Statement of Financial Position | Financial Instruments | Securities Collateral Received | Cash Collateral Received | Net Amount |
| Derivatives | $ 15,496 | $ | $ 15,496 | $ 83 | $ | $ | $ 15,413 |
| Total | $ 15,496 | $ | $ 15,496 | $ 83 | $ | $ | $ 15,413 |

| As of March 31, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | Gross Amounts Not Offset in the Statement of Financial Position | | | |
| (In thousands) | Gross Amount of Recognized Liabilities | Gross Amounts Offset in the Statement of Financial Position | Net Amounts of Liabilities Presented in the Statement of Financial Position | Financial Instruments | Securities Collateral Pledged | Cash Collateral Pledged | Net Amount |
| Derivatives | $ 13,685 | $ | $ 13,685 | $ 83 | $ | $ | $ 13,602 |
| Repurchase agreements | 380,061 | | 380,061 | | 380,061 | | |
| Total | $ 393,746 | $ | $ 393,746 | $ 83 | $ 380,061 | $ | $ 13,602 |

| As of December 31, 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | Gross Amounts Not Offset in the Statement of Financial Position | | | |
| (In thousands) | Gross Amount of | Gross Amounts Offset in | Net Amounts of Assets | Financial Instruments | Securities Collateral Received | Cash Collateral Received | Net Amount |

| | Recognized Assets | the Statement of Financial Position | Presented in the Statement of Financial Position | | | | |
|---|---|---|---|---|---|---|---|
| Derivatives | $ 16,719 | $ | $ 16,719 | $ 121 | $ | $ | $ 16,598 |
| Total | $ 16,719 | $ | $ 16,719 | $ 121 | $ | $ | $ 16,598 |

As of December 31, 2017

| | | | | | Gross Amounts Not Offset in the Statement of Financial Position | | |
|---|---|---|---|---|---|---|---|
| (In thousands) | Gross Amount of Recognized Liabilities | Gross Amounts Offset in the Statement of Financial Position | Net Amounts of Liabilities Presented in the Statement of Financial Position | Financial Instruments | Securities Collateral Pledged | Cash Collateral Pledged | Net Amount |
| Derivatives | $ 14,431 | $ | $ 14,431 | $ 121 | $ 8 | $ | $ 14,302 |
| Repurchase agreements | 390,921 | | 390,921 | | 390,921 | | |
| Total | $ 405,352 | $ | $ 405,352 | $ 121 | $ 390,929 | $ | $ 14,302 |

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

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**Note 18 Stockholders equity**

On January 23, 2017, the Corporation s Board of Directors approved an increase in the Company s quarterly common stock dividend from $0.15 per share to $0.25 per share. Also, during the first quarter of 2017, the Corporation completed a $75 million privately negotiated accelerated share repurchase transaction ( ASR ). As part of this transaction, the Corporation received 1,847,372 shares and recognized $79.5 million in treasury stock, based on the stock s spot price, offset by a $4.5 million adjustment to capital surplus, resulting from the decline in the Corporation s stock price during the term of the ASR. During the quarter ended March 31, 2018, the Corporation declared dividends on its common stock of $ 25.5 million; which were paid on April 2, 2018.

*BPPR statutory reserve*

The Banking Act of the Commonwealth of Puerto Rico requires that a minimum of 10% of BPPR s net income for the year be transferred to a statutory reserve account until such statutory reserve equals the total of paid-in capital on common and preferred stock. Any losses incurred by a bank must first be charged to retained earnings and then to the reserve fund. Amounts credited to the reserve fund may not be used to pay dividends without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The failure to maintain sufficient statutory reserves would preclude BPPR from paying dividends. BPPR s statutory reserve fund amounted to $540 million at March 31, 2018 (December 31, 2017 - $540 million) There were no transfers between the statutory reserve account and the retained earnings account during the quarters ended March 31, 2018 and March 31, 2017.

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## Note 19 Other comprehensive loss

The following table presents changes in accumulated other comprehensive loss by component for the quarters ended March 31, 2018 and 2017.

| | | Changes in Accumulated Other Comprehensive Loss by Component [1] | |
|---|---|---|---|
| | | Quarters ended March 31, | |
| (In thousands) | | 2018 | 2017 |
| Foreign currency translation | Beginning Balance | $ (43,034) | $ (39,956) |
| | Other comprehensive income | 93 | 139 |
| | Net change | 93 | 139 |
| | Ending balance | $ (42,941) | $ (39,817) |
| Adjustment of pension and postretirement benefit plans | Beginning Balance | $ (205,408) | $ (211,610) |
| | Amounts reclassified from accumulated other comprehensive loss for amortization of net losses | 3,285 | 3,421 |
| | Amounts reclassified from accumulated other comprehensive loss for amortization of prior service credit | (529) | (580) |
| | Net change | 2,756 | 2,841 |
| | Ending balance | $ (202,652) | $ (208,769) |
| Unrealized net holding losses on debt securities | Beginning Balance | $ (102,775) | $ (69,003) |
| | Other comprehensive loss | (114,404) | (2,704) |
| | Net change | (114,404) | (2,704) |
| | Ending balance | $ (217,179) | $ (71,707) |
| Unrealized holding gains on equity securities | Beginning Balance | $ 605 | $ 685 |

| | | | |
|---|---|---|---|
| | Reclassification to retained earnings due to cumulative effect adjustment of accounting change | (605) | |
| | Other comprehensive income before reclassifications | | 95 |
| | Amounts reclassified from accumulated other comprehensive income | | (130) |
| | Net change | (605) | (35) |
| | Ending balance | $ | $ 650 |
| Unrealized net losses on cash flow hedges | Beginning Balance | $ (40) | $ (402) |
| | Other comprehensive income (loss) before reclassifications | 747 | (389) |
| | Amounts reclassified from accumulated other comprehensive loss | (773) | 522 |
| | Net change | (26) | 133 |
| | Ending balance | $ (66) | $ (269) |
| | Total | $ (462,838) | $ (319,912) |

[1] All amounts presented are net of tax.

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The following table presents the amounts reclassified out of each component of accumulated other comprehensive loss during the quarters ended March 31, 2018 and 2017.

| | Reclassifications Out of Accumulated Other Comprehensive Loss | | |
|---|---|---|---|
| | Affected Line Item in the Consolidated Statements of Operations | Quarters ended March 31, | |
| (In thousands) | | 2018 | 2017 |
| Adjustment of pension and postretirement benefit plans | | | |
| Amortization of net losses | Personnel costs | $ (5,386) | $ (5,607) |
| Amortization of prior service credit | Personnel costs | 867 | 950 |
| | Total before tax | (4,519) | (4,657) |
| | Income tax benefit | 1,763 | 1,816 |
| | Total net of tax | $ (2,756) | $ (2,841) |
| Unrealized holding gains on equity securities | | | |
| Realized gain on sale of equity securities | Net gain on equity securities | $ | $ 162 |
| | Total before tax | | 162 |
| | Income tax expense | | (32) |
| | Total net of tax | $ | $ 130 |
| Unrealized net losses on cash flow hedges | | | |
| Forward contracts | Mortgage banking activities | $ 1,267 | $ (855) |
| | Total before tax | 1,267 | (855) |
| | Income tax (expense) benefit | (494) | 333 |
| | Total net of tax | $ 773 | $ (522) |
| | Total reclassification adjustments, net of tax | $ (1,983) | $ (3,233) |

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## Note 20 Guarantees

At March 31, 2018 the Corporation recorded a liability of $0.5 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 March 31, 2018 t