

POPULAR INC
Form 10-Q
August 09, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2016

Commission File Number: 001-34084

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

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

66-0667416
(IRS Employer
Identification Number)

Popular Center Building

209 Muñoz Rivera Avenue

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

00918
(Zip code)

(787) 765-9800

(Registrant's telephone number, including area code)

NOT APPLICABLE

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

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

Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, \$0.01 par value, 103,738,891 shares outstanding as of August 3, 2016.

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Forward-Looking Information

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

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

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

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

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

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

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

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

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

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

the impact of the Commonwealth of Puerto Rico's fiscal crisis, and the measures taken and to be taken by the Puerto Rico Government, on the economy and our business, and the ability of the Government to manage this crisis in an orderly manner;

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

risks related to the Doral Transaction, including (a) our ability to maintain customer relationships and (b) risks associated with the limited amount of diligence able to be conducted by a buyer in an FDIC transaction.

Other possible events or factors that could cause results or performance to differ materially from those expressed in these forward-looking statements include the following:

negative economic conditions that adversely affect 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;

risks associated with maintaining customer relationships from our acquisition of certain assets and deposits (other than certain brokered deposits) of Doral Bank from the FDIC as receiver;

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;

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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 juries. Investors should refer to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2015 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 to reflect occurrences or unanticipated events or circumstances after the date of such statements.

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

	June 30, 2016	December 31, 2015
(In thousands, except share information)		
Assets:		
Cash and due from banks	\$ 365,308	\$ 363,674
Money market investments:		
Securities purchased under agreements to resell	86,328	96,338
Time deposits with other banks	2,699,172	2,083,754
Total money market investments	2,785,500	2,180,092
Trading account securities, at fair value:		
Pledged securities with creditors right to repledge	11,088	19,506
Other trading securities	61,442	52,153
Investment securities available-for-sale, at fair value:		
Pledged securities with creditors right to repledge	863,594	739,045
Other investment securities available-for-sale	6,379,082	5,323,947
Investment securities held-to-maturity, at amortized cost (fair value 2016 - \$81,469; 2015 - \$82,889)	99,525	100,903
Other investment securities, at lower of cost or realizable value (realizable value 2016 - \$171,569; 2015 - \$175,291)	168,563	172,248
Loans held-for-sale, at lower of cost or fair value	122,338	137,000
Loans held-in-portfolio:		
Loans not covered under loss-sharing agreements with the FDIC	22,655,877	22,453,813
Loans covered under loss-sharing agreements with the FDIC	607,170	646,115
Less Unearned income	115,216	107,698
Allowance for loan losses	548,720	537,111
Total loans held-in-portfolio, net	22,599,111	22,455,119
FDIC loss-share asset	214,029	310,221
Premises and equipment, net	535,865	502,611
Other real estate not covered under loss-sharing agreements with the FDIC	177,025	155,231
Other real estate covered under loss-sharing agreements with the FDIC	37,984	36,685
Accrued income receivable	120,979	124,234
Mortgage servicing assets, at fair value	203,577	211,405
Other assets	2,179,060	2,193,162
Goodwill	631,095	626,388

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Other intangible assets	50,983	58,109
Total assets	\$ 37,606,148	\$ 35,761,733
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 6,531,108	\$ 6,401,515
Interest bearing	22,206,748	20,808,208
Total deposits	28,737,856	27,209,723
Federal funds purchased and assets sold under agreements to repurchase	821,604	762,145
Other short-term borrowings	31,200	1,200
Notes payable	1,575,948	1,662,508
Other liabilities	1,077,894	1,019,018
Liabilities from discontinued operations (Refer to Note 4)	1,815	1,815
Total liabilities	32,246,317	30,656,409
Commitments and contingencies (Refer to Note 23)		
Stockholders' equity:		
Preferred stock, 30,000,000 shares authorized; 2,006,391 shares issued and outstanding	50,160	50,160
Common stock, \$0.01 par value; 170,000,000 shares authorized; 103,952,715 shares issued (2015 - 103,816,185) and 103,703,041 shares outstanding (2015 - 103,618,976)	1,039	1,038
Surplus	4,232,835	4,229,156
Retained earnings	1,228,979	1,087,957
Treasury stock - at cost, 249,674 shares (2015 - 197,209)	(7,570)	(6,101)
Accumulated other comprehensive loss, net of tax	(145,612)	(256,886)
Total stockholders' equity	5,359,831	5,105,324
Total liabilities and stockholders' equity	\$ 37,606,148	\$ 35,761,733

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

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

(In thousands, except per share information)	Quarters ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Interest income:				
Loans	\$ 369,721	\$ 374,133	\$ 732,918	\$ 729,764
Money market investments	3,889	1,845	6,752	3,291
Investment securities	36,725	31,297	72,996	61,598
Trading account securities	1,875	3,026	3,564	5,722
Total interest income	412,210	410,301	816,230	800,375
Interest expense:				
Deposits	30,599	26,258	60,473	52,122
Short-term borrowings	2,058	1,863	3,919	3,597
Long-term debt	19,002	19,627	38,875	38,908
Total interest expense	51,659	47,748	103,267	94,627
Net interest income	360,551	362,553	712,963	705,748
Provision for loan losses - non-covered loans	39,668	60,468	87,608	90,179
Provision (reversal) for loan losses - covered loans	804	15,766	(2,301)	26,090
Net interest income after provision for loan losses	320,079	286,319	627,656	589,479
Service charges on deposit accounts	40,296	40,138	80,158	79,155
Other service fees (Refer to Note 29)	56,945	59,421	110,327	113,047
Mortgage banking activities (Refer to Note 12)	16,227	21,325	26,778	34,177
Net gain on sale of investment securities	1,583	5	1,583	5
Other-than-temporary impairment losses on investment securities	(209)	(14,445)	(209)	(14,445)
Trading account profit (loss)	1,117	(3,108)	955	(2,694)
Net gain (loss) on sale of loans, including valuation adjustments on loans held-for-sale		681	(304)	602
Adjustments (expense) to indemnity reserves on loans sold	(5,746)	419	(9,844)	(4,107)
FDIC loss-share (expense) income (Refer to Note 30)	(12,576)	19,075	(15,722)	23,214
Other operating income	12,866	17,248	28,411	27,040
Total non-interest income	110,503	140,759	222,133	255,994
Operating expenses:				

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Personnel costs	116,708	120,977	243,799	237,435
Net occupancy expenses	21,714	23,286	42,144	44,995
Equipment expenses	15,261	15,925	29,809	29,336
Other taxes	10,170	11,113	20,365	19,687
Professional fees	80,625	78,449	156,084	153,977
Communications	6,012	6,153	12,332	12,329
Business promotion	13,705	13,776	24,815	24,589
FDIC deposit insurance	5,362	8,542	12,732	14,940
Other real estate owned (OREO) expenses	12,980	44,816	22,121	67,885
Other operating expenses	23,515	31,082	40,680	48,430
Amortization of intangibles	3,097	2,881	6,211	4,985
Restructuring costs (Refer to Note 4)		6,174		16,927
Total operating expenses	309,149	363,174	611,092	675,515
Income from continuing operations before income tax	121,433	63,904	238,697	169,958
Income tax expense (benefit)	32,446	(533,533)	64,711	(500,964)
Income from continuing operations	88,987	597,437	173,986	670,922
Income from discontinued operations, net of tax (Refer to Note 4)		15		1,356
Net Income	\$ 88,987	\$ 597,452	\$ 173,986	\$ 672,278
Net Income Applicable to Common Stock	\$ 88,056	\$ 596,521	\$ 172,124	\$ 670,417
Net Income per Common Share Basic				
Net income from continuing operations	\$ 0.85	\$ 5.80	\$ 1.67	\$ 6.51
Net income from discontinued operations				0.01
Net Income per Common Share Basic	\$ 0.85	\$ 5.80	\$ 1.67	\$ 6.52
Net Income per Common Share Diluted				
Net income from continuing operations	\$ 0.85	\$ 5.79	\$ 1.67	\$ 6.49
Net income from discontinued operations				0.01
Net Income per Common Share Diluted	\$ 0.85	\$ 5.79	\$ 1.67	\$ 6.50
Dividends Declared per Common Share	\$ 0.15	\$	\$ 0.30	\$

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

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

(In thousands)	Quarters ended, June 30,		Six months ended, June 30,	
	2016	2015	2016	2015
Net income	\$ 88,987	\$ 597,452	\$ 173,986	\$ 672,278
Other comprehensive income (loss) before tax:				
Foreign currency translation adjustment	(1,435)	(1,092)	(2,140)	(1,673)
Amortization of net losses of pension and postretirement benefit plans	5,487	5,025	10,973	10,050
Amortization of prior service cost of pension and postretirement benefit plans	(950)	(950)	(1,900)	(1,900)
Unrealized holding gains (losses) on investments arising during the period	38,092	(41,191)	114,328	(5,849)
Other-than-temporary impairment included in net income	209	14,445	209	14,445
Reclassification adjustment for gains included in net income		(5)		(5)
Unrealized net (losses) gains on cash flow hedges	(1,539)	1,004	(3,539)	(1,530)
Reclassification adjustment for net losses included in net income	1,271	951	2,816	2,309
Other comprehensive income (loss) before tax	41,135	(21,813)	120,747	15,847
Income tax expense	(4,997)	(2,818)	(9,473)	(5,006)
Total other comprehensive income (loss) , net of tax	36,138	(24,631)	111,274	10,841
Comprehensive income, net of tax	\$ 125,125	\$ 572,821	\$ 285,260	\$ 683,119

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

(In thousands)	Quarters ended June 30,		Six months ended, June 30,	
	2016	2015	2016	2015
Amortization of net losses of pension and postretirement benefit plans	\$ (2,140)	\$ (1,960)	\$ (4,280)	\$ (3,920)
Amortization of prior service cost of pension and postretirement benefit plans	370	371	740	742
Unrealized holding gains (losses) on investments arising during the period	(3,289)	2,019	(6,174)	962
Other-than-temporary impairment included in net income	(42)	(2,486)	(42)	(2,486)
Reclassification adjustment for gains included in net income		1		1

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Unrealized net (losses) gains on cash flow hedges	600	(392)	1,381	597
Reclassification adjustment for net losses included in net income	(496)	(371)	(1,098)	(902)
Income tax expense	\$ (4,997)	\$ (2,818)	\$ (9,473)	\$ (5,006)

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

Table of Contents**POPULAR, INC.****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY****(UNAUDITED)**

	Common stock	Preferred stock	Surplus	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total
(thousands)							
Balance at December 31, 2014	\$ 1,036	\$ 50,160	\$ 4,196,458	\$ 253,717	\$ (4,117)	\$ (229,872)	\$ 4,267,388
Net income				672,278			672,278
Issuance of stock	1		2,536				2,537
Share-based payment expense on vesting of restricted stock			171				171
Dividends declared:							
Preferred stock				(1,861)			(1,861)
Common stock purchases					(1,741)		(1,741)
Common stock reissuance					46		46
Other comprehensive income, net of tax						10,841	10,841
Balance at June 30, 2015	\$ 1,037	\$ 50,160	\$ 4,199,165	\$ 924,134	\$ (5,812)	\$ (219,031)	\$ 4,949,623
Balance at December 31, 2015	\$ 1,038	\$ 50,160	\$ 4,229,156	\$ 1,087,957	\$ (6,101)	\$ (256,886)	\$ 5,105,324
Net income				173,986			173,986
Issuance of stock	1		3,708				3,709
Share-based payment expense on vesting of restricted stock			(29)				(29)
Dividends declared:							
Common stock				(31,102)			(31,102)
Preferred stock				(1,862)			(1,862)
Common stock purchases					(1,476)		(1,476)
Common stock reissuance					7		7
Other comprehensive income, net of tax						111,274	111,274
Balance at June 30, 2016	\$ 1,039	\$ 50,160	\$ 4,232,835	\$ 1,228,979	\$ (7,570)	\$ (145,612)	\$ 5,359,831
Closure of changes in number of shares:						June 30, 2016	June 30, 2015
Preferred Stock:							
Balance at beginning and end of period						2,006,391	2,006,391
Common Stock Issued:							
Balance at beginning of period						103,816,185	103,614,555
Issuance of stock						136,530	76,200

Balance at end of the period	103,952,715	103,690,75
Treasury stock	(249,674)	(187,74
Common Stock Outstanding	103,703,041	103,503,01

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

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

(In thousands)		Six months ended June 30,	
		2016	2015
Cash flows from operating activities:			
Net income		\$ 173,986	\$ 672,278
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses		85,307	116,269
Amortization of intangibles		6,211	4,985
Depreciation and amortization of premises and equipment		23,141	23,949
Net accretion of discounts and amortization of premiums and deferred fees		(24,724)	(42,167)
Other-than-temporary impairment on investment securities		209	14,445
Fair value adjustments on mortgage servicing rights		12,817	6,846
FDIC loss share expense (income)		15,722	(23,214)
Adjustments (expense) to indemnity reserves on loans sold		9,844	4,107
Earnings from investments under the equity method		(13,681)	(9,806)
Deferred income tax expense (benefit)		49,316	(511,128)
Loss (gain) on:			
Disposition of premises and equipment and other productive assets		2,424	(1,429)
Sale and valuation adjustments of investment securities		(1,583)	(5)
Sale of loans, including valuation adjustments on loans held-for-sale and mortgage banking activities		(15,577)	(15,034)
Sale of foreclosed assets, including write-downs		9,571	54,711
Acquisitions of loans held-for-sale		(148,725)	(249,059)
Proceeds from sale of loans held-for-sale		43,110	51,062
Net originations on loans held-for-sale		(247,287)	(379,264)
Net decrease (increase) in:			
Trading securities		393,178	481,271
Accrued income receivable		3,255	(656)
Other assets		(21,351)	33,552
Net (decrease) increase in:			
Interest payable		(1,208)	475
Pension and other postretirement benefits obligation		2,300	1,641
Other liabilities		6,310	(41,438)
Total adjustments		188,579	(479,887)
Net cash provided by operating activities		362,565	192,391
Cash flows from investing activities:			
Net increase in money market investments		(605,407)	(1,432,552)

Purchases of investment securities:		
Available-for-sale	(1,682,199)	(985,427)
Held-to-maturity		(250)
Other	(70,302)	(12,805)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:		
Available-for-sale	632,284	867,168
Held-to-maturity	2,209	2,389
Other	47,859	31,592
Proceeds from sale of investment securities:		
Available-for-sale		70,005
Other	27,710	8,399
Net (disbursements) repayments on loans	(61,199)	374,224
Proceeds from sale of loans	95,940	27,780
Acquisition of loan portfolios	(308,949)	(140,671)
Net payments from FDIC under loss sharing agreements	88,588	164,423
Net cash received and acquired from business combination		738,296
Acquisition of servicing advances		(3,897)
Cash paid related to business acquisition		(17,250)
Return of capital from equity method investments	324	
Mortgage servicing rights purchased		(2,400)
Acquisition of premises and equipment	(60,744)	(30,817)
Proceeds from sale of:		
Premises and equipment and other productive assets	2,839	7,901
Foreclosed assets	28,895	98,287
Net cash used in investing activities	(1,862,152)	(235,605)
Cash flows from financing activities:		
Net increase (decrease) in:		
Deposits	1,530,091	745,787
Federal funds purchased and assets sold under agreements to repurchase	59,460	(150,413)
Other short-term borrowings	30,000	(48,215)
Payments of notes payable	(216,501)	(430,003)
Proceeds from issuance of notes payable	128,883	103,231
Proceeds from issuance of common stock	3,710	2,536
Dividends paid	(32,953)	(1,861)
Net payments for repurchase of common stock	(1,469)	(1,695)
Net cash provided by financing activities	1,501,221	219,367
Net increase in cash and due from banks	1,634	176,153
Cash and due from banks at beginning of period	363,674	381,095
Cash and due from banks at the end of the period	\$ 365,308	\$ 557,248

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

During the six months ended June 30, 2016 there have not been any cash flows associated with discontinued operations. The Consolidated Statement of Cash Flows for the six months ended June 30, 2015 includes the cash flows from operating, investing and financing activities associated with discontinued operations.

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Notes to Consolidated Financial

Statements (Unaudited)

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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 United States and the Caribbean. 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 operates Banco Popular North America (BPNA). BPNA focuses efforts and resources on the core community banking business. BPNA operates branches in New York, New Jersey and South Florida under the name of Popular Community Bank. Refer to Note 4 for discussion of the sales of the California, Illinois and Central Florida regional operations during 2014. Note 35 to the consolidated financial statements presents information about the Corporation's business segments.

On February 27, 2015, BPPR, in an alliance with other bidders, including BPNA, acquired certain assets and all deposits (other than certain brokered deposits) of former Doral Bank (Doral) from the Federal Deposit Insurance Corporation (FDIC), as receiver (the Doral Bank Transaction). Under the FDIC's bidding format, BPPR was the lead bidder and party to the purchase and assumption agreement with the FDIC covering all assets and deposits acquired by it and its alliance co-bidders. BPPR entered into back to back purchase and assumption agreements with the alliance co-bidders for the transfer of certain assets and deposits. BPPR entered into transition service agreements with each of the alliance co-bidders. Refer to Note 5 for further details on the Doral Bank Transaction.

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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, 2015 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 2015 consolidated financial statements and notes to the financial statements to conform with the 2016 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, 2015, included in the Corporation's 2015 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 Issued Accounting Standards Updates

FASB Accounting Standards Update (ASU) 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

The FASB issued ASU 2016-13 in June 2016, which replaces the incurred loss model with a current expected credit loss (CECL) model. The CECL model applies to financial assets subject to credit losses and measured at amortized cost and certain off-balance sheet exposures. Under current U.S. GAAP, an entity reflects credit losses on financial assets measured on an amortized cost basis only when losses are probable or have been incurred, generally considering only past events and current conditions in making these determinations. ASU 2016-13 prospectively replaces this approach with a forward-looking methodology that reflects the expected credit losses over the lives of financial assets, starting when such assets are first acquired. Under the revised methodology, credit losses will be measured based on past events, current conditions and reasonable and supportable forecasts that affect the collectability of financial assets. ASU 2016-13 also revises the approach to recognizing credit losses for available-for-sale securities by replacing the direct write-down approach with the allowance approach and limiting the allowance to the amount at which the security's fair value is less than the amortized cost. In addition, ASU 2016-13 provides that the initial allowance for credit losses on purchased credit impaired financial assets will be recorded as an increase to the purchase price, with subsequent changes to the allowance recorded as a credit loss expense.

ASU 2016-13 also expands disclosure requirements regarding an entity's assumptions, models and methods for estimating the allowance for credit losses.

The amendments of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted as of January 1, 2019.

The Corporation is currently evaluating the impact that the adoption of this guidance will have on its consolidated statements of financial condition, results of operations, and presentation and disclosures.

FASB Accounting Standards Update (ASU) 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients

The FASB issued ASU 2016-12 in May 2016. The amendments in this update, among other things, clarify the objective of the collectability criterion, provide guidance on noncash and variable consideration, provide a practical expedient for contract modifications at transition, and clarify the meaning of a completed contract for purposes of transition.

The amendments of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017.

The Corporation is currently evaluating the impact that the adoption of this guidance will have on its results of operations and presentation and disclosures in its consolidated financial statements.

FASB Accounting Standards Update (ASU) 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing

The FASB issued ASU 2016-10 in April 2016 which clarifies two aspects of Topic 606, in particular, the identification of performance obligations. Among other things, an entity is not required to assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer. In addition, in determining whether promises to transfer goods or services are separately identifiable, an entity should determine whether the nature of its promise in the contract is to transfer each of the goods or services or whether the promise is to transfer a combined item (or items) to which the promised goods and/or services are inputs.

The amendments of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017.

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The Corporation is currently evaluating the impact that the adoption of this guidance will have on its results of operations and presentation and disclosures in its consolidated financial statements.

*FASB Accounting Standards Update (ASU) 2016-09, Compensation – Stock Compensation (Topic 718):
Improvements to Employee Share-Based Payment Accounting*

The FASB issued ASU 2016-09 in March 2016 which simplifies multiple aspects of the accounting for share-based payment transactions, including the recognition of excess tax benefits and deficiencies as an income tax benefit or expense in the income statement and classification in the statement of cash flows as an operating activity, allowing entities to elect as an accounting policy to account for forfeitures when they occur, permitting entities to withhold up to the maximum individual statutory rate without classifying the awards as a liability, and requiring that the cash paid to satisfy the statutory income tax withholding obligation be classified as a financing activity.

The amendments of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted.

The Corporation does not anticipate that the adoption of this accounting pronouncement will have a material effect on its consolidated statements of financial condition, results of operations, cash flows or presentation and disclosures.

*FASB Accounting Standards Update (ASU) 2016-08, Revenue from Contracts with Customers (Topic 606):
Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*

The FASB issued ASU 2016-08 in March 2016, which amends the implementation guidance in ASU 2014-09 by clarifying, among other things, that an entity should determine the nature of the goods or services provided to the customer and whether it controls each specified good or service before it is transferred to the customer, that an entity can be a principal for some goods or services and an agent for others with the same contract, and that an entity is a principal if it controls the goods or services before transferring them to the customer.

The amendments of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017.

The Corporation is currently evaluating the impact that the adoption of this guidance will have on its consolidated statements of financial condition or results of operations.

*FASB Accounting Standards Update (ASU) 2016-07, Investments – Equity Method and Joint Ventures (Topic 323):
Simplifying the Transition to the Equity Method of Accounting*

The FASB issued ASU 2016-07 in March 2016, which eliminates the requirement to retroactively adopt the equity method of accounting. Therefore, as of the date the investment becomes qualified for equity method accounting, an entity should add the cost of acquiring the additional interest in the investee to the current basis of its previously held interest. For available-for-sale securities, an entity should recognize through earnings the unrealized holding gains/losses in accumulated other comprehensive income/loss as of that date.

The amendments of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted.

The Corporation does not anticipate that the adoption of this accounting pronouncement will have a material effect on its consolidated statements of financial condition or results of operations.

FASB Accounting Standards Update (ASU) 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments

The FASB issued ASU 2016-06 in March 2016, which clarifies that in assessing whether an embedded contingent put or call option is not clearly and closely related to the debt instrument, which is part of the assessment made to determine whether an embedded

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derivative must be bifurcated from the host contract, an entity is required to perform only the four step decision sequence. The four-step decision sequence requires an entity to consider whether (1) the payoff is adjusted based on changes in an index, (2) the payoff is indexed to an underlying other than interest rates or credit risk, (3) the debt involves a substantial premium or discount and (4) the put or call option is contingently exercisable. It does not have to separately assess whether the event that triggers its ability to exercise the contingent option itself is indexed only to interest rates and credit risk.

The amendments of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted.

The Corporation does not anticipate that the adoption of this accounting pronouncement will have a material effect on its consolidated statements of financial condition or results of operations.

FASB Accounting Standards Update (ASU) 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships

The FASB issued ASU 2016-05 in March 2016, which clarifies that a novation, or a change in the counterparty to the derivative instrument that has been designated as a hedging instrument under Topic 815 does not, in and of itself, require de-designation of that hedging relationship, and therefore discontinuance of the application of hedge accounting, provided that all other hedge accounting criteria continue to be met.

The amendments of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted.

The Corporation does not anticipate that the adoption of this accounting pronouncement will have a material effect on its consolidated statements of financial condition or results of operations.

For recently issued Accounting Standards Updates not yet effective, refer to Note 3 to the consolidated financial statements included in the 2015 Form 10-K.

Table of Contents**Note 4 Discontinued operations and restructuring plan**

During the year ended December 31, 2014, the Corporation completed the sale of its California, Illinois and Central Florida regional operations and relocated certain back office operations to Puerto Rico and New York.

As defined in ASC 805-10-55, the regional operations sold constituted a business, and for financial reporting purposes, the results of the discontinued operations are presented as Assets / Liabilities from discontinued operations in the consolidated statement of condition and (Loss) income from discontinued operations, net of tax in the consolidated statement of operations.

As of June 30, 2016 and December 31, 2015, there were no assets held within the discontinued operations and liabilities within discontinued operations amounted to approximately \$1.8 million, mainly comprised of the indemnity reserve related to the California regional sale.

There were no activities from the discontinued operations during the six month period ended June 30, 2016. Net income from the discontinued operations amounted to \$1.4 million for the six months ended June 30, 2015.

Also, in connection with the sale, the Corporation has undertaken a restructuring plan (the PCB Restructuring Plan) which has been completed by December 31, 2015, for which the Corporation incurred restructuring charges of \$45.1 million. During the six month period ended June 30, 2015, the Corporation incurred \$16.9 million in restructuring costs, mostly comprised of \$12.2 million in personnel costs.

The following table presents the activity in the reserve for the restructuring costs associated with the PCB Restructuring Plan:

(In thousands)	Six months ended June 30,	
	2016	2015
Beginning balance	\$ 620	\$ 13,536
Charges expensed during the period		8,312
Payments made during the period	(367)	(18,759)
Ending balance	\$ 253	\$ 3,089

Table of Contents**Note 5 Business combination**

On February 27, 2015, BPPR, in an alliance with co-bidders, including BPNA, acquired certain assets and all deposits (other than certain brokered deposits) of former Doral Bank from the FDIC, as receiver. Under the FDIC's bidding format, BPPR was the lead bidder and party to the purchase and assumption agreement with the FDIC covering all assets and deposits acquired by it and its alliance co-bidders. BPPR entered into back to back purchase and assumption agreements with the alliance co-bidders for the transfer of certain assets and deposits. BPPR entered into transition service agreements with each of the alliance co-bidders. There is no loss-sharing arrangement with the FDIC on the acquired assets.

The following table presents the fair values of major classes of identifiable assets acquired and liabilities assumed by the Corporation as of February 27, 2015.

(In thousands)	Book value prior to purchase accounting adjustments	Fair value adjustments	Additional consideration ^[1]	As recorded by Popular, Inc.
Assets:				
Cash and due from banks	\$ 339,633	\$	\$	\$ 339,633
Investment in available-for-sale securities	172,706			172,706
Investments in FHLB stock	30,785			30,785
Loans	1,679,792	(165,925)		1,513,867
Accrued income receivable	7,808			7,808
Receivable from the FDIC			480,137	480,137
Core deposit intangible	23,572	(10,762)		12,810
Other assets	67,676	7,569		75,245
Total assets	\$ 2,321,972	\$ (169,118)	\$ 480,137	\$ 2,632,991
Liabilities:				
Deposits	\$ 2,193,404	\$ 9,987	\$	\$ 2,203,391
Advances from the Federal Home Loan Bank	542,000	5,187		547,187
Other liabilities	50,728	(511)		50,217
Total liabilities	\$ 2,786,132	\$ 14,663	\$	\$ 2,800,795
Excess of liabilities assumed over assets acquired	\$ 464,160			
Aggregate fair value adjustments		\$ (183,781)		
Additional consideration			\$ 480,137	
Goodwill on acquisition				\$ 167,804

[1] The additional consideration represents the cash to be received from the FDIC for the difference between the net liabilities assumed and the net premium paid on the transaction.

In accordance with ASC Topic 805, the fair values assigned to the assets acquired and liabilities assumed are subject to refinement up to one year after the closing date of the acquisition as new information relative to closing date fair values become available, and thus the recognized goodwill may increase or decrease. During the second and third quarters of 2015, retrospective adjustments were made to the estimated fair values of certain assets acquired and liabilities assumed as part of the Doral Bank Transaction to reflect new information obtained about facts and circumstances that existed as of the acquisition date. The retrospective adjustments resulted in a decrease of \$2.1 million to the initial fair value estimate of the mortgage servicing rights, a decrease in other liabilities assumed of \$0.5 million and, an increase of \$2.6 million in the receivable from the FDIC related to the acquisition cost of deposits, all of which were adjusted against goodwill.

During the fourth quarter of 2015 the Corporation early adopted ASU 2015-16 Business Combination . Accordingly, adjustments to the initial fair value estimates identified during the measurement period were recognized in the reporting period in which the adjustment amounts were determined. Pursuant to ASU 2015-16, adjustments were made effective in the fourth quarter of 2015 to the estimated fair values of assets and liabilities assumed with the Doral Bank Transaction to reflect new information obtained during the measurement period about facts and circumstances that existed as of the acquisition date that, if known, would have affected the acquisition-date fair value measurements.

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During the quarter ended March 31, 2016, the Corporation recorded adjustments to its initial fair value estimates in connection with the Doral Bank Transaction. As a result, the discount on the loans increased by \$4.7 million with a corresponding increase to goodwill.

The following table presents the principal changes in fair value and the revised amounts recorded during the measurement period.

(In thousands)	February 27, 2015 As recasted ^[a]	February 27, 2015 As previously reported ^[b]	Change
Assets:			
Loans	\$ 1,513,867	\$ 1,665,756	\$ (151,889)
Goodwill	167,804	41,633	126,171
Core deposit intangible	12,810	23,572	(10,762)
Receivable from the FDIC	480,137	441,721	38,416
Other assets	626,177	626,177	
Total assets	\$ 2,800,795	\$ 2,798,859	\$ 1,936
Liabilities:			
Deposits	\$ 2,203,391	\$ 2,201,455	\$ 1,936
Advances from the Federal Home Loan Bank	547,187	547,187	
Other liabilities	50,217	50,217	
Total liabilities	\$ 2,800,795	\$ 2,798,859	\$ 1,936

[a] Amounts reported include retrospective adjustments during the measurement period, in accordance with U.S. GAAP, related to the Doral Bank Transaction.

[b] Amounts are presented as previously reported as of September 30, 2015.

The impact in the results of operations for the quarter and the six months ended June 30, 2015 as a result of the recasting was an increase in net income of approximately \$2.7 million and \$3.4 million, respectively, as detailed in the following table:

(In thousands)	Quarter ended June 30, 2015			Six months ended June 30, 2015		
	As recasted	As reported	Difference	As recasted	As reported	Difference
Net Interest Income	\$ 29,629	\$ 27,164	\$ 2,465	\$ 39,935	\$ 36,932	\$ 3,003
Non-Interest Income	7,210	7,210		11,472	11,472	
Operating Expenses	26,506	26,775	(269)	40,903	41,262	(359)
Income Before Taxes	\$ 10,333	\$ 7,599	\$ 2,734	\$ 10,504	\$ 7,142	\$ 3,362

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Note 6 - Restrictions on cash and due from banks and certain securities

The Corporation's banking subsidiaries, BPPR and BPNA, 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 \$ 1.1 billion at June 30, 2016 (December 31, 2015 - \$ 1.1 billion). Cash and due from banks, as well as other highly liquid securities, are used to cover the required average reserve balances.

At June 30, 2016, the Corporation held \$23 million in restricted assets in the form of funds deposited in money market accounts, trading account securities and investment securities available for sale (December 31, 2015 - \$44 million). The amounts held in trading account securities and investment securities available for sale 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.

Table of Contents**Note 7 Investment 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 investment securities available-for-sale at June 30, 2016 and December 31, 2015.

	At June 30, 2016				Weighted average yield
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	
U.S. Treasury securities					
Within 1 year	\$ 45,014	\$ 90	\$	\$ 45,104	0.72%
After 1 to 5 years	1,557,118	12,141		1,569,259	1.05
After 5 to 10 years	9,942	471		10,413	1.99
Total U.S. Treasury securities	1,612,074	12,702		1,624,776	1.05
Obligations of U.S. Government sponsored entities					
Within 1 year	50,045	150		50,195	0.90
After 1 to 5 years	716,459	7,026	90	723,395	1.36
After 5 to 10 years	250	1		251	5.64
Total obligations of U.S. Government sponsored entities	766,754	7,177	90	773,841	1.33
Obligations of Puerto Rico, States and political subdivisions					
After 1 to 5 years	7,150	17		7,167	4.27
After 5 to 10 years	5,915	1	1,562	4,354	4.02
After 10 years	18,614	1	4,501	14,114	6.99
Total obligations of Puerto Rico, States and political subdivisions	31,679	19	6,063	25,635	5.82
Collateralized mortgage obligations - federal agencies					
Within 1 year	159			159	0.97
After 1 to 5 years	19,667	972		20,639	2.86
After 5 to 10 years	36,988	771		37,759	2.86
After 10 years	1,369,388	17,599	6,823	1,380,164	1.98
Total collateralized mortgage obligations - federal agencies	1,426,202	19,342	6,823	1,438,721	2.01

Mortgage-backed securities

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Within 1 year	18			18	4.72
After 1 to 5 years	19,790	872	9	20,653	4.50
After 5 to 10 years	268,493	7,414	184	275,723	2.41
After 10 years	3,002,023	69,496	670	3,070,849	2.63
Total mortgage-backed securities	3,290,324	77,782	863	3,367,243	2.63
Equity securities (without contractual maturity)	1,351	1,169		2,520	7.86
Other					
After 1 to 5 years	8,725	35		8,760	1.73
After 5 to 10 years	1,136	44		1,180	3.62
Total other	9,861	79		9,940	1.95
Total investment securities available-for-sale ^[1]	\$ 7,138,245	\$ 118,270	\$ 13,839	\$ 7,242,676	2.02%

[1] Includes \$3.6 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 \$2.9 billion serve as collateral for public funds.

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(In thousands)	At December 31, 2015				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Weighted average yield
U.S. Treasury securities					
Within 1 year	\$ 24,861	\$ 335	\$	\$ 25,196	4.31%
After 1 to 5 years	1,149,807	365	1,999	1,148,173	1.03
After 5 to 10 years	9,937	22		9,959	1.99
Total U.S. Treasury securities	1,184,605	722	1,999	1,183,328	1.11
Obligations of U.S. Government sponsored entities					
After 1 to 5 years	919,819	1,337	4,808	916,348	1.33
After 5 to 10 years	250	1		251	5.64
After 10 years	23,000	42		23,042	3.22
Total obligations of U.S. Government sponsored entities	943,069	1,380	4,808	939,641	1.38
Obligations of Puerto Rico, States and political subdivisions					
After 1 to 5 years	7,227		199	7,028	3.94
After 5 to 10 years	5,925		2,200	3,725	4.02
After 10 years	18,585		6,979	11,606	6.99
Total obligations of Puerto Rico, States and political subdivisions	31,737		9,378	22,359	5.74
Collateralized mortgage obligations - federal agencies					
After 1 to 5 years	21,446	594	37	22,003	2.81
After 5 to 10 years	44,585	733		45,318	2.85
After 10 years	1,518,662	8,137	33,283	1,493,516	1.99
Total collateralized mortgage obligations - federal agencies	1,584,693	9,464	33,320	1,560,837	2.02
Mortgage-backed securities					
After 1 to 5 years	22,015	987	8	22,994	4.65
After 5 to 10 years	256,097	4,866	1,197	259,766	2.51
After 10 years	2,039,217	34,839	12,620	2,061,436	2.83
Total mortgage-backed securities	2,317,329	40,692	13,825	2,344,196	2.81
Equity securities (without contractual maturity)	1,350	1,053	5	2,398	7.92
Other					
After 1 to 5 years	8,911		28	8,883	1.71
After 5 to 10 years	1,311	39		1,350	3.62

Total other	10,222	39	28	10,233	1.95
Total investment securities available-for-sale ^[1]	\$ 6,073,005	\$ 53,350	\$ 63,363	\$ 6,062,992	2.07%

[1] Includes \$2.4 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 \$1.5 billion serve as collateral for public funds.

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

Securities not due on a single contractual maturity date, such as mortgage-backed securities and collateralized mortgage obligations, are classified 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 quarter and six months ended June 30, 2016. During the six months ended June 30, 2015, the Corporation sold U.S. agency securities with a carrying amount of \$70 million at the BPPR segment, resulting in a realized gain of \$5 thousand.

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The following tables present the Corporation's fair value and gross unrealized losses of investment securities available-for-sale, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2016 and December 31, 2015.

(In thousands)	Less than 12 months		At June 30, 2016 12 months or more		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Obligations of U.S. Government sponsored entities	\$ 24,110	\$ 63	\$ 1,301	\$ 27	\$ 25,411	\$ 90
Obligations of Puerto Rico, States and political subdivisions			16,501	6,063	16,501	6,063
Collateralized mortgage obligations - federal agencies			405,082	6,823	405,082	6,823
Mortgage-backed securities	114,735	829	9,662	34	124,397	863
Total investment securities available-for-sale in an unrealized loss position	\$ 138,845	\$ 892	\$ 432,546	\$ 12,947	\$ 571,391	\$ 13,839

(In thousands)	Less than 12 months		At December 31, 2015 12 months or more		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
U.S. Treasury securities	\$ 589,689	\$ 1,999	\$	\$	\$ 589,689	\$ 1,999
Obligations of U.S. Government sponsored entities	390,319	2,128	181,744	2,680	572,063	4,808
Obligations of Puerto Rico, States and political subdivisions	884	164	19,490	9,214	20,374	9,378
Collateralized mortgage obligations - federal agencies	331,501	4,446	814,195	28,874	1,145,696	33,320
Mortgage-backed securities	1,641,663	12,992	22,362	833	1,664,025	13,825
Equity securities	45	5			45	5
Other	8,883	28			8,883	28

Total investment securities available-for-sale in an unrealized loss position	\$ 2,962,984	\$ 21,762	\$ 1,037,791	\$ 41,601	\$ 4,000,775	\$ 63,363
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As of June 30, 2016, the available-for-sale investment portfolio reflects gross unrealized losses of approximately \$14 million, driven by U.S. Agency collateralized mortgage obligations and Obligations of the Puerto Rico Government and its political subdivisions. As part of its analysis for all U.S. Agencies' securities, management considers the U.S. Agency guarantee. The portfolio of obligations of the Puerto Rico Government is mostly comprised of securities with

specific sources of income or revenues identified for repayments. The Corporation performs periodic credit quality reviews on these issuers.

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

During the second quarter of 2016, the Corporation recognized an other-than-temporary impairment charge of \$209 thousand on an investment security available-for-sale classified as obligations from the Puerto Rico government and its political subdivisions. At June 30, 2016 this security was rated Caa2 and CC by Moody's and S&P, respectively. Puerto Rico's fiscal and economic situation, together with, among other factors, the recent moratorium declared on the payment of principal and interest on obligations for certain Puerto Rico government securities, including those issued or guaranteed by the Commonwealth, led management to conclude that the unrealized losses on this security was other-than-temporary. The Corporation determined that the entire balance of the unrealized loss carried by this security was attributed to estimated credit losses. Accordingly, the other-than-temporary impairment was recognized in its entirety in the accompanying consolidated statement of operations and no amount remained recognized in the accompanying statement of other comprehensive income related to this specific security.

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In the second quarter of 2015, the Corporation recognized an other-than-temporary impairment charge of \$14.4 million on its portfolio of investment securities available-for-sale classified as obligations from the Puerto Rico government and its political subdivisions. At June 30, 2015 these securities were rated Caa2 and CCC- by Moody's and S&P, respectively.

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

(In thousands)	June 30, 2016		December 31, 2015	
	Amortized cost	Fair value	Amortized cost	Fair value
FNMA	\$ 2,820,595	\$ 2,863,151	\$ 2,649,860	\$ 2,633,899
FHLB	286,449	289,572	340,119	338,700
Freddie Mac	1,377,651	1,390,990	1,088,691	1,079,956

Table of Contents**Note 8 Investment securities held-to-maturity**

The following tables present the amortized cost, gross unrealized gains and losses, approximate fair value, weighted average yield and contractual maturities of investment securities held-to-maturity at June 30, 2016 and December 31, 2015.

(In thousands)	At June 30, 2016				Weighted average yield
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	\$ 3,050	\$	\$ 227	\$ 2,823	5.91%
After 1 to 5 years	14,270		5,757	8,513	6.00
After 5 to 10 years	18,930		7,561	11,369	6.17
After 10 years	61,194	3,325	7,805	56,714	1.97
Total obligations of Puerto Rico, States and political subdivisions	97,444	3,325	21,350	79,419	3.50
Collateralized mortgage obligations - federal agencies					
After 5 to 10 years	81	4		85	5.45
Total collateralized mortgage obligations - federal agencies	81	4		85	5.45
Other					
After 1 to 5 years	2,000		35	1,965	1.81
Total other	2,000		35	1,965	1.81
Total investment securities held-to-maturity ^[1]	\$ 99,525	\$ 3,329	\$ 21,385	\$ 81,469	3.47%

[1] Includes \$97.8 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, 2015				Weighted average yield
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	\$ 2,920	\$	\$ 291	\$ 2,629	5.90%

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After 1 to 5 years	13,655		5,015	8,640	5.98
After 5 to 10 years	20,020		8,020	12,000	6.14
After 10 years	62,222	3,604	8,280	57,546	2.08
Total obligations of Puerto Rico, States and political subdivisions	98,817	3,604	21,606	80,815	3.55
Collateralized mortgage obligations - federal agencies					
After 5 to 10 years	86	5		91	5.45
Total collateralized mortgage obligations - federal agencies	86	5		91	5.45
Other					
After 1 to 5 years	2,000		17	1,983	1.81
Total other	2,000		17	1,983	1.81
Total investment securities held-to-maturity ^[1]	\$ 100,903	\$ 3,609	\$ 21,623	\$ 82,889	3.52%

[1] Includes \$57.2 million pledged to secure public and trust deposits that the secured parties are not permitted to sell or repledge the collateral.

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.

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The following tables present the Corporation's fair value and gross unrealized losses of investment securities held-to-maturity, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2016 and December 31, 2015.

(In thousands)	At June 30, 2016					
	Less than 12 months		12 months or more		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Obligations of Puerto Rico, States and political subdivisions	\$	\$	\$ 32,650	\$ 21,350	\$ 32,650	\$ 21,350
Other	720	30	995	5	1,715	35
Total investment securities held-to-maturity in an unrealized loss position	\$ 720	\$ 30	\$ 33,645	\$ 21,355	\$ 34,365	\$ 21,385

(In thousands)	At December 31, 2015					
	Less than 12 months		12 months or more		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Obligations of Puerto Rico, States and political subdivisions	\$	\$	\$ 33,334	\$ 21,606	\$ 33,334	\$ 21,606
Other	1,483	17			1,483	17
Total investment securities held-to-maturity in an unrealized loss position	\$ 1,483	\$ 17	\$ 33,334	\$ 21,606	\$ 34,817	\$ 21,623

As indicated in Note 7 to these consolidated financial statements, management evaluates investment securities for OTTI declines in fair value on a quarterly basis.

The Obligations of Puerto Rico, States and political subdivisions classified as held-to-maturity at June 30, 2016 are primarily associated with securities issued by municipalities of Puerto Rico and are generally not rated by a credit rating agency. This includes \$55 million of securities issued by three municipalities of Puerto Rico that are payable from the real and personal property taxes collected within such municipalities. These bonds have seniority to the payment of operating cost and expenses of the municipality. The portfolio also includes approximately \$43 million in securities for which the underlying source of payment is not the central government, but in which it 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 was other-than-temporarily impaired at June 30, 2016. Further deterioration of the fiscal crisis of the Government of Puerto Rico could further affect the value of these securities, resulting in losses to the Corporation. The Corporation does not have the intent to sell 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.

Table of Contents**Note 9 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 11.

For a summary of the accounting policies related to loans, interest recognition and allowance for loan losses refer to Note 2 - Summary of significant accounting policies, of the 2015 Form 10-K.

During the quarter and six months ended June 30, 2016, the Corporation recorded purchases (including repurchases) of mortgage loans amounting to \$118 million and \$240 million, respectively; consumer loans of \$58 million and \$164 million, respectively; and commercial loans amounting to \$51 million during the six months ended June 30, 2016. Excluding the impact of the Doral Bank Transaction, during the quarter and six months ended June 30, 2015, the Corporation recorded purchases (including repurchases) of mortgage loans amounting to \$213 million and \$382 million, respectively.

Excluding the bulk sale of Westernbank loans with a carrying value of approximately \$100 million, the Corporation sold commercial and construction loans with a carrying value of approximately \$1 million during the six months ended June 30, 2016 (during the quarter and six months ended June 30, 2015 - \$8 million and \$9 million). The Corporation sold approximately \$19 million and \$40 million of residential mortgage loans (on a whole loan basis) during the quarter and six months ended June 30, 2016, respectively (June 30, 2015 - \$25 million and \$65 million, respectively). Also, the Corporation securitized approximately \$170 million and \$304 million of mortgage loans into Government National Mortgage Association (GNMA) mortgage-backed securities during the quarter and six months ended June 30, 2016, respectively (June 30, 2015 - \$243 million and \$400 million, respectively). Furthermore, the Corporation securitized approximately \$43 million and \$79 million of mortgage loans into Federal National Mortgage Association (FNMA) mortgage-backed securities during the quarter and six months ended June 30, 2016, respectively (June 30, 2015 - \$70 million and \$117 million, respectively).

Table of Contents*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 June 30, 2016 and December 31, 2015, including loans previously covered by the commercial FDIC loss sharing agreements.

(In thousands)	June 30, 2016 Puerto Rico				Current	Non-covered loans HIP Puerto Rico
	30-59 days	60-89 days	90 days or more	Total past due		
Commercial multi-family	\$ 359	\$ 63	\$ 1,004	\$ 1,426	\$ 174,085	\$ 175,511
Commercial real estate non-owner occupied	98,373	6,624	57,017	162,014	2,436,617	2,598,631
Commercial real estate owner occupied	9,570	4,969	122,337	136,876	1,679,956	1,816,832
Commercial and industrial	8,286	2,348	34,944	45,578	2,580,500	2,626,078
Construction			4,848	4,848	98,794	103,642
Mortgage	292,558	159,972	802,407	1,254,937	4,765,625	6,020,562
Leasing	6,611	1,034	3,019	10,664	653,430	664,094
Consumer:						
Credit cards	11,024	8,109	17,225	36,358	1,078,082	1,114,440
Home equity lines of credit	49	206	293	548	8,945	9,493
Personal	13,660	7,510	20,349	41,519	1,146,847	1,188,366
Auto	32,909	6,925	11,117	50,951	778,906	829,857
Other	512	255	18,158	18,925	160,601	179,526
Total	\$ 473,911	\$ 198,015	\$ 1,092,718	\$ 1,764,644	\$ 15,562,388	\$ 17,327,032

(In thousands)	June 30, 2016 U.S. mainland				Current	Loans HIP U.S. mainland
	30-59 days	60-89 days	90 days or more	Total past due		
Commercial multi-family	\$	\$	\$ 375	\$ 375	\$ 888,457	\$ 888,832
Commercial real estate non-owner occupied	251	375	317	943	1,092,910	1,093,853
Commercial real estate owner occupied	2,072	97	746	2,915	279,637	282,552
Commercial and industrial	1,800	7,786	80,312	89,898	787,628	877,526
Construction			100	100	613,590	613,690
Mortgage	1,381	5,009	14,390	20,780	822,776	843,556
Legacy	623	176	3,839	4,638	45,071	49,709
Consumer:						
Credit cards	19	83	535	637		637

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Home equity lines of credit	2,684	674	3,861	7,219	272,232	279,451
Personal	1,299	1,098	1,351	3,748	279,788	283,536
Auto					15	15
Other	4			4	268	272
Total	\$ 10,133	\$ 15,298	\$ 105,826	\$ 131,257	\$ 5,082,372	\$ 5,213,629

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(In thousands)	June 30, 2016 Popular, Inc.					
	30-59 days	60-89 days	Past due 90 days or more	Total past due	Current	Non-covered loans HIP Popular, Inc. ^{[1] [2]}
Commercial multi-family	\$ 359	\$ 63	\$ 1,379	\$ 1,801	\$ 1,062,542	\$ 1,064,343
Commercial real estate non-owner occupied	98,624	6,999	57,334	162,957	3,529,527	3,692,484
Commercial real estate owner occupied	11,642	5,066	123,083	139,791	1,959,593	2,099,384
Commercial and industrial	10,086	10,134	115,256	135,476	3,368,128	3,503,604
Construction			4,948	4,948	712,384	717,332
Mortgage	293,939	164,981	816,797	1,275,717	5,588,401	6,864,118
Leasing	6,611	1,034	3,019	10,664	653,430	664,094
Legacy ^[3]	623	176	3,839	4,638	45,071	49,709
Consumer:						
Credit cards	11,043	8,192	17,760	36,995	1,078,082	1,115,077
Home equity lines of credit	2,733	880	4,154	7,767	281,177	288,944
Personal	14,959	8,608	21,700	45,267	1,426,635	1,471,902
Auto	32,909	6,925	11,117	50,951	778,921	829,872
Other	516	255	18,158	18,929	160,869	179,798
Total	\$ 484,044	\$ 213,313	\$ 1,198,544	\$ 1,895,901	\$ 20,644,760	\$ 22,540,661

[1] Non-covered loans held-in-portfolio are net of \$115 million in unearned income and exclude \$122 million in loans held-for-sale.

[2] Includes \$7.6 billion pledged to secure credit facilities and public funds that the secured parties are not permitted to sell or repledge the collateral, of which \$4.7 billion were pledged at the FHLB as collateral for borrowings, \$2.4 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 BPNA segment.

(In thousands)	December 31, 2015 Puerto Rico					
	30-59 days	60-89 days	Past due 90 days or more	Total past due	Current	Non-covered loans HIP Puerto Rico
Commercial multi-family	\$ 459	\$ 217	\$ 1,316	\$ 1,992	\$ 130,154	\$ 132,146
Commercial real estate non-owner occupied	166,732	12,520	84,982	264,234	2,404,858	2,669,092
Commercial real estate owner occupied	14,245	5,624	138,778	158,647	1,750,597	1,909,244
Commercial and industrial	6,010	6,059	38,464	50,533	2,607,204	2,657,737
Construction	238	253	13,738	14,229	86,719	100,948

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Mortgage	344,858	162,341	863,869	1,371,068	4,756,423	6,127,491
Leasing	7,844	1,630	3,009	12,483	615,167	627,650
Consumer:						
Credit cards	11,078	9,414	19,098	39,590	1,088,755	1,128,345
Home equity lines of credit	186	292	394	872	9,816	10,688
Personal	13,756	7,889	22,625	44,270	1,158,565	1,202,835
Auto	33,554	7,500	11,640	52,694	763,256	815,950
Other	1,069	298	19,232	20,599	167,885	188,484
Total	\$ 600,029	\$ 214,037	\$ 1,217,145	\$ 2,031,211	\$ 15,539,399	\$ 17,570,610

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(In thousands)	December 31, 2015					
	U.S. mainland					
	Past due			Total past due	Current	Loans HIP U.S. mainland
	30-59 days	60-89 days	90 days or more			
Commercial multi-family	\$ 33	\$ 253	\$	\$ 286	\$ 693,647	\$ 693,933
Commercial real estate non-owner occupied	160		253	413	962,610	963,023
Commercial real estate owner occupied	1,490	429	221	2,140	200,204	202,344
Commercial and industrial	13,647	1,526	75,575	90,748	780,896	871,644
Construction					580,158	580,158
Mortgage	18,957	3,424	13,538	35,919	872,671	908,590
Legacy	1,160	662	3,649	5,471	58,965	64,436
Consumer:						
Credit cards	327	134	437	898	13,037	13,935
Home equity lines of credit	3,149	1,114	4,176	8,439	296,045	304,484
Personal	1,836	690	1,240	3,766	168,860	172,626
Auto			6	6	22	28
Other		10	5	15	289	304
Total	\$ 40,759	\$ 8,242	\$ 99,100	\$ 148,101	\$ 4,627,404	\$ 4,775,505

(In thousands)	December 31, 2015					
	Popular, Inc.					
	Past due			Total past due	Current	Non-covered loans HIP Popular, Inc. ^{[1] [2]}
	30-59 days	60-89 days	90 days or more			
Commercial multi-family	\$ 492	\$ 470	\$ 1,316	\$ 2,278	\$ 823,801	\$ 826,079
Commercial real estate non-owner occupied	166,892	12,520	85,235	264,647	3,367,468	3,632,115
Commercial real estate owner occupied	15,735	6,053	138,999	160,787	1,950,801	2,111,588
Commercial and industrial	19,657	7,585	114,039	141,281	3,388,100	3,529,381
Construction	238	253	13,738	14,229	666,877	681,106
Mortgage	363,815	165,765	877,407	1,406,987	5,629,094	7,036,081
Leasing	7,844	1,630	3,009	12,483	615,167	627,650
Legacy ^[3]	1,160	662	3,649	5,471	58,965	64,436
Consumer:						
Credit cards	11,405	9,548	19,535	40,488	1,101,792	1,142,280
Home equity lines of credit	3,335	1,406	4,570	9,311	305,861	315,172
Personal	15,592	8,579	23,865	48,036	1,327,425	1,375,461
Auto	33,554	7,500	11,646	52,700	763,278	815,978
Other	1,069	308	19,237	20,614	168,174	188,788
Total	\$ 640,788	\$ 222,279	\$ 1,316,245	\$ 2,179,312	\$ 20,166,803	\$ 22,346,115

- [1] Non-covered loans held-in-portfolio are net of \$108 million in unearned income and exclude \$137 million in loans held-for-sale.
- [2] Includes \$7.3 billion pledged to secure credit facilities and public funds that the secured parties are not permitted to sell or repledge the collateral, of which \$4.3 billion were pledged at the FHLB as collateral for borrowings, \$2.5 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 BPNA segment.

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 June 30, 2016 and December 31, 2015. Accruing loans past due 90 days or more consist primarily of credit cards, FHA / 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.

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(In thousands)	At June 30, 2016					
	Puerto Rico		U.S. mainland		Popular, Inc.	
	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	\$ 1,004	\$	\$ 375	\$	\$ 1,379	\$
Commercial real estate non-owner occupied	25,348		317		25,665	
Commercial real estate owner occupied	111,713		746		112,459	
Commercial and industrial	34,519	270	1,593		36,112	270
Construction	2,423		100		2,523	
Mortgage ^[3]	323,658	394,936	14,390		338,048	394,936
Leasing	3,019				3,019	
Legacy			3,839		3,839	
Consumer:						
Credit cards		17,225	535		535	17,225
Home equity lines of credit		293	3,861		3,861	293
Personal	20,271	13	1,351		21,622	13
Auto	11,117				11,117	
Other	17,560	582			17,560	582
Total ^[2]	\$ 550,632	\$ 413,319	\$ 27,107	\$	\$ 577,739	\$ 413,319

[1] Non-covered loans of \$207 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 \$ 40 million in 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 \$149 million of residential mortgage loans in Puerto Rico insured by FHA or guaranteed by the VA that are no longer accruing interest as of June 30, 2016. Furthermore, the Corporation has approximately \$63 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.

(In thousands)	At December 31, 2015					
	Puerto Rico		U.S. mainland		Popular, Inc.	
	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	\$ 1,062	\$	\$	\$	\$ 1,062	\$
	33,720		253		33,973	

Commercial real estate
non-owner occupied

Commercial real estate owner occupied	106,449		221		106,670	
Commercial and industrial	36,671	555	3,440		40,111	555
Construction	3,550				3,550	
Mortgage ^[3]	337,933	426,094	13,538		351,471	426,094
Leasing	3,009				3,009	
Legacy			3,649		3,649	
Consumer:						
Credit cards		19,098	437		437	19,098
Home equity lines of credit		394	4,176		4,176	394
Personal	22,102	523	1,240		23,342	523
Auto	11,640		6		11,646	
Other	18,698	61	5		18,703	61
Total ^[2]	\$ 574,834	\$ 446,725	\$ 26,965	\$	\$ 601,799	\$ 446,725

- [1] Non-covered loans by \$268 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 \$ 45 million in 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 \$164 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, 2015. Furthermore, the Corporation has approximately \$70 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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The following table provides a breakdown of loans held-for-sale (LHFS) at June 30, 2016 and December 31, 2015 by main categories.

(In thousands)	June 30, 2016	December 31, 2015
Commercial	\$ 39,544	\$ 45,074
Construction		95
Mortgage	82,794	91,831
Total loans held-for-sale	\$ 122,338	\$ 137,000

The following table provides a breakdown of loans held-for-sale (LHFS) in non-performing status at June 30, 2016 and December 31, 2015 by main categories.

(In thousands)	June 30, 2016	December 31, 2015
Commercial	\$ 39,544	\$ 45,074
Construction		95
Total	\$ 39,544	\$ 45,169

The following table presents loans acquired as part of the Doral Bank Transaction accounted for under ASC subtopic 310-20 as of the February 27, 2015 acquisition date:

(In thousands)	
Fair value of loans accounted under ASC Subtopic 310-20	\$ 1,178,543
Gross contractual amounts receivable (principal and interest)	\$ 1,666,695
Estimate of contractual cash flows not expected to be collected	\$ 34,646

Covered loans

The following tables present the composition of loans by past due status at June 30, 2016 and December 31, 2015 for covered loans held-in-portfolio. The information considers covered loans accounted for under ASC Subtopic 310-20 and ASC Subtopic 310-30.

(In thousands)	June 30, 2016			Total past due	Current	Covered loans HIP [1]
	30-59 days	60-89 days	90 days or more			
Mortgage	\$ 30,197	\$ 15,806	\$ 74,541	\$ 120,544	\$ 468,712	\$ 589,256

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Consumer	905	396	1,680	2,981	14,933	17,914
Total covered loans	\$ 31,102	\$ 16,202	\$ 76,221	\$ 123,525	\$ 483,645	\$ 607,170

[1] Includes \$361 million pledged to secure credit facilities at the FHLB which are not permitted to sell or repledge the collateral.

(In thousands)	December 31, 2015			Total past due	Current	Covered loans HIP [1]
	30-59 days	60-89 days	90 days or more			
Mortgage	\$ 31,413	\$ 16,593	\$ 83,132	\$ 131,138	\$ 495,964	\$ 627,102
Consumer	1,246	444	1,283	2,973	16,040	19,013
Total covered loans	\$ 32,659	\$ 17,037	\$ 84,415	\$ 134,111	\$ 512,004	\$ 646,115

[1] Includes \$386 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 June 30, 2016 and December 31, 2015.

(In thousands)	June 30, 2016		December 31, 2015	
	Non-accrual loans	Accruing loans past due 90 days or more	Non-accrual loans	Accruing loans past due 90 days or more
Mortgage	\$ 3,335	\$	\$ 3,790	\$
Consumer	147		97	
Total ^[1]	\$ 3,482	\$	\$ 3,887	\$

[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 June 30, 2016 (December 31, 2015 - \$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.

(In thousands)	June 30, 2016 [1]			December 31, 2015 [1]		
	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Commercial real estate	\$ 1,028,516	\$ 14,844	\$ 1,043,360	\$ 1,114,368	\$ 35,393	\$ 1,149,761
Commercial and industrial	80,040		80,040	84,765	519	85,284
Construction	4,723	1,723	6,446	8,943	6,027	14,970
Mortgage	621,229	27,181	648,410	667,023	33,090	700,113
Consumer	20,105	1,582	21,687	23,047	1,326	24,373

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Carrying amount	1,754,613	45,330	1,799,943	1,898,146	76,355	1,974,501
Allowance for loan losses	(57,895)	(9,100)	(66,995)	(59,753)	(3,810)	(63,563)
Carrying amount, net of allowance	\$ 1,696,718	\$ 36,230	\$ 1,732,948	\$ 1,838,393	\$ 72,545	\$ 1,910,938

[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 \$597 million as of June 30, 2016 and \$636 million as of December 31, 2015.

The outstanding principal balance of Westernbank loans accounted pursuant to ASC Subtopic 310-30, amounted to \$2.2 billion at June 30, 2016 (December 31, 2015 - \$2.4 billion). At June 30, 2016, 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 and six months ended June 30, 2016 and 2015, were as follows:

(In thousands)	Activity in the accretable yield Westernbank loans ASC 310-30 For the quarters ended					
	June 30, 2016			June 30, 2015		
	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	\$ 1,118,276	\$ 10,532	\$ 1,128,808	\$ 1,254,249	\$ 4,699	\$ 1,258,948
Accretion	(45,137)	(3,339)	(48,476)	(50,228)	(3,766)	(53,994)
Change in expected cash flows	(11,168)	2,516	(8,652)	35,755	5,215	40,970
Ending balance	\$ 1,061,971	\$ 9,709	\$ 1,071,680	\$ 1,239,776	\$ 6,148	\$ 1,245,924

(In thousands)	Activity in the accretable yield Westernbank loans ASC 310-30 For the six months ended					
	June 30, 2016			June 30, 2015		
	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	\$ 1,105,732	\$ 6,726	\$ 1,112,458	\$ 1,265,752	\$ 5,585	\$ 1,271,337
Accretion	(87,137)	(4,872)	(92,009)	(104,004)	(5,687)	(109,691)
Change in expected cash flows	43,376	7,855	51,231	78,028	6,250	84,278
Ending balance	\$ 1,061,971	\$ 9,709	\$ 1,071,680	\$ 1,239,776	\$ 6,148	\$ 1,245,924

(In thousands)	Carrying amount of Westernbank loans accounted for pursuant to ASC 310-30 For the quarters ended					
	June 30, 2016 [1]			June 30, 2015		
	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	\$ 1,865,940	\$ 69,501	\$ 1,935,441	\$ 2,211,781	\$ 155,315	\$ 2,367,096
Accretion	45,137	3,339	48,476	50,228	3,766	53,994
Collections/loan sales/charge-offs ^[2]	(156,464)	(27,510)	(183,974)	(239,516)	(44,496)	(284,012)
Ending balance	\$ 1,754,613	\$ 45,330	\$ 1,799,943	\$ 2,022,493	\$ 114,585	\$ 2,137,078
Allowance for loan losses	(57,895)	(9,100)	(66,995)	(42,503)	(4,546)	(47,049)

ASC 310-30 Westernbank
loans

Ending balance, net of ALLL	\$ 1,696,718	\$ 36,230	\$ 1,732,948	\$ 1,979,990	\$ 110,039	\$ 2,090,029
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- [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 \$ 597 million as of June 30, 2016.
- [2] For the quarter ended June 30, 2016, includes the impact of the bulk sale of loans with a carrying value of approximately \$99 million.

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Carrying amount of Westernbank loans accounted for pursuant to ASC 310-30						
For the six months ended						
(In thousands)	June 30, 2016 [1]			June 30, 2015		
	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	\$ 1,898,146	\$ 76,355	\$ 1,974,501	\$ 2,272,142	\$ 172,030	\$ 2,444,172
Accretion	87,137	4,872	92,009	104,004	5,687	109,691
Collections/loan sales/charge-offs ^[2]	(230,670)	(35,897)	(266,567)	(353,653)	(63,132)	(416,785)
Ending balance	\$ 1,754,613	\$ 45,330	\$ 1,799,943	\$ 2,022,493	\$ 114,585	\$ 2,137,078
Allowance for loan losses						
ASC 310-30 Westernbank loans	(57,895)	(9,100)	(66,995)	(42,503)	(4,546)	(47,049)
Ending balance, net of ALLL	\$ 1,696,718	\$ 36,230	\$ 1,732,948	\$ 1,979,990	\$ 110,039	\$ 2,090,029

[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 \$597 million as of June 30, 2016.

[2] For the quarter ended June 30, 2016, includes the impact of the bulk sale of loans with a carrying value of approximately \$99 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 \$710 million at June 30, 2016 (December 31, 2015 - \$710 million). At June 30, 2016, 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 and six months ended June 30, 2016 and 2015 were as follows:

Activity in the accretable yield - other acquired loans ASC 310-30		
(In thousands)	For the quarter ended	For the quarter ended
	June 30, 2016	June 30, 2015
Beginning balance	\$ 267,768	\$ 158,424
Additions	4,171	5,406
Accretion	(8,730)	(4,633)
Change in expected cash flows	9,400	2,962
Ending balance	\$ 272,609	\$ 162,159

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

(In thousands)	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Beginning balance	\$ 221,128	\$ 116,304
Additions	8,511	56,068
Accretion	(17,285)	(7,856)
Change in expected cash flows	60,255	(2,357)
Ending balance	\$ 272,609	\$ 162,159

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

(In thousands)	For the quarter ended June 30, 2016	For the quarter ended June 30, 2015
Beginning balance	\$ 562,723	363,097
Additions	8,354	17,089
Accretion	8,730	4,633
Collections and charge-offs	(17,062)	(16,532)
Ending balance	\$ 562,745	\$ 368,287
Allowance for loan losses ASC 310-30 other acquired loans	(16,059)	(16,842)
Ending balance, net of ALLL	\$ 546,686	\$ 351,445

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

(In thousands)	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Beginning balance	\$ 564,050	\$ 212,763
Purchase accounting adjustments related to the Doral Bank Transaction (Refer to Note 5)	(4,707)	
Additions	18,405	174,180
Accretion	17,285	7,856
Collections and charge-offs	(32,288)	(26,512)
Ending balance	\$ 562,745	\$ 368,287
Allowance for loan losses ASC 310-30 other acquired loans	(16,059)	(16,842)
Ending balance, net of ALLL	\$ 546,686	\$ 351,445

The following table presents loans acquired as part of the Doral Bank Transaction accounted for pursuant to ASC Subtopic 310-30 at the February 27, 2015 acquisition date.

(In thousands)	
Contractually-required principal and interest	\$ 560,833
Non-accretable difference	112,153
Cash flows expected to be collected	448,680
Accretable yield	113,977
Fair value of loans accounted for under ASC Subtopic 310-30	\$ 334,703

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Note 10 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 June 30, 2016, 51% (June 30, 2015 - 32%) 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 other consumer, mortgage, commercial and industrial and commercial multi-family loan portfolios for 2016, and in the commercial multi-family, commercial and industrial, personal and auto loan portfolios for 2015.

For the period ended June 30, 2016, 1% (June 30, 2015 - 19%) of the ALLL for BPNA 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 loan portfolio for 2016 and in the commercial and industrial loan portfolio for 2015.

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.

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The following tables present the changes in the allowance for loan losses, loan ending balances and whether such loans and the allowance pertain to loans individually or collectively evaluated for impairment for the quarters and six months ended June 30, 2016 and 2015.

For the quarter ended June 30, 2016						
Puerto Rico - Non-covered loans						
(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 197,590	\$ 4,237	\$ 124,500	\$ 11,035	\$ 135,785	\$ 473,147
Provision (reversal of provision)	3,515	(4,772)	25,688	(507)	14,427	38,351
Charge-offs	(24,489)	(1,531)	(13,950)	(879)	(26,011)	(66,860)
Recoveries	18,842	4,757	486	445	6,108	30,638
Net recoveries (write-downs)	4,369	914			162	5,445
Ending balance	\$ 199,827	\$ 3,605	\$ 136,724	\$ 10,094	\$ 130,471	\$ 480,721
Specific ALLL	\$ 53,350	\$ 116	\$ 42,106	\$ 548	\$ 24,167	\$ 120,287
General ALLL	\$ 146,477	\$ 3,489	\$ 94,618	\$ 9,546	\$ 106,304	\$ 360,434
Loans held-in-portfolio:						
Impaired non-covered loans	\$ 335,881	\$ 1,036	\$ 476,161	\$ 2,110	\$ 109,130	\$ 924,318
Non-covered loans held-in-portfolio excluding impaired loans	6,881,171	102,606	5,544,401	661,984	3,212,552	16,402,714
Total non-covered loans held-in-portfolio	\$ 7,217,052	\$ 103,642	\$ 6,020,562	\$ 664,094	\$ 3,321,682	\$ 17,327,032

For the quarter ended June 30, 2016						
Puerto Rico - Covered loans						
(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$	\$	\$ 29,822	\$	\$ 223	\$ 30,045
Provision (reversal of provision)			828		(24)	804
Charge-offs			(884)		427	(457)
Recoveries			185		4	189
Ending balance	\$	\$	\$ 29,951	\$	\$ 630	\$ 30,581
Specific ALLL	\$	\$	\$	\$	\$	\$
General ALLL	\$	\$	\$ 29,951	\$	\$ 630	\$ 30,581

Loans held-in-portfolio:

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Impaired covered loans	\$	\$	\$	\$	\$	\$
Covered loans held-in-portfolio excluding impaired loans			589,256		17,914	607,170
Total covered loans held-in-portfolio	\$	\$	\$ 589,256	\$	\$ 17,914	\$ 607,170

For the quarter ended June 30, 2016

U.S. Mainland

(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 9,587	\$ 4,739	\$ 5,099	\$ 2,484	\$ 13,371	\$ 35,280
Provision (reversal of provision)	(998)	2,721	(321)	(1,525)	1,440	1,317
Charge-offs	(390)		(132)	(134)	(2,662)	(3,318)
Recoveries	1,655		116	1,027	1,341	4,139
Ending balance	\$ 9,854	\$ 7,460	\$ 4,762	\$ 1,852	\$ 13,490	\$ 37,418
Specific ALLL	\$	\$	\$ 1,803	\$	\$ 731	\$ 2,534
General ALLL	\$ 9,854	\$ 7,460	\$ 2,959	\$ 1,852	\$ 12,759	\$ 34,884
Loans held-in-portfolio:						
Impaired loans	\$	\$	\$ 8,564	\$	\$ 2,480	\$ 11,044
Loans held-in-portfolio excluding impaired loans	3,142,763	613,690	834,992	49,709	561,431	5,202,585
Total loans held-in-portfolio	\$ 3,142,763	\$ 613,690	\$ 843,556	\$ 49,709	\$ 563,911	\$ 5,213,629

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For the quarter ended June 30, 2016

Popular, Inc.

(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Beginning balance	\$ 207,177	\$ 8,976	\$ 159,421	\$ 2,484	\$ 11,035	\$ 149,379	\$ 538,472
Provision (reversal of provision)	2,517	(2,051)	26,195	(1,525)	(507)	15,843	40,472
Charge-offs	(24,879)	(1,531)	(14,966)	(134)	(879)	(28,246)	(70,635)
Recoveries	20,497	4,757	787	1,027	445	7,453	34,966
Net recoveries (write-downs)	4,369	914				162	5,445
Ending balance	\$ 209,681	\$ 11,065	\$ 171,437	\$ 1,852	\$ 10,094	\$ 144,591	\$ 548,720
Specific ALLL	\$ 53,350	\$ 116	\$ 43,909	\$	\$ 548	\$ 24,898	\$ 122,821
General ALLL	\$ 156,331	\$ 10,949	\$ 127,528	\$ 1,852	\$ 9,546	\$ 119,693	\$ 425,899

Loans**held-in-portfolio:**

Impaired loans	\$ 335,881	\$ 1,036	\$ 484,725	\$	\$ 2,110	\$ 111,610	\$ 935,362
Loans held-in-portfolio excluding impaired loans	10,023,934	716,296	6,968,649	49,709	661,984	3,791,897	22,212,469
Total loans held-in-portfolio	\$ 10,359,815	\$ 717,332	\$ 7,453,374	\$ 49,709	\$ 664,094	\$ 3,903,507	\$ 23,147,831

For the six months ended June 30, 2016

Puerto Rico - Non-covered loans

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 186,925	\$ 4,957	\$ 128,327	\$ 10,993	\$ 138,721	\$ 469,923
Provision (reversal of provision)	16,884	(5,181)	36,557	1,173	32,789	82,222
Charge-offs	(33,457)	(2,075)	(29,922)	(3,006)	(53,390)	(121,850)
Recoveries	25,106	4,990	1,762	934	12,189	44,981
Net recoveries (write-downs)	4,369	914			162	5,445
Ending balance	\$ 199,827	\$ 3,605	\$ 136,724	\$ 10,094	\$ 130,471	\$ 480,721
Specific ALLL	\$ 53,350	\$ 116	\$ 42,106	\$ 548	\$ 24,167	\$ 120,287
General ALLL	\$ 146,477	\$ 3,489	\$ 94,618	\$ 9,546	\$ 106,304	\$ 360,434

Loans held-in-portfolio:

Impaired non-covered loans	\$ 335,881	\$ 1,036	\$ 476,161	\$ 2,110	\$ 109,130	\$ 924,318
Non-covered loans held-in-portfolio excluding impaired loans	6,881,171	102,606	5,544,401	661,984	3,212,552	16,402,714
Total non-covered loans held-in-portfolio	\$ 7,217,052	\$ 103,642	\$ 6,020,562	\$ 664,094	\$ 3,321,682	\$ 17,327,032

For the six months ended June 30, 2016

Puerto Rico - Covered loans

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$	\$	\$ 33,967	\$	\$ 209	\$ 34,176
Provision (reversal of provision)			(2,321)		20	(2,301)
Charge-offs			(2,105)		394	(1,711)
Recoveries			410		7	417
Ending balance	\$	\$	\$ 29,951	\$	\$ 630	\$ 30,581
Specific ALLL	\$	\$	\$	\$	\$	\$
General ALLL	\$	\$	\$ 29,951	\$	\$ 630	\$ 30,581
Loans held-in-portfolio:						
Impaired covered loans	\$	\$	\$	\$	\$	\$
Covered loans held-in-portfolio excluding impaired loans			589,256		17,914	607,170
Total covered loans held-in-portfolio	\$	\$	\$ 589,256	\$	\$ 17,914	\$ 607,170

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	For the six months ended June 30, 2016						
	U.S. Mainland - Continuing Operations						
(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total	
Allowance for credit losses:							
Beginning balance	\$ 9,908	\$ 3,912	\$ 4,985	\$ 2,687	\$ 11,520	\$ 33,012	
Provision (reversal of provision)	(1,114)	3,548	23	(1,975)	4,904	5,386	
Charge-offs	(885)		(573)	(243)	(5,310)	(7,011)	
Recoveries	1,945		327	1,383	2,376	6,031	
Ending balance	\$ 9,854	\$ 7,460	\$ 4,762	\$ 1,852	\$ 13,490	\$ 37,418	
Specific ALLL	\$	\$	\$ 1,803	\$	\$ 731	\$ 2,534	
General ALLL	\$ 9,854	\$ 7,460	\$ 2,959	\$ 1,852	\$ 12,759	\$ 34,884	
Loans held-in-portfolio:							
Impaired loans	\$	\$	\$ 8,564	\$	\$ 2,480	\$ 11,044	
Loans held-in-portfolio excluding impaired loans	3,142,763	613,690	834,992	49,709	561,431	5,202,585	
Total loans held-in-portfolio	\$ 3,142,763	\$ 613,690	\$ 843,556	\$ 49,709	\$ 563,911	\$ 5,213,629	

For the six months ended June 30, 2016							
Popular, Inc.							
(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Beginning balance	\$ 196,833	\$ 8,869	\$ 167,279	\$ 2,687	\$ 10,993	\$ 150,450	\$ 537,111
Provision (reversal of provision)	15,770	(1,633)	34,259	(1,975)	1,173	37,713	85,307
Charge-offs	(34,342)	(2,075)	(32,600)	(243)	(3,006)	(58,306)	(130,572)
Recoveries	27,051	4,990	2,499	1,383	934	14,572	51,429
Net recoveries (write-downs)	4,369	914				162	5,445
Ending balance	\$ 209,681	\$ 11,065	\$ 171,437	\$ 1,852	\$ 10,094	\$ 144,591	\$ 548,720
Specific ALLL	\$ 53,350	\$ 116	\$ 43,909	\$	\$ 548	\$ 24,898	\$ 122,821
General ALLL	\$ 156,331	\$ 10,949	\$ 127,528	\$ 1,852	\$ 9,546	\$ 119,693	\$ 425,899

Loans**held-in-portfolio:**

Impaired loans	\$ 335,881	\$ 1,036	\$ 484,725	\$	\$ 2,110	\$ 111,610	\$ 935,362
Loans held-in-portfolio	10,023,934	716,296	6,968,649	49,709	661,984	3,791,897	22,212,469

excluding impaired
loans

Total loans held-in-portfolio	\$ 10,359,815	\$ 717,332	\$ 7,453,374	\$ 49,709	\$ 664,094	\$ 3,903,507	\$ 23,147,831
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For the quarter ended June 30, 2015

Puerto Rico - Non-covered loans

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 195,466	\$ 1,595	\$ 126,579	\$ 7,208	\$ 153,428	\$ 484,276
Provision (reversal of provision)	50,231	5,260	9,755	2,925	(7,642)	60,529
Charge-offs	(23,323)	(2,194)	(11,361)	(1,693)	(24,182)	(62,753)
Recoveries	6,264	473	622	720	9,528	17,607
Net write-down related to loans transferred to held-for-sale	(29,996)					(29,996)
Allowance transferred from covered loans	8,453	1,424	582		2,578	13,037
Ending balance	\$ 207,095	\$ 6,558	\$ 126,177	\$ 9,160	\$ 133,710	\$ 482,700
Specific ALLL	\$ 68,456	\$ 725	\$ 43,749	\$ 607	\$ 24,615	\$ 138,152
General ALLL	\$ 138,639	\$ 5,833	\$ 82,428	\$ 8,553	\$ 109,095	\$ 344,548
Loans held-in-portfolio:						
Impaired non-covered loans	\$ 337,577	\$ 3,627	\$ 450,789	\$ 2,554	\$ 112,733	\$ 907,280
Non-covered loans held-in-portfolio excluding impaired loans	7,231,433	109,819	5,793,594	590,262	3,282,292	17,007,400
Total non-covered loans held-in-portfolio	\$ 7,569,010	\$ 113,446	\$ 6,244,383	\$ 592,816	\$ 3,395,025	\$ 17,914,680

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	For the quarter ended June 30, 2015						
	Puerto Rico - Covered Loans						
(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total	
Allowance for credit losses:							
Beginning balance	\$ 21,267	\$ 7,707	\$ 40,469	\$	\$ 3,030	\$	72,473
Provision (reversal of provision)	8,120	8,874	(1,734)		506		15,766
Charge-offs	(23,697)	(16,040)	(520)		(767)		(41,024)
Recoveries	3,864	1,425	342		88		5,719
Net recovery (write-down) related to loans transferred to held-for-sale	(1,101)	(542)	(160)		(20)		(1,823)
Allowance transferred to non-covered loans	(8,453)	(1,424)	(582)		(2,578)		(13,037)
Ending balance	\$	\$	\$ 37,815	\$	\$ 259	\$	38,074
Specific ALLL	\$	\$	\$	\$	\$	\$	
General ALLL	\$	\$	\$ 37,815	\$	\$ 259	\$	38,074
Loans held-in-portfolio:							
Impaired covered loans	\$	\$	\$	\$	\$	\$	
Covered loans held-in-portfolio excluding impaired loans	3		671,074		18,573		689,650
Total covered loans held-in-portfolio	\$ 3	\$	\$ 671,074	\$	\$ 18,573	\$	689,650

	For the quarter ended June 30, 2015						
	U.S. Mainland - Continuing Operations						
(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total	
Allowance for credit losses:							
Beginning balance	\$ 10,426	\$ 1,849	\$ 2,262	\$ 2,962	\$ 14,449	\$	31,948
Provision (reversal of provision)	(2,680)	580	2,236	383	(580)		(61)
Charge-offs	(432)		(340)	(480)	(2,974)		(4,226)
Recoveries	1,311		164	450	1,005		2,930
Net recovery (write-down) related to loans transferred to held-for-sale			(552)				(552)
Ending balance	\$ 8,625	\$ 2,429	\$ 3,770	\$ 3,315	\$ 11,900	\$	30,039
Specific ALLL	\$	\$	\$ 413	\$ 34	\$ 412	\$	859
General ALLL	\$ 8,625	\$ 2,429	\$ 3,357	\$ 3,281	\$ 11,488	\$	29,180
Loans held-in-portfolio:							
Impaired loans	\$	\$	\$ 5,045	\$ 1,357	\$ 2,144	\$	8,546
Loans held-in-portfolio excluding impaired loans	2,435,706	582,564	976,395	71,145	446,109		4,511,919

Total loans held-in-portfolio	\$ 2,435,706	\$ 582,564	\$ 981,440	\$ 72,502	\$ 448,253	\$ 4,520,465
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For the quarter ended June 30, 2015

Popular, Inc.

(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Beginning balance	\$ 227,159	\$ 11,151	\$ 169,310	\$ 2,962	\$ 7,208	\$ 170,907	\$ 588,697
Provision (reversal of provision)	55,671	14,714	10,257	383	2,925	(7,716)	76,234
Charge-offs	(47,452)	(18,234)	(12,221)	(480)	(1,693)	(27,923)	(108,003)
Recoveries	11,439	1,898	1,128	450	720	10,621	26,256
Net recovery (write-down) related to loans transferred to held-for-sale	(31,097)	(542)	(712)			(20)	(32,371)
Ending balance	\$ 215,720	\$ 8,987	\$ 167,762	\$ 3,315	\$ 9,160	\$ 145,869	\$ 550,813
Specific ALLL	\$ 68,456	\$ 725	\$ 44,162	\$ 34	\$ 607	\$ 25,027	\$ 139,011
General ALLL	\$ 147,264	\$ 8,262	\$ 123,600	\$ 3,281	\$ 8,553	\$ 120,842	\$ 411,802

Loans

held-in-portfolio:

Impaired loans	\$ 337,577	\$ 3,627	\$ 455,834	\$ 1,357	\$ 2,554	\$ 114,877	\$ 915,826
Loans held-in-portfolio excluding impaired loans	9,667,142	692,383	7,441,063	71,145	590,262	3,746,974	22,208,969
Total loans held-in-portfolio	\$ 10,004,719	\$ 696,010	\$ 7,896,897	\$ 72,502	\$ 592,816	\$ 3,861,851	\$ 23,124,795

For the six months ended June 30, 2015

Puerto Rico - Non-covered loans

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 201,589	\$ 5,483	\$ 120,860	\$ 7,131	\$ 154,072	\$ 489,135
Provision (reversal of provision)	48,910	(1,553)	25,947	3,771	15,367	92,442
Charge-offs	(32,895)	(2,194)	(22,334)	(2,930)	(53,881)	(114,234)
Recoveries	11,034	3,398	1,122	1,188	15,574	32,316
Net write-downs related to transferred to held-for-sale	(29,996)					(29,996)
Allowance transferred from covered loans	8,453	1,424	582		2,578	13,037
Ending balance	\$ 207,095	\$ 6,558	\$ 126,177	\$ 9,160	\$ 133,710	\$ 482,700

Specific ALLL	\$	68,456	\$	725	\$	43,749	\$	607	\$	24,615	\$	138,152
General ALLL	\$	138,639	\$	5,833	\$	82,428	\$	8,553	\$	109,095	\$	344,548
Loans held-in-portfolio:												
Impaired non-covered loans	\$	337,577	\$	3,627	\$	450,789	\$	2,554	\$	112,733	\$	907,280
Non-covered loans held-in-portfolio excluding impaired loans		7,231,433		109,819		5,793,594		590,262		3,282,292		17,007,400
Total non-covered loans held-in-portfolio	\$	7,569,010	\$	113,446	\$	6,244,383	\$	592,816	\$	3,395,025	\$	17,914,680

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For the six months ended June 30, 2015							
Puerto Rico - Covered Loans							
(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total	
Allowance for credit losses:							
Beginning balance	\$ 30,871	\$ 7,202	\$ 40,948	\$	\$ 3,052	\$	82,073
Provision (reversal of provision)	10,115	15,150	1,068		(243)		26,090
Charge-offs	(37,936)	(25,086)	(3,906)		(767)		(67,695)
Recoveries	6,504	4,700	447		815		12,466
Net write-down related to loans transferred to held-for-sale	(1,101)	(542)	(160)		(20)		(1,823)
Allowance transferred to non-covered loans	(8,453)	(1,424)	(582)		(2,578)		(13,037)
Ending balance	\$	\$	\$ 37,815	\$	\$ 259	\$	38,074
Specific ALLL	\$	\$	\$	\$	\$	\$	
General ALLL	\$	\$	\$ 37,815	\$	\$ 259	\$	38,074
Loans held-in-portfolio:							
Impaired covered loans	\$	\$	\$	\$	\$	\$	
Covered loans held-in-portfolio excluding impaired loans	3		671,074		18,573		689,650
Total covered loans held-in-portfolio	\$ 3	\$	\$ 671,074	\$	\$ 18,573	\$	689,650

	For the six months ended June 30, 2015						
	U.S. Mainland - Continuing Operations						
(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total	
Allowance for credit losses:							
Beginning balance	\$ 9,648	\$ 1,187	\$ 2,462	\$ 2,944	\$ 14,343	\$	30,584
Provision (reversal of provision)	(2,381)	1,242	(3,891)	(1,427)	4,194		(2,263)
Charge-offs	(882)		(561)	(954)	(5,492)		(7,889)
Recoveries	2,240		231	2,752	2,256		7,479
Net (write-down) recovery related to loans transferred to held-for-sale			5,529		(3,401)		2,128
Ending balance	\$ 8,625	\$ 2,429	\$ 3,770	\$ 3,315	\$ 11,900	\$	30,039
Specific ALLL	\$	\$	\$ 413	\$ 34	\$ 412	\$	859
General ALLL	\$ 8,625	\$ 2,429	\$ 3,357	\$ 3,281	\$ 11,488	\$	29,180
Loans held-in-portfolio:							
Impaired loans	\$	\$	\$ 5,045	\$ 1,357	\$ 2,144	\$	8,546
Loans held-in-portfolio excluding impaired loans	2,435,706	582,564	976,395	71,145	446,109		4,511,919

Total loans held-in-portfolio	\$ 2,435,706	\$ 582,564	\$ 981,440	\$ 72,502	\$ 448,253	\$ 4,520,465
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For the six months ended June 30, 2015

Popular, Inc.

(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Beginning balance	\$ 242,108	\$ 13,872	\$ 164,270	\$ 2,944	\$ 7,131	\$ 171,467	\$ 601,792
Provision (reversal of provision)	56,644	14,839	23,124	(1,427)	3,771	19,318	116,269
Charge-offs	(71,713)	(27,280)	(26,801)	(954)	(2,930)	(60,140)	(189,818)
Recoveries	19,778	8,098	1,800	2,752	1,188	18,645	52,261
Net write-down related to loans transferred to held-for-sale	(31,097)	(542)	5,369			(3,421)	(29,691)
Ending balance	\$ 215,720	\$ 8,987	\$ 167,762	\$ 3,315	\$ 9,160	\$ 145,869	\$ 550,813
Specific ALLL	\$ 68,456	\$ 725	\$ 44,162	\$ 34	\$ 607	\$ 25,027	\$ 139,011
General ALLL	\$ 147,264	\$ 8,262	\$ 123,600	\$ 3,281	\$ 8,553	\$ 120,842	\$ 411,802

Loans**held-in-portfolio:**

Impaired loans	\$ 337,577	\$ 3,627	\$ 455,834	\$ 1,357	\$ 2,554	\$ 114,877	\$ 915,826
Loans held-in-portfolio excluding impaired loans	9,667,142	692,383	7,441,063	71,145	590,262	3,746,974	22,208,969
Total loans held-in-portfolio	\$ 10,004,719	\$ 696,010	\$ 7,896,897	\$ 72,502	\$ 592,816	\$ 3,861,851	\$ 23,124,795

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

(In thousands)	For the quarters ended		For the six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Balance at beginning of period	\$ 62,967	\$ 68,386	\$ 63,563	\$ 78,846
Provision (reversal of provision)	(5,861)	12,269	(4,070)	20,870
Net recoveries (charge-offs)	9,889	(33,606)	7,502	(52,667)
Balance at end of period	\$ 66,995	\$ 47,049	\$ 66,995	\$ 47,049

Impaired loans

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The following tables present loans individually evaluated for impairment at June 30, 2016 and December 31, 2015.

(In thousands)	June 30, 2016 Puerto Rico							
	Recorded investment	Impaired Loans Allowance Unpaid principal balance	With an Related allowance	Recorded investment	Impaired Loans With No Allowance Unpaid principal balance	Recorded investment	Impaired Loans - Total Unpaid principal balance	Related allowance
Commercial real estate non-owner occupied	\$ 143,454	\$ 147,109	\$ 37,312	\$ 15,024	\$ 29,354	\$ 158,478	\$ 176,463	\$ 37,312
Commercial real estate owner occupied	82,242	103,397	10,315	38,317	61,639	120,559	165,036	10,315
Commercial and industrial	38,738	40,042	5,723	18,106	21,756	56,844	61,798	5,723
Construction	1,036	4,495	116			1,036	4,495	116
Mortgage	419,474	462,461	42,106	56,687	66,846	476,161	529,307	42,106
Leasing	2,110	2,110	548			2,110	2,110	548
Consumer:								
Credit cards	38,377	38,377	6,045			38,377	38,377	6,045
Personal	67,449	67,449	17,455			67,449	67,449	17,455
Auto	2,879	2,879	597			2,879	2,879	597
Other	425	425	70			425	425	70
Total Puerto Rico	\$ 796,184	\$ 868,744	\$ 120,287	\$ 128,134	\$ 179,595	\$ 924,318	\$ 1,048,339	\$ 120,287

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June 30, 2016 U.S. mainland								
(In thousands)	Impaired Loans Allowance		With an Related allowance	Impaired Loans With No Allowance		Impaired Loans - Total		
	Recorded investment	Unpaid principal balance		Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Mortgage	\$ 5,067	\$ 5,993	\$ 1,803	\$ 3,497	\$ 4,492	\$ 8,564	\$ 10,485	\$ 1,803
Consumer:								
HELOCs	1,174	1,195	501	713	713	1,887	1,908	501
Personal	593	593	230			593	593	230
Total U.S. mainland	\$ 6,834	\$ 7,781	\$ 2,534	\$ 4,210	\$ 5,205	\$ 11,044	\$ 12,986	\$ 2,534

June 30, 2016 Popular, Inc.								
(In thousands)	Impaired Loans Allowance		With an Related allowance	Impaired Loans With No Allowance		Impaired Loans - Total		
	Recorded investment	Unpaid principal balance		Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial real estate non-owner occupied	\$ 143,454	\$ 147,109	\$ 37,312	\$ 15,024	\$ 29,354	\$ 158,478	\$ 176,463	\$ 37,312
Commercial real estate owner occupied	82,242	103,397	10,315	38,317	61,639	120,559	165,036	10,315
Commercial and industrial	38,738	40,042	5,723	18,106	21,756	56,844	61,798	5,723
Construction	1,036	4,495	116			1,036	4,495	116
Mortgage	424,541	468,454	43,909	60,184	71,338	484,725	539,792	43,909
Leasing	2,110	2,110	548			2,110	2,110	548
Consumer:								
Credit Cards	38,377	38,377	6,045			38,377	38,377	6,045
HELOCs	1,174	1,195	501	713	713	1,887	1,908	501
Personal	68,042	68,042	17,685			68,042	68,042	17,685
Auto	2,879	2,879	597			2,879	2,879	597
Other	425	425	70			425	425	70
Total Popular, Inc.	\$ 803,018	\$ 876,525	\$ 122,821	\$ 132,344	\$ 184,800	\$ 935,362	\$ 1,061,325	\$ 122,821

December 31, 2015 Puerto Rico								
(In thousands)	Impaired Loans Allowance		With an Related allowance	Impaired Loans With No Allowance		Impaired Loans - Total		
	Recorded investment	Unpaid principal balance		Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance

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(In thousands)	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial real estate non-owner occupied	\$ 102,199	\$ 106,466	\$ 30,980	\$ 13,779	\$ 23,896	\$ 115,978	\$ 130,362	\$ 30,980
Commercial real estate owner occupied	118,253	137,193	12,564	38,955	63,383	157,208	200,576	12,564
Commercial and industrial	42,043	43,629	5,699	21,904	32,922	63,947	76,551	5,699
Construction	2,481	7,878	264			2,481	7,878	264
Mortgage	424,885	468,240	42,965	40,232	45,881	465,117	514,121	42,965
Leasing	2,404	2,404	573			2,404	2,404	573
Consumer:								
Credit cards	38,734	38,734	6,675			38,734	38,734	6,675
Personal	68,509	68,509	16,365			68,509	68,509	16,365
Auto	1,893	1,893	338			1,893	1,893	338
Other	524	525	100			524	525	100
Total Puerto Rico	\$ 801,925	\$ 875,471	\$ 116,523	\$ 114,870	\$ 166,082	\$ 916,795	\$ 1,041,553	\$ 116,523

December 31, 2015

U.S. mainland

	Impaired Loans With an Allowance			Impaired Loans With No Allowance			Impaired Loans - Total		
	Recorded	Unpaid	Related	Recorded	Unpaid	Recorded	Unpaid	Related	
(In thousands)	investment	principal balance	allowance	investment	principal balance	investment	principal balance	allowance	
Mortgage	\$ 4,143	\$ 5,018	\$ 1,064	\$ 2,672	\$ 3,574	\$ 6,815	\$ 8,592	\$ 1,064	
Consumer:									
HELOCs	778	796	259	783	783	1,561	1,579	259	
Personal	534	534	226	81	81	615	615	226	
Total U.S. mainland	\$ 5,455	\$ 6,348	\$ 1,549	\$ 3,536	\$ 4,438	\$ 8,991	\$ 10,786	\$ 1,549	

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December 31, 2015 Popular, Inc.								
(In thousands)	Impaired Loans Allowance		With an Related allowance	Impaired Loans With No Allowance		Impaired Loans - Total		
	Recorded investment	Unpaid principal balance		Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial real estate non-owner occupied	\$ 102,199	\$ 106,466	\$ 30,980	\$ 13,779	\$ 23,896	\$ 115,978	\$ 130,362	\$ 30,980
Commercial real estate owner occupied	118,253	137,193	12,564	38,955	63,383	157,208	200,576	12,564
Commercial and industrial	42,043	43,629	5,699	21,904	32,922	63,947	76,551	5,699
Construction	2,481	7,878	264			2,481	7,878	264
Mortgage	429,028	473,258	44,029	42,904	49,455	471,932	522,713	44,029
Leasing	2,404	2,404	573			2,404	2,404	573
Consumer:								
Credit Cards	38,734	38,734	6,675			38,734	38,734	6,675
HELOCs	778	796	259	783	783	1,561	1,579	259
Personal	69,043	69,043	16,591	81	81	69,124	69,124	16,591
Auto	1,893	1,893	338			1,893	1,893	338
Other	524	525	100			524	525	100
Total Popular, Inc.	\$ 807,380	\$ 881,819	\$ 118,072	\$ 118,406	\$ 170,520	\$ 925,786	\$ 1,052,339	\$ 118,072

The following tables present the average recorded investment and interest income recognized on impaired loans for the quarter and six months ended June 30, 2016 and 2015.

	For the quarter ended June 30, 2016					
	Puerto Rico		U.S. Mainland		Popular, Inc.	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
(In thousands)						
Commercial real estate non-owner occupied	\$ 139,910	\$ 1,362	\$		\$ 139,910	\$ 1,362
Commercial real estate owner occupied	139,722	1,316			139,722	1,316
Commercial and industrial	57,799	491			57,799	491
Construction	1,528	14			1,528	14
Mortgage	473,672	3,385	8,237	64,913	481,909	68,298
Leasing	2,251				2,251	
Consumer:						
Credit cards	38,078				38,078	
Helocs			1,762		1,762	
Personal	67,642		602		68,244	
Auto	3,371				3,371	

Other	435	435
Total Popular, Inc.	\$ 924,408 \$ 6,568 \$ 10,601 \$ 64,913 \$ 935,009 \$ 71,481	

For the quarter ended June 30, 2015

	Puerto Rico		U.S. Mainland		Popular, Inc.	
(In thousands)	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial multi-family	\$ 325	\$	\$	\$	\$ 325	\$
Commercial real estate non-owner occupied	118,663	1,307			118,663	1,307
Commercial real estate owner occupied	123,656	1,211			123,656	1,211
Commercial and industrial	134,834	2,369			134,834	2,369
Construction	6,733				6,733	
Mortgage	448,148	4,112	5,076	16	453,224	4,128
Legacy			679		679	
Leasing	2,739				2,739	
Consumer:						
Credit cards	40,598				40,598	
Helocs			1,645		1,645	
Personal	70,309		452		70,761	
Auto	2,079				2,079	
Other	590				590	
Covered loans	5,365	74			5,365	74
Total Popular, Inc.	\$ 954,039	\$ 9,073	\$ 7,852	\$ 16	\$ 961,891	\$ 9,089

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For the six months ended June 30, 2016

	Puerto Rico		U.S. Mainland		Popular, Inc.	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
(In thousands)						
Commercial real estate non-owner occupied	\$ 131,933	\$ 2,591	\$	\$	\$ 131,933	\$ 2,591
Commercial real estate owner occupied	145,550	2,767			145,550	2,767
Commercial and industrial	59,848	1,001			59,848	1,001
Construction	1,846	35			1,846	35
Mortgage	470,820	6,773	7,763	65,243	478,583	72,016
Leasing	2,302				2,302	
Consumer:						
Credit cards	38,296				38,296	
HELOCs			1,695		1,695	
Personal	67,931		606		68,537	
Auto	2,878				2,878	
Other	465				465	
Total Popular, Inc.	\$ 921,869	\$ 13,167	\$ 10,064	\$ 65,243	\$ 931,933	\$ 78,410

For the six months ended June 30, 2015

	Puerto Rico		U.S. Mainland		Popular, Inc.	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
(In thousands)						
Commercial multi-family	\$ 217	\$	\$	\$	\$ 217	\$
Commercial real estate non-owner occupied	98,526	2,582			98,526	2,582
Commercial real estate owner occupied	125,457	2,422			125,457	2,422
Commercial and industrial	146,422	4,749	83		146,505	4,749
Construction	8,911				8,911	
Mortgage	442,621	8,565	4,802	29	447,423	8,594
Legacy			452		452	
Leasing	2,834				2,834	
Consumer:						
Credit cards	40,891				40,891	
HELOCs			1,725		1,725	
Personal	70,814		301		71,115	
Auto	2,030				2,030	
Other	568		29		597	
Covered loans	5,879	153			5,879	153
Total Popular, Inc.	\$ 945,170	\$ 18,471	\$ 7,392	\$ 29	\$ 952,562	\$ 18,500

Modifications

Troubled debt restructurings related to non-covered loan portfolios amounted to \$ 1.2 billion at June 30, 2016 (December 31, 2015 - \$ 1.2 billion). The amount of outstanding commitments to lend additional funds to debtors

owing receivables whose terms have been modified in troubled debt restructurings amounted \$8 million related to the commercial loan portfolio at June 30, 2016 (December 31, 2015 - \$11 million).

A modification of a loan constitutes a troubled debt restructuring (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 2 of the 2015 Form 10-K.

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The following tables present the non-covered and covered loans classified as TDRs according to their accruing status at June 30, 2016 and December 31, 2015.

Popular, Inc. Non-Covered Loans								
June 30, 2016				December 31, 2015				
(In thousands)	Accruing	Non-Accruing	Total	Related Allowance	Accruing	Non-Accruing	Total	Related Allowance
Commercial	\$ 167,202	\$ 86,784	\$ 253,986	\$ 44,667	\$ 166,415	\$ 88,117	\$ 254,532	\$ 37,355
Construction	167	868	1,035	116	221	2,259	2,480	264
Mortgage	708,140	117,475	825,615	43,909	644,013	130,483	774,496	44,029
Leases	1,532	576	2,108	548	1,791	609	2,400	573
Consumer	102,528	13,254	115,782	24,898	104,630	12,805	117,435	23,963
Total	\$ 979,569	\$ 218,957	\$ 1,198,526	\$ 114,138	\$ 917,070	\$ 234,273	\$ 1,151,343	\$ 106,184

Popular, Inc. Covered Loans								
June 30, 2016				December 31, 2015				
(In thousands)	Accruing	Non-Accruing	Total	Related Allowance	Accruing	Non-Accruing	Total	Related Allowance
Mortgage	\$ 3,121	\$ 2,432	\$ 5,553	\$	\$ 3,328	\$ 3,268	\$ 6,596	\$
Total	\$ 3,121	\$ 2,432	\$ 5,553	\$	\$ 3,328	\$ 3,268	\$ 6,596	\$

The following tables present the loan count by type of modification for those loans modified in a TDR during the quarters and six months ended June 30, 2016 and 2015.

Puerto Rico									
For the quarter ended June 30, 2016					For the six months ended June 30, 2016				
Combination of reduction in interest rate and extension of maturity date					Combination of reduction in interest rate and extension of maturity date				
Reduction in interest rate	Extension of maturity date	Other	Reduction in interest rate	Extension of maturity date	Other	Reduction in interest rate	Extension of maturity date	Other	Reduction in interest rate
Commercial real estate non-owner occupied	1		2	1					
Commercial real estate owner occupied	13	4	29	5					

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Commercial and industrial	8	1			14	1		
Mortgage	18	24	112	35	38	34	224	89
Consumer:								
Credit cards	210			199	385			373
Personal	259	5		1	520	10		1
Auto		5	2			7	4	
Other	11				21			
Total	520	39	114	235	1,009	58	228	463

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U.S. Mainland								
For the quarter ended June 30, 2016					For the six months ended June 30, 2016			
Combination of reduction in interest rate and extension of maturity date					Combination of reduction in interest rate and extension of maturity date			
Reduction in interest rate	Extension of maturity date	Other	Reduction in interest rate	Extension of maturity date	Other	Reduction in interest rate	Extension of maturity date	Other
Mortgage		7				18		1
Consumer: HELOCs		1	1			2		1
Total		8	1			20		2

Popular, Inc.								
For the quarter ended June 30, 2016					For the six months ended June 30, 2016			
Combination of reduction in interest rate and extension of maturity date					Combination of reduction in interest rate and extension of maturity date			
Reduction in interest rate	Extension of maturity date	Other	Reduction in interest rate	Extension of maturity date	Other	Reduction in interest rate	Extension of maturity date	Other
Commercial real estate non-owner occupied	1		2	1				
Commercial real estate owner occupied	13	4	29	5				
Commercial and industrial	8	1	14	1				
Mortgage	18	24	119	35	38	34	242	90
Consumer:								
Credit cards	210		199	385				373
HELOCs		1	1				2	1
Personal	259	5	1	520	10			1
Auto		5	2		7		4	
Other	11			21				
Total	520	39	122	236	1,009	58	248	465

Puerto Rico

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	For the quarter ended June 30, 2015				For the six months ended June 30, 2015			
			Combination of reduction in interest rate and extension of maturity date	Other			Combination of reduction in interest rate and extension of maturity date	Other
	Reduction in interest rate	Extension of maturity date			Reduction in interest rate	Extension of maturity date		
Commercial multi-family						2		
Commercial real estate non-owner occupied	3	7			5	8		
Commercial real estate owner occupied	8	6			10	9		
Commercial and industrial	6	6			11	11		
Construction					1			
Mortgage	16	11	83	23	29	30	181	38
Leasing		1	2			2	14	
Consumer:								
Credit cards	194			164	422			351
Personal	274	4			502	18		
Auto		3	1			5	3	
Other	11				22			
Total	512	38	86	187	1,002	85	198	389

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	U.S. Mainland						
	For the quarter ended June 30,				For the six months ended June 30,		
	2015				2015		
	Combination of reduction in interest rate and extension of maturity date				Combination of reduction in interest rate and extension of maturity date		
	Reduction in interest rate	Extension of maturity date	Other	Reduction in interest rate	Extension of maturity date	Other	
Mortgage			2		1	10	
Consumer:							
HELOCs		1		1	1		2
Personal		2			2		
Total		3	2	1	4	10	2

	Popular, Inc.							
	For the quarter ended June 30,				For the six months ended June 30, 2015			
	2015				2015			
	Combination of reduction in interest rate and extension of maturity date				Combination of reduction in interest rate and extension of maturity date			
	Reduction in interest rate	Extension of maturity date	Other	Reduction in interest rate	Extension of maturity date	Other		
Commercial multi-family					2			
Commercial real estate non-owner occupied	3	7		5	8			
Commercial real estate owner occupied	8	6		10	9			
Commercial and industrial	6	6		11	11			
Construction				1				
Mortgage	16	11	85	29	31	191	38	
Leasing		1	2		2	14		
Consumer:								
Credit cards	194		164	422			351	
HELOCs		1	1		1		2	
Personal	274	6		502	20			
Auto		3	1		5	3		
Other	11			22				
Total	512	41	88	1,002	89	208	391	

The following tables present by class, quantitative information related to loans modified as TDRs during the quarters and six months ended June 30, 2016 and 2015.

Puerto Rico				
For the quarter ended June 30, 2016				
(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	\$ 197	\$ 197	\$ 7
Commercial real estate owner occupied	17	7,755	6,625	201
Commercial and industrial	9	1,057	1,056	(25)
Mortgage	189	17,970	17,714	1,188
Consumer:				
Credit cards	409	3,775	4,388	651
Personal	265	4,195	4,237	1,044
Auto	7	61	64	13
Other	11	32	33	5
Total	908	\$ 35,042	\$ 34,314	\$ 3,084

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U.S. Mainland
For the quarter ended June 30, 2016

(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
Mortgage	7	\$ 794	\$ 833	\$ 210
Consumer:				
HELOCs	2	208	251	139
Total	9	\$ 1,002	\$ 1,084	\$ 349

Popular, Inc.
For the quarter ended June 30, 2016

(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	\$ 197	\$ 197	\$ 7
Commercial real estate owner occupied	17	7,755	6,625	201
Commercial and industrial	9	1,057	1,056	(25)
Mortgage	196	18,764	18,547	1,398
Consumer:				
Credit cards	409	3,775	4,388	651
HELOCs	2	208	251	139
Personal	265	4,195	4,237	1,044
Auto	7	61	64	13
Other	11	32	33	5
Total	917	\$ 36,044	\$ 35,398	\$ 3,433

Puerto Rico
For the quarter ended June 30, 2015

(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	10	\$ 48,719	\$ 48,868	\$ 10,682
Commercial real estate owner occupied	14	5,031	4,484	162
Commercial and industrial	12	6,834	6,997	439

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Mortgage	133	8,284	13,146	957
Leasing	3	99	99	23
Consumer:				
Credit cards	358	3,265	3,687	568
Personal	278	4,751	4,749	1,009
Auto	4	60	62	9
Other	11	27	38	5
Total	823	\$ 77,070	\$ 82,130	\$ 13,854

U.S. Mainland
For the quarter ended June 30, 2015

		Pre-modification outstanding		Post-modification		Increase (decrease) in the
		recorded investment		outstanding recorded investment		allowance for loan losses as a result of modification
(Dollars in thousands)	Loan count					
Mortgage	2	\$	187	\$	193	\$ 97
Consumer:						
HELOCs	2		74		75	16
Personal	2		30		30	3
Total	6	\$	291	\$	298	\$ 116

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Popular, Inc.
For the quarter ended June 30, 2015

(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	10	\$ 48,719	\$ 48,868	\$ 10,682
Commercial real estate owner occupied	14	5,031	4,484	162
Commercial and industrial	12	6,834	6,997	439
Mortgage	135	8,471	13,339	1,054
Leasing	3	99	99	23
Consumer:				
Credit cards	358	3,265	3,687	568
HELOCs	2	74	75	16
Personal	280	4,781	4,779	1,012
Auto	4	60	62	9
Other	11	27	38	5
Total	829	\$ 77,361	\$ 82,428	\$ 13,970

Puerto Rico
For the six months ended June 30, 2016

(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	3	\$ 6,520	\$ 6,504	\$ 4,169
Commercial real estate owner occupied	34	10,850	9,774	337
Commercial and industrial	15	3,586	3,583	(20)
Mortgage	385	42,375	40,958	2,994
Consumer:				
Credit cards	758	7,031	8,053	1,227
Personal	531	8,608	8,648	1,931
Auto	11	133	140	25
Other	21	55	57	10
Total	1,758	\$ 79,158	\$ 77,717	\$ 10,673

U.S. mainland
For the six months ended June 30, 2016

(Dollars in thousands)	Loan count	Increase (decrease) in the allowance for loan losses as a result of		
		Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	modification
Mortgage	19	\$ 1,961	\$ 2,063	\$ 633
Consumer:				
HELOCs	3	355	398	216
Total	22	\$ 2,316	\$ 2,461	\$ 849

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Popular, Inc.
For the six months ended June 30, 2016

(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	3	\$ 6,520	\$ 6,504	\$ 4,169
Commercial real estate owner occupied	34	10,850	9,774	337
Commercial and industrial	15	3,586	3,583	(20)
Mortgage	404	44,336	43,021	3,627
Consumer:				
Credit cards	758	7,031	8,053	1,227
HELOCs	3	355	398	216
Personal	531	8,608	8,648	1,931
Auto	11	133	140	25
Other	21	55	57	10
Total	1,780	\$ 81,474	\$ 80,178	\$ 11,522

Puerto Rico
For the six months ended June 30, 2015

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial multi-family	2	\$ 551	\$ 551	\$ 2
Commercial real estate non-owner occupied	13	66,719	66,866	13,668
Commercial real estate owner occupied	19	9,790	9,036	333
Commercial and industrial	22	12,367	12,886	662
Construction	1	268	259	(166)
Mortgage	278	24,186	29,912	2,296
Leasing	16	422	424	97
Consumer:				
Credit cards	773	6,882	7,753	1,197
Personal	520	9,253	9,249	1,976
Auto	8	60	113	17
Other	22	56	67	9
Total	1,674	\$ 130,554	\$ 137,116	\$ 20,091

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U.S. mainland

For the six months ended June 30, 2015

For the six months ended June 30, 2016				
		Pre-modification	Post-modification	Increase (decrease) in the
(Dollars in thousands)	Loan count	outstanding recorded investment	outstanding recorded investment	allowance for loan losses as a result of modification
Mortgage	11	\$ 655	\$ 1,657	\$ 179
Consumer:				
HELOCs	3	74	167	25
Personal	2	30	30	3
Total	16	\$ 759	\$ 1,854	\$ 207

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Popular, Inc.
For the six months ended June 30, 2015

(Dollars in thousands)	Loan count	Increase (decrease) in the allowance for loan losses as a result of		
		Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	modification
Commercial multi-family	2	\$ 551	\$ 551	\$ 2
Commercial real estate non-owner occupied	13	66,719	66,866	13,668
Commercial real estate owner occupied	19	9,790	9,036	333
Commercial and industrial	22	12,367	12,886	662
Construction	1	268	259	(166)
Mortgage	289	24,841	31,569	2,475
Leasing	16	422	424	97
Consumer:				
Credit cards	773	6,882	7,753	1,197
HELOCs	3	74	167	25
Personal	522	9,283	9,279	1,979
Auto	8	60	113	17
Other	22	56	67	9
Total	1,690	\$ 131,313	\$ 138,970	\$ 20,298

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 June 30, 2016 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.

Puerto Rico
Defaulted during the quarter ended June 30, 2016 Defaulted during the six months ended June 30, 2016

(Dollars in thousands)	Loan count	Recorded investment as of first default date		Recorded investment as of first default date	
		Loan count	Recorded investment as of first default date	Loan count	Recorded investment as of first default date
Commercial real estate non-owner occupied			\$	2	\$ 327
Commercial real estate owner occupied	1	47		7	2,503
Commercial and industrial	2	27		2	27
Mortgage	55	5,501		82	8,734
Leasing	1	32		5	63
Consumer:					
Credit cards	56	594		171	1,758
Personal	37	711		64	1,473
Auto	1	16		2	33

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Total	153	\$	6,928	335	\$	14,918
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During the quarter and six months ended June 30, 2016, there were no U.S. mainland TDRs that were subject to payment default and that had been modified as a TDR during the twelve months preceding the default date.

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Popular, Inc.				
Defaulted during the quarter ended June 30, 2016			Defaulted during the six months ended June 30, 2016	
(Dollars in thousands)	Loan count	Recorded investment as of first default date	Loan count	Recorded investment as of first default date
Commercial real estate non-owner occupied		\$	2	\$ 327
Commercial real estate owner occupied	1	47	7	2,503
Commercial and industrial	2	27	2	27
Mortgage	55	5,501	82	8,734
Leasing	1	32	5	63
Consumer:				
Credit cards	56	594	171	1,758
Personal	37	711	64	1,473
Auto	1	16	2	33
Total	153	\$ 6,928	335	\$ 14,918

Puerto Rico				
Defaulted during the quarter ended June 30, 2015			Defaulted during the six months ended June 30, 2015	
(Dollars in thousands)	Loan count	Recorded investment as of first default date	Loan count	Recorded investment as of first default date
Commercial real estate owner occupied		\$	1	\$ 291
Commercial and industrial	1	64	2	154
Construction			2	1,192
Mortgage	48	5,941	126	16,042
Leasing	4	36	5	43
Consumer:				
Credit cards	138	1,225	240	2,341
Personal	31	474	50	692
Auto			4	78
Other	1	1	2	2
Total	223	\$ 7,741	432	\$ 20,835

During the quarter and six months ended June 30, 2015, there were no U.S. mainland TDRs that were subject to payment default and that had been modified as a TDR during the twelve months preceding the default date.

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Popular, Inc.				
Defaulted during the quarter ended June 30, 2015			Defaulted during the six months ended June 30, 2015	
(Dollars in thousands)	Loan count	Recorded investment as of first default date	Loan count	Recorded investment as of first default date
Commercial real estate owner occupied		\$	1	\$ 291
Commercial and industrial	1	64	2	154
Construction			2	1,192
Mortgage	48	5,941	126	16,042
Leasing	4	36	5	43
Consumer:				
Credit cards	138	1,225	240	2,341
Personal	31	474	50	692
Auto			4	78
Other	1	1	2	2
Total	223	\$ 7,741	432	\$ 20,835

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.

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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 June 30, 2016 and December 31, 2015.

June 30, 2016								
(In thousands)	Watch	Special Mention	Substandard	Doubtful	Loss	Sub-total	Pass/ Unrated	Total
Puerto Rico^[1]								
Commercial multi-family	\$ 2,790	\$ 1,087	\$ 6,481	\$	\$	\$ 10,358	\$ 165,153	\$ 175,511
Commercial real estate non-owner occupied	310,305	387,592	372,370			1,070,267	1,528,364	2,598,631
Commercial real estate owner occupied	320,190	156,828	388,037	1,962		867,017	949,815	1,816,832
Commercial and industrial	129,988	149,177	230,046	605	40	509,856	2,116,222	2,626,078
Total								
Commercial	763,273	694,684	996,934	2,567	40	2,457,498	4,759,554	7,217,052
Construction	1,992	13,377	9,266			24,635	79,007	103,642
Mortgage	3,621	3,300	206,948			213,869	5,806,693	6,020,562
Leasing			2,930		89	3,019	661,075	664,094
Consumer:								
Credit cards			17,225			17,225	1,097,215	1,114,440
HELOCs			293			293	9,200	9,493
Personal	1,118	1,332	20,891			23,341	1,165,025	1,188,366
Auto			11,048		70	11,118	818,739	829,857
Other			17,391		731	18,122	161,404	179,526
Total Consumer	1,118	1,332	66,848		801	70,099	3,251,583	3,321,682
Total Puerto Rico	\$ 770,004	\$ 712,693	\$ 1,282,926	\$ 2,567	\$ 930	\$ 2,769,120	\$ 14,557,912	\$ 17,327,032
U.S. mainland								
Commercial multi-family	\$ 12,600	\$ 7,104	\$ 1,422	\$	\$	\$ 21,126	\$ 867,706	\$ 888,832
Commercial real estate non-owner occupied	34,514	198	15,428			50,140	1,043,713	1,093,853
	13,532	196	3,653			17,381	265,171	282,552

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Commercial real estate owner occupied							
Commercial and industrial	4,423	971	150,035		155,429	722,097	877,526
Total							
Commercial	65,069	8,469	170,538		244,076	2,898,687	3,142,763
Construction		19,632	39,098		58,730	554,960	613,690
Mortgage			14,389		14,389	829,167	843,556
Legacy	1,061	679	5,318		7,058	42,651	49,709
Consumer:							
Credit cards			535		535	102	637
HELOCs			1,428	2,433	3,861	275,590	279,451
Personal			540	804	1,344	282,192	283,536
Auto						15	15
Other						272	272
Total Consumer			2,503	3,237	5,740	558,171	563,911

Total U.S. mainland	\$ 66,130	\$ 28,780	\$ 231,846	\$	\$ 3,237	\$ 329,993	\$ 4,883,636	\$ 5,213,629
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Popular, Inc.

Commercial multi-family	\$ 15,390	\$ 8,191	\$ 7,903	\$	\$	\$ 31,484	\$ 1,032,859	\$ 1,064,343
Commercial real estate non-owner occupied	344,819	387,790	387,798			1,120,407	2,572,077	3,692,484
Commercial real estate owner occupied	333,722	157,024	391,690	1,962		884,398	1,214,986	2,099,384
Commercial and industrial	134,411	150,148	380,081	605	40	665,285	2,838,319	3,503,604
Total								
Commercial	828,342	703,153	1,167,472	2,567	40	2,701,574	7,658,241	10,359,815
Construction	1,992	33,009	48,364			83,365	633,967	717,332
Mortgage	3,621	3,300	221,337			228,258	6,635,860	6,864,118
Legacy	1,061	679	5,318			7,058	42,651	49,709
Leasing			2,930		89	3,019	661,075	664,094
Consumer:								
Credit cards			17,760			17,760	1,097,317	1,115,077
HELOCs			1,721	2,433		4,154	284,790	288,944
Personal	1,118	1,332	21,431	804		24,685	1,447,217	1,471,902
Auto			11,048	70		11,118	818,754	829,872
Other			17,391	731		18,122	161,676	179,798
Total Consumer	1,118	1,332	69,351	4,038		75,839	3,809,754	3,885,593

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Total Popular, Inc.	\$ 836,134	\$ 741,473	\$ 1,514,772	\$ 2,567	\$ 4,167	\$ 3,099,113	\$ 19,441,548	\$ 22,540,661
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The following table presents the weighted average obligor risk rating at June 30, 2016 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	11.15	6.12
Commercial real estate non-owner occupied	11.07	6.84
Commercial real estate owner occupied	11.28	7.06
Commercial and industrial	11.15	7.02
Total Commercial	11.17	6.95
Construction	11.26	7.49
U.S. mainland:	Substandard	Pass
Commercial multi-family	11.26	7.27
Commercial real estate non-owner occupied	11.02	6.86
Commercial real estate owner occupied	11.20	7.05
Commercial and industrial	11.53	6.10
Total Commercial	11.48	6.81
Construction	11.00	7.80
Legacy	11.15	7.85

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

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December 31, 2015

(In thousands)	Watch	Special Mention	Substandard	Doubtful	Loss	Sub-total	Pass/ Unrated	Total
Puerto Rico^[1]								
Commercial multi-family	\$ 1,750	\$ 1,280	\$ 8,103	\$	\$	\$ 11,133	\$ 121,013	\$ 132,146
Commercial real estate non-owner occupied	319,564	423,095	399,076			1,141,735	1,527,357	2,669,092
Commercial real estate owner occupied	316,079	162,395	436,442	1,915		916,831	992,413	1,909,244
Commercial and industrial	187,620	146,216	256,821	690	29	591,376	2,066,361	2,657,737
Total Commercial	825,013	732,986	1,100,442	2,605	29	2,661,075	4,707,144	7,368,219
Construction	7,269	5,522	19,806			32,597	68,351	100,948
Mortgage	4,810	2,794	238,002			245,606	5,881,885	6,127,491
Leasing			3,009			3,009	624,641	627,650
Consumer:								
Credit cards			19,098			19,098	1,109,247	1,128,345
HELOCs			394			394	10,294	10,688
Personal	1,606	1,448	23,116			26,170	1,176,665	1,202,835
Auto			11,609		30	11,639	804,311	815,950
Other			18,656		575	19,231	169,253	188,484
Total Consumer	1,606	1,448	72,873		605	76,532	3,269,770	3,346,302
Total Puerto Rico	\$ 838,698	\$ 742,750	\$ 1,434,132	\$ 2,605	\$ 634	\$ 3,018,819	\$ 14,551,791	\$ 17,570,610
U.S. mainland								
Commercial multi-family	\$ 14,129	\$ 7,189	\$ 427	\$	\$	\$ 21,745	\$ 672,188	\$ 693,933
Commercial real estate non-owner occupied	57,450	6,741	16,646			80,837	882,186	963,023
Commercial real estate owner occupied	11,978	1,074	2,967			16,019	186,325	202,344
	10,827	5,344	131,933			148,104	723,540	871,644

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Commercial
and industrial

Total								
Commercial	94,384	20,348	151,973		266,705	2,464,239	2,730,944	
Construction	15,091	16,948	18,856		50,895	529,263	580,158	
Mortgage			13,537		13,537	895,053	908,590	
Legacy	1,823	1,973	6,134		9,930	54,506	64,436	
Consumer:								
Credit cards						13,935	13,935	
HELOCs			1,550	2,626	4,176	300,308	304,484	
Personal			637	603	1,240	171,386	172,626	
Auto						28	28	
Other				5	5	299	304	
Total								
Consumer			2,187	3,234	5,421	485,956	491,377	

Total U.S. mainland	\$ 111,298	\$ 39,269	\$ 192,687	\$	\$ 3,234	\$ 346,488	\$ 4,429,017	\$ 4,775,505
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Popular, Inc.

Commercial multi-family	\$ 15,879	\$ 8,469	\$ 8,530	\$	\$	\$ 32,878	\$ 793,201	\$ 826,079
Commercial real estate non-owner occupied	377,014	429,836	415,722			1,222,572	2,409,543	3,632,115
Commercial real estate owner occupied	328,057	163,469	439,409	1,915		932,850	1,178,738	2,111,588
Commercial and industrial	198,447	151,560	388,754	690	29	739,480	2,789,901	3,529,381

Total								
Commercial	919,397	753,334	1,252,415	2,605	29	2,927,780	7,171,383	10,099,163
Construction	22,360	22,470	38,662			83,492	597,614	681,106
Mortgage	4,810	2,794	251,539			259,143	6,776,938	7,036,081
Legacy	1,823	1,973	6,134			9,930	54,506	64,436
Leasing			3,009			3,009	624,641	627,650
Consumer:								
Credit cards			19,098			19,098	1,123,182	1,142,280
HELOCs			1,944	2,626	4,570	310,602	315,172	
Personal	1,606	1,448	23,753	603	27,410	1,348,051	1,375,461	
Auto			11,609	30	11,639	804,339	815,978	
Other			18,656	580	19,236	169,552	188,788	
Total								
Consumer	1,606	1,448	75,060	3,839	81,953	3,755,726	3,837,679	

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Total Popular, Inc.	\$ 949,996	\$ 782,019	\$ 1,626,819	\$ 2,605	\$ 3,868	\$ 3,365,307	\$ 18,980,808	\$ 22,346,115
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The following table presents the weighted average obligor risk rating at December 31, 2015 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	11.13	6.04
Commercial real estate non-owner occupied	11.09	6.67
Commercial real estate owner occupied	11.23	7.08
Commercial and industrial	11.15	7.13
Total Commercial	11.16	6.95
Construction	11.18	7.56
U.S. mainland:	Substandard	Pass
Commercial multi-family	11.00	7.15
Commercial real estate non-owner occupied	11.02	6.92
Commercial real estate owner occupied	11.07	7.23
Commercial and industrial	11.57	6.24
Total Commercial	11.50	6.81
Construction	11.00	7.79
Legacy	11.11	7.78

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

Table of Contents**Note 11 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 80% 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.

(In thousands)	Quarters ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Balance at beginning of period	\$ 219,448	\$ 409,844	\$ 310,221	\$ 542,454
Amortization of loss-share indemnification asset	(4,036)	(31,065)	(8,078)	(58,381)
Credit impairment losses (reversal) to be covered under loss-sharing agreements	475	7,647	(1,618)	15,893
Reimbursable expenses	2,235	42,730	6,185	64,275
Recoveries reimbursable to the FDIC	(4,093)		(4,093)	
Net payments from FDIC under loss-sharing agreements		(32,158)	(88,588)	(164,423)
Other adjustments attributable to FDIC loss-sharing agreements		(4,051)		(6,871)
Balance at end of period	\$ 214,029	\$ 392,947	\$ 214,029	\$ 392,947

The loss-share arrangements applicable to commercial (including construction) and consumer loans expired during the quarter ended June 30, 2015 and provide for reimbursement to the FDIC through the quarter ending June 30, 2018. For the quarter ended June 30, 2016, these recoveries amounted to \$4.1 million as detailed in the table above.

As of June 30, 2016, BPPR had unreimbursed loss claims related to the commercial loss-sharing arrangement amounting to \$142 million, reflected in the FDIC indemnification asset as a receivable from the FDIC, which are subject to the arbitration proceedings described on Note 23, Commitments and Contingencies.

The weighted average life of the single family loan portfolio accounted for under ASC 310-30 subject to the FDIC loss-sharing agreement at June 30, 2016 is 7.80 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 June 30, 2016 and December 31, 2015.

(In thousands)	June 30, 2016	December 31, 2015
Carrying amount (fair value)	\$ 127,876	\$ 119,745
Undiscounted amount	\$ 169,396	\$ 168,692

The increase in the fair value of the true-up payment obligation was principally driven by a decrease in the discount rate, from 7.64% in 2015 to 7.05% in 2016 due to a decrease in the equivalent T Note.

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.

Table of Contents**Note 12 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:

(In thousands)	Quarters ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Mortgage servicing fees, net of fair value adjustments:				
Mortgage servicing fees	\$ 14,675	\$ 14,689	\$ 29,477	\$ 26,937
Mortgage servicing rights fair value adjustments	(4,340)	(1,917)	(12,817)	(6,846)
Total mortgage servicing fees, net of fair value adjustments	10,335	12,772	16,660	20,091
Net gain on sale of loans, including valuation on loans held-for-sale	8,474	8,022	15,584	15,302
Trading account (loss) profit:				
Unrealized (losses) gains on outstanding derivative positions	(59)	42	(139)	59
Realized (losses) gains on closed derivative positions	(2,523)	489	(5,327)	(1,275)
Total trading account (loss) profit	(2,582)	531	(5,466)	(1,216)
Total mortgage banking activities	\$ 16,227	\$ 21,325	\$ 26,778	\$ 34,177

Table of Contents**Note 13 Transfers of financial assets and mortgage servicing assets**

The Corporation typically transfers conforming residential mortgage loans in conjunction with GNMA and FNMA securitization transactions whereby the loans are exchanged for cash or securities and servicing rights. The securities issued through these transactions are guaranteed by the corresponding agency and, as such, under seller/service agreements the Corporation is required to service the loans in accordance with the agencies' servicing guidelines and standards. Substantially all mortgage loans securitized by the Corporation in GNMA and FNMA securities have fixed rates and represent conforming loans. As seller, the Corporation has made certain representations and warranties with respect to the originally transferred loans and, in the past, has sold certain loans with credit recourse to a government-sponsored entity, namely FNMA. Refer to Note 22 to the consolidated financial statements for a description of such arrangements.

No liabilities were incurred as a result of these securitizations during the quarters and six months ended June 30, 2016 and 2015 because they did not contain any credit recourse arrangements. During the quarter ended June 30, 2016, the Corporation recorded a net gain of \$7.8 million (June 30, 2015 - \$7.2 million) related to the residential mortgage loans securitized. During the six months ended June 30, 2016, the Corporation recorded a net gain of \$14.2 million (June 30, 2015 - \$13.7 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 and six months ended June 30, 2016 and 2015:

(In thousands)	Proceeds Obtained During the Quarter Ended June 30, 2016			
	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Trading account securities:				
Mortgage-backed securities - GNMA	\$	\$ 170,115	\$	\$ 170,115
Mortgage-backed securities - FNMA		43,078		43,078
Total trading account securities	\$	\$ 213,193	\$	\$ 213,193
Mortgage servicing rights	\$		\$ 2,670	\$ 2,670
Total	\$	\$ 213,193	\$ 2,670	\$ 215,863

(In thousands)	Proceeds Obtained During the Six Months Ended June 30, 2016			
	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Trading account securities:				
Mortgage-backed securities - GNMA	\$	\$ 304,127	\$	\$ 304,127
Mortgage-backed securities - FNMA		79,314		79,314
Total trading account securities	\$	\$ 383,441	\$	\$ 383,441
Mortgage servicing rights	\$		\$ 4,540	\$ 4,540

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Total	\$	\$	383,441	\$	4,540	\$	387,981
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(In thousands)	Proceeds Obtained During the Quarter Ended June 30, 2015			
	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Trading account securities:				
Mortgage-backed securities - GNMA	\$	\$ 243,374	\$	\$ 243,374
Mortgage-backed securities - FNMA		70,477		70,477
Total trading account securities	\$	\$ 313,851	\$	\$ 313,851
Mortgage servicing rights	\$		\$ 4,207	\$ 4,207
Total	\$	\$ 313,851	\$ 4,207	\$ 318,058

(In thousands)	Proceeds Obtained During the Six Months Ended June 30, 2015			
	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Trading account securities:				
Mortgage-backed securities - GNMA	\$	\$ 399,830	\$	\$ 399,830
Mortgage-backed securities - FNMA		117,435		117,435
Total trading account securities	\$	\$ 517,265	\$	\$ 517,265
Mortgage servicing rights	\$		\$ 6,769	\$ 6,769
Total	\$	\$ 517,265	\$ 6,769	\$ 524,034

During the six months ended June 30, 2016, the Corporation retained servicing rights on whole loan sales involving approximately \$34 million in principal balance outstanding (June 30, 2015 - \$41 million), with realized gains of approximately \$1.4 million (June 30, 2015 - gains of \$1.7 million). All loan sales performed during the six months ended June 30, 2016 and 2015 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 (MSRs) are measured at fair value.

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

The following table presents the changes in MSRs measured using the fair value method for the six months ended June 30, 2016 and 2015.

Residential MSRs		
(In thousands)	June 30, 2016	June 30, 2015
Fair value at beginning of period	\$ 211,405	\$ 148,694
Additions	4,989	64,509
Changes due to payments on loans ^[1]	(8,850)	(8,850)
Reduction due to loan repurchases	(734)	(1,321)
Changes in fair value due to changes in valuation model inputs or assumptions	(3,233)	3,325
Fair value at end of period	\$ 203,577	\$ 206,357

[1] Represents the change due to collection / realization of expected cash flow over time.

Additions to mortgage servicing rights for the quarter ended June 30, 2015 include those acquired as part of the Doral Bank Transaction.

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Residential mortgage loans serviced for others were \$20.0 billion at June 30, 2016 (December 31, 2015 - \$20.6 billion).

Net mortgage servicing fees, a component of mortgage banking activities in the consolidated statements of operations, include the changes from period to period in the fair value of the MSRs, including changes due to collection / realization of expected cash flows. Mortgage servicing fees, excluding fair value adjustments, for the quarter and six months ended June 30, 2016 amounted to \$14.7 million and \$29.5 million, respectively (June 30, 2015 - \$14.7 million and \$26.9 million, respectively). The banking subsidiaries receive servicing fees based on a percentage of the outstanding loan balance. At June 30, 2016, those weighted average mortgage servicing fees were 0.29% (June 30, 2015 - 0.29%). Under these servicing agreements, the banking subsidiaries do not generally earn significant prepayment penalty fees on the underlying loans serviced.

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

Key economic assumptions used in measuring the servicing rights derived from loans securitized or sold by the Corporation during the quarters and six months ended June 30, 2016 and 2015 were as follows:

	Quarters ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Prepayment speed	5.7%	6.9%	5.5%	7.1%
Weighted average life	9.7 years	8.7 years	9.9 years	8.8 years
Discount rate (annual rate)	11.0%	10.8%	11.0%	10.9%

Key economic assumptions used to estimate the fair value of MSRs derived from sales and securitizations of mortgage loans performed by the banking subsidiaries and the sensitivity to immediate changes in those assumptions were as follows as of the end of the periods reported:

	Originated MSRs	
(In thousands)	June 30, 2016	December 31, 2015
Fair value of servicing rights	\$ 92,950	\$ 98,648
Weighted average life	7.5 years	7.3 years
Weighted average prepayment speed (annual rate)	5.4%	6.0%
Impact on fair value of 10% adverse change	\$ (2,225)	\$ (2,488)
Impact on fair value of 20% adverse change	\$ (4,600)	\$ (5,241)
Weighted average discount rate (annual rate)	11.5%	11.5%
Impact on fair value of 10% adverse change	\$ (4,062)	\$ (4,083)
Impact on fair value of 20% adverse change	\$ (8,024)	\$ (8,206)

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The banking subsidiaries also own servicing rights purchased from other financial institutions. The fair value of purchased MSRs, their related valuation assumptions and the sensitivity to immediate changes in those assumptions were as follows as of the end of the periods reported:

Purchased MSRs		
(In thousands)	June 30, 2016	December 31, 2015
Fair value of servicing rights	\$ 110,627	\$ 112,757
Weighted average life	6.5 years	6.2 years
Weighted average prepayment speed (annual rate)	5.9%	6.9%
Impact on fair value of 10% adverse change	\$ (2,648)	\$ (2,871)
Impact on fair value of 20% adverse change	\$ (5,459)	\$ (6,034)
Weighted average discount rate (annual rate)	11.0%	11.0%
Impact on fair value of 10% adverse change	\$ (4,483)	\$ (4,211)
Impact on fair value of 20% adverse change	\$ (8,891)	\$ (8,525)

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 June 30, 2016, the Corporation serviced \$1.8 billion (December 31, 2015 - \$1.9 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 June 30, 2016, the Corporation had recorded \$156 million in mortgage loans on its consolidated statements of financial condition related to this buy-back option program (December 31, 2015 - \$140 million). As long as the Corporation continues to service the loans that continue to be collateral in a GNMA guaranteed mortgage-backed security, the MSR is recognized by the Corporation. During the six months ended June 30, 2016, the Corporation repurchased approximately \$ 39 million (June 30, 2015 - \$60 million) of mortgage loans under the GNMA buy-back option program. The determination to repurchase these loans was based on the economic benefits of the transaction, which results in a reduction of the servicing costs for these severely delinquent loans, mostly related to principal and interest advances. Furthermore, due to their guaranteed nature, the risk associated with the loans is minimal. The Corporation places these loans under its loss mitigation programs and once brought back to current status, these may be either retained in portfolio or re-sold in the secondary market.

Table of Contents**Note 14 Other real estate owned**

The following tables present the activity related to Other Real Estate Owned (OREO), for the quarters and six months ended June 30, 2016 and 2015. During the second quarter of 2015, the corporation completed a bulk sale of \$37 million of covered OREOs.

(In thousands)	For the quarter ended June 30, 2016			
	Non-covered OREO	Non-covered OREO	Covered OREO	Total
	Commercial/	Construction/	Mortgage	
Balance at beginning of period	\$ 30,354	\$ 135,606	\$ 36,397	\$ 202,357
Write-downs in value	(561)	(1,621)	(366)	(2,548)
Additions	1,302	31,624	5,240	38,166
Sales	(6,985)	(12,403)	(3,307)	(22,695)
Other adjustments		(291)	20	(271)
Ending balance	\$ 24,110	\$ 152,915	\$ 37,984	\$ 215,009

(In thousands)	For the six months ended June 30, 2016			
	Non-covered OREO	Non-covered OREO	Covered OREO	Total
	Commercial/	Construction/	Mortgage	
Balance at beginning of period	\$ 32,471	\$ 122,760	\$ 36,685	\$ 191,916
Write-downs in value	(2,278)	(3,630)	(866)	(6,774)
Additions	3,112	55,900	9,723	68,735
Sales	(8,580)	(20,903)	(6,956)	(36,439)
Other adjustments	(615)	(1,212)	(602)	(2,429)
Ending balance	\$ 24,110	\$ 152,915	\$ 37,984	\$ 215,009

	For the quarter ended June 30, 2015				
	Non-covered OREO	Non-covered OREO	Covered OREO	Covered OREO	
(In thousands)	Commercial/	Construction/	Commercial/	Construction/	Total
		Mortgage		Mortgage	
Balance at beginning of period	\$ 25,608	\$ 102,562	\$ 70,573	\$ 42,984	\$ 241,727
Write-downs in value	(4,162)	(2,463)	(10,955)	(1,393)	(18,973)
Additions	2,793	18,532	5,623	8,879	35,827
Sales	(4,868)	(14,243)	(50,285)	(13,806)	(83,202)
Other adjustments	850	50	(452)	(68)	380
Transfer to non-covered status ^[1]	14,504	3,092	(14,504)	(3,092)	
Ending balance	\$ 34,725	\$ 107,530	\$ 33,504	\$ 33,504	\$ 175,759

[1] Represents the reclassification of OREOs to the non-covered category, pursuant to the expiration of the commercial and consumer shared-loss arrangement with the FDIC related to loans acquired from Westernbank, on June 30, 2015.

(In thousands)	For the six months ended June 30, 2015					Total
	Non-covered OREO	Non-covered OREO	Covered OREO	Covered OREO		
	Commercial/	Construction/	Commercial/	Construction/	Mortgage	
Balance at beginning of period	\$ 38,983	\$ 96,517	\$ 85,394	\$ 44,872		\$ 265,766
Write-downs in value	(10,049)	(3,835)	(20,350)	(2,675)		(36,909)
Additions	4,828	39,607	9,661	14,260		68,356
Sales	(14,295)	(27,329)	(59,749)	(19,628)		(121,001)
Other adjustments	754	(522)	(452)	(233)		(453)
Transfer to non-covered status ^[1]	14,504	3,092	(14,504)	(3,092)		
Ending balance	\$ 34,725	\$ 107,530	\$	\$ 33,504		\$ 175,759

[1] Represents the reclassification of OREOs to the non-covered category, pursuant to the expiration of the commercial and consumer shared-loss arrangement with the FDIC related to loans acquired from Westernbank, on June 30, 2015.

Table of Contents**Note 15 Other assets**

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

(In thousands)	June 30, 2016	December 31, 2015
Net deferred tax assets (net of valuation allowance)	\$ 1,243,783	\$ 1,302,452
Investments under the equity method	206,300	212,838
Prepaid taxes	185,021	180,969
Other prepaid expenses	79,324	79,215
Derivative assets	13,154	16,959
Trades receivable from brokers and counterparties	78,994	78,759
Principal, interest and escrow servicing advances	74,950	79,862
Guaranteed mortgage loan claims receivable	139,151	101,628
Others	158,383	140,480
Total other assets	\$ 2,179,060	\$ 2,193,162

Table of Contents**Note 16 Goodwill and other intangible assets****Goodwill**

The changes in the carrying amount of goodwill for the six months ended June 30, 2016 and 2015, allocated by reportable segments, were as follows (refer to Note 35 for the definition of the Corporation's reportable segments):

(In thousands)	2016		Purchase	
	Balance at January 1, 2016	Goodwill on acquisition	accounting adjustments	Balance at June 30, 2016
Banco Popular de Puerto Rico	\$ 280,221	\$	\$	\$ 280,221
Banco Popular North America	346,167		4,707	350,874
Total Popular, Inc.	\$ 626,388	\$	\$ 4,707	\$ 631,095

(In thousands)	2015		Purchase	
	Balance at January 1, 2015	Goodwill on acquisition	accounting adjustments	Balance at June 30, 2015
Banco Popular de Puerto Rico	\$ 250,109	\$ 3,899	\$ (2,875)	\$ 251,133
Banco Popular North America	215,567	38,735		254,302
Total Popular, Inc.	\$ 465,676	\$ 42,634	\$ (2,875)	\$ 505,435

During the first quarter of 2016, the Corporation recorded adjustments to its initial fair value estimates in connection with the Doral Bank Transaction. As a result, the discount on the loans increased by \$4.7 million with a corresponding increase to goodwill.

The goodwill recorded during 2015 was related to the Doral Bank Transaction. The Corporation recorded purchase accounting adjustments during 2015 of \$0.5 million related to the Doral Bank Transaction and of \$2.4 million related to the acquisition of an insurance benefits business during 2014.

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

(In thousands)	June 30, 2016					
	Balance at January 1, 2016 (gross amounts)	Accumulated impairment losses	Balance at January 1, 2016 (net amounts)	Balance at June 30, 2016 (gross amounts)	Accumulated impairment losses	Balance at June 30, 2016 (net amounts)

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Banco Popular de Puerto Rico	\$	280,221	\$		\$	280,221	\$	280,221	\$		\$	280,221
Banco Popular North America		510,578		164,411		346,167		515,285		164,411		350,874
Total Popular, Inc.	\$	790,799	\$	164,411	\$	626,388	\$	795,506	\$	164,411	\$	631,095

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December 31, 2015						
(In thousands)	Balance at January 1, 2015 (gross amounts)	Accumulated impairment losses	Balance at January 1, 2015 (net amounts)	Balance at December 31, 2015 (gross amounts)	Accumulated impairment losses	Balance at December 31, 2015 (net amounts)
Banco Popular de Puerto Rico	\$ 250,109	\$	\$ 250,109	\$ 280,221	\$	\$ 280,221
Banco Popular North America	379,978	164,411	215,567	510,578	164,411	346,167
Total Popular, Inc.	\$ 630,087	\$ 164,411	\$ 465,676	\$ 790,799	\$ 164,411	\$ 626,388

Other Intangible Assets

At June 30, 2016 and December 31, 2015, the Corporation had \$ 6.1 million of identifiable intangible assets, with indefinite useful lives, mostly associated with E-LOAN's trademark.

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

(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
June 30, 2016			
Core deposits	\$ 63,539	\$ 41,800	\$ 21,739
Other customer relationships	36,751	13,621	23,130
Total other intangible assets	\$ 100,290	\$ 55,421	\$ 44,869
December 31, 2015			
Core deposits	\$ 63,539	\$ 38,464	\$ 25,075
Other customer relationships	37,665	10,745	26,920
Total other intangible assets	\$ 101,204	\$ 49,209	\$ 51,995

During the quarter ended June 30, 2016, the Corporation recognized \$ 3.1 million in amortization expense related to other intangible assets with definite useful lives (June 30, 2015 - \$ 2.9 million). During the six months ended June 30, 2016, the Corporation recognized \$ 6.2 million in amortization related to other intangible assets with definite useful lives (June 30, 2015 - \$ 5.0 million).

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

(In thousands)

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Remaining 2016	\$ 5,933
Year 2017	9,378
Year 2018	9,286
Year 2019	9,042
Year 2020	4,967
Year 2021	2,157

Table of Contents**Note 17 Deposits**

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

(In thousands)	June 30, 2016	December 31, 2015
Savings accounts	\$ 7,361,128	\$ 7,010,391
NOW, money market and other interest bearing demand deposits	6,890,874	5,632,449
Total savings, NOW, money market and other interest bearing demand deposits	14,252,002	12,642,840
Certificates of deposit:		
Under \$100,000	3,722,510	4,014,359
\$100,000 and over	4,232,236	4,151,009
Total certificates of deposit	7,954,746	8,165,368
Total interest bearing deposits	\$ 22,206,748	\$ 20,808,208

A summary of certificates of deposit by maturity at June 30, 2016 follows:

(In thousands)	
2016	\$ 3,004,445
2017	1,820,840
2018	962,140
2019	630,107
2020	944,251
2021 and thereafter	592,963
Total certificates of deposit	\$ 7,954,746

At June 30, 2016, the Corporation had brokered deposits amounting to \$ 0.8 billion (December 31, 2015 - \$ 1.3 billion).

The aggregate amount of overdrafts in demand deposit accounts that were reclassified to loans was \$8 million at June 30, 2016 (December 31, 2015 - \$11 million).

Table of Contents**Note 18 Borrowings**

The following table presents the composition of fed funds purchased and assets sold under agreements to repurchase at June 30, 2016 and December 31, 2015.

(In thousands)	June 30, 2016	December 31, 2015
Federal funds purchased	\$	\$ 50,000
Assets sold under agreements to repurchase	821,604	712,145
Total federal funds purchased and assets sold under agreements to repurchase	\$ 821,604	\$ 762,145

The following table presents information related to the Corporation's repurchase transactions accounted for as secured borrowings that are collateralized with investment 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)	June 30, 2016 Repurchase liability	December 31, 2015 Repurchase liability
U.S. Treasury Securities		
After 90 days	\$ 82,003	\$
Total U.S. Treasury Securities	82,003	
Obligations of U.S. government sponsored entities		
Within 30 days	109,248	243,708
After 30 to 90 days	84,993	
After 90 days	169,851	23,366
Total obligations of U.S. government sponsored entities	364,092	267,074
Mortgage-backed securities		
Within 30 days	31,117	124,878
After 30 to 90 days	81,489	154,582
After 90 days	238,091	142,441
Total mortgage-backed securities	350,697	421,901

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Collateralized mortgage obligations		
Within 30 days	9,991	10,298
After 30 to 90 days		12,872
After 90 days	14,821	
Total collateralized mortgage obligations	24,812	23,170
Total	\$ 821,604	\$ 712,145

Repurchase agreements in portfolio are generally short-term, often overnight and Popular acts as borrowers transferring assets to the counterparty. 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.

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The following table presents the composition of other short-term borrowings at June 30, 2016 and December 31, 2015.

(In thousands)	June 30, 2016	December 31, 2015
Advances with the FHLB paying interest at maturity, at fixed rate of 0.59%	\$ 30,000	\$
Others	1,200	1,200
Total other short-term borrowings	\$ 31,200	\$ 1,200

Note: Refer to the Corporation's 2015 Form 10-K for rates information at December 31, 2015.

The following table presents the composition of notes payable at June 30, 2016 and December 31, 2015.

(In thousands)	June 30, 2016	December 31, 2015
Advances with the FHLB with maturities ranging from 2016 through 2029 paying interest at monthly fixed rates ranging from 0.71% to 4.19 % (2015 - 0.41% to 4.19%)	\$ 631,029	\$ 747,072
Advances with the FHLB maturing on 2019 paying interest monthly at a floating rate of 0.34% over the 1 month LIBOR	13,000	
Advances with the FHLB with maturities ranging from 2017 through 2019 paying interest quarterly at a floating rate from (0.12)% to 0.24% over the 3 month LIBOR	30,313	14,429
Unsecured senior debt securities maturing on 2019 paying interest semiannually at a fixed rate of 7.00%, net of debt issuance costs of \$6,254 (2015 - \$7,296)	443,747	442,704
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 \$490 (2015 - \$505)	439,309	439,295
Others	18,550	19,008
Total notes payable	\$ 1,575,948	\$ 1,662,508

Note: Refer to the Corporation's 2015 Form 10-K for rates information at December 31, 2015.

At June 30, 2016, the Corporation's banking subsidiaries had credit facilities authorized with the FHLB and the Federal Reserve discount window aggregating to \$4.1 billion and \$1.3 billion (December 31, 2015 - \$3.9 billion and

\$1.3 billion, respectively), which were collateralized by loans held-in-portfolio. At June 30, 2016, the Corporation used \$929 million of the available credit facility with the FHLB (December 31, 2015 - \$762 million), which includes \$225 million used for a municipal letter of credit to secure deposits, while the borrowing capacity at the discount window remains unused.

A breakdown of borrowings by contractual maturities at June 30, 2016 is included in the table below.

(In thousands)	Fed funds purchased and assets sold under agreements to repurchase	Short-term borrowings	Notes payable	Total
Year				
2016	\$ 692,703	\$ 31,200	\$ 37,673	\$ 761,576
2017	128,901		90,939	219,840
2018			184,407	184,407
2019			591,686	591,686
2020			112,456	112,456
Later years			558,787	558,787
Total borrowings	\$ 821,604	\$ 31,200	\$ 1,575,948	\$ 2,428,752

Table of Contents**Note 19 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 June 30, 2016 and December 31, 2015.

		As of June 30, 2016		Gross Amounts Not Offset in the Statement of Financial Position			
		Gross Amounts of Offset in the Statement of Financial Position		Net Amounts of Assets Presented in the Statement of Financial Position		Financial Instruments	
		Gross Amount of Recognized Assets		Gross Amount of Financial Position		Securities Collateral Received	
						Cash Collateral Received	
						Net Amount	
(In thousands)							
Derivatives	\$	13,154	\$	\$	13,154	\$	\$ 12,868
Reverse repurchase agreements		86,328			86,328		
Total	\$	99,482	\$	\$	99,482	\$	\$ 12,868

		As of June 30, 2016		Gross Amounts Not Offset in the Statement of Financial Position			
		Gross Amounts of Offset in the Statement of Financial Position		Net Amounts of Liabilities Presented in the Statement of Financial Position		Financial Instruments	
		Gross Amount of Recognized Liabilities		Gross Amount of Financial Position		Securities Collateral Pledged	
						Cash Collateral Pledged	
						Net Amount	
(In thousands)							
Derivatives	\$	11,879	\$	\$	11,879	\$	\$ 9,242
Repurchase agreements		821,604			821,604		
Total	\$	833,483	\$	\$	833,483	\$	\$ 9,242

As of December 31, 2015

Gross Amounts Not Offset in the Statement of Financial Position							
(In thousands)	Gross Amounts of		Net Amounts of		Securities		Cash
	Gross Amount of Recognized Assets	Offset in the Statement of Financial Position	Assets Presented in the Statement of Financial Position	Financial Instruments	Collateral Received	Collateral Received	
Derivatives	\$ 16,959	\$	\$ 16,959	\$ 114	\$	\$	\$ 16,845
Reverse repurchase agreements	96,338		96,338		96,338		
Total	\$ 113,297	\$	\$ 113,297	\$ 114	\$ 96,338	\$	\$ 16,845

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As of December 31, 2015							
				Gross Amounts Not Offset in the Statement of Financial Position			
		Net Amounts of					
		Gross Amounts	Liabilities				
		Offset	Presented in				
		in the	the				
		Statement	Statement				
		of	of				
		Gross Amount	Financial	Financial	Financial	Securities	Cash
		Recognized	Position	Position	Instruments	Collateral	Collateral
		Liabilities				Pledged	Received
							Net Amount
(In thousands)							
Derivatives	\$	14,343	\$	\$ 14,343	\$ 114	\$ 4,050	\$ \$ 10,179
Repurchase agreements		712,145		712,145		712,145	
Total	\$	726,488	\$	\$ 726,488	\$ 114	\$ 716,195	\$ \$ 10,179

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 20 Stockholders equity

During the six months ended June 30, 2016, the Corporation declared quarterly dividends on its common stock of \$0.15 per share, for a total of \$ 31.1 million. The quarterly dividend declared to shareholders of record as of the close of business on June 10, 2016, which amounted to \$15.6 million, was paid on July 1, 2016.

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 \$495 million at June 30, 2016 (December 31, 2015 - \$495 million). There were no transfers between the statutory reserve account and the retained earnings account during the quarters and six months ended June 30, 2016 and June 30, 2015.

Table of Contents**Note 21 Other comprehensive loss**

The following table presents changes in accumulated other comprehensive loss by component for the quarters and six months ended June 30, 2016 and 2015.

		Changes in Accumulated Other Comprehensive Loss by Component [1]			
		Quarters ended		Six months ended	
		June 30,		June 30,	
(In thousands)		2016	2015	2016	2015
Foreign currency translation	Beginning Balance	\$ (36,635)	\$ (33,413)	\$ (35,930)	\$ (32,832)
	Other comprehensive loss before reclassifications	(1,435)	(1,092)	(2,140)	(1,673)
	Net change	(1,435)	(1,092)	(2,140)	(1,673)
	Ending balance	\$ (38,070)	\$ (34,505)	\$ (38,070)	\$ (34,505)
Adjustment of pension and postretirement benefit plans	Beginning Balance	\$ (208,510)	\$ (202,701)	\$ (211,276)	\$ (205,187)
	Amounts reclassified from accumulated other comprehensive loss for amortization of net losses	3,347	3,065	6,693	6,130
	Amounts reclassified from accumulated other comprehensive loss for amortization of prior service cost	(580)	(579)	(1,160)	(1,158)
	Net change	2,767	2,486	5,533	4,972
	Ending balance	\$ (205,743)	\$ (200,215)	\$ (205,743)	\$ (200,215)
Unrealized holding gains (losses) on investments	Beginning Balance	\$ 63,791	\$ 42,750	\$ (9,560)	\$ 8,465
	Other comprehensive income (loss) before reclassifications	34,803	(39,172)	108,154	(4,887)
	Other-than-temporary impairment amount reclassified from accumulated other comprehensive income	167	11,959	167	11,959

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	Amounts reclassified from accumulated other comprehensive income for gains on securities		(4)		(4)
	Net change	34,970	(27,217)	108,321	7,068
	Ending balance	\$ 98,761	\$ 15,533	\$ 98,761	\$ 15,533
Unrealized net (losses) gains on cash flow hedges	Beginning Balance	\$ (396)	\$ (1,036)	\$ (120)	\$ (318)
	Other comprehensive (loss) income before reclassifications	(939)	612	(2,158)	(933)
	Amounts reclassified from accumulated other comprehensive (loss) income	775	580	1,718	1,407
	Net change	(164)	1,192	(440)	474
	Ending balance	\$ (560)	\$ 156	\$ (560)	\$ 156
	Total	\$ (145,612)	\$ (219,031)	\$ (145,612)	\$ (219,031)

[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 and six months ended June 30, 2016 and 2015.

		Reclassifications Out of Accumulated Other Comprehensive Loss			
		Quarters ended		Six months ended	
		June 30,		June 30,	
(In thousands)	Affected Line Item in the Consolidated Statements of Operations	2016	2015	2016	2015
Adjustment of pension and postretirement benefit plans					
Amortization of net losses	Personnel costs	\$ (5,487)	\$ (5,025)	\$ (10,973)	\$ (10,050)
Amortization of prior service cost	Personnel costs	950	950	1,900	1,900
	Total before tax	(4,537)	(4,075)	(9,073)	(8,150)
	Income tax benefit	1,770	1,589	3,540	3,178
	Total net of tax	\$ (2,767)	\$ (2,486)	\$ (5,533)	\$ (4,972)
Unrealized holding gains (losses) on investments					
Other-than-temporary impairment	Other-than-temporary impairment losses on available-for-sale debt securities	\$ (209)	\$ (14,445)	\$ (209)	\$ (14,445)
Realized gains on sale of securities	Net gain and valuation adjustments on investment securities		5		5
	Total before tax	(209)	(14,440)	(209)	(14,440)
	Income tax benefit	42	2,485	42	2,485
	Total net of tax	\$ (167)	\$ (11,955)	\$ (167)	\$ (11,955)
Unrealized net (losses) gains on cash flow hedges					
Forward contracts	Mortgage banking activities	\$ (1,271)	\$ (951)	\$ (2,816)	\$ (2,309)
	Total before tax	(1,271)	(951)	(2,816)	(2,309)
	Income tax benefit	496	371	1,098	902
	Total net of tax	\$ (775)	\$ (580)	\$ (1,718)	\$ (1,407)
	Total reclassification adjustments, net of tax	\$ (3,709)	\$ (15,021)	\$ (7,418)	\$ (18,334)

Table of Contents**Note 22 Guarantees**

At June 30, 2016, the Corporation recorded a liability of \$0.6 million (December 31, 2015 - \$0.5 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 June 30, 2016, the Corporation serviced \$ 1.8 billion (December 31, 2015 - \$ 1.9 billion) in residential mortgage loans subject to credit recourse provisions, principally loans associated with FNMA and FHLMC residential mortgage loan securitization programs. In the event of any customer default, pursuant to the credit recourse provided, the Corporation is required to repurchase the loan or reimburse the third party investor for the incurred loss. The maximum potential amount of future payments that the Corporation would be required to make under the recourse arrangements in the event of nonperformance by the borrowers is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. During the quarter and six months ended June 30, 2016, the Corporation repurchased approximately \$ 10 million and \$ 23 million, respectively, of unpaid principal balance in mortgage loans subject to the credit recourse provisions (June 30, 2015 - \$ 14 million and \$ 30 million, respectively). In the event of nonperformance by the borrower, the Corporation has rights to the underlying collateral securing the mortgage loan. The Corporation suffers ultimate losses on these loans when the proceeds from a foreclosure sale of the property underlying a defaulted mortgage loan are less than the outstanding principal balance of the loan plus any uncollected interest advanced and the costs of holding and disposing the related property. At June 30, 2016, the Corporation's liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to \$ 57 million (December 31, 2015 - \$ 59 million).

The following table shows the changes in the Corporation's liability of estimated losses related to loans serviced with credit recourse provisions during the quarters and six month periods ended June 30, 2016 and 2015.

(In thousands)	Quarters ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Balance as of beginning of period	\$ 57,994	\$ 59,385	\$ 58,663	\$ 59,438
Provision for recourse liability	3,607	4,368	7,527	10,868
Net charge-offs	(4,670)	(6,164)	(9,259)	(12,717)
Balance as of end of period	\$ 56,931	\$ 57,589	\$ 56,931	\$ 57,589

When the Corporation sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. To the extent the loans do not meet specified characteristics, the Corporation may be required to repurchase such loans or indemnify for losses and bear any subsequent loss related to the loans. During the six months period ended June 30, 2016, BPPR did not repurchase loans under representation and warranty arrangements. Repurchases during the six months ended June 30, 2015 were minimal. A substantial amount of these loans reinstate to performing status or have mortgage insurance, and thus the ultimate losses on the loans are not deemed significant.

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From time to time, the Corporation sells loans and agrees to indemnify the purchaser for credit losses or any breach of certain representations and warranties made in connection with the sale. The following table presents the changes in the Corporation's liability for estimated losses associated with indemnifications and representations and warranties related to loans sold by BPPR for the quarters and six months ended June 30, 2016 and 2015.

(In thousands)	Quarters ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Balance as of beginning of period	\$ 8,002	\$ 14,044	\$ 8,087	\$ 15,959
Provision (reversal) for representation and warranties	2,695	(5,707)	2,801	(7,608)
Net recoveries (charge-offs)	5	(25)	(186)	(39)
Settlements paid		(2,250)		(2,250)
Balance as of end of period	\$ 10,702	\$ 6,062	\$ 10,702	\$ 6,062

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In addition, the Corporation has reserves for customary representations and warranties related to loans sold by its U.S. subsidiary E-LOAN prior to 2009, which amounted to \$ 4 million at June 30, 2016 (December 31, 2015 - \$ 4 million). E-LOAN is no longer originating and selling loans.

Servicing agreements relating to the mortgage-backed securities programs of FNMA and GNMA, and to mortgage loans sold or serviced to certain other investors, including FHLMC, require the Corporation to advance funds to make scheduled payments of principal, interest, taxes and insurance, if such payments have not been received from the borrowers. At June 30, 2016, the Corporation serviced \$20.0 billion in mortgage loans for third-parties, including the loans serviced with credit recourse (December 31, 2015 - \$20.6 billion). The Corporation generally recovers funds advanced pursuant to these arrangements from the mortgage owner, from liquidation proceeds when the mortgage loan is foreclosed or, in the case of FHA/VA loans, under the applicable FHA and VA insurance and guarantees programs. However, in the meantime, the Corporation must absorb the cost of the funds it advances during the time the advance is outstanding. The Corporation must also bear the costs of attempting to collect on delinquent and defaulted mortgage loans. In addition, if a defaulted loan is not cured, the mortgage loan would be canceled as part of the foreclosure proceedings and the Corporation would not receive any future servicing income with respect to that loan. At June 30, 2016, the outstanding balance of funds advanced by the Corporation under such mortgage loan servicing agreements was approximately \$75 million, including advances on the portfolio acquired from Doral Bank (December 31, 2015 - \$80 million). To the extent the mortgage loans underlying the Corporation's servicing portfolio experience increased delinquencies, the Corporation would be required to dedicate additional cash resources to comply with its obligation to advance funds as well as incur additional administrative costs related to increases in collection efforts.

Popular, Inc. Holding Company (PIHC) fully and unconditionally guarantees certain borrowing obligations issued by certain of its wholly-owned consolidated subsidiaries amounting to \$ 149 million at June 30, 2016 (December 31, 2015 - \$ 149 million). In addition, at June 30, 2016 and December 31, 2015, PIHC fully and unconditionally guaranteed on a subordinated basis \$ 427 million and \$ 427 million, respectively, of capital securities (trust preferred securities) issued by wholly-owned issuing trust entities to the extent set forth in the applicable guarantee agreement.

Table of Contents**Note 23 Commitments and contingencies***Off-balance sheet risk*

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

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

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

(In thousands)	June 30, 2016	December 31, 2015
Commitments to extend credit:		
Credit card lines	\$ 4,572,786	\$ 4,552,331
Commercial and construction lines of credit	2,490,300	2,619,092
Other consumer unused credit commitments	259,613	262,685
Commercial letters of credit	1,709	2,040
Standby letters of credit	34,821	49,670
Commitments to originate or fund mortgage loans	24,941	21,311

At June 30, 2016 and December 31, 2015, the Corporation maintained a reserve of approximately \$9 million and \$10 million, respectively, for potential losses associated with unfunded loan commitments related to commercial and consumer lines of credit.

Other commitments

At June 30, 2016 and December 31, 2015, the Corporation also maintained other non-credit commitments for approximately \$372 thousand and \$9 million, respectively, primarily for the acquisition of other investments.

Business concentration

Since the Corporation's business activities are currently concentrated primarily in Puerto Rico, its results of operations and financial condition are dependent upon the general trends of the Puerto Rico economy and, in particular, the residential and commercial real estate markets. The concentration of the Corporation's operations in Puerto Rico exposes it to greater risk than other banking companies with a wider geographic base. Its asset and revenue composition by geographical area is presented in Note 35 to the consolidated financial statements.

Since February 2014, the three principal rating agencies (Moody's, S&P and Fitch) have lowered their ratings on the General Obligation bonds of the Commonwealth and the bonds of several other Commonwealth instrumentalities to non-investment grade ratings. In connection with their rating actions, the rating agencies noted various factors, including high levels of public debt, the lack of a clear economic growth catalyst, recurring fiscal budget deficits, the financial condition of the public sector employee pension plans and, more recently, liquidity concerns regarding the Commonwealth and the GDB and their ability to access the capital markets. Currently, the Commonwealth's general obligation ratings are as follows: S&P, CC-, Moody's, Caa3-, and Fitch, CC-.

At June 30, 2016, the Corporation's direct exposure to the Puerto Rico government and its instrumentalities and municipalities amounted to \$ 609 million, of which approximately \$ 582 million is outstanding (\$669 million and \$ 578 million, respectively, at December 31, 2015). Of the amount outstanding, \$ 505 million consists of loans and \$ 77 million are securities (\$ 502 million and \$ 76 million at December 31, 2015). Also, of the amount outstanding, \$ 62 million represents obligations from the Government of Puerto Rico and public corporations that have a specific source of income or revenues identified for their repayment (\$ 76 million at December 31, 2015). Some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services or products, such as public utilities. Public corporations have varying degrees of

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independence from the central Government and many receive appropriations or other payments from it. At June 30, 2016, BPPR is a lender in a syndicated credit facility to PREPA and its exposure was of \$39.5 million. The facility is classified as held-for-sale as BPPR has the ability and intent to sell the loan. The remaining \$ 520 million outstanding represents obligations from various municipalities in Puerto Rico for which, in most cases, the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment (\$ 502 million at December 31, 2015). These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all of its general obligation bonds and loans. These loans have seniority to the payment of operating cost and expenses of the municipality. Further deterioration of the fiscal crisis of the Government of Puerto Rico could further affect the value of these loans and securities, resulting in losses to us. The following table details the loans and investments representing the Corporation's direct exposure to the Puerto Rico government according to their maturities:

(In thousands)	Investment Portfolio	Loans	Total Outstanding	Total Exposure
Central Government				
After 1 to 5 years	\$ 851	\$	\$ 851	\$ 851
After 5 to 10 years	3,480		3,480	3,480
After 10 years	15,265		15,265	15,265
Total Central Government	19,596		19,596	19,596
Government Development Bank (GDB)				
Within 1 year	3		3	3
After 1 to 5 years	1,675		1,675	1,675
After 5 to 10 years	48		48	48
Total Government Development Bank (GDB)	1,726		1,726	1,726
Public Corporations:				
Puerto Rico Aqueduct and Sewer Authority				
Within 1 year				27,186
After 10 years	480		480	480
Total Puerto Rico Aqueduct and Sewer Authority	480		480	27,666
Puerto Rico Electric Power Authority				
Within 1 year		39,544	39,544	39,544
After 10 years	23		23	23
Total Puerto Rico Electric Power Authority	23	39,544	39,567	39,567
Puerto Rico Highways and Transportation Authority				

After 5 to 10 years	4		4	4
Total Puerto Rico Highways and Transportation Authority	4		4	4
Municipalities				
Within 1 year	3,050	23,747	26,797	26,797
After 1 to 5 years	14,270	130,935	145,205	145,205
After 5 to 10 years	18,930	146,762	165,692	165,692
After 10 years	18,690	163,756	182,446	182,446
Total Municipalities	54,940	465,200	520,140	520,140
Total Direct Government Exposure	\$ 76,769	\$ 504,744	\$ 581,513	\$ 608,699

In addition, at June 30, 2016, the Corporation had \$418 million in indirect exposure to loans or securities that are payable by non-governmental entities, but which carry a government guarantee to cover any shortfall in collateral in the event of borrower default (\$394 million at December 31, 2015). These included \$334 million in residential mortgage loans that are guaranteed by the Puerto Rico Housing Finance Authority (December 31, 2015 - \$316 million). These mortgage loans are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default. Under recently enacted legislation, the Governor is authorized to impose a temporary moratorium on the financial obligations of Puerto Housing Finance Authority. Also, the Corporation had \$51 million in Puerto Rico pass-through housing bonds backed by FNMA, GNMA or residential loans CMOs, and \$33 million of commercial real estate notes (\$50 million and \$28 million at December 31, 2015, respectively).

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As indicated in Note 11 to the consolidated financial statements, as part of the loss sharing agreements related to the Westernbank FDIC-assisted transaction, the Corporation agreed to make a true-up payment to the FDIC on the date that is 45 days following the last day of the final shared loss month, or upon the final disposition of all covered assets under the loss sharing agreements in the event losses on the loss sharing agreements fail to reach expected levels. The fair value of the true-up payment obligation was estimated at \$ 128 million at June 30, 2016 (December 31, 2015 - \$ 120 million). For additional information refer to Note 11.

Legal Proceedings

The nature of Popular's business ordinarily results in a certain number of claims, litigation, investigations, and legal and administrative cases and proceedings. When the Corporation determines that it has meritorious defenses to the claims asserted, it vigorously defends itself. The Corporation will consider the settlement of cases (including cases where it has meritorious defenses) when, in management's judgment, it is in the best interest of both the Corporation and its shareholders to do so.

On at least a quarterly basis, Popular assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. For matters where it is probable that the Corporation will incur a material loss and the amount can be reasonably estimated, the Corporation establishes an accrual for the loss. Once established, the accrual is adjusted on at least a quarterly basis as appropriate to reflect any relevant developments. For matters where a material loss is not probable or the amount of the loss cannot be estimated, no accrual is established.

In certain cases, exposure to loss exists in excess of the accrual to the extent such loss is reasonably possible, but not probable. Management believes and estimates that the aggregate range of reasonably possible losses (with respect to those matters where such limits may be determined, in excess of amounts accrued), for current legal proceedings ranges from \$0 to approximately \$37.6 million as of June 30, 2016. For certain other cases, management cannot reasonably estimate the possible loss at this time. Any estimate involves significant judgment, given the varying stages of the proceedings (including the fact that many of them are currently in preliminary stages), the existence of multiple defendants in several of the current proceedings whose share of liability has yet to be determined, the numerous unresolved issues in many of the proceedings, and the inherent uncertainty of the various potential outcomes of such proceedings. Accordingly, management's estimate will change from time-to-time, and actual losses may be more or less than the current estimate.

While the final outcome of legal proceedings is inherently uncertain, based on information currently available, advice of counsel, and available insurance coverage, management believes that the amount it has already accrued is adequate and any incremental liability arising from the Corporation's legal proceedings will not have a material adverse effect on the Corporation's consolidated financial position as a whole. However, in the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the Corporation's consolidated financial position in a particular period.

Set forth below are descriptions of the Corporation's material legal proceedings.

PCB has been named a defendant in a putative class action complaint captioned *Josefina Valle, et al. v. Popular Community Bank*, filed in November 2012 in the New York State Supreme Court (New York County). Plaintiffs, PCB customers, allege among other things that PCB has engaged in unfair and deceptive acts and trade practices in connection with the assessment of overdraft fees and payment processing on consumer deposit accounts. The complaint further alleges that PCB improperly disclosed its consumer overdraft policies and, additionally, that the

overdraft rates and fees assessed by PCB violate New York's usury laws. The complaint seeks unspecified damages, including punitive damages, interest, disbursements, and attorneys' fees and costs.

PCB removed the case to federal court (SDNY) and plaintiffs subsequently filed a motion to remand the action to state court, which the Court granted on August 6, 2013. A motion to dismiss was filed on September 9, 2013. On October 25, 2013, plaintiffs filed an amended complaint seeking to limit the putative class to New York account holders. A motion to dismiss the amended complaint was filed in February 2014. In August 2014, the Court entered an order granting in part PCB's motion to dismiss. The sole surviving claim relates to PCB's item processing policy. On September 10, 2014, plaintiffs filed a motion for leave to file a second amended complaint to correct certain deficiencies noted in the court's decision and order. PCB subsequently filed a motion in opposition to plaintiff's motion for leave to amend and further sought to compel arbitration. In June 2015, this matter was reassigned to a new

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judge and on July 22, 2015, such Court denied PCB's motion to compel arbitration and granted plaintiffs' motion for leave to amend the complaint to replead certain claims based on item processing reordering, misstatement of balance information and failure to notify customers in advance of potential overdrafts. The Court did not, however, allow plaintiffs to replead their claim for the alleged breach of the implied covenant of good faith and fair dealing. On August 12, 2015, the Plaintiffs filed a second amended complaint. On August 24, 2015, PCB filed a Notice of Appeal as to the order granting leave to file the second amended complaint and on September 17, 2015, it filed a motion to dismiss the second amended complaint. On February 18, 2016, the Court granted in part and denied in part PCB's pending motion to dismiss. The Court dismissed plaintiffs' unfair and deceptive acts and trade practices claim to the extent it sought to recover overdraft fees incurred prior to September 2011. On March 28, 2016, PCB filed an answer to second amended complaint and on April 7, 2016, it filed a notice of appeal the partial denial of PCB's motion to dismiss. Plaintiffs are to file a motion requesting class certification by August 19, 2016. Discovery is ongoing.

BPPR has been named a defendant in a putative class action complaint captioned *Neysha Quiles et al. v. Banco Popular de Puerto Rico et al.*, filed in December 2013 in the United States District Court for the District of Puerto Rico (USDC-PR). Plaintiffs essentially allege that they and others, who have been employed by the Defendants as bank tellers and other similarly titled positions, have been paid only for scheduled work time, rather than time actually worked. The complaint seeks to maintain a collective action under the Fair Labor Standards Act (FLSA) on behalf of all individuals formerly or currently employed by BPPR in Puerto Rico and the Virgin Islands as hourly paid, non-exempt, bank tellers or other similarly titled positions at any time during the past three years. Specifically, the complaint alleges that BPPR violated FLSA by willfully failing to pay overtime premiums. Similar claims were brought under Puerto Rico law. On January 31, 2014, the Popular defendants filed an answer to the complaint. On January 9, 2015, plaintiffs submitted a motion for conditional class certification, which BPPR opposed. On February 18, 2015, the Court entered an order whereby it granted plaintiffs' request for conditional certification of the FLSA action. Following the Court's order, plaintiffs sent out notices to all purported class members with instructions for opting into the class. Approximately sixty potential class members opted into the class prior to the expiration of the opt-in period. On June 25, 2015, the Court denied with prejudice plaintiffs' motion for class certification under Rule 23 of the Federal Rules of Civil Procedure. On October 20, 2015, the parties reached an agreement in principle to resolve the referenced action for an immaterial amount, subject to their reaching an agreement on the payment of reasonable attorneys' fees. The parties submitted briefing to the Court on this issue and are currently awaiting the Court's final determination.

BPPR and Popular Securities have also been named defendants in a putative class action complaint captioned *Nora Fernandez, et al. v. UBS, et al.*, filed in the United States District Court for the Southern District of New York (SDNY) on May 5, 2014 on behalf of investors in 23 Puerto Rico closed-end investment companies. UBS Financial Services Incorporated of Puerto Rico, another named defendant, is the sponsor and co-sponsor of all 23 funds, while BPPR was co-sponsor, together with UBS, of nine (9) of those funds. Plaintiffs allege breach of fiduciary duty and breach of contract against Popular Securities, aiding and abetting breach of fiduciary duty against BPPR, and similar claims against the UBS entities. The complaint seeks unspecified damages, including disgorgement of fees and attorneys' fees. On May 30, 2014, plaintiffs voluntarily dismissed their class action in the SDNY and on that same date, they filed a virtually identical complaint in the USDC-PR and requested that the case be consolidated with the matter of *In re: UBS Financial Services Securities Litigation*, a class action currently pending before the USDC-PR in which neither BPPR nor Popular Securities are parties. The UBS defendants filed an opposition to the consolidation request and moved to transfer the case back to the SDNY on the ground that the relevant agreements between the parties contain a choice of forum clause, with New York as the selected forum. The Popular defendants joined the opposition and motion filed by UBS. By order dated January 30, 2015, the court denied the plaintiffs' motion to consolidate. By order dated March 30, 2015, the court granted defendants' motion to transfer. On May 8, 2015, plaintiffs filed an amended complaint in the SDNY containing virtually identical allegations with respect to Popular Securities and BPPR. Defendants filed motions to dismiss the amended complaint on June 18, 2015. Those motions

are pending the Court's determination.

BPPR was named a defendant in a putative class action complaint titled *In re 2014 RadioShack ERISA Litigation*, filed in U.S. District Court for the Northern District of Texas. The complaint alleges that certain employees of RadioShack incurred losses in their 401(k) plans because various fiduciaries elected to retain RadioShack's company stock in the portfolio of potential investment options. The complaint further asserts that once RadioShack's financial situation began to deteriorate in 2011, the fiduciaries of the RadioShack 401(k) Plan and the RadioShack Puerto Rico 1165(e) Plan (collectively, the Plans) should have removed RadioShack company stock from the portfolio of potential investment options.

Popular was a directed trustee, and therefore a fiduciary, of the RadioShack Puerto Rico 1165(e) Plan (PR Plan). Even though the PR Plan directed BPPR to retain RadioShack company stock within the portfolio of investment options, the complaint alleges that a

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trustee's duty of prudence requires it to disregard plan documents or directives that it knows or reasonably should know would lead to an imprudent result or would otherwise harm plan participants or beneficiaries. It further alleges that BPPR breached its fiduciary duties by (i) failing to take any meaningful steps to protect plan participants from losses that it knew would occur; (ii) failing to divest the PR Plan of company stock; and (iii) participating in the decisions of another trustee (Wells Fargo) to protect the Plans from inevitable losses.

On November 23, 2015, the parties attended a mediation session, as a result of which the parties agreed to settle this matter for an immaterial amount, with BPPR contributing approximately \$45,000. On February 22, 2016, the RadioShack defendants submitted an opposition to the bar provisions of BPPR's proposed settlement whereby they conditioned such settlement to BPPR's agreement to a proportional methodology to any subsequent settlement. Under this scenario, BPPR could have remained potentially liable for an additional proportional amount, should plaintiffs appeal the dismissal of their claim and win on appeal. On July 18, 2016, the court held a settlement fairness hearing whereby it accepted the parties' settlement agreement in all relevant respects concluding this matter with respect to BPPR.

Other Matters

The volatility in prices and declines in value that Puerto Rico municipal bonds and closed-end investment companies that invest primarily in Puerto Rico municipal bonds have experienced since August 2013 have led to regulatory inquiries, customer complaints and arbitrations for most broker-dealers in Puerto Rico, including Popular Securities. Popular Securities has received customer complaints and is named as a respondent (among other broker-dealers) in 58 arbitration proceedings with aggregate claimed damages of approximately \$140 million, including one arbitration with claimed damages of \$78 million in which one other Puerto Rico broker-dealer is a co-defendant. The proceedings are in their early stages and it is the view of the Corporation that Popular Securities has meritorious defenses to the claims asserted. The Government's defaults on its debt, its intention to pursue a comprehensive debt restructuring, including specifically its decisions to declare a moratorium on certain principal payments on bonds including those issued by Government Development Bank for Puerto Rico (the "GDB"), may increase the number of customer complaints (and claimed damages) against Popular Securities concerning Puerto Rico bonds, including bonds issued by GDB, and closed-end investment companies that invest primarily in Puerto Rico bonds. An adverse result in the matters described above or a significant increase in customer complaints could have a material adverse effect on Popular.

As mortgage lenders, the Corporation and its subsidiaries from time to time receive requests for information from departments of the U.S. government that investigate mortgage-related conduct. In particular, the BPPR has received subpoenas and other requests for information from the Federal Housing Finance Agency's Office of the Inspector General, the Civil Division of the Department of Justice and the Special Inspector General for the Troubled Asset Relief Program mainly concerning mortgages and real estate appraisals in Puerto Rico. The Corporation is cooperating with these requests.

Other Significant Proceedings

As described under "Note 11 - FDIC loss share asset and true-up payment obligation", in connection with the Westernbank FDIC-assisted transaction, on April 30, 2010, BPPR entered into loss share agreements with the FDIC, as receiver, with respect to the covered loans and other real estate owned ("OREO") that it acquired in the transaction. Pursuant to the terms of the loss share agreements, the FDIC's obligation to reimburse BPPR for losses with respect to covered assets begins with the first dollar of loss incurred. The FDIC 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 80% reimbursement under those loss share 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 for losses from the FDIC. BPPR believes that it has complied with such terms and conditions. The loss share agreement applicable to the covered commercial and OREO described below provides for loss sharing by the FDIC through the quarter ending June 30, 2015 and for reimbursement to the FDIC for recoveries through the quarter ending June 30, 2018.

For the quarters ended June 30, 2010 through March 31, 2012, BPPR received reimbursement for loss-share claims submitted to the FDIC, including charge-offs for certain commercial late stage real-estate-collateral-dependent loans and OREO calculated in accordance with BPPR's charge-off policy for non-covered assets. When BPPR submitted its shared-loss claim in connection with the June 30, 2012 quarter, however, the FDIC refused to reimburse BPPR for a portion of the claim because of a difference related to the methodology for the computation of charge-offs for certain commercial late stage real-estate-collateral-dependent loans and OREO. In accordance with the terms of the commercial loss share agreement, BPPR applied a methodology for charge-offs for late stage real-estate-collateral-dependent loans that conforms to its regulatory supervisory criteria and is calculated in accordance with BPPR's charge-off policy for non-covered assets. The FDIC stated that it believed that BPPR should use a different methodology for those charge-offs. Notwithstanding the FDIC's refusal to reimburse BPPR for certain shared-loss claims, BPPR had continued to calculate shared-loss claims for quarters subsequent to June 30, 2012 in accordance with its charge-off policy for non-covered assets.

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BPPR's loss share agreements with the FDIC specify that disputes can be submitted to arbitration before a review board under the commercial arbitration rules of the American Arbitration Association. On July 31, 2013, BPPR filed a statement of claim with the American Arbitration Association requesting that a review board determine certain matters relating to the loss-share claims under its commercial loss share agreement with the FDIC, including that the review board award BPPR the amounts owed under its unpaid quarterly certificates. The statement of claim also included requests for reimbursement of certain valuation adjustments for discounts to appraised values, costs to sell troubled assets and other items. The review board was comprised of one arbitrator appointed by BPPR, one arbitrator appointed by the FDIC and a third arbitrator selected by agreement of those arbitrators.

On October 17, 2014, BPPR and the FDIC settled all claims and counterclaims that had been submitted to the review board. The settlement provides for an agreed valuation methodology for reimbursement of charge-offs for late stage real-estate-collateral-dependent loans and resulting OREO. BPPR applied this valuation methodology to charge-offs claimed on late stage real-estate-collateral-dependent loans and resulting OREO during the remaining term of the commercial loss-sharing agreement which expired on June 30, 2015.

On November 25, 2014, the FDIC notified BPPR that it (a) would not reimburse BPPR under the commercial loss share agreement for a \$66.6 million loss claim on eight related real estate loans that BPPR restructured and consolidated (collectively, the Disputed Asset), and (b) would no longer treat the Disputed Asset as a Shared-Loss Asset under the commercial loss share agreement. The FDIC alleged that BPPR's restructure and modification of the underlying loans did not constitute a Permitted Amendment under the commercial loss share agreement, thereby causing the bank to breach Article III of the commercial loss share agreement. BPPR disagrees with the FDIC's determinations relating to the Disputed Asset, and accordingly, on December 19, 2014, delivered to the FDIC a notice of dispute under the commercial loss share agreement.

On March 19, 2015, BPPR filed a statement of claim with the American Arbitration Association requesting that a review board determine BPPR and the FDIC's disputes concerning the Disputed Asset. The statement of claim requests a declaration that the Disputed Asset is a Shared-Loss Asset under the commercial loss share agreement, a declaration that the restructuring is a Permitted Amendment under the commercial loss share agreement, and an order that the FDIC reimburse the bank for approximately \$53.3 million for the Charge-Off of the Disputed Asset, plus interest at the applicable rate. On April 1, 2015, the FDIC notified BPPR that it was clawing back approximately \$1.7 million in reimbursable expenses relating to the Disputed Asset that the FDIC had previously paid to BPPR. Thus, on April 13, 2015, BPPR notified the American Arbitration Association and the FDIC of an increase in the amount of its damages by approximately \$1.7 million. The review board in the arbitration concerning the Disputed Asset is comprised of one arbitrator appointed by BPPR, one arbitrator appointed by the FDIC and a third arbitrator selected by agreement of those arbitrators. The arbitration hearing has been scheduled for August 2016.

In addition, in November and December 2014, BPPR proposed separate portfolio sales of Shared-Loss Assets to the FDIC. The FDIC refused to consent to either sale, stating that those sales did not represent best efforts to maximize collections on Shared-Loss Assets under the commercial loss share agreement. In March 2015, BPPR proposed a third portfolio sale to the FDIC, and in May 2015, BPPR proposed a fourth portfolio sale to the FDIC.

BPPR disagrees with the FDIC's characterization of the November and December 2014 portfolio sale proposals and with the FDIC's interpretation of the commercial loss share agreement provision governing portfolio sales. Accordingly, on March 13, 2015, BPPR delivered to the FDIC a notice of dispute under the commercial loss share agreement. On June 8, 2015, BPPR filed a statement of claim with the American Arbitration Association requesting that a review board resolve the disputes concerning those proposed portfolio sales. On June 15, 2015, BPPR amended its statement of claim to include a claim for the FDIC-R's refusal to timely concur in the third sale proposed in March 2015. On June 29, 2015, the FDIC informed BPPR that it would reimburse the bank for losses arising from the

primary portfolio of the third proposed sale, but only subject to conditions to which BPPR objected. The FDIC also informed BPPR that it would not concur in the sale of the remainder (the secondary portfolio) of the third proposed sale or in the fourth proposed sale. On September 4, 2015, BPPR filed a second amended statement of claim concerning the FDIC's refusal to concur in the third and fourth portfolio sales as proposed by BPPR.

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On November 25, 2015, BPPR completed the sale of the loans in the primary portfolio of the third proposed sale, and subsequently submitted a claim for reimbursement for a portion of its losses arising from that sale, which the FDIC partially reimbursed on July 18, 2016. On June 30, 2016, BPPR completed the sales of the remaining loans included in the proposed portfolio sales.

In connection with the arbitration concerning the proposed portfolio sales, BPPR is seeking damages in the amount of \$88.5 million plus interest. The FDIC has filed a counterclaim for recoveries allegedly lost on six loans included in the third proposed sale and on the loans and related assets included in the subsequent sales. The review board in the arbitration concerning the proposed portfolio sales is comprised of one arbitrator appointed by BPPR, one arbitrator appointed by the FDIC and a third arbitrator selected by agreement of those arbitrators. The arbitration hearing is scheduled to be held in the fall of 2016. The FDIC's counterclaim will be adjudicated by the review board after it issues an award on the other issues in the portfolio sales arbitration.

On November 12, 2015, the FDIC notified BPPR that it (a) would deny certain claims included in BPPR's Second Quarter 2015 Quarterly Certificate and (b) withhold payment of approximately \$5.5 million attributed to the \$6.9 million in losses claimed under the denied claims. In support of its denial, the FDIC alleged that BPPR did not comply with its obligation under the commercial loss share agreement, including compliance with certain provisions of GAAP, acting in accordance with prudent banking practices, managing Shared-Loss Assets in the same manner as BPPR's non-Shared-Loss Assets, and using best efforts to maximize collections on the Shared-Loss Assets. BPPR disagrees with the FDIC's allegations relating to the denied claims included in BPPR's Second Quarter 2015 Quarterly Certificate, and accordingly, on January 27, 2016 delivered to the FDIC a notice of dispute under the commercial loss share agreement. On May 20, 2016, BPPR filed a demand for arbitration with the American Arbitration Association requesting that a review board resolve the disputes arising from BPPR's filing of the Second Quarter 2015 Quarterly Certificate and award BPPR damages in the amount of \$4.9 million. On June 29, 2016, the FDIC filed its answering statement and counterclaim, seeking a declaration that the FDIC properly denied a portion of the bank's shared-loss claim for one of the subject assets. The review board in the arbitration concerning the proposed portfolio sales is comprised of one arbitrator appointed by BPPR, one arbitrator appointed by the FDIC and a third arbitrator to be selected by agreement of those arbitrators. The arbitration hearing has not yet been scheduled.

The commercial shared-loss arrangement described above expired on June 30, 2015, when the three year recovery period commenced. As of June 30, 2016, BPPR had unreimbursed loss claims related to this arrangement amounting to approximately \$142 million, reflected in the FDIC indemnification asset as a receivable from the FDIC, which are subject to the arbitration proceedings described above. Until these disputes are finally resolved, the terms of the commercial loss share agreement will remain in effect with respect to any such items under dispute. No assurance can be given that we will receive reimbursement from the FDIC with respect to the foregoing items, which could require us to make a material adjustment to the value of our loss share asset and the related true-up payment obligation to the FDIC and could have a material adverse effect on our financial results for the period in which such adjustment is taken.

The loss sharing agreement applicable to single-family residential mortgage loans provides for FDIC loss sharing and BPPR reimbursement to the FDIC for ten years (ending on June 30, 2020). As of June 30, 2016, the carrying value of covered loans approximated \$607 million, mainly comprised of single-family residential mortgage loans. To the extent that estimated losses on covered loans are not realized before the expiration of the applicable loss sharing agreement, such losses would not be subject to reimbursement from the FDIC and, accordingly, would require us to make a material adjustment in the value of our loss share asset and the related true up payment obligation to the FDIC and could have a material adverse effect on our financial results for the period in which such adjustment is taken.

Table of Contents**Note 24 Non-consolidated variable interest entities**

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

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

ASU 2009-17 requires that an ongoing primary beneficiary assessment should be made to determine whether the Corporation is the primary beneficiary of any of the VIEs it is involved with. The conclusion on the assessment of these trusts and guaranteed mortgage securitization transactions has not changed since their initial evaluation. The Corporation concluded that it is still not the primary beneficiary of these VIEs, and therefore, these VIEs are not required to be consolidated in the Corporation's financial statements at June 30, 2016.

The Corporation holds variable interests in these VIEs in the form of agency mortgage-backed securities and collateralized mortgage obligations, including those securities originated by the Corporation and those acquired from third parties. Additionally, the Corporation holds agency mortgage-backed securities, agency collateralized mortgage obligations and private label collateralized mortgage obligations issued by third party VIEs in which it has no other form of continuing involvement. Refer to Note 26 to the consolidated financial statements for additional information on the debt securities outstanding at June 30, 2016 and December 31, 2015, which are classified as available-for-sale and trading securities in the Corporation's consolidated statements of financial condition. In addition, the Corporation may retain the right to service the transferred loans in those government-sponsored special purpose entities (SPEs) and may also purchase the right to service loans in other government-sponsored SPEs that were transferred to those SPEs by a third-party. Pursuant to ASC Subtopic 810-10, the servicing fees that the Corporation receives for its servicing role are considered variable interests in the VIEs since the servicing fees are subordinated to the principal and interest that first needs to be paid to the mortgage-backed securities' investors and to the guaranty fees that need to be paid to the federal agencies.

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The following table presents the carrying amount and classification of the assets related to the Corporation's variable interests in non-consolidated VIEs and the maximum exposure to loss as a result of the Corporation's involvement as servicer with non-consolidated VIEs at June 30, 2016 and December 31, 2015.

(In thousands)	June 30, 2016	December 31, 2015
Assets		
Servicing assets:		
Mortgage servicing rights	\$ 160,384	\$ 163,224
Total servicing assets	\$ 160,384	\$ 163,224
Other assets:		
Servicing advances	\$ 21,753	\$ 24,431
Total other assets	\$ 21,753	\$ 24,431
Total assets	\$ 182,137	\$ 187,655
Maximum exposure to loss	\$ 182,137	\$ 187,655

The size of the non-consolidated VIEs, in which the Corporation has a variable interest in the form of servicing fees, measured as the total unpaid principal balance of the loans, amounted to \$12.6 billion at June 30, 2016 (December 31, 2015 - \$12.8 billion).

Maximum exposure to loss represents the maximum loss, under a worst case scenario, that would be incurred by the Corporation, as servicer for the VIEs, assuming all loans serviced are delinquent and that the value of the Corporation's interests and any associated collateral declines to zero, without any consideration of recovery. The Corporation determined that the maximum exposure to loss includes the fair value of the MSR and the assumption that the servicing advances at June 30, 2016 and December 31, 2015, will not be recovered. The agency debt securities are not included as part of the maximum exposure to loss since they are guaranteed by the related agencies.

In September of 2011, BPPR sold construction and commercial real estate loans with a fair value of \$148 million, and most of which were non-performing, to a newly created joint venture, PRLP 2011 Holdings, LLC. The joint venture was created for the limited purpose of acquiring the loans from BPPR; servicing the loans through a third-party servicer; ultimately working out, resolving and/or foreclosing the loans; and indirectly owning, operating, constructing, developing, leasing and selling any real properties acquired by the joint venture through deed in lieu of foreclosure, foreclosure, or by resolution of any loan.

BPPR provided financing to the joint venture for the acquisition of the loans in an amount equal to the sum of 57% of the purchase price of the loans, or \$84 million, and \$2 million of closing costs, for a total acquisition loan of \$86 million (the "acquisition loan"). The acquisition loan has a 5-year maturity and bears a variable interest at 30-day LIBOR plus 300 basis points and is secured by a pledge of all of the acquiring entity's assets. In addition, BPPR provided the joint venture with a non-revolving advance facility (the "advance facility") of \$68.5 million to cover unfunded commitments and costs-to-complete related to certain construction projects, and a revolving working capital line (the "working capital line") of \$20 million to fund certain operating expenses of the joint venture. Cash proceeds received by the joint venture are first used to cover debt service payments for the acquisition loan, advance facility,

and the working capital line described above which must be paid in full before proceeds can be used for other purposes. The distributable cash proceeds are determined based on a pro-rata basis in accordance with the respective equity ownership percentages. BPPR's equity interest in the joint venture ranks pari-passu with those of other parties involved. As part of the transaction executed in September 2011, BPPR received \$ 48 million in cash and a 24.9% equity interest in the joint venture. The Corporation is not required to provide any other financial support to the joint venture.

BPPR accounted for this transaction as a true sale pursuant to ASC Subtopic 860-10 and thus recognized the cash received, its equity investment in the joint venture, and the acquisition loan provided to the joint venture and derecognized the loans sold.

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

The Corporation holds variable interests in this VIE in the form of the 24.9% equity interest (the Investment in PRLP 2011 Holdings, LLC) and the financing provided to the joint venture. The equity interest is accounted for under the equity method of accounting pursuant to ASC Subtopic 323-10.

The initial fair value of the Corporation's equity interest in the joint venture was determined based on the fair value of the loans and real estate owned transferred to the joint venture of \$148 million which represented the purchase price of the loans agreed by the

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parties and was an arm's-length transaction between market participants in accordance with ASC Topic 820, reduced by the acquisition loan provided by BPPR to the joint venture, for a total net equity of \$63 million. Accordingly, the 24.9% equity interest held by the Corporation was valued at \$16 million. Thus, the fair value of the equity interest is considered a Level 2 fair value measurement since the inputs were based on observable market inputs.

The following table presents the carrying amount and classification of the assets and liabilities related to the Corporation's variable interests in the non-consolidated VIE, PRLP 2011 Holdings, LLC, and its maximum exposure to loss at June 30, 2016 and December 31, 2015.

(In thousands)	June 30, 2016	December 31, 2015
Assets		
Loans held-in-portfolio:		
Advances under the working capital line	\$	\$ 579
Advances under the advance facility		401
Total loans held-in-portfolio	\$	\$ 980
Accrued interest receivable	\$	\$ 10
Other assets:		
Investment in PRLP 2011 Holdings LLC	\$ 9,076	\$ 13,069
Total assets	\$ 9,076	\$ 14,059
Deposits	\$ (2,806)	\$ (18,808)
Total liabilities	\$ (2,806)	\$ (18,808)
Total net assets (liabilities)	\$ 6,270	\$ (4,749)
Maximum exposure to loss	\$ 6,270	\$

The Corporation determined that the maximum exposure to loss under a worst case scenario at June 30, 2016 would be not recovering the equity interest held by the Corporation, net of the deposits.

On March 25, 2013, BPPR completed a sale of assets with a book value of \$509.0 million, of which \$500.6 million were in non-performing status, comprised of commercial and construction loans, and commercial and single family real estate owned, with a combined unpaid principal balance on loans and appraised value of other real estate owned of approximately \$987.0 million to a newly created joint venture, PR Asset Portfolio 2013-1. The joint venture was created for the limited purpose of acquiring the loans from BPPR; servicing the loans through a third-party servicer; ultimately working out, resolving and/or foreclosing the loans; and indirectly owning, operating, constructing, developing, leasing and selling any real properties acquired by the joint venture through deed in lieu of foreclosure, foreclosure, or by resolution of any loan.

BPPR provided financing to the joint venture for the acquisition of the assets in an amount equal to the sum of 57% of the purchase price of the assets, and closing costs, for a total acquisition loan of \$182.4 million (the acquisition loan). The acquisition loan has a 5-year maturity and bears a variable interest at 30-day LIBOR plus 300 basis points and is

secured by a pledge of all of the acquiring entity's assets. In addition, BPPR provided the joint venture with a non-revolving advance facility (the "advance facility") of \$35.0 million to cover unfunded commitments and costs-to-complete related to certain construction projects, and a revolving working capital line (the "working capital line") of \$30.0 million to fund certain operating expenses of the joint venture. Cash proceeds received by the joint venture are first used to cover debt service payments for the acquisition loan, advance facility, and the working capital line described above which must be paid in full before proceeds can be used for other purposes. The distributable cash proceeds are determined based on a pro-rata basis in accordance with the respective equity ownership percentages. BPPR's equity interest in the joint venture ranks pari-passu with those of other parties involved. As part of the transaction executed in March 2013, BPPR received \$92.3 million in cash and a 24.9% equity interest in the joint venture. The Corporation is not required to provide any other financial support to the joint venture.

BPPR accounted for this transaction as a true sale pursuant to ASC Subtopic 860-10 and thus recognized the cash received, its equity investment in the joint venture, and the acquisition loan provided to the joint venture and derecognized the loans and real estate owned sold.

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The Corporation has determined that PR Asset Portfolio 2013-1 International, LLC is a VIE but the Corporation is not the primary beneficiary. All decisions are made by CPG (or an affiliate thereof) (the Manager), except for certain limited material decisions which would require the unanimous consent of all members. The Manager is authorized to execute and deliver on behalf of the joint venture any and all documents, contracts, certificates, agreements and instruments, and to take any action deemed necessary in the benefit of the joint venture. Also, the Manager delegates the day-to-day management and servicing of the loans to PR Asset Portfolio Servicing International, LLC, an affiliate of CPG.

The initial fair value of the Corporation's equity interest in the joint venture was determined based on the fair value of the loans and real estate owned transferred to the joint venture of \$306 million which represented the purchase price of the loans agreed by the parties and was an arm's-length transaction between market participants in accordance with ASC Topic 820, reduced by the acquisition loan provided by BPPR to the joint venture, for a total net equity of \$124 million. Accordingly, the 24.9% equity interest held by the Corporation was valued at \$31 million. Thus, the fair value of the equity interest is considered a Level 2 fair value measurement since the inputs were based on observable market inputs.

The Corporation holds variable interests in this VIE in the form of the 24.9% equity interest (the Investment in PR Asset Portfolio 2013-1 International, LLC) and the financing provided to the joint venture. The equity interest is accounted for under the equity method of accounting pursuant to ASC Subtopic 323-10.

The following table presents the carrying amount and classification of the assets and liabilities related to the Corporation's variable interests in the non-consolidated VIE, PR Asset Portfolio 2013-1 International, LLC, and its maximum exposure to loss at June 30, 2016 and December 31, 2015.

(In thousands)	June 30, 2016	December 31, 2015
Assets		
Loans held-in-portfolio:		
Acquisition loan	\$	\$ 35,121
Advances under the working capital line	794	885
Advances under the advance facility	24,649	22,296
Total loans held-in-portfolio	\$ 25,443	\$ 58,302
Accrued interest receivable	\$ 82	\$ 169
Other assets:		
Investment in PR Asset Portfolio 2013-1 International, LLC	\$ 24,771	\$ 25,094
Total assets	\$ 50,296	\$ 83,565
Deposits	\$ (10,558)	\$ (11,772)
Total liabilities	\$ (10,558)	\$ (11,772)
Total net assets	\$ 39,738	\$ 71,793

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Maximum exposure to loss	\$	39,738	\$	71,793
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The Corporation determined that the maximum exposure to loss under a worst case scenario at June 30, 2016 would be not recovering the carrying amount of the advances on the advance facility, the working capital line, and the equity interest held by the Corporation, net of the deposits.

Table of Contents**Note 25 Related party transactions****EVERTEC**

The Corporation has an investment in EVERTEC, Inc. (EVERTEC), which provides various processing and information technology services to the Corporation and its subsidiaries and gives BPPR access to the ATH network owned and operated by EVERTEC. As of June 30, 2016, the Corporation's stake in EVERTEC was 15.74%. The Corporation continues to have significant influence over EVERTEC. Accordingly, the investment in EVERTEC is accounted for under the equity method and is evaluated for impairment if events or circumstances indicate that a decrease in value of the investment has occurred that is other than temporary.

On May 26, 2016, EVERTEC, Inc. filed its Annual Report on Form 10-K for the year ended December 31, 2015, which included restated audited results for the years ended December 31, 2014 and 2013, correcting certain errors involved with the accounting for tax positions taken by EVERTEC in the 2010 tax year and other miscellaneous accounting adjustments. The Corporation's proportionate share of the cumulative impact of EVERTEC's restatement and other corrective adjustments to its financial statements was approximately \$2.2 million and is reflected as part of other non-interest income.

The Corporation received \$ 2.3 million in dividend distributions during the six months ended June 30, 2016 from its investments in EVERTEC's holding company (June 30, 2015 - \$ 2.3 million). The Corporation's equity in EVERTEC is presented in the table which follows and is included as part of other assets in the consolidated statements of financial condition.

(In thousands)	June 30, 2016	December 31, 2015
Equity investment in EVERTEC	\$ 35,073	\$ 33,590

The Corporation had the following financial condition balances outstanding with EVERTEC at June 30, 2016 and December 31, 2015. Items that represent liabilities to the Corporation are presented with parenthesis.

(In thousands)	June 30, 2016	December 31, 2015
Accounts receivable (Other assets)	\$ 2,909	\$ 3,148
Deposits	(15,660)	(23,973)
Accounts payable (Other liabilities)	(17,308)	(16,192)
Net total	\$ (30,059)	\$ (37,017)

The Corporation's proportionate share of income or loss from EVERTEC is included in other operating income in the consolidated statements of operations. The following table presents the Corporation's proportionate share of EVERTEC's income (loss) and changes in stockholders' equity for the quarters and six months ended June 30, 2016 and 2015.

Quarter ended Six months ended

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(In thousands)	June 30, 2016	June 30, 2016
Share of income from the investment in EVERTEC	\$ 3,185	\$ 6,199
Share of other changes in EVERTEC's stockholders' equity	(1,537)	(1,325)
Share of EVERTEC's changes in equity recognized in income	\$ 1,648	\$ 4,874

(In thousands)	Quarter ended June 30, 2015	Six months ended June 30, 2015
Share of income from the investment in EVERTEC	\$ 3,046	\$ 5,915
Share of other changes in EVERTEC's stockholders' equity	214	565
Share of EVERTEC's changes in equity recognized in income	\$ 3,260	\$ 6,480

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The following tables present the transactions and service payments between the Corporation and EVERTEC (as an affiliate) and their impact on the results of operations for the quarters and six months ended June 30, 2016 and 2015. Items that represent expenses to the Corporation are presented with parenthesis.

(In thousands)	Quarter ended June 30, 2016	Six months ended June 30, 2016	Category
Interest expense on deposits	\$ (17)	\$ (36)	Interest expense
ATH and credit cards			
interchange income from			
services to EVERTEC	7,497	14,415	Other service fees
Rental income charged to			
EVERTEC	1,736	3,472	Net occupancy
Processing fees on services			
provided by EVERTEC	(43,262)	(86,778)	Professional fees
Other services provided to			
EVERTEC	258	514	Other operating expenses
Total	\$ (33,788)	\$ (68,413)	

(In thousands)	Quarter ended June 30, 2015	Six months ended June 30, 2015	Category
Interest expense on deposits	\$ (15)	\$ (26)	Interest expense
ATH and credit cards			
interchange income from			
services to EVERTEC	7,166	13,653	Other service fees
Rental income charged to			
EVERTEC	1,723	3,447	Net occupancy
Processing fees on services			
provided by EVERTEC	(41,946)	(81,450)	Professional fees
Other services provided to			
EVERTEC	384	708	Other operating expenses
Total	\$ (32,688)	\$ (63,668)	

EVERTEC had a letter of credit issued by BPPR, for the amount of \$ 4.2 million at December 31, 2015, which expired on February 10, 2016.

PRLP 2011 Holdings LLC

As indicated in Note 24 to the consolidated financial statements, the Corporation holds a 24.9% equity interest in PRLP 2011 Holdings LLC and currently holds certain deposits from the entity.

The Corporation's equity in PRLP 2011 Holdings, LLC is presented in the table which follows and is included as part of other assets in the consolidated statements of financial condition.

(In thousands)	June 30, 2016	December 31, 2015
Equity investment in PRLP 2011 Holdings, LLC	\$ 9,076	\$ 13,069

The Corporation had the following financial condition balances outstanding with PRLP 2011 Holdings, LLC at June 30, 2016 and December 31, 2015.

(In thousands)	June 30, 2016	December 31, 2015
Loans	\$	\$ 980
Accrued interest receivable		10
Deposits (non-interest bearing)	(2,806)	(18,808)
Net total	\$ (2,806)	\$ (17,818)

The Corporation's proportionate share of income or loss from PRLP 2011 Holdings, LLC is included in other operating income in the consolidated statements of operations. The following table presents the Corporation's proportionate share of income (loss) from PRLP 2011 Holdings, LLC for the quarters and six months ended June 30, 2016 and 2015.

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(In thousands)	Quarter ended June 30, 2016	Six months ended June 30, 2016
Share of loss from the equity investment in PRLP 2011 Holdings, LLC	\$ (52)	\$ (594)

(In thousands)	Quarter ended June 30, 2015	Six months ended June 30, 2015
Share of loss from the equity investment in PRLP 2011 Holdings, LLC	\$ (2,863)	\$ (1,830)

The following table presents transactions between the Corporation and PRLP 2011 Holdings, LLC and their impact on the Corporation's results of operations for the quarters and six months ended June 30, 2016 and 2015.

(In thousands)	Quarter ended June 30, 2016	Six months ended June 30, 2016	Category
Interest income on loan to PRLP 2011 Holdings, LLC	\$	\$ 11	Interest income

(In thousands)	Quarter ended June 30, 2015	Six months ended June 30, 2015	Category
Interest income on loan to PRLP 2011 Holdings, LLC	\$ 51	\$ 113	Interest income

PR Asset Portfolio 2013-1 International, LLC

As indicated in Note 24 to the consolidated financial statements, effective March 2013 the Corporation holds a 24.9% equity interest in PR Asset Portfolio 2013-1 International, LLC and currently provides certain financing to the joint venture as well as holds certain deposits from the entity.

The Corporation's equity in PR Asset Portfolio 2013-1 International, LLC is presented in the table which follows and is included as part of other assets in the consolidated statements of financial condition.

(In thousands)	June 30, 2016	December 31, 2015
Equity investment in PR Asset Portfolio 2013-1 International, LLC	\$ 24,771	\$ 25,094

The Corporation had the following financial condition balances outstanding with PR Asset Portfolio 2013-1 International, LLC, at June 30, 2016 and December 31, 2015.

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(In thousands)	June 30, 2016	December 31, 2015
Loans	\$ 25,443	\$ 58,302
Accrued interest receivable	82	169
Deposits	(10,558)	(11,772)
Net total	\$ 14,967	\$ 46,699

The Corporation's proportionate share of income or loss from PR Asset Portfolio 2013-1 International, LLC is included in other operating income in the consolidated statements of operations. The following table presents the Corporation's proportionate share of income (loss) from PR Asset Portfolio 2013-1 International, LLC for the quarters and six months ended June 30, 2016 and 2015.

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(In thousands)	Quarter ended June 30, 2016	Six months ended June 30, 2016
Share of income (loss) from the equity investment in PR Asset Portfolio 2013-1 International, LLC	\$ 199	\$ (323)

(In thousands)	Quarter ended June 30, 2015	Six months ended June 30, 2015
Share of loss from the equity investment in PR Asset Portfolio 2013-1 International, LLC	\$ (133)	\$ (4,468)

The following table presents transactions between the Corporation and PR Asset Portfolio 2013-1 International, LLC and their impact on the Corporation's results of operations for the quarters and six months ended June 30, 2016 and 2015.

(In thousands)	Quarter ended June 30, 2016	Six months ended June 30, 2016	Category
Interest income on loan to PR Asset Portfolio 2013-1 International, LLC	\$ 289	\$ 734	Interest income
Interest expense on deposits	(1)	(2)	Interest expense
Total	\$ 288	\$ 732	

(In thousands)	Quarter ended June 30, 2015	Six months ended June 30, 2015	Category
Interest income on loan to PR Asset Portfolio 2013-1 International, LLC	\$ 747	\$ 1,613	Interest income
Servicing fee paid by PR Asset Portfolio 2013-1 International, LLC	(1)	(1)	Other service fees
Total	\$ 746	\$ 1,612	

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Note 26 Fair value measurement

ASC Subtopic 820-10 Fair Value Measurements and Disclosures establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels in order to increase consistency and comparability in fair value measurements and disclosures. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date. Valuation on these instruments does not necessitate a significant degree of judgment since valuations are based on quoted prices that are readily available in an active market.

Level 2 - Quoted prices other than those included in Level 1 that are observable either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or that can be corroborated by observable market data for substantially the full term of the financial instrument.

Level 3 - Inputs are unobservable and significant to the fair value measurement. Unobservable inputs reflect the Corporation's own assumptions about assumptions that market participants would use in pricing the asset or liability.

The Corporation maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Fair value is based upon quoted market prices when available. If listed prices or quotes are not available, the Corporation employs internally-developed models that primarily use market-based inputs including yield curves, interest rates, volatilities, and credit curves, among others. Valuation adjustments are limited to those necessary to ensure that the financial instrument's fair value is adequately representative of the price that would be received or paid in the marketplace. These adjustments include amounts that reflect counterparty credit quality, the Corporation's credit standing, constraints on liquidity and unobservable parameters that are applied consistently. There have been no changes in the Corporation's methodologies used to estimate the fair value of assets and liabilities from those disclosed in the 2015 Form 10-K.

The estimated fair value may be subjective in nature and may involve uncertainties and matters of significant judgment for certain financial instruments. Changes in the underlying assumptions used in calculating fair value could significantly affect the results.

Table of Contents*Fair Value on a Recurring and Nonrecurring Basis*

The following fair value hierarchy tables present information about the Corporation's assets and liabilities measured at fair value on a recurring basis at June 30, 2016 and December 31, 2015:

(In thousands)	At June 30, 2016			
	Level 1	Level 2	Level 3	Total
RECURRING FAIR VALUE MEASUREMENTS				
Assets				
Investment securities available-for-sale:				
U.S. Treasury securities	\$	\$ 1,624,776	\$	\$ 1,624,776
Obligations of U.S. Government sponsored entities		773,841		773,841
Obligations of Puerto Rico, States and political subdivisions		25,635		25,635
Collateralized mortgage obligations - federal agencies		1,438,721		1,438,721
Mortgage-backed securities		3,365,845	1,398	3,367,243
Equity securities	399	2,121		2,520
Other		9,940		9,940
Total investment securities available-for-sale	\$ 399	\$ 7,240,879	\$ 1,398	\$ 7,242,676
Trading account securities, excluding derivatives:				
Obligations of Puerto Rico, States and political subdivisions	\$	\$ 4,815	\$	\$ 4,815
Collateralized mortgage obligations			1,399	1,399
Mortgage-backed securities - federal agencies		47,006	5,364	52,370
Other		13,306	640	13,946
Total trading account securities	\$	\$ 65,127	\$ 7,403	\$ 72,530
Mortgage servicing rights	\$	\$	\$ 203,577	\$ 203,577
Derivatives		13,154		13,154
Total assets measured at fair value on a recurring basis	\$ 399	\$ 7,319,160	\$ 212,378	\$ 7,531,937
Liabilities				
Derivatives	\$	\$ (11,879)	\$	\$ (11,879)
Contingent consideration			(128,511)	(128,511)
Total liabilities measured at fair value on a recurring basis	\$	\$ (11,879)	\$ (128,511)	\$ (140,390)

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	At December 31, 2015			
(In thousands)	Level 1	Level 2	Level 3	Total
RECURRING FAIR VALUE MEASUREMENTS				
Assets				
Investment securities available-for-sale:				
U.S. Treasury securities	\$	\$ 1,183,328	\$	\$ 1,183,328
Obligations of U.S. Government sponsored entities		939,641		939,641
Obligations of Puerto Rico, States and political subdivisions		22,359		22,359
Collateralized mortgage obligations - federal agencies		1,560,837		1,560,837
Mortgage-backed securities		2,342,762	1,434	2,344,196
Equity securities	276	2,122		2,398
Other		10,233		10,233
Total investment securities available-for-sale	\$ 276	\$ 6,061,282	\$ 1,434	\$ 6,062,992
Trading account securities, excluding derivatives:				
Obligations of Puerto Rico, States and political subdivisions	\$	\$ 4,590	\$	\$ 4,590
Collateralized mortgage obligations		223	1,831	2,054
Mortgage-backed securities - federal agencies		44,701	6,454	51,155
Other		13,173	687	13,860
Total trading account securities	\$	\$ 62,687	\$ 8,972	\$ 71,659
Mortgage servicing rights	\$	\$	\$ 211,405	\$ 211,405
Derivatives		16,959		16,959
Total assets measured at fair value on a recurring basis	\$ 276	\$ 6,140,928	\$ 221,811	\$ 6,363,015
Liabilities				
Derivatives	\$	\$ (14,343)	\$	\$ (14,343)
Contingent consideration			(120,380)	(120,380)
Total liabilities measured at fair value on a recurring basis	\$	\$ (14,343)	\$ (120,380)	\$ (134,723)

The fair value information included in the following tables is not as of period end, but as of the date that the fair value measurement was recorded during the six months ended June 30, 2016 and 2015 and excludes nonrecurring fair value measurements of assets no longer outstanding as of the reporting date.

	Six months ended June 30, 2016			
(In thousands)	Level 1	Level 2	Level 3	Total

**NONRECURRING FAIR VALUE
MEASUREMENTS**

Assets					Write-downs
Loans ^[1]	\$	\$	\$ 30,221	\$ 30,221	\$ (18,844)
Other real estate owned ^[2]			31,803	31,803	(6,197)
Other foreclosed assets ^[2]			55	55	(2)
Total assets measured at fair value on a nonrecurring basis	\$	\$	\$ 62,079	\$ 62,079	\$ (25,043)

[1] Relates mostly to certain impaired collateral dependent loans. The impairment was measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with the provisions of ASC Section 310-10-35. Costs to sell are excluded from the reported fair value amount.

[2] Represents the fair value of foreclosed real estate and other collateral owned that were written down to their fair value. Costs to sell are excluded from the reported fair value amount.

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Six months ended June 30, 2015					
(In thousands)	Level 1	Level 2	Level 3	Total	
NONRECURRING FAIR VALUE MEASUREMENTS					
Assets					Write-downs
Loans ^[1]	\$	\$	\$ 156,607	\$ 156,607	\$ (80,643)
Loans held-for-sale ^[2]			214	214	(35)
Other real estate owned ^[3]		438	46,954	47,392	(36,909)
Other foreclosed assets ^[3]			73	73	(799)
Total assets measured at fair value on a nonrecurring basis	\$	\$ 438	\$ 203,848	\$ 204,286	\$ (118,386)

[1] Relates mostly to certain impaired collateral dependent loans. The impairment was measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with the provisions of ASC Section 310-10-35. Costs to sell are excluded from the reported fair value amount.

[2] Relates to lower of cost or fair value adjustments on loans held-for-sale and loans transferred from loans held-in-portfolio to loans held-for-sale. Costs to sell are excluded from the reported fair value amount.

[3] Represents the fair value of foreclosed real estate and other collateral owned that were written down to their fair value. Costs to sell are excluded from the reported fair value amount.

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the quarters and six months ended June 30, 2016 and 2015.

Quarter ended June 30, 2016								
(In thousands)	MBS classified as investment securities available-for-sale	CMOs as trading account securities	MBS classified as trading account securities	Other securities as trading account securities	Mortgage servicing rights	Total assets	Contingent consideration	Total liabilities
Balance at March 31, 2016	\$ 1,422	\$ 1,783	\$ 5,397	\$ 663	\$ 205,051	\$ 214,316	\$ (120,823)	\$ (120,823)
Gains (losses) included in earnings		(7)	28	(23)	(4,340)	(4,342)	(7,688)	(7,688)
Gains (losses) included in OCI	1					1		
Additions		35	610		2,866	3,511		
Sales		(202)	(596)			(798)		
Settlements	(25)	(210)	(75)			(310)		
Balance at June 30, 2016	\$ 1,398	\$ 1,399	\$ 5,364	\$ 640	\$ 203,577	\$ 212,378	\$ (128,511)	\$ (128,511)

Changes in
unrealized gains
(losses) included in
earnings relating to
assets still held at

June 30, 2016 \$ (3) \$ 15 \$ 10 \$ 632 \$ 654 \$ (7,688) \$ (7,688)

Six months ended June 30, 2016

	MBS classified as investment securities available- for-sale	CMOs classified as trading account securities	MBS classified as trading account securities	Other securities classified as trading account securities	Mortgage servicing rights	Total assets	Contingent consideration	Total liabilities
(In thousands)								
Balance at January 1, 2016	\$ 1,434	\$ 1,831	\$ 6,454	\$ 687	\$ 211,405	\$ 221,811	\$ (120,380)	\$ (120,380)
Gains (losses) included in earnings	(2)	(13)	117	(47)	(12,817)	(12,762)	(8,131)	(8,131)
Gains (losses) included in OCI	16					16		
Additions		209	948		4,989	6,146		
Sales		(308)	(1,716)			(2,024)		
Settlements	(50)	(320)	(439)			(809)		
Balance at June 30, 2016	\$ 1,398	\$ 1,399	\$ 5,364	\$ 640	\$ 203,577	\$ 212,378	\$ (128,511)	\$ (128,511)

Changes in
unrealized gains
(losses) included in
earnings relating to
assets still held at

June 30, 2016 \$ (6) \$ 101 \$ 21 \$ (3,233) \$ (3,117) \$ (8,131) \$ (8,131)

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(In thousands)	Quarter ended June 30, 2015							
	MBS classified as investment securities available- for-sale	CMOs classified as trading account securities	MBS classified as trading account securities	Other securities classified as trading account securities	Mortgage servicing rights	Total assets	Contingent consideration	Total liabilities
Balance at March 31, 2015	\$ 1,435	\$ 1,242	\$ 6,221	\$ 1,544	\$ 149,024	\$ 159,466	\$ (129,470)	\$ (129,470)
Gains (losses) included in earnings		(2)	(3)	75	(1,917)	(1,847)	3,671	3,671
Gains (losses) included in OCI	10					10		
Additions		37	128		59,312	59,477		
Settlements		(85)	(300)		(62)	(447)		
Adjustments							962	962
Balance at June 30, 2015	\$ 1,445	\$ 1,192	\$ 6,046	\$ 1,619	\$ 206,357	\$ 216,659	\$ (124,837)	\$ (124,837)
Changes in unrealized gains (losses) included in earnings relating to assets still held at June 30, 2015	\$	\$	\$ 6	\$ 119	\$ 2,570	\$ 2,695	\$ 3,671	\$ 3,671

(In thousands)	Six months ended June 30, 2015							
	MBS classified as investment securities available- for-sale	CMOs classified as trading account securities	MBS classified as trading account securities	Other securities classified as trading account securities	Mortgage servicing rights	Total assets	Contingent consideration	Total liabilities
Balance at January 1, 2015	\$ 1,325	\$ 1,375	\$ 6,229	\$ 1,563	\$ 148,694	\$ 159,186	\$ (133,634)	\$ (133,634)
Gains (losses) included in earnings		(4)	14	56	(6,846)	(6,780)	7,835	7,835
Gains (losses) included in OCI	2					2		
Additions	118	37	258		64,571	64,984		
Sales		(44)	(80)			(124)		
Settlements		(172)	(375)		(62)	(609)		
Adjustments							962	962

Balance at June 30, 2015 \$ 1,445 \$ 1,192 \$ 6,046 \$ 1,619 \$ 206,357 \$ 216,659 \$ (124,837) \$ (124,837)

Changes in unrealized gains (losses) included in earnings relating to assets still held at June 30, 2015 \$ \$ (1) \$ 25 \$ 142 \$ 1,886 \$ 2,052 \$ 7,835 \$ 7,835

There were no transfers in and / or out of Level 1, Level 2, or Level 3 for financial instruments measured at fair value on a recurring basis during the quarters and six months ended June 30, 2016 and 2015.

Gains and losses (realized and unrealized) included in earnings for the quarters and six months ended June 30, 2016 and 2015 for Level 3 assets and liabilities included in the previous tables are reported in the consolidated statement of operations as follows:

(In thousands)	Quarter ended June 30, 2016		Six months ended June 30, 2016	
	Changes in unrealized		Changes in unrealized	
	Total gains	gains (losses) relating to	Total	gains (losses) relating to
	(losses) included	assets still held	gains	assets still held
	in	at	in	at
	earnings	reporting date	earnings	reporting date
Interest income	\$	\$	\$ (2)	\$
FDIC loss share (expense)				
income	(7,688)	(7,688)	(8,131)	(8,131)
Mortgage banking activities	(4,340)	632	(12,817)	(3,233)
Trading account profit (loss)	(2)	22	57	116
Total	\$ (12,030)	\$ (7,034)	\$ (20,893)	\$ (11,248)

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	Quarter ended June 30, 2015		Six months ended June 30, 2015	
	Total gains	Changes in unrealized gains (losses) relating to assets still held	Total gains	Changes in unrealized gains (losses) relating to assets still held
(In thousands)	(losses) included in earnings	at reporting date	(losses) included in earnings	at reporting date
FDIC loss share (expense) income	\$ 3,671	\$ 3,671	\$ 7,835	\$ 7,835
Mortgage banking activities	(1,917)	2,570	(6,846)	1,886
Trading account profit (loss)	70	125	66	166
Total	\$ 1,824	\$ 6,366	\$ 1,055	\$ 9,887

The following table includes quantitative information about significant unobservable inputs used to derive the fair value of Level 3 instruments, excluding those instruments for which the unobservable inputs were not developed by the Corporation such as prices of prior transactions and/or unadjusted third-party pricing sources.

(In thousands)	Fair value at June 30, 2016	Valuation technique	Unobservable inputs	Weighted average (range)
CMO s - trading	\$ 1,399	Discounted cash flow model	Weighted average life	3.0 years (0.3 - 4.4 years)
			Yield	3.8% (1.0% - 4.7%)
			Prepayment speed	20.5% (18.0% - 24.9%)
Other - trading	\$ 640	Discounted cash flow model	Weighted average life	5.3 years
			Yield	11.7%
			Prepayment speed	10.8%
Mortgage servicing rights	\$ 203,577	Discounted cash flow model	Prepayment speed	5.7% (0.2% - 11.8%)
			Weighted average life	6.9 years (0.1 - 17.3 years)
			Discount rate	11.2% (9.5% - 15.0%)
Contingent consideration	\$ (127,876)	Discounted cash flow model	Credit loss rate on covered loans	2.9% (0.0% - 100.0%)
			Risk premium component of discount rate	6.2%
Loans held-in-portfolio	\$ 30,169 ^[1]	External appraisal	Haircut applied on external appraisals	39.9% (38.9% - 40.0%)
Other real estate owned	\$ 30,938 ^[2]	External appraisal	Haircut applied on external appraisals	20.9% (10.0% - 40.0%)

[1] Loans held-in-portfolio in which haircuts were not applied to external appraisals were excluded from this table.

[2] Other real estate owned in which haircuts were not applied to external appraisals were excluded from this table.

The significant unobservable inputs used in the fair value measurement of the Corporation's collateralized mortgage obligations and interest-only collateralized mortgage obligation (reported as "other"), which are classified in the "trading" category, are yield, constant prepayment rate, and weighted average life. Significant increases (decreases) in any of those inputs in isolation would result in significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the constant prepayment rate will generate a directionally opposite change in the weighted average life. For example, as the average life is reduced by a higher constant prepayment rate, a lower yield will be realized, and when there is a reduction in the constant prepayment rate, the average life of these collateralized mortgage obligations will extend, thus resulting in a higher yield. These particular financial instruments are valued internally by the Corporation's investment banking and broker-dealer unit utilizing internal valuation techniques. The unobservable inputs incorporated into the internal discounted cash flow models used to derive the fair value of collateralized mortgage obligations and interest-only collateralized mortgage obligation (reported as "other"), which are classified in the "trading" category, are reviewed by the Corporation's Corporate Treasury unit on a quarterly basis. In the case of Level 3 financial instruments which fair value is based on broker quotes, the Corporation's Corporate Treasury unit reviews the inputs used by the broker-dealers for reasonableness utilizing information available from other published sources and validates that the fair value measurements were developed in accordance with ASC Topic 820. The Corporate Treasury unit also substantiates the inputs used by validating the prices with other broker-dealers, whenever possible.

The significant unobservable inputs used in the fair value measurement of the Corporation's mortgage servicing rights are constant prepayment rates and discount rates. Increases in interest rates may result in lower prepayments. Discount rates vary according to products and / or portfolios depending on the perceived risk. Increases in discount rates result in a lower fair value measurement. The Corporation's Corporate Comptroller's unit is responsible for determining the fair value of MSR's, which is based on discounted

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cash flow methods based on assumptions developed by an external service provider, except for prepayment speeds, which are adjusted internally for the local market based on historical experience. The Corporation's Corporate Treasury unit validates the economic assumptions developed by the external service provider on a quarterly basis. In addition, an analytical review of prepayment speeds is performed quarterly by the Corporate Comptroller's unit. The Corporation's MSR Committee analyzes changes in fair value measurements of MSRs and approves the valuation assumptions at each reporting period. Changes in valuation assumptions must also be approved by the MSR Committee. The fair value of MSRs are compared with those of the external service provider on a quarterly basis in order to validate if the fair values are within the materiality thresholds established by management to monitor and investigate material deviations. Back-testing is performed to compare projected cash flows with actual historical data to ascertain the reasonability of the projected net cash flow results.

Table of Contents**Note 27 Fair value of financial instruments**

The fair value of financial instruments is the amount at which an assets or obligations could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. For those financial instruments with no quoted market prices available, fair values have been estimated using present value calculations or other valuation techniques, as well as management's best judgment with respect to current economic conditions, including discount rates, estimates of future cash flows, and prepayment assumptions. Many of these estimates involve various assumptions and may vary significantly from amounts that could be realized in actual transactions.

The fair values reflected herein have been determined based on the prevailing rate environment at June 30, 2016 and December 31, 2015, as applicable. In different interest rate environments, fair value estimates can differ significantly, especially for certain fixed rate financial instruments. In addition, the fair values presented do not attempt to estimate the value of the Corporation's fee generating businesses and anticipated future business activities, that is, they do not represent the Corporation's value as a going concern.

The following tables present the carrying amount, or notional amounts, as applicable, and estimated fair values of financial instruments with their corresponding level in the fair value hierarchy. The aggregate fair value amounts of the financial instruments disclosed do not represent management's estimate of the underlying value of the Corporation.

(In thousands)	June 30, 2016				
	Carrying amount	Level 1	Level 2	Level 3	Fair value
Financial Assets:					
Cash and due from banks	\$ 365,308	\$ 365,308	\$	\$	\$ 365,308
Money market investments	2,785,500	2,687,458	98,042		2,785,500
Trading account securities, excluding derivatives ^[1]	72,530		65,127	7,403	72,530
Investment securities available-for-sale ^[1]	7,242,676	399	7,240,879	1,398	7,242,676
Investment securities held-to-maturity:					
Obligations of Puerto Rico, States and political subdivisions	\$ 97,444	\$	\$	\$ 79,419	\$ 79,419
Collateralized mortgage obligation-federal agency	81			85	85
Other	2,000		1,744	221	1,965
Total investment securities held-to-maturity	\$ 99,525	\$	\$ 1,744	\$ 79,725	\$ 81,469
Other investment securities:					
FHLB stock	\$ 59,459	\$	\$ 59,459	\$	\$ 59,459
FRB stock	93,983		93,983		93,983
Trust preferred securities	13,198		13,198		13,198
Other investments	1,923			4,929	4,929

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Total other investment securities	\$	168,563	\$	166,640	\$	4,929	\$	171,569
Loans held-for-sale	\$	122,338	\$	469	\$	124,526	\$	124,995
Loans not covered under loss sharing agreement with the FDIC		22,022,522				20,405,987		20,405,987
Loans covered under loss sharing agreements with the FDIC		576,589				570,791		570,791
FDIC loss share asset		214,029				228,561		228,561
Mortgage servicing rights		203,577				203,577		203,577
Derivatives		13,154		13,154				13,154

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	June 30, 2016				
	Carrying	Level			
(In thousands)	amount	1	Level 2	Level 3	Fair value
Financial Liabilities:					
Deposits:					
Demand deposits	\$ 20,783,110	\$	\$ 20,783,110	\$	\$ 20,783,110
Time deposits	7,954,746		7,943,768		7,943,768
Total deposits	\$ 28,737,856	\$	\$ 28,726,878	\$	\$ 28,726,878
Federal funds purchased and assets sold under agreements to repurchase					
	\$ 821,604	\$	\$ 823,288	\$	\$ 823,288
Other short-term borrowings ^[2]	\$ 31,200	\$	\$ 31,200	\$	\$ 31,200
Notes payable:					
FHLB advances	\$ 674,342	\$	\$ 717,262	\$	\$ 717,262
Unsecured senior debt securities	443,747		444,191		444,191
Junior subordinated deferrable interest debentures (related to trust preferred securities)	439,309		379,349		379,349
Others	18,550			18,550	18,550
Total notes payable	\$ 1,575,948	\$	\$ 1,540,802	\$ 18,550	\$ 1,559,352
Derivatives	\$ 11,879	\$	\$ 11,879	\$	\$ 11,879
Contingent consideration	\$ 128,511	\$	\$	\$ 128,511	\$ 128,511
	Notional				
(In thousands)	amount	Level 1	Level 2	Level 3	Fair value
Commitments to extend credit	\$ 7,322,699	\$	\$	\$ 554	\$ 554
Letters of credit	36,530			611	611

[1] Refer to Note 26 to the consolidated financial statements for the fair value by class of financial asset and its hierarchy level.

[2] Refer to Note 18 to the consolidated financial statements for the composition of other short-term borrowings.

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(In thousands)	December 31, 2015				
	Carrying amount	Level 1	Level 2	Level 3	Fair value
Financial Assets:					
Cash and due from banks	\$ 363,674	\$ 363,674	\$	\$	\$ 363,674
Money market investments	2,180,092	2,083,839	96,253		2,180,092
Trading account securities, excluding derivatives ^[1]	71,659		62,687	8,972	71,659
Investment securities available-for-sale ^[1]	6,062,992	276	6,061,282	1,434	6,062,992
Investment securities held-to-maturity:					
Obligations of Puerto Rico, States and political subdivisions	98,817			80,815	80,815
Collateralized mortgage obligation-federal agency	86			91	91
Other	2,000		1,740	243	1,983
Total investment securities held-to-maturity	\$ 100,903	\$	\$ 1,740	\$ 81,149	\$ 82,889
Other investment securities:					
FHLB stock	\$ 59,387	\$	\$ 59,387	\$	\$ 59,387
FRB stock	97,740		97,740		97,740
Trust preferred securities	13,198		13,198		13,198
Other investments	1,923			4,966	4,966
Total other investment securities	\$ 172,248	\$	\$ 170,325	\$ 4,966	\$ 175,291
Loans held-for-sale	\$ 137,000	\$	\$ 1,364	\$ 138,031	\$ 139,395
Loans not covered under loss sharing agreement with the FDIC	21,843,180			20,849,150	20,849,150
Loans covered under loss sharing agreements with the FDIC	611,939			593,002	593,002
FDIC loss share asset	310,221			313,224	313,224
Mortgage servicing rights	211,405			211,405	211,405
Derivatives	16,959		16,959		16,959

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		December 31, 2015			
(In thousands)	Carrying amount	Level 1	Level 2	Level 3	Fair value
Financial Liabilities:					
Deposits:					
Demand deposits	\$ 19,044,355	\$	\$ 19,044,355	\$	\$ 19,044,355
Time deposits	8,165,368		8,134,029		8,134,029
Total deposits	\$ 27,209,723	\$	\$ 27,178,384	\$	\$ 27,178,384
Federal funds purchased and assets sold under agreements to repurchase					
	\$ 762,145	\$	\$ 764,599	\$	\$ 764,599
Other short-term borrowings ^[2]	\$ 1,200	\$	\$ 1,200	\$	\$ 1,200
Notes payable:					
FHLB advances	761,501		780,411		780,411
Unsecured senior debt	442,704		435,186		435,186
Junior subordinated deferrable interest debentures (related to trust preferred securities)	439,295		352,673		352,673
Others	19,008			19,008	19,008
Total notes payable	\$ 1,662,508	\$	\$ 1,568,270	\$ 19,008	\$ 1,587,278
Derivatives	\$ 14,343	\$	\$ 14,343	\$	\$ 14,343
Contingent consideration	\$ 120,380	\$	\$	\$ 120,380	\$ 120,380
(In thousands)	Notional amount	Level 1	Level 2	Level 3	Fair value
Commitments to extend credit	\$ 7,434,108	\$	\$	\$ 1,080	\$ 1,080
Letters of credit	51,710			572	572

[1] Refer to Note 26 to the consolidated financial statements for the fair value by class of financial asset and its hierarchy level.

[2] Refer to Note 18 to the consolidated financial statements for the composition of other short-term borrowings. Following is a description of the Corporation's valuation methodologies and inputs used to estimate the fair values for each class of financial assets and liabilities not measured at fair value, but for which the fair value is disclosed.

Cash and due from banks

Cash and due from banks include cash on hand, cash items in process of collection, and non-interest bearing deposits due from other financial institutions. The carrying amount of cash and due from banks is a reasonable estimate of its fair value. Cash and due from banks are classified as Level 1.

Money market investments

Investments in money market instruments include highly liquid instruments with an average maturity of three months or less. For this reason, they carry a low risk of changes in value as a result of changes in interest rates, and the carrying amount approximates their fair value. Money market investments include federal funds sold, securities purchased under agreements to resell, time deposits with other banks, and cash balances, including those held at the Federal Reserve. These money market investments are classified as Level 2, except for cash balances which generate interest, including those held at the Federal Reserve, which are classified as Level 1.

Investment securities held-to-maturity

Obligations of Puerto Rico, States and political subdivisions: Municipal bonds include Puerto Rico public municipalities debt and bonds collateralized by second mortgages under the Home Purchase Stimulus Program. Puerto Rico public

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municipalities debt was valued internally based on benchmark treasury notes and a credit spread derived from comparable Puerto Rico government trades and recent issuances. Puerto Rico public municipalities debt is classified as Level 3. Given that the fair value of municipal bonds collateralized by second mortgages was based on internal yield and prepayment speed assumptions, these municipal bonds are classified as Level 3.

Agency collateralized mortgage obligation: The fair value of the agency collateralized mortgage obligation (CMO), which is guaranteed by GNMA, was based on internal yield and prepayment speed assumptions. This agency CMO is classified as Level 3.

Other: Other securities include foreign debt and a private non-profit institution security. Given that the fair value was based on quoted prices for similar instruments, foreign debt is classified as Level 2. Since the fair value of the private non-profit institution security was internally derived using a price/yield methodology, in which the spread was defined based on the obligor risk rating and the corresponding transfer price, this security is classified as Level 3.

Other investment securities

Federal Home Loan Bank capital stock: Federal Home Loan Bank (FHLB) capital stock represents an equity interest in the FHLB of New York. It does not have a readily determinable fair value because its ownership is restricted and it lacks a market. Since the excess stock is repurchased by the FHLB at its par value, the carrying amount of FHLB capital stock approximates fair value. Thus, these stocks are classified as Level 2.

Federal Reserve Bank capital stock: Federal Reserve Bank (FRB) capital stock represents an equity interest in the FRB of New York. It does not have a readily determinable fair value because its ownership is restricted and it lacks a market. Since the canceled stock is repurchased by the FRB for the amount of the cash subscription paid, the carrying amount of FRB capital stock approximates fair value. Thus, these stocks are classified as Level 2.

Trust preferred securities: These securities represent the equity-method investment in the common stock of these trusts. Book value is the same as fair value for these securities since the fair value of the junior subordinated debentures is the same amount as the fair value of the trust preferred securities issued to the public. The equity-method investment in the common stock of these trusts is classified as Level 2.

Other investments: Other investments include private equity method investments and Visa Class B common stock held by the Corporation. Since there are no observable market values, private equity method investments are classified as Level 3. The Visa Class B common stock was priced by applying the quoted price of Visa Class A common stock, net of a liquidity adjustment, to the as converted number of Class A common shares since these Class B common shares are restricted and not convertible to Class A common shares until pending litigation is resolved. Thus, these stocks are classified as Level 3.

Loans held-for-sale

For loans held-for-sale originated with the intent to sell in the secondary market, its fair value was determined using similar characteristics of loans and secondary market prices assuming the conversion to mortgage-backed securities. Given that the valuation methodology uses internal assumptions based on loan level data, these loans are classified as Level 3. The fair value of certain other loans held-for-sale is based on bids received from potential buyers; binding offers; or external appraisals, net of internal adjustments and estimated costs to sell. Loans held-for-sale based on binding offers are classified as Level 2. Loans held-for-sale based on indicative offers and/or external appraisals are classified as Level 3.

Loans held-in-portfolio

The fair values of the loans held-in-portfolio have been determined for groups of loans with similar characteristics. Loans were segregated by type such as commercial, construction, residential mortgage, consumer, and credit cards. Each loan category was further segmented based on loan characteristics, including interest rate terms, credit quality and vintage. Generally, fair values were estimated based on an exit price by discounting expected cash flows for the segmented groups of loans using a discount rate that considers interest, credit and expected return by market participant under current market conditions. Additionally, prepayment, default and recovery assumptions have been applied in the mortgage loan portfolio valuations. Generally accepted accounting principles do not require a fair valuation of the lease financing portfolio, therefore it is included in the loans total at its carrying amount. Loans held-in-portfolio are classified as Level 3.

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FDIC loss share asset

Fair value of the FDIC loss share asset was estimated using projected net losses related to the loss sharing agreements, which are expected to be reimbursed by the FDIC. The projected net losses were discounted using the U.S. Government agency curve. The loss share asset is classified as Level 3.

Deposits

Demand deposits: The fair value of demand deposits, which have no stated maturity, was calculated based on the amount payable on demand as of the respective dates. These demand deposits include non-interest bearing demand deposits, savings, NOW, and money market accounts. Thus, these deposits are classified as Level 2.

Time deposits: The fair value of time deposits was calculated based on the discounted value of contractual cash flows using interest rates being offered on time deposits with similar maturities. The non-performance risk was determined using internally-developed models that consider, where applicable, the collateral held, amounts insured, the remaining term, and the credit premium of the institution. For certain 5-year certificates of deposit in which customers may withdraw their money anytime with no penalties or charges, the fair value of these certificates of deposit incorporate an early cancellation estimate based on historical experience. Time deposits are classified as Level 2.

Assets sold under agreements to repurchase

Securities sold under agreements to repurchase: Securities sold under agreements to repurchase with short-term maturities approximate fair value because of the short-term nature of those instruments. Resell and repurchase agreements with long-term maturities were valued using discounted cash flows based on the three-month LIBOR. In determining the non-performance credit risk valuation adjustment, the collateralization levels of these long-term securities sold under agreements to repurchase were considered. Securities sold under agreements to repurchase are classified as Level 2.

Other short-term borrowings

The carrying amount of other short-term borrowings approximate fair value because of the short-term maturity of those instruments or because they carry interest rates which approximate market. Thus, these other short-term borrowings are classified as Level 2.

Notes payable

FHLB advances: The fair value of FHLB advances was based on the discounted value of contractual cash flows over their contractual term. In determining the non-performance credit risk valuation adjustment, the collateralization levels of these advances were considered. These advances are classified as Level 2.

Unsecured senior debt securities: The fair value of publicly-traded unsecured senior debt securities was determined using recent trades of similar transactions. Publicly-traded unsecured senior debt securities are classified as Level 2.

Junior subordinated deferrable interest debentures (related to trust preferred securities): The fair value of junior subordinated interest debentures was determined using recent trades of similar transactions. Thus, these junior subordinated deferrable interest debentures are classified as Level 2.

Others: The other category includes capital lease obligations. Generally accepted accounting principles do not require a fair valuation of capital lease obligations, therefore; it is included at its carrying amount.

Capital lease obligations are classified as Level 3.

Commitments to extend credit and letters of credit

Commitments to extend credit were valued using the fees currently charged to enter into similar agreements. For those commitments where a future stream of fees is charged, the fair value was estimated by discounting the projected cash flows of fees on commitments. Since the fair value of commitments to extend credit varies depending on the undrawn amount of the credit facility,

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fees are subject to constant change, and cash flows are dependent on the creditworthiness of borrowers, commitments to extend credit are classified as Level 3. The fair value of letters of credit was based on fees currently charged on similar agreements. Given that the fair value of letters of credit constantly vary due to fees being subject to constant change and whether the fees are received depends on the creditworthiness of the account parties, letters of credit are classified as Level 3.

Table of Contents**Note 28 Net income per common share**

The following table sets forth the computation of net income per common share (EPS), basic and diluted, for the quarters and six months ended June 30, 2016 and 2015:

(In thousands, except per share information)	Quarters ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income from continuing operations	\$ 88,987	\$ 597,437	\$ 173,986	\$ 670,922
Net income from discontinued operations		15		1,356
Preferred stock dividends	(931)	(931)	(1,862)	(1,861)
Net income applicable to common stock	\$ 88,056	\$ 596,521	\$ 172,124	\$ 670,417
Average common shares outstanding	103,245,717	102,859,591	103,217,266	102,899,537
Average potential dilutive common shares	97,769	243,127	80,441	213,743
Average common shares outstanding - assuming dilution	103,343,486	103,102,718	103,297,707	103,113,280
Basic EPS from continuing operations	\$ 0.85	\$ 5.80	\$ 1.67	\$ 6.51
Basic EPS from discontinued operations	\$	\$	\$	\$ 0.01
Total Basic EPS	\$ 0.85	\$ 5.80	\$ 1.67	\$ 6.52
Diluted EPS from continuing operations	\$ 0.85	\$ 5.79	\$ 1.67	\$ 6.49
Diluted EPS from discontinued operations	\$	\$	\$	\$ 0.01
Total Diluted EPS	\$ 0.85	\$ 5.79	\$ 1.67	\$ 6.50

For the quarter and six months ended June 30, 2016 the Corporation calculated the impact of potential dilutive common shares under the treasury method, consistent with the method used for the preparation of the financial statements for the year ended December, 31 2015. For a discussion of the calculation under the treasury stock method, refer to Note 37 of the consolidated financial statements included in the 2015 Form 10-K.

For the quarters and six months ended June 30, 2016 and 2015, there were no stock options outstanding.

Table of Contents**Note 29 Other service fees**

The caption of other services fees in the consolidated statements of operations consists of the following major categories:

(In thousands)	Quarters ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Debit card fees	\$ 11,382	\$ 11,995	\$ 22,669	\$ 23,120
Insurance fees	13,885	13,606	26,735	25,647
Credit card fees	17,700	17,611	34,558	33,760
Sale and administration of investment products	5,417	6,601	10,256	12,531
Trust fees	4,827	4,914	9,063	9,516
Other fees	3,734	4,694	7,046	8,473
Total other services fees	\$ 56,945	\$ 59,421	\$ 110,327	\$ 113,047

Table of Contents**Note 30 FDIC loss share (expense) income**

The caption of FDIC loss-share (expense) income in the consolidated statements of operations consists of the following major categories:

(In thousands)	Quarters ended		Six months ended June 30,	
	June 30, 2016	2015	2016	2015
Amortization of loss-share indemnification asset	\$ (4,036)	\$ (31,065)	\$ (8,078)	\$ (58,381)
80% mirror accounting on credit impairment losses (reversal) ^[1]	475	7,647	(1,618)	15,893
80% mirror accounting on reimbursable expenses	2,235	42,730	6,185	64,275
80% mirror accounting on recoveries on covered assets, including rental income on OREOs, subject to reimbursement to the FDIC	(3,956)	(5,203)	(4,601)	(7,822)
Change in true-up payment obligation	(7,688)	3,672	(8,131)	7,836
Other	394	1,294	521	1,413
Total FDIC loss-share (expense) income	\$ (12,576)	\$ 19,075	\$ (15,722)	\$ 23,214

- [1] Reductions in expected cash flows for ASC 310-30 loans, which may impact the provision for loan losses, may consider reductions in both principal and interest cash flow expectations. The amount covered under the FDIC loss-sharing agreements for interest not collected from borrowers is limited under the agreements (approximately 90 days); accordingly, these amounts are not subject fully to the 80% mirror accounting.

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The Corporation has a non-contributory defined benefit pension plan and supplementary pension benefit restoration plans for regular employees of certain of its subsidiaries. The accrual of benefits under the plans is frozen to all participants.

The components of net periodic pension cost for the periods presented were as follows:

(In thousands)	Pension Plan		Benefit Restoration Plans	
	Quarters ended June 30,		Quarters ended June 30,	
	2016	2015	2016	2015
Interest cost	\$ 6,291	\$ 7,403	\$ 348	\$ 407
Expected return on plan assets	(9,623)	(11,056)	(538)	(589)
Amortization of net loss	4,880	4,465	332	311
Total net periodic pension cost (benefit)	\$ 1,548	\$ 812	\$ 142	\$ 129

(In thousands)	Pension Plans		Benefit Restoration Plans	
	Six months ended		Six months ended June 30,	
	June 30,		2016	2015
	2016	2015		
Interest Cost	\$ 12,583	\$ 14,806	\$ 696	\$ 814
Expected return on plan assets	(19,246)	(22,112)	(1,076)	(1,178)
Amortization of net loss	9,760	8,930	663	622
Total net periodic pension cost (benefit)	\$ 3,097	\$ 1,624	\$ 283	\$ 258

During the quarter ended June 30, 2016 the Corporation made a contribution to the benefit restoration plans of \$43 thousand. The total contributions expected to be paid during the year 2016 for the pension and benefit restoration plans amount to approximately \$45.2 million.

The Corporation also provides certain postretirement health care benefits for retired employees of certain subsidiaries. The table that follows presents the components of net periodic postretirement benefit cost.

(In thousands)	Postretirement Benefit Plan			
	Quarters ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Service cost	\$ 289	\$ 368	\$ 578	\$ 735
Interest cost	1,505	1,589	3,010	3,178
Amortization of prior service cost	(950)	(950)	(1,900)	(1,900)
Amortization of net loss	275	249	550	498
Total net periodic postretirement benefit cost	\$ 1,119	\$ 1,256	\$ 2,238	\$ 2,511

Contributions made to the postretirement benefit plan for the quarter ended June 30, 2016 amounted to approximately \$1.8 million. The total contributions expected to be paid during the year 2016 for the postretirement benefit plan amount to approximately \$6.4 million.

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Note 32 - Stock-based compensation

The Corporation maintained a Stock Option Plan (the "Stock Option Plan"), which permitted the granting of incentive awards in the form of qualified stock options, incentive stock options, or non-statutory stock options of the Corporation. In April 2004, the Corporation's shareholders adopted the Popular, Inc. 2004 Omnibus Incentive Plan (the "Incentive Plan"), which replaced and superseded the Stock Option Plan. The adoption of the Incentive Plan did not alter the original terms of the grants made under the Stock Option Plan prior to the adoption of the Incentive Plan.

Stock Option Plan

Employees and directors of the Corporation or any of its subsidiaries were eligible to participate in the Stock Option Plan. The Board of Directors or the Compensation Committee of the Board had the absolute discretion to determine the individuals that were eligible to participate in the Stock Option Plan. This plan provided for the issuance of Popular, Inc.'s common stock at a price equal to its fair market value at the grant date, subject to certain plan provisions. The shares are to be made available from authorized but unissued shares of common stock or treasury stock. The Corporation's policy has been to use authorized but unissued shares of common stock to cover each grant. The maximum option term is ten years from the date of grant. Unless an option agreement provides otherwise, all options granted are 20% exercisable after the first year and an additional 20% is exercisable after each subsequent year, subject to an acceleration clause at termination of employment due to retirement.

As of June 30, 2016 there were no stock options outstanding. During the first quarter of 2015, all stock options outstanding which amounted to 44,797 with a weighted average exercise price of \$ 272 expired.

Incentive Plan

The Incentive Plan permits the granting of incentive awards in the form of Annual Incentive Awards, Long-term Performance Unit Awards, Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Units or Performance Shares. Participants in the Incentive Plan are designated by the Compensation Committee of the Board of Directors (or its delegate as determined by the Board). Employees and directors of the Corporation and/or any of its subsidiaries are eligible to participate in the Incentive Plan.

Under the Incentive Plan, the Corporation has issued restricted shares, which become vested based on the employees continued service with Popular. Unless otherwise stated in an agreement, the compensation cost associated with the shares of restricted stock is determined based on a two-prong vesting schedule. The first part is vested ratably over five years commencing at the date of grant and the second part is vested at termination of employment after attainment of 55 years of age and 10 years of service. The five-year vesting part is accelerated at termination of employment after attaining 55 years of age and 10 years of service. The vesting schedule for restricted shares granted on 2014 and thereafter was modified as follows, the first part ratably over four years commencing at the date of the grant and the second part is vested at termination of employment after attaining the earlier of 55 years of age and 10 years of service or 60 years of age and 5 years of service. The four year vesting part is accelerated at termination of employment after attaining the earlier of 55 years of age and 10 years of service or 60 years of age and 5 years of service. The restricted shares granted consistent with the requirements of the TARP Interim Final Rule vest in two years from grant date.

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The following table summarizes the restricted stock and performance shares activity under the Incentive Plan for members of management.

(Not in thousands)	Shares	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2014	628,009	\$ 27.13
Granted	323,814	33.37
Vested	(430,646)	30.45
Forfeited	(25,446)	28.65
Non-vested at December 31, 2015	495,731	\$ 28.25
Granted	344,488	25.86
Quantity adjusted by TSR factor	10,315	26.45
Vested	(403,654)	27.09
Non-vested at June 30, 2016	446,880	\$ 26.86

During the quarter ended June 30, 2016 118,390 shares of restricted stock (June 30, 2015 231,830) were awarded to management under the Incentive Plan. For the six-month period ended June 30, 2016, 279,890 shares of restricted stock (June 30, 2015 231,830) were awarded to management under the Incentive Plan, from which no shares were awarded to management consistent with the requirements of the TARP Interim Final Rule.

Beginning in 2015, the Corporation authorized the issuance of performance shares, in addition to restricted shares, under the Incentive Plan. The performance share awards consist of the opportunity to receive shares of Popular, Inc.'s common stock provided that the Corporation achieves certain goals during a three-year performance cycle. The goals will be based on two metrics weighted equally: the Relative Total Shareholder Return (TSR) and the Absolute Earnings per Share (EPS) goals. The TSR metric is considered to be a market condition under ASC 718. For equity settled awards based on a market condition, the fair value is determined as of the grant date and is not subsequently revised based on actual performance. The EPS performance metric is considered to be a performance condition under ASC 718. The fair value is determined based on the probability of achieving the EPS goal as of each reporting period. The TSR and EPS metrics are equally weighted and work independently. The number of shares that will ultimately vest ranges from 50% to a 150% of target based on both market (TSR) and performance (EPS) conditions. The performance shares vest at the end of the three-year performance cycle. The vesting is accelerated at termination of employment after attaining the earlier of 55 years of age and 10 years of service or 60 years of age and 5 years of service. For the quarter ended June 30, 2016 64,598 (June 30, 2015 - 91,984) performance shares were granted. For the six-month period ended June 30, 2016, 64,598 (June 30, 2015 - 91,984) performance shares were granted under this plan.

During the quarter ended June 30, 2016, the Corporation recognized \$ 1.9 million of restricted stock expense related to management incentive awards, with a tax benefit of \$ 0.4 million (June 30, 2015 - \$ 5.5 million, with a tax benefit of \$ 0.8 million). For the six-month period ended June 30, 2016, the Corporation recognized \$ 5.6 million of restricted stock expense related to management incentive awards, with a tax benefit of \$ 1.0 million (June 30, 2015 - \$ 7.4 million, with a tax benefit of \$ 1.1 million). For the six-month period ended June 30, 2016, the fair market value of the restricted stock vested was \$6.8 million at grant date and \$6.5 million at vesting date. This triggers a shortfall of

\$0.1 million of which \$30 thousand was recorded as a windfall pool in additional paid in capital. No windfall pool was recorded for the remaining \$87 thousand due to the valuation allowance of the deferred tax asset. During the quarter ended June 30, 2016 the Corporation recognized \$0.1 million of performance shares expense, with a tax benefit of \$11 thousand (June 30, 2015 - \$2.0 million, with a tax benefit of \$0.2 million). For the six-month period ended June 30, 2016, the Corporation recognized \$1.2 million of performance shares expense, with a tax benefit of \$0.1 million (June 30, 2015 - \$2.0 million, with a tax benefit of \$0.2 million). The total unrecognized compensation cost related to non-vested restricted stock awards and performance shares to members of management at June 30, 2016 was \$ 9.7 million and is expected to be recognized over a weighted-average period of 2.4 years.

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The following table summarizes the restricted stock activity under the Incentive Plan for members of the Board of Directors:

(Not in thousands)	Restricted Stock	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2014		\$
Granted	22,119	32.29
Vested	(22,119)	32.29
Forfeited		
Non-vested at December 31, 2015		\$
Granted	40,517	29.77
Vested	(40,517)	29.77
Forfeited		
Non-vested at June 30, 2016		\$

During the quarter ended June 30, 2016, the Corporation granted 38,179 shares of restricted stock to members of the Board of Directors of Popular, Inc., which became vested at grant date (June 30, 2015 - 15,386). During this period, the Corporation recognized \$0.3 million of restricted stock expense related to these restricted stock grants, with a tax benefit of \$32 thousand (June 30, 2015 - \$0.1 million, with a tax benefit of \$18 thousand). For the six-month period ended June 30, 2016, the Corporation granted 40,517 shares of restricted stock to members of the Board of Directors of Popular, Inc., which became vested at grant date (June 30, 2015 - 18,029). During this period, the Corporation recognized \$0.5 million of restricted stock expense related to these restricted stock grants, with a tax benefit of \$53 thousand (June 30, 2015 - \$0.3 million, with a tax benefit of \$34 thousand). The fair value at vesting date of the restricted stock vested during the six months ended June 30, 2016 for directors was \$ 1.2 million.

Table of Contents**Note 33 Income taxes**

The reason for the difference between the income tax expense applicable to income before provision for income taxes and the amount computed by applying the statutory tax rate in Puerto Rico, were as follows:

(In thousands)	Quarters ended			
	June 30, 2016		June 30, 2015	
	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax expense at statutory rates	\$ 47,359	39%	\$ 24,923	39%
Net benefit of tax exempt interest income	(15,890)	(13)	(16,141)	(25)
Deferred tax asset valuation allowance	3,436	3	(542,706)	(849)
Difference in tax rates due to multiple jurisdictions	(1,113)	(1)	(542)	
Effect of income subject to preferential tax rate	(4,722)	(4)	593	1
State and local taxes	2,158	2	1,388	2
Others	1,218	1	(1,048)	(2)
Income tax expense (benefit)	\$ 32,446	27%	\$ (533,533)	(834)%

(In thousands)	Six months ended			
	June 30, 2016		June 30, 2015	
	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax expense at statutory rates	\$ 93,092	39%	\$ 66,283	39%
Net benefit of tax exempt interest income	(31,474)	(13)	(31,169)	(18)
Deferred tax asset valuation allowance	8,709	3	(537,067)	(316)
Difference in tax rates due to multiple jurisdictions	(1,977)	(1)	(817)	(1)
Effect of income subject to preferential tax rate	(8,136)	(3)	(1,878)	(1)
State and local taxes	5,085	2	2,719	1
Others	(588)		965	1
Income tax expense (benefit)	\$ 64,711	27%	\$ (500,964)	(295)%

Income tax expense amounted to \$32.4 million for the quarter ended June 30, 2016, compared with an income tax benefit of \$533.5 million for the same quarter of 2015. During the second quarter of 2015, the Corporation recorded a partial reversal of the valuation allowance on the deferred tax asset from the U.S. operations amounting to \$544.9 million.

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The following table presents a breakdown of the significant components of the Corporation's deferred tax assets and liabilities.

(In thousands)	June 30, 2016	December 31, 2015
Deferred tax assets:		
Tax credits available for carryforward	\$ 13,651	\$ 13,651
Net operating loss and other carryforward available	1,254,304	1,262,197
Postretirement and pension benefits	113,395	116,036
Deferred loan origination fees	5,944	6,420
Allowance for loan losses	649,374	670,592
Deferred gains	5,410	5,966
Accelerated depreciation	8,092	8,335
Intercompany deferred gains	2,421	2,743
Difference in outside basis from pass-through entities	10,972	12,684
Other temporary differences	31,614	29,208
Total gross deferred tax assets	2,095,177	2,127,832
Deferred tax liabilities:		
FDIC-assisted transaction	92,321	90,778
Indefinite-lived intangibles	68,775	63,573
Unrealized net gain on trading and available-for-sale securities	44,633	22,281
Other temporary differences	7,647	6,670
Total gross deferred tax liabilities	213,376	183,302
Valuation allowance	638,791	642,727
Net deferred tax asset	\$ 1,243,010	\$ 1,301,803

The net deferred tax asset shown in the table above at June 30, 2016 is reflected in the consolidated statements of financial condition as \$1.2 billion in net deferred tax assets in the Other assets caption (December 31, 2015 - \$1.3 billion) and \$772 thousand in deferred tax liabilities in the Other liabilities caption (December 31, 2015 - \$649 thousand), reflecting the aggregate deferred tax assets or liabilities of individual tax-paying subsidiaries of the Corporation.

A deferred tax asset should be reduced by a valuation allowance if based on the weight of all available evidence, it is more likely than not (a likelihood of more than 50%) that some portion or the entire deferred tax asset will not be realized. The valuation allowance should be sufficient to reduce the deferred tax asset to the amount that is more likely than not to be realized. The determination of whether a deferred tax asset is realizable is based on weighting all available evidence, including both positive and negative evidence. The realization of deferred tax assets, including carryforwards and deductible temporary differences, depends upon the existence of sufficient taxable income of the same character during the carryback or carryforward period. The analysis considers all sources of taxable income

available to realize the deferred tax asset, including the future reversal of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in prior carryback years and tax-planning strategies.

During the year ended December 31, 2015, after weighting all positive and negative evidence, the Corporation concluded that it is more likely than not that a portion of the total deferred tax asset from the U.S. operations, amounting to \$1.1 billion and comprised mainly of net operating losses, will be realized. The Corporation based this determination on its estimated earnings for the remaining carryforward period of eighteen years beginning with the 2016 fiscal year, available to utilize the deferred tax asset, to reduce its income tax obligations. The recent historical level of book income adjusted by permanent differences, together with the estimated earnings after the reorganization of the U.S. operations and additional estimated earnings from the Doral Bank Transaction were objective positive evidence considered by the Corporation. As of June 30, 2016 the U.S. operations are not in a three year cumulative loss position, taking into account taxable income exclusive of reversing temporary differences. All of these factors lead management to conclude that it is more likely than not that a portion of the deferred tax asset from its U.S. operations will be realized. Management will continue to evaluate the realization of the deferred tax asset each quarter and adjust as deemed necessary. At June 30, 2016 a valuation allowance is recorded on the deferred tax asset of the U.S. operation in the amount of \$600 million.

At June 30, 2016, the Corporation's net deferred tax assets related to its Puerto Rico operations amounted to \$706 million.

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The Corporation's Puerto Rico Banking operation is not in a cumulative three year loss position, taking into account taxable income exclusive of reversing temporary differences, and has sustained profitability for the three year period ended June 30, 2016. This is considered a strong piece of objectively verifiable positive evidence that outweighs any negative evidence considered by management in the evaluation of the realization of the deferred tax asset. Based on this evidence and management's estimate of future taxable income, the Corporation has concluded that it is more likely than not that such net deferred tax asset of the Puerto Rico Banking operations will be realized.

The Holding Company operation is not in a cumulative loss taking into account taxable income exclusive of reversing temporary differences, for the three year period ended June 30, 2016. However, it has sustained losses for year ended December 31, 2015 and the period ended June 30, 2016. Management expect these losses will be a trend in early future years. The losses in recent periods together with the expected losses in future years is considered by management a strong negative evidence that will suggest that income in future years will be insufficient to support the realization of all deferred tax asset. After weighting of all positive and negative evidence management concluded, as of the reporting date, that it is more likely than not that the Holding Company will not be able to realize any portion of the deferred tax assets, considering the criteria of ASC Topic 740. Accordingly, a full valuation allowance is recorded on the deferred tax asset at the Holding Company, which amounted to \$39 million as of June 30, 2016.

The reconciliation of unrecognized tax benefits was as follows:

(In millions)	2016	2015
Balance at January 1	\$ 9.0	\$ 8.0
Additions for tax positions - January through March	0.4	0.3
Reduction as a result of settlements - January through March		(0.5)
Balance at March 31	\$ 9.4	\$ 7.8
Additions for tax positions - April through June	0.3	0.3
Balance at June 30	\$ 9.7	\$ 8.1

At June 30, 2016, the total amount of interest recognized in the statement of financial condition approximated \$3.9 million (December 31, 2015 - \$3.2 million). The total interest expense recognized at June 30, 2016 was \$694 thousand (December 31, 2015 - \$57 thousand). Management determined that at June 30, 2016 and December 31, 2015 there was no need to accrue for the payment of penalties. The Corporation's policy is to report interest related to unrecognized tax benefits in income tax expense, while the penalties, if any, are reported in other operating expenses in the consolidated statements of operations.

After consideration of the effect on U.S. federal tax of unrecognized U.S. state tax benefits, the total amount of unrecognized tax benefits, including U.S. and Puerto Rico, that if recognized, would affect the Corporation's effective tax rate, was approximately \$12.5 million at June 30, 2016 (December 31, 2015 - \$11.2 million).

The amount of unrecognized tax benefits may increase or decrease in the future for various reasons including adding amounts for current tax year positions, expiration of open income tax returns due to the statutes of limitation, changes in management's judgment about the level of uncertainty, status of examinations, litigation and legislative activity and the addition or elimination of uncertain tax positions.

The Corporation and its subsidiaries file income tax returns in Puerto Rico, the U.S. federal jurisdiction, various U.S. states and political subdivisions, and foreign jurisdictions. At June 30, 2016, the following years remain subject to examination in the U.S. Federal jurisdiction: 2012 and thereafter; and in the Puerto Rico jurisdiction, 2010 and thereafter. The Corporation anticipates a reduction in the total amount of unrecognized tax benefits within the next 12 months, which could amount to approximately \$3.3 million.

Table of Contents**Note 34 Supplemental disclosure on the consolidated statements of cash flows**

Additional disclosures on cash flow information and non-cash activities for the six months ended June 30, 2016 and June 30, 2015 are listed in the following table:

(In thousands)	June 30, 2016	June 30, 2015
Non-cash activities:		
Loans transferred to other real estate	\$ 62,409	\$ 67,199
Loans transferred to other property	15,442	19,103
Total loans transferred to foreclosed assets	77,851	86,302
Transfers from loans held-in-portfolio to loans held-for-sale		61,290
Transfers from loans held-for-sale to loans held-in-portfolio	4,220	8,523
Account receivable from sale of loan	14,477	
Transfers from trading securities to available-for-sale securities		5,523
Loans securitized into investment securities ^[1]	383,441	517,265
Trades receivable from brokers and counterparties	78,994	111,964
Trades payable to brokers and counterparties	43,142	73,155
Recognition of mortgage servicing rights on securitizations or asset transfers	5,023	7,302

[1] Includes loans securitized into trading securities and subsequently sold before quarter end.

As previously disclosed in Note 5, Business Combination, on February 27, 2015, the Corporation's Puerto Rico banking subsidiary, BPPR, in an alliance with co-bidders, including the Corporation's U.S. mainland banking subsidiary, BPNA, acquired certain assets and all deposits (other than certain brokered deposits) of Doral Bank from the FDIC as receiver. As part of this transaction, BPPR received as of June 30, 2015 net cash proceeds of approximately \$ 738 million for consideration of the assets and liabilities acquired.

Table of Contents**Note 35 Segment reporting**

The Corporation's corporate structure consists of two reportable segments – Banco Popular de Puerto Rico and Banco Popular North America. These reportable segments pertain only to the continuing operations of Popular, Inc. As previously indicated in Note 4 to the consolidated financial statements, the regional operations in California, Illinois and Central Florida were classified as discontinued operations and sold during 2014.

Management determined the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. The segments were determined based on the organizational structure, which focuses primarily on the markets the segments serve, as well as on the products and services offered by the segments.

Banco Popular de Puerto Rico:

Given that Banco Popular de Puerto Rico constitutes a significant portion of the Corporation's results of operations and total assets at June 30, 2016, additional disclosures are provided for the business areas included in this reportable segment, as described below:

Commercial banking represents the Corporation's banking operations conducted at BPPR, which are targeted mainly to corporate, small and middle size businesses. It includes aspects of the lending and depository businesses, as well as other finance and advisory services. BPPR allocates funds across business areas based on duration matched transfer pricing at market rates. This area also incorporates income related with the investment of excess funds, as well as a proportionate share of the investment function of BPPR.

Consumer and retail banking represents the branch banking operations of BPPR which focus on retail clients. It includes the consumer lending business operations of BPPR, as well as the lending operations of Popular Auto and Popular Mortgage. Popular Auto focuses on auto and lease financing, while Popular Mortgage focuses principally on residential mortgage loan originations. The consumer and retail banking area also incorporates income related with the investment of excess funds from the branch network, as well as a proportionate share of the investment function of BPPR.

Other financial services include the trust and asset management service units of BPPR, the brokerage and investment banking operations of Popular Securities, and the insurance agency and reinsurance businesses of Popular Insurance, Popular Insurance V.I., Popular Risk Services, and Popular Life Re. Most of the services that are provided by these subsidiaries generate profits based on fee income.

Banco Popular North America:

Banco Popular North America's reportable segment consists of the banking operations of BPNA, E-LOAN, Popular Equipment Finance, Inc. and Popular Insurance Agency, U.S.A. BPNA operates through a retail branch network in the U.S. mainland under the name of Popular Community Bank, while E-LOAN supports BPNA's deposit gathering through its online platform. All direct lending activities at E-LOAN were ceased during 2008. During the third quarter of 2015, BPNA and E-LOAN completed an asset purchase and sale transaction in which E-LOAN sold to BPNA all of its outstanding loan portfolio, including residential mortgage loans and home equity lines of credit, which had a carrying value of approximately \$213 million. Prior to this transaction, the Corporation provided additional disclosures for the BPNA reportable segment related to E-LOAN. After the close of the above mentioned asset

purchase and sale transaction, additional disclosures with respect to E-LOAN are no longer considered relevant to the financial statements and accordingly are not presented. Popular Equipment Finance, Inc. also holds a running-off loan portfolio as this subsidiary ceased originating loans during 2009. Popular Insurance Agency, U.S.A. offers investment and insurance services across the BPNA branch network.

The Corporate group consists primarily of the holding companies: Popular, Inc., Popular North America, Popular International Bank and certain of the Corporation's investments accounted for under the equity method, including EVERTEC and Centro Financiero BHD, Leon. The Corporate group also includes the expenses of certain corporate areas that are identified as critical to the organization: Finance, Risk Management and Legal.

The accounting policies of the individual operating segments are the same as those of the Corporation. Transactions between reportable segments are primarily conducted at market rates, resulting in profits that are eliminated for reporting consolidated results of operations.

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The tables that follow present the results of operations and total assets by reportable segments:

2016

For the quarter ended June 30, 2016

	Banco Popular de Puerto Rico		Banco Popular North America	Intersegment Eliminations
(In thousands)				
Net interest income	\$	310,361	\$	65,505
Provision for loan losses		39,123		1,317
Non-interest income		98,241		5,250
Amortization of intangibles		2,931		166
Depreciation expense		9,915		1,344
Other operating expenses		234,704		44,398
Income tax expense		31,295		11,103
Net income	\$	90,634	\$	12,427
Segment assets	\$	29,190,397	\$	8,223,781
				\$ (15,239)

For the quarter ended June 30, 2016

	For the quarter ended June 30, 2022			
(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	\$ 375,866	\$ (15,202)	\$ (113)	\$ 360,551
Provision for loan losses	40,440	32		40,472
Non-interest income	103,491	8,062	(1,050)	110,503
Amortization of intangibles	3,097			3,097
Depreciation expense	11,259	176		11,435
Other operating expenses	279,102	16,717	(1,202)	294,617
Income tax expense (benefit)	42,398	(9,979)	27	32,446
Net income (loss)	\$ 103,061	\$ (14,086)	\$ 12	\$ 88,987
Segment assets	\$ 37,398,939	\$ 4,953,432	\$ (4,746,223)	\$ 37,606,148

For the six months ended June 30, 2016

	Banco Popular de Puerto Rico		Banco Popular North America	Intersegment Eliminations
(In thousands)				
Net interest income	\$	615,711	\$	127,762
Provision for loan losses		79,924		5,386

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Non-interest income	196,808	10,200	
Amortization of intangibles	5,879	332	
Depreciation expense	20,111	2,677	
Other operating expenses	459,373	85,728	
Income tax expense	63,172	19,560	
Net income	\$ 184,060	\$ 24,279	\$
Segment assets	\$ 29,190,397	\$ 8,223,781	\$ (15,239)

For the six months ended June 30, 2016

(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	\$ 743,473	\$ (30,397)	\$ (113)	\$ 712,963
Provision (reversal of provision) for loan losses	85,310	(3)		85,307
Non-interest income	207,008	16,239	(1,114)	222,133
Amortization of intangibles	6,211			6,211
Depreciation expense	22,788	353		23,141
Other operating expenses	545,101	38,449	(1,810)	581,740
Income tax expense (benefit)	82,732	(18,260)	239	64,711
Net income (loss)	\$ 208,339	\$ (34,697)	\$ 344	\$ 173,986
Segment assets	\$ 37,398,939	\$ 4,953,432	(4,746,223)	\$ 37,606,148

Table of Contents**2015**

For the quarter ended June 30, 2015

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	\$ 316,085	\$ 61,932	\$
Provision (reversal of provision) for loan losses	76,068	(61)	
Non-interest income	125,735	5,670	125
Amortization of intangibles	2,563	318	
Depreciation expense	10,103	1,746	
Other operating expenses	279,887	48,472	
Income tax expense (benefit)	17,312	(543,833)	
Net income	\$ 55,887	\$ 560,960	\$ 125
Segment assets	\$ 29,669,355	\$ 7,458,709	\$ (589,902)

For the quarter ended June 30, 2015

(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	\$ 378,017	\$ (15,464)	\$	\$ 362,553
Provision for loan losses	76,007	227		76,234
Non-interest income	131,530	10,483	(1,254)	140,759
Amortization of intangibles	2,881			2,881
Depreciation expense	11,849	181		12,030
Other operating expenses	328,359	20,604	(700)	348,263
Income tax benefit	(526,521)	(6,796)	(216)	(533,533)
Net income (loss)	\$ 616,972	\$ (19,197)	\$ (338)	\$ 597,437
Segment assets	\$ 36,538,162	\$ 4,909,006	\$ (4,697,055)	\$ 36,750,113

For the six months ended June 30, 2015

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	\$ 622,696	\$ 114,033	\$
	118,305	(2,263)	

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Provision (reversal of provision) for loan losses

Non-interest income	229,265	11,836	125
Amortization of intangibles	4,562	423	
Depreciation expense	20,211	3,363	
Other operating expenses	507,463	102,957	
Income tax expense (benefit)	54,761	(542,896)	

Net income \$ 146,659 \$ 564,285 \$ 125

Segment assets 29,669,355 7,458,709 (589,902)

For the six months ended June 30, 2015

(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	\$ 736,729	\$ (30,981)	\$	\$ 705,748
Provision for loan losses	116,042	227		116,269
Non-interest income	241,226	16,125	(1,357)	255,994
Amortization of intangibles	4,985			4,985
Depreciation expense	23,574	375		23,949
Other operating expenses	610,420	37,592	(1,431)	646,581
Income tax benefit	(488,135)	(12,858)	29	(500,964)
Net income (loss)	\$ 711,069	\$ (40,192)	\$ 45	\$ 670,922
Segment assets	36,538,162	4,909,006	(4,697,055)	36,750,113

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Additional disclosures with respect to the Banco Popular de Puerto Rico reportable segment are as follows:

2016

For the quarter ended June 30, 2016

Banco Popular de Puerto Rico

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	\$ 122,430	\$ 185,216	\$ 1,680	\$ 1,035	\$ 310,361
Provision for loan losses	(1,669)	40,792			39,123
Non-interest income	17,598	55,606	25,128	(91)	98,241
Amortization of intangibles	49	1,810	1,072		2,931
Depreciation expense	4,245	5,447	223		9,915
Other operating expenses	63,919	154,036	16,840	(91)	234,704
Income tax expense	23,228	5,137	2,930		31,295
Net income	\$ 50,256	\$ 33,600	\$ 5,743	\$ 1,035	\$ 90,634
Segment assets	\$ 12,894,262	\$ 17,664,592	\$ 474,482	\$ (1,842,939)	\$ 29,190,397

For the six months ended June 30, 2016

Banco Popular de Puerto Rico

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	\$ 237,333	\$ 372,411	\$ 3,295	\$ 2,672	\$ 615,711
Provision for loan losses	13,240	66,684			79,924
Non-interest income	39,330	111,214	46,439	(175)	196,808
Amortization of intangibles	71	3,646	2,162		5,879
Depreciation expense	8,520	11,138	453		20,111
Other operating expenses	121,151	304,248	34,149	(175)	459,373
Income tax expense	41,397	17,516	4,259		63,172
Net income	\$ 92,284	\$ 80,393	\$ 8,711	\$ 2,672	\$ 184,060
Segment assets	\$ 12,894,262	\$ 17,664,592	\$ 474,482	\$ (1,842,939)	\$ 29,190,397

2015

For the quarter ended June 30, 2015

Banco Popular de Puerto Rico

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(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	\$ 119,205	\$ 194,737	\$ 2,143	\$	\$ 316,085
Provision for loan losses	66,792	9,276			76,068
Non-interest income	35,992	66,436	23,407	(100)	125,735
Amortization of intangibles	(23)	1,912	674		2,563
Depreciation expense	4,703	5,104	296		10,103
Other operating expenses	101,717	160,871	17,399	(100)	279,887
Income tax (benefit) expense	(13,395)	27,530	3,177		17,312
Net (loss) income	\$ (4,597)	\$ 56,480	\$ 4,004	\$	\$ 55,887
Segment assets	\$ 10,038,389	\$ 19,853,299	\$ 744,519	\$ (966,852)	\$ 29,669,355

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For the six months ended June 30, 2015

Banco Popular de Puerto Rico

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	\$ 237,680	\$ 380,989	\$ 4,023	\$ 4	\$ 622,696
Provision for loan losses	63,236	55,069			118,305
Non-interest income	63,142	122,440	43,878	(195)	229,265
Amortization of intangibles	6	3,684	872		4,562
Depreciation expense	9,023	10,616	572		20,211
Other operating expenses	167,573	305,939	34,146	(195)	507,463
Income tax expense	12,658	37,308	4,795		54,761
Net income	\$ 48,326	\$ 90,813	\$ 7,516	\$ 4	\$ 146,659
Segment assets	\$ 10,038,389	\$ 19,853,299	\$ 744,519	\$ (966,852)	\$ 29,669,355

Geographic Information

(in thousands)	Quarter ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Revenues:				
Puerto Rico	\$ 384,902	\$ 415,972	\$ 764,938	\$ 801,026
United States	67,543	67,235	132,183	123,945
Other	18,609	20,105	37,975	36,771
Total consolidated revenues	\$ 471,054	\$ 503,312	\$ 935,096	\$ 961,742

[1] Total revenues include net interest income (expense), service charges on deposit accounts, other service fees, mortgage banking activities, net gain (loss) and valuation adjustments on investment securities, trading account (loss) profit, net (loss) gain on sale of loans and valuation adjustments on loans held-for-sale, adjustments to indemnity reserves on loans sold, FDIC loss share (expense) income and other operating income.

Selected Balance Sheet Information:

(In thousands)	June 30, 2016	December 31, 2015
Puerto Rico		
Total assets	\$ 28,210,388	\$ 26,764,184
Loans	17,126,140	17,477,070
Deposits	22,124,865	20,893,232
United States		
Total assets	\$ 8,491,277	\$ 7,859,217

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Loans	5,397,679	4,873,504
Deposits	5,503,937	5,288,886
Other		
Total assets	\$ 904,483	\$ 1,138,332
Loans	746,350	778,656
Deposits ^[1]	1,109,054	1,027,605

[1] Represents deposits from BPPR operations located in the U.S. and British Virgin Islands.

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Note 36 Condensed consolidating financial information of guarantor and issuers of registered guaranteed securities

The following condensed consolidating financial information presents the financial position of Popular, Inc. Holding Company (PIHC) (parent only), Popular North America, Inc. (PNA) and all other subsidiaries of the Corporation at June 30, 2016 and December 31, 2015, and the results of their operations and cash flows for periods ended June 30, 2016 and 2015.

PNA is an operating, wholly-owned subsidiary of PIHC and is the holding company of its wholly-owned subsidiaries: Equity One, Inc. and Banco Popular North America (BPNA), including BPNA 's wholly-owned subsidiaries Popular Equipment Finance, Inc., Popular Insurance Agency, U.S.A., and E-LOAN, Inc.

PIHC fully and unconditionally guarantees all registered debt securities issued by PNA.

Table of Contents**Condensed Consolidating Statement of Financial Condition (Unaudited)**

	At June 30, 2016		All other		
	Popular Inc. Holding Co.	PNA Holding Co.	subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
(In thousands)					
Assets:					
Cash and due from banks	\$ 37,306	\$ 595	\$ 365,034	\$ (37,627)	\$ 365,308
Money market investments	262,285	18,488	2,785,215	(280,488)	2,785,500
Trading account securities, at fair value	2,271		70,349	(90)	72,530
Investment securities available-for-sale, at fair value	258		7,242,418		7,242,676
Investment securities held-to-maturity, at amortized cost			99,525		99,525
Other investment securities, at lower of cost or realizable value	9,850	4,492	154,221		168,563
Investment in subsidiaries	5,775,328	1,838,488		(7,613,816)	
Loans held-for-sale, at lower of cost or fair value			122,338		122,338
Loans held-in-portfolio:					
Loans not covered under loss-sharing agreements with the FDIC	1,159		22,654,718		22,655,877
Loans covered under loss-sharing agreements with the FDIC			607,170		607,170
Less - Unearned income			115,216		115,216
Allowance for loan losses	34		548,686		548,720
Total loans held-in-portfolio, net	1,125		22,597,986		22,599,111
FDIC loss-share asset			214,029		214,029
Premises and equipment, net	3,077		532,788		535,865
Other real estate not covered under loss-sharing agreements with the FDIC	283		176,742		177,025
Other real estate covered under loss-sharing agreements with the FDIC			37,984		37,984
Accrued income receivable	103	145	120,819	(88)	120,979
Mortgage servicing assets, at fair value			203,577		203,577
Other assets	57,937	23,292	2,113,461	(15,630)	2,179,060
Goodwill			631,095		631,095
Other intangible assets	554		50,429		50,983
Total assets	\$ 6,150,377	\$ 1,885,500	\$ 37,518,010	\$ (7,947,739)	\$ 37,606,148

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Liabilities and Stockholders Equity

Liabilities:

Deposits:

Non-interest bearing	\$	\$	\$ 6,568,735	\$ (37,627)	\$ 6,531,108
Interest bearing			22,487,236	(280,488)	22,206,748

Total deposits			29,055,971	(318,115)	28,737,856
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Federal funds purchased and assets sold

under agreements to repurchase			821,604		821,604
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Other short-term borrowings			31,200		31,200
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Notes payable	734,557	148,498	692,893		1,575,948
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Other liabilities	55,898	6,262	1,031,686	(15,952)	1,077,894
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Liabilities from discontinued operations			1,815		1,815
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Total liabilities	790,455	154,760	31,635,169	(334,067)	32,246,317
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Stockholders equity:

Preferred stock	50,160				50,160
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Common stock	1,040	2	56,306	(56,309)	1,039
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Surplus	4,224,309	4,111,207	5,698,606	(9,801,287)	4,232,835
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Retained earnings (accumulated deficit)	1,237,505	(2,400,493)	271,530	2,120,437	1,228,979
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Treasury stock, at cost	(7,480)			(90)	(7,570)
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Accumulated other comprehensive loss, net of tax	(145,612)	20,024	(143,601)	123,577	(145,612)
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Total stockholders equity	5,359,922	1,730,740	5,882,841	(7,613,672)	5,359,831
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Total liabilities and stockholders equity	\$ 6,150,377	\$ 1,885,500	\$ 37,518,010	\$ (7,947,739)	\$ 37,606,148
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Table of Contents**Condensed Consolidating Statement of Financial Condition (Unaudited)**

	At December 31, 2015				
	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
(In thousands)					
Assets:					
Cash and due from banks	\$ 24,298	\$ 600	\$ 363,620	\$ (24,844)	\$ 363,674
Money market investments	262,204	23,931	2,179,887	(285,930)	2,180,092
Trading account securities, at fair value	2,020		69,639		71,659
Investment securities available-for-sale, at fair value	216		6,062,776		6,062,992
Investment securities held-to-maturity, at amortized cost			100,903		100,903
Other investment securities, at lower of cost or realizable value	9,850	4,492	157,906		172,248
Investment in subsidiaries	5,539,325	1,789,512		(7,328,837)	
Loans held-for-sale, at lower of cost or fair value			137,000		137,000
Loans held-in-portfolio:					
Loans not covered under loss-sharing agreements with the FDIC	1,176		22,452,637		22,453,813
Loans covered under loss-sharing agreements with the FDIC			646,115		646,115
Less - Unearned income			107,698		107,698
Allowance for loan losses	3		537,108		537,111
Total loans held-in-portfolio, net	1,173		22,453,946		22,455,119
FDIC loss-share asset			310,221		310,221
Premises and equipment, net	2,823		499,788		502,611
Other real estate not covered under loss-sharing agreements with the FDIC	532		154,699		155,231
Other real estate covered under loss-sharing agreements with the FDIC			36,685		36,685
Accrued income receivable	85	115	124,070	(36)	124,234
Mortgage servicing assets, at fair value			211,405		211,405
Other assets	54,908	23,596	2,132,616	(17,958)	2,193,162
Goodwill			626,388		626,388
Other intangible assets	554		57,555		58,109
Total assets	\$ 5,897,988	\$ 1,842,246	\$ 35,679,104	\$ (7,657,605)	\$ 35,761,733

Liabilities and Stockholders Equity

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Liabilities:					
Deposits:					
Non-interest bearing	\$	\$	\$ 6,426,359	\$ (24,844)	\$ 6,401,515
Interest bearing			21,094,138	(285,930)	20,808,208
Total deposits			27,520,497	(310,774)	27,209,723
Federal funds purchased and assets sold under agreements to repurchase					
			762,145		762,145
Other short-term borrowings			1,200		1,200
Notes payable	733,516	148,483	780,509		1,662,508
Other liabilities	59,148	6,659	971,429	(18,218)	1,019,018
Liabilities from discontinued operations			1,815		1,815
Total liabilities	792,664	155,142	30,037,595	(328,992)	30,656,409
Stockholders' equity:					
Preferred stock	50,160				50,160
Common stock	1,038	2	56,307	(56,309)	1,038
Surplus	4,220,629	4,111,208	5,712,635	(9,815,316)	4,229,156
Retained earnings (accumulated deficit)	1,096,484	(2,416,251)	128,459	2,279,265	1,087,957
Treasury stock, at cost	(6,101)				(6,101)
Accumulated other comprehensive loss, net of tax	(256,886)	(7,855)	(255,892)	263,747	(256,886)
Total stockholders' equity	5,105,324	1,687,104	5,641,509	(7,328,613)	5,105,324
Total liabilities and stockholders' equity	\$ 5,897,988	\$ 1,842,246	\$ 35,679,104	\$ (7,657,605)	\$ 35,761,733

Table of Contents**Condensed Consolidating Statement of Operations (Unaudited)**

	Quarter ended June 30, 2016				
	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
(In thousands)					
Interest and dividend income:					
Dividend income from subsidiaries	\$ 24,200	\$	\$	\$ (24,200)	\$
Loans	20		369,701		369,721
Money market investments	323	30	3,889	(353)	3,889
Investment securities	143	81	36,501		36,725
Trading account securities			1,875		1,875
Total interest and dividend income	24,686	111	411,966	(24,553)	412,210
Interest expense:					
Deposits			30,952	(353)	30,599
Short-term borrowings			2,058		2,058
Long-term debt	13,118	2,692	3,192		19,002
Total interest expense	13,118	2,692	36,202	(353)	51,659
Net interest income (expense)	11,568	(2,581)	375,764	(24,200)	360,551
Provision for loan losses- non-covered loans	31		39,637		39,668
Provision for loan losses- covered loans			804		804
Net interest income (expense) after provision for loan losses	11,537	(2,581)	335,323	(24,200)	320,079
Service charges on deposit accounts			40,296		40,296
Other service fees			58,224	(1,279)	56,945
Mortgage banking activities			16,227		16,227
Net gain on sale of investment securities	1,583				1,583
Other-than-temporary impairment losses on investment securities			(209)		(209)
Trading account profit	35		1,082		1,117
Adjustments (expense) to indemnity reserves on loans sold			(5,746)		(5,746)
FDIC loss-share expense			(12,576)		(12,576)
Other operating income	1,812	(1,636)	12,701	(11)	12,866
Total non-interest income	3,430	(1,636)	109,999	(1,290)	110,503
Operating expenses:					

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Personnel costs	10,634		106,074		116,708
Net occupancy expenses	845		20,869		21,714
Equipment expenses	643		14,618		15,261
Other taxes	47		10,123		10,170
Professional fees	2,331	30	78,491	(227)	80,625
Communications	140		5,872		6,012
Business promotion	486		13,219		13,705
FDIC deposit insurance			5,362		5,362
Other real estate owned (OREO) expenses	68		12,912		12,980
Other operating expenses	(15,950)	4	39,998	(537)	23,515
Amortization of intangibles			3,097		3,097
Total operating expenses	(756)	34	310,635	(764)	309,149
Income (loss) before income tax and equity in earnings of subsidiaries	15,723	(4,251)	134,687	(24,726)	121,433
Income tax (benefit) expense		(1,488)	34,140	(206)	32,446
Income (loss) before equity in earnings of subsidiaries	15,723	(2,763)	100,547	(24,520)	88,987
Equity in undistributed earnings of subsidiaries	73,264	12,176		(85,440)	
Net Income	\$ 88,987	\$ 9,413	\$ 100,547	\$ (109,960)	\$ 88,987
Comprehensive income, net of tax	\$ 125,125	\$ 16,343	\$ 137,225	\$ (153,568)	\$ 125,125

Table of Contents**Condensed Consolidating Statement of Operations (Unaudited)**

Six months ended June 30, 2016

	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
(In thousands)					
Interest and dividend income:					
Dividend income from subsidiaries	\$ 53,900	\$	\$	\$ (53,900)	\$
Loans	39		732,879		732,918
Money market investments	578	51	6,752	(629)	6,752
Investment securities	381	161	72,454		72,996
Trading account securities			3,564		3,564
Total interest and dividend income	54,898	212	815,649	(54,529)	816,230
Interest expense:					
Deposits			61,102	(629)	60,473
Short-term borrowings			3,919		3,919
Long-term debt	26,235	5,385	7,255		38,875
Total interest expense	26,235	5,385	72,276	(629)	103,267
Net interest income (expense)	28,663	(5,173)	743,373	(53,900)	712,963
Provision for loan losses- non-covered loans	(3)		87,611		87,608
Provision for loan losses- covered loans			(2,301)		(2,301)
Net interest income (expense) after provision for loan losses	28,666	(5,173)	658,063	(53,900)	627,656
Service charges on deposit accounts			80,158		80,158
Other service fees			111,663	(1,336)	110,327
Mortgage banking activities			26,778		26,778
Net gain on sale of investment securities	1,583				1,583
Other-than-temporary impairment losses on investment securities			(209)		(209)
Trading account profit	59		896		955
Net loss on sale of loans, including valuation adjustments on loans held-for-sale			(304)		(304)
Adjustments (expense) to indemnity reserves on loans sold			(9,844)		(9,844)
FDIC loss-share expense			(15,722)		(15,722)
Other operating income	5,068	(2,939)	26,300	(18)	28,411
Total non-interest income	6,710	(2,939)	219,716	(1,354)	222,133

Operating expenses:

Personnel costs	26,055		217,744		243,799
Net occupancy expenses	1,761		40,383		42,144
Equipment expenses	1,088		28,721		29,809
Other taxes	94		20,271		20,365
Professional fees	5,212	60	151,096	(284)	156,084
Communications	277		12,055		12,332
Business promotion	951		23,864		24,815
FDIC deposit insurance			12,732		12,732
Other real estate owned (OREO) expenses	68		22,053		22,121
Other operating expenses	(36,378)	43	78,104	(1,089)	40,680
Amortization of intangibles			6,211		6,211
Total operating expenses	(872)	103	613,234	(1,373)	611,092
Income (loss) before income tax and equity in earnings of subsidiaries	36,248	(8,215)	264,545	(53,881)	238,697
Income tax expense (benefit)	3	(2,875)	67,576	7	64,711
Income (loss) before equity in earnings of subsidiaries	36,245	(5,340)	196,969	(53,888)	173,986
Equity in undistributed earnings of subsidiaries	137,741	21,099		(158,840)	
Net Income	\$ 173,986	\$ 15,759	\$ 196,969	\$ (212,728)	\$ 173,986
Comprehensive income, net of tax	\$ 285,260	\$ 43,638	\$ 309,260	(352,898)	\$ 285,260

Table of Contents**Condensed Consolidating Statement of Operations (Unaudited)**

(In thousands)	Quarter ended June 30, 2015				
	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Interest and dividend income:					
Dividend income from subsidiaries	\$ 1,500	\$	\$	\$ (1,500)	\$
Loans	169	2	374,109	(147)	374,133
Money market investments	2	1	1,844	(2)	1,845
Investment securities	190	80	31,027		31,297
Trading account securities			3,026		3,026
Total interest and dividend income	1,861	83	410,006	(1,649)	410,301
Interest expense:					
Deposits			26,260	(2)	26,258
Short-term borrowings		127	1,883	(147)	1,863
Long-term debt	13,117	2,695	3,815		19,627
Total interest expense	13,117	2,822	31,958	(149)	47,748
Net interest (expense) income	(11,256)	(2,739)	378,048	(1,500)	362,553
Provision for loan losses- non-covered loans	227		60,241		60,468
Provision for loan losses- covered loans			15,766		15,766
Net interest (expense) income after provision for loan losses	(11,483)	(2,739)	302,041	(1,500)	286,319
Service charges on deposit accounts			40,138		40,138
Other service fees			60,661	(1,240)	59,421
Mortgage banking activities			21,325		21,325
Net gain on sale of investment securities			5		5
Other-than-temporary impairment losses on investment securities			(14,445)		(14,445)
Trading account loss	(18)		(3,090)		(3,108)
Net gain on sale of loans, including valuation adjustments on loans held-for-sale			681		681
Adjustments (expense) to indemnity reserves on loans sold			419		419
FDIC loss-share income			19,075		19,075
Other operating income	3,423	524	13,315	(14)	17,248
Total non-interest income	3,405	524	138,084	(1,254)	140,759

Operating expenses:

Personnel costs	14,470		106,507		120,977
Net occupancy expenses	787		22,499		23,286
Equipment expenses	472		15,453		15,925
Other taxes	652		10,461		11,113
Professional fees	2,323	32	76,154	(60)	78,449
Communications	108		6,045		6,153
Business promotion	408		13,368		13,776
FDIC deposit insurance			8,542		8,542
Other real estate owned (OREO) expenses			44,816		44,816
Other operating expenses	(15,184)	109	46,795	(638)	31,082
Amortization of intangibles			2,881		2,881
Restructuring cost			6,174		6,174

Total operating expenses	4,036	141	359,695	(698)	363,174
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(Loss) income before income tax and

equity in earnings of subsidiaries	(12,114)	(2,356)	80,430	(2,056)	63,904
Income tax benefit	(47)		(533,270)	(216)	(533,533)

(Loss) income before equity in earnings of subsidiaries

	(12,067)	(2,356)	613,700	(1,840)	597,437
Equity in undistributed earnings of subsidiaries	609,504	559,026		(1,168,530)	

Income from continuing operations	597,437	556,670	613,700	(1,170,370)	597,437
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Income from discontinued operations, net of tax			15		15
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Equity in undistributed earnings of discontinued operations	15	15		(30)	
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Net Income	\$ 597,452	\$ 556,685	\$ 613,715	\$ (1,170,400)	\$ 597,452
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Comprehensive income, net of tax	\$ 572,821	\$ 545,987	\$ 589,116	\$ (1,135,103)	\$ 572,821
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Table of Contents**Condensed Consolidating Statement of Operations (Unaudited)**

(In thousands)	Six months ended June 30, 2015				
	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Interest and dividend income:					
Dividend income from subsidiaries	\$ 3,000	\$	\$	\$ (3,000)	\$
Loans	309	2	729,722	(269)	729,764
Money market investments	4	3	3,288	(4)	3,291
Investment securities	333	161	61,104		61,598
Trading account securities			5,722		5,722
Total interest and dividend income	3,646	166	799,836	(3,273)	800,375
Interest expense:					
Deposits			52,126	(4)	52,122
Short-term borrowings		228	3,638	(269)	3,597
Long-term debt	26,235	5,390	7,283		38,908
Total interest expense	26,235	5,618	63,047	(273)	94,627
Net interest (expense) income	(22,589)	(5,452)	736,789	(3,000)	705,748
Provision for loan losses- non-covered loans	227		89,952		90,179
Provision for loan losses- covered loans			26,090		26,090
Net interest (expense) income after provision for loan losses	(22,816)	(5,452)	620,747	(3,000)	589,479
Service charges on deposit accounts			79,155		79,155
Other service fees			114,375	(1,328)	113,047
Mortgage banking activities			34,177		34,177
Net gain on sale of investment securities			5		5
Other-than temporary impairment losses on investment securities			(14,445)		(14,445)
Trading account profit (loss)	22		(2,716)		(2,694)
Net gain on sale of loans, including valuation adjustments on loans held-for-sale			602		602
Adjustments (expense) to indemnity reserves on loans sold			(4,107)		(4,107)
FDIC loss-share expense			23,214		23,214
Other operating income (loss)	6,391	(305)	20,984	(30)	27,040

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Total non-interest income (loss)	6,413	(305)	251,244	(1,358)	255,994
Operating expenses:					
Personnel costs	26,378		211,057		237,435
Net occupancy expenses	1,767		43,228		44,995
Equipment expenses	1,017		28,319		29,336
Other taxes	(806)		20,493		19,687
Professional fees	5,097	442	148,586	(148)	153,977
Communications	225		12,104		12,329
Business promotion	844		23,745		24,589
FDIC deposit insurance			14,940		14,940
Other real estate owned (OREO) expenses			67,885		67,885
Other operating expenses	(32,119)	218	81,614	(1,283)	48,430
Amortization of intangibles			4,985		4,985
Restructuring costs			16,927		16,927
Total operating expenses	2,403	660	673,883	(1,431)	675,515
(Loss) income before income tax and equity in earnings of subsidiaries	(18,806)	(6,417)	198,108	(2,927)	169,958
Income tax (benefit) expense			(500,993)	29	(500,964)
(Loss) income before equity in earnings of subsidiaries	(18,806)	(6,417)	699,101	(2,956)	670,922
Equity in undistributed earnings of subsidiaries	689,728	560,295		(1,250,023)	
Income from continuing operations	670,922	553,878	699,101	(1,252,979)	670,922
Income from discontinued operations, net of tax			1,356		1,356
Equity in undistributed earnings of discontinued operations	1,356	1,356		(2,712)	
Net Income	\$ 672,278	\$ 555,234	\$ 700,457	\$ (1,255,691)	\$ 672,278
Comprehensive income, net of tax	\$ 683,119	\$ 557,827	711,194	\$ (1,269,021)	\$ 683,119

Table of Contents**Condensed Consolidating Statement of Cash Flows (Unaudited)**

(In thousands)	Six months ended June 30, 2016				
	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Cash flows from operating activities:					
Net income	\$ 173,986	\$ 15,759	\$ 196,969	\$ (212,728)	\$ 173,986
Adjustments to reconcile net income to net cash (used in) provided by operating activities:					
Equity in undistributed earnings of subsidiaries	(137,741)	(21,099)		158,840	
Provision (reversal) for loan losses	(3)		85,310		85,307
Amortization of intangibles			6,211		6,211
Depreciation and amortization of premises and equipment	353		22,788		23,141
Net accretion of discounts and amortization of premiums and deferred fees	1,043	15	(25,782)		(24,724)
Other-than-temporary impairment on investment securities			209		209
Fair value adjustments on mortgage servicing rights			12,817		12,817
FDIC loss-share expense			15,722		15,722
Adjustments (expense) to indemnity reserves on loans sold			9,844		9,844
(Earnings) losses from investments under the equity method	(5,069)	2,939	(11,551)		(13,681)
Deferred income tax expense (benefit)	3	(2,875)	52,180	8	49,316
(Gain) loss on:					
Disposition of premises and equipment and other productive assets	(1)		2,425		2,424
Sale and valuation adjustments of investment securities	(1,583)				(1,583)
Sale of loans, including valuation adjustments on loans held for sale and mortgage banking activities			(15,577)		(15,577)
Sale of foreclosed assets, including write-downs	68		9,503		9,571
Acquisitions of loans held-for-sale			(148,725)		(148,725)
Proceeds from sale of loans held-for-sale			43,110		43,110
Net originations on loans held-for-sale			(247,287)		(247,287)
Net (increase) decrease in:					

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Trading securities	(251)		393,339	90	393,178
Accrued income receivable	(17)	(30)	3,252	50	3,255
Other assets	839	35	(19,889)	(2,336)	(21,351)
Net (decrease) increase in:					
Interest payable			(1,158)	(50)	(1,208)
Pension and other postretirement benefits obligations			2,300		2,300
Other liabilities	(3,244)	(397)	7,635	2,316	6,310
Total adjustments	(145,603)	(21,412)	196,676	158,918	188,579
Net cash provided by (used in) operating activities	28,383	(5,653)	393,645	(53,810)	362,565
Cash flows from investing activities:					
Net (increase) decrease in money market investments	(82)	5,442	(605,325)	(5,442)	(605,407)
Purchases of investment securities:					
Available-for-sale			(1,682,199)		(1,682,199)
Other			(70,302)		(70,302)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:					
Available-for-sale			632,284		632,284
Held-to-maturity			2,209		2,209
Other			47,859		47,859
Proceeds from sale of investment securities:					
Other	1,583		26,127		27,710
Net repayments (disbursements) on loans	17		(61,216)		(61,199)
Proceeds from sale of loans			95,940		95,940
Acquisition of loan portfolios			(308,949)		(308,949)
Net payments from FDIC under loss-sharing agreements			88,588		88,588
Return of capital from equity method investments	118	206			324
Return of capital from wholly-owned subsidiaries	14,000			(14,000)	
Acquisition of premises and equipment	(651)		(60,093)		(60,744)
Proceeds from sale of:					
Premises and equipment and other productive assets	46		2,793		2,839
Foreclosed assets	216		28,679		28,895
Net cash provided by (used in) investing activities	15,247	5,648	(1,863,605)	(19,442)	(1,862,152)
Cash flows from financing activities:					
Net increase (decrease) in:					
Deposits			1,537,432	(7,341)	1,530,091

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Federal funds purchased and assets sold under agreements to repurchase			59,460		59,460
Other short-term borrowings			30,000		30,000
Payments of notes payable			(216,501)		(216,501)
Proceeds from issuance of notes payable			128,883		128,883
Proceeds from issuance of common stock	3,710				3,710
Dividends paid to parent company			(53,900)	53,900	
Dividends paid	(32,953)				(32,953)
Net payments for repurchase of common stock	(1,379)			(90)	(1,469)
Return of capital to parent company			(14,000)	14,000	
Net cash (used in) provided by financing activities	(30,622)		1,471,374	60,469	1,501,221
Net increase (decrease) in cash and due from banks	13,008	(5)	1,414	(12,783)	1,634
Cash and due from banks at beginning of period	24,298	600	363,620	(24,844)	363,674
Cash and due from banks at end of period	\$ 37,306	\$ 595	\$ 365,034	\$ (37,627)	\$ 365,308

During the six months ended June 30, 2016 there have not been any cash flows associated with discontinued operations.

Table of Contents**Condensed Consolidating Statement of Cash Flows (Unaudited)**

(In thousands)	Six months ended June 30, 2015				
	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Cash flows from operating activities:					
Net income	\$ 672,278	\$ 555,234	\$ 700,457	\$ (1,255,691)	\$ 672,278
Adjustments to reconcile net income to net cash (used in) provided by operating activities:					
Equity in undistributed earnings of subsidiaries	(691,084)	(561,651)		1,252,735	
Provision for loan losses	227		116,042		116,269
Amortization of intangibles			4,985		4,985
Depreciation and amortization of premises and equipment	374		23,575		23,949
Net accretion of discounts and amortization of premiums and deferred fees			(42,167)		(42,167)
Other-than-temporary impairment on investment securities			14,445		14,445
Fair value adjustments on mortgage servicing rights			6,846		6,846
FDIC loss-share income			(23,214)		(23,214)
Adjustments (expense) to indemnity reserves on loans sold			4,107		4,107
(Earnings) losses from investments under the equity method	(6,391)	305	(3,720)		(9,806)
Deferred income tax benefit			(511,157)	29	(511,128)
(Gain) loss on:					
Disposition of premises and equipment	(1)		(1,428)		(1,429)
Sale and valuation adjustments of investment securities			(5)		(5)
Sale of loans, including valuation adjustments on loans held for sale and mortgage banking activities			(15,034)		(15,034)
Sale of foreclosed assets, including write-downs			54,711		54,711
Acquisitions of loans held-for-sale			(249,059)		(249,059)
Proceeds from sale of loans held-for-sale			51,062		51,062
Net originations on loans held-for-sale			(379,264)		(379,264)
Net (increase) decrease in:					
Trading securities	(117)		481,388		481,271
Accrued income receivable	(183)	(1)	(655)	183	(656)

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Other assets	2,298	55	31,314	(115)	33,552
Net increase (decrease) in:					
Interest payable		183	475	(183)	475
Pension and other postretirement benefits obligations			1,641		1,641
Other liabilities	(10,443)	(61)	(30,976)	42	(41,438)
Total adjustments	(705,320)	(561,170)	(466,088)	1,252,691	(479,887)
Net cash (used in) provided by operating activities	(33,042)	(5,936)	234,369	(3,000)	192,391
Cash flows from investing activities:					
Net decrease (increase) in money market investments	18,481	(933)	(1,451,033)	933	(1,432,552)
Purchases of investment securities:					
Available-for-sale			(985,427)		(985,427)
Held-to-maturity			(250)		(250)
Other			(12,805)		(12,805)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:					
Available-for-sale			867,168		867,168
Held-to-maturity			2,389		2,389
Other			31,592		31,592
Proceeds from sale of investment securities:					
Available for sale			70,005		70,005
Other			8,399		8,399
Net repayments on loans	22,400	1	374,209	(22,386)	374,224
Proceeds from sale of loans			27,780		27,780
Acquisition of loan portfolios		(350)	(140,492)	171	(140,671)
Net payments from FDIC under loss-sharing agreements			164,423		164,423
Net cash received and acquired from business combination			738,296		738,296
Acquisition of servicing assets			(3,897)		(3,897)
Cash paid related to business acquisitions			(17,250)		(17,250)
Mortgage servicing rights purchased			(2,400)		(2,400)
Acquisition of premises and equipment	(677)		(30,140)		(30,817)
Proceeds from sale of:					
Premises and equipment	4		7,897		7,901
Foreclosed assets			98,287		98,287
Net cash provided by (used in) investing activities	40,208	(1,282)	(253,249)	(21,282)	(235,605)
Cash flows from financing activities:					
Net increase (decrease) in:					
Deposits			752,959	(7,172)	745,787
Federal funds purchased and assets sold under agreements to repurchase			(150,413)		(150,413)
Other short-term borrowings		7,214	(77,815)	22,386	(48,215)

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Payments of notes payable			(430,003)		(430,003)
Proceeds from issuance of notes payable			103,231		103,231
Proceeds from issuance of common stock	2,536				2,536
Dividends paid to parent company			(3,000)	3,000	
Dividends paid	(1,861)				(1,861)
Net payments for repurchase of common stock	(1,696)		1		(1,695)
Return of capital to parent company			171	(171)	
Net cash (used in) provided by financing activities	(1,021)	7,214	195,131	18,043	219,367
Net increase (decrease) in cash and due from banks	6,145	(4)	176,251	(6,239)	176,153
Cash and due from banks at beginning of period	20,448	608	380,890	(20,851)	381,095
Cash and due from banks at end of period	\$ 26,593	\$ 604	\$ 557,141	\$ (27,090)	\$ 557,248

The Condensed Consolidating Statements of Cash Flows include the cash flows from operating, investing and financing activities associated with discontinued operations.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report includes management's discussion and analysis (MD&A) of the consolidated financial position and financial performance of Popular, Inc. (the Corporation or Popular). All accompanying tables, financial statements and notes included elsewhere in this report should be considered an integral part of this analysis.

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 United States (U.S.) mainland, and the U.S. and British Virgin Islands. In Puerto Rico, the Corporation provides retail, including residential mortgage loan originations, 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 operates Banco Popular North America (BPNA). BPNA focuses efforts and resources on the core community banking business. BPNA, under the name Popular Community Bank (PCB), operates branches in New York, New Jersey and Southern Florida. Note 35 to the consolidated financial statements presents information about the Corporation's business segments. As of June 30, 2016, the Corporation had a 15.74% interest in the holding company of EVERTEC, which provides transaction processing services throughout the Caribbean and Latin America, including servicing many of the Corporation's system infrastructures and transaction processing businesses. During the quarter ended June 30, 2016 the Corporation recorded \$1.6 million in earnings from its investment in EVERTEC which had a carrying amount of \$35.1 million as of the end of the quarter. Also, the Corporation had a 15.84% stake in Centro Financiero BHD Leon, S.A. (BHD Leon), one of the largest banking and financial services groups in the Dominican Republic. During the quarter ended June 30, 2016 the Corporation recorded \$6.3 million in earnings from its investment in BHD Leon, which had a carrying amount of \$116.0 million, as of the end of the quarter.

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QUARTERLY HIGHLIGHTS

The Corporation's results for the second quarter of 2016, include the sale of commercial and construction loans with a carrying value of approximately \$100 million and OREO with a carrying value of \$9 million acquired in 2010 from the FDIC as receiver for Westernbank (WB). The sale resulted in a net benefit before taxes of approximately \$8 million from the sale of the loans and a loss of \$5.1 million from the sale of OREOs. Additionally, the Corporation incurred \$1.8 million in fees for professional services directly associated with this transaction.

On May 26, 2016, EVERTEC, Inc. filed its Annual Report on Form 10-K for the year ended December 31, 2015, which included restated audited results for the years ended December 31, 2014 and 2013, correcting certain errors involved with the accounting for tax positions taken by EVERTEC in the 2010 tax year and other miscellaneous accounting adjustments. The Corporation's proportionate share of the cumulative impact of EVERTEC's restatement and other corrective adjustments to its financial statements was approximately \$2.2 million and is reflected as part of other non-interest income.

OVERVIEW

Table 1 provides selected financial data and performance indicators for the quarters and six months ended June 30, 2016 and 2015.

Table of Contents**Table 1 - Financial Highlights****Financial Condition Highlights****Financial Condition Highlights**

(In thousands)	Ending balances at			Average for the six months ended		
	June 30, 2016	December 31, 2015	Variance	June 30, 2016	June 30, 2015	Variance
Money market investments	\$ 2,785,500	\$ 2,180,092	\$ 605,408	\$ 2,594,697	\$ 2,231,909	\$ 362,788
Investment and trading securities	7,583,294	6,407,802	1,175,492	7,024,039	5,941,278	1,082,761
Loans	23,270,169	23,129,230	140,939	23,064,939	22,949,753	115,186
Earning assets	33,638,963	31,717,124	1,921,839	32,683,676	31,122,940	1,560,736
Total assets	37,606,148	35,761,733	1,844,415	36,629,755	34,696,180	1,933,575
Deposits*	28,737,856	27,209,723	1,528,133	28,093,043	26,459,216	1,633,827
Borrowings	2,428,752	2,425,853	2,899	2,374,022	2,866,035	(492,013)
Stockholders equity	5,359,831	5,105,324	254,507	5,226,895	4,363,634	863,261
Liabilities from discontinued operations	1,815	1,815		1,815	2,384	(569)

* Average deposits exclude average derivatives.

Operating Highlights

(In thousands, except per share

Quarters ended June 30,

Six months ended June 30,

information)	2016	2015	Variance	2016	2015	Variance
Net interest income	\$ 360,551	\$ 362,553	\$ (2,002)	\$ 712,963	\$ 705,748	\$ 7,215
Provision for loan losses - non-covered loans	39,668	60,468	(20,800)	87,608	90,179	(2,571)
Provision (reversal) for loan losses - covered loans	804	15,766	(14,962)	(2,301)	26,090	(28,391)
Non-interest income	110,503	140,759	(30,256)	222,133	255,994	(33,861)
Operating expenses	309,149	363,174	(54,025)	611,092	675,515	(64,423)
Income from continuing operations before income tax	121,433	63,904	57,529	238,697	169,958	68,739
Income tax expense (benefit)	32,446	(533,533)	565,979	64,711	(500,964)	565,675
Income from continuing operations	\$ 88,987	\$ 597,437	\$ (508,450)	\$ 173,986	\$ 670,922	\$ (496,936)
Income from discontinued operations, net of tax		15	(15)		1,356	(1,356)
Net income	\$ 88,987	\$ 597,452	\$ (508,465)	\$ 173,986	\$ 672,278	\$ (498,292)

Net income applicable to common stock	\$	88,056	\$	596,521	\$	(508,465)	\$	172,124	\$	670,417	\$	(498,293)
Net income from continuing operations	\$	0.85	\$	5.80	\$	(4.95)	\$	1.67	\$	6.51	\$	(4.84)
Net income from discontinued operations	\$		\$		\$		\$		\$	0.01	\$	(0.01)
Net income per Common Share Basic	\$	0.85	\$	5.80		(4.95)	\$	1.67	\$	6.52	\$	(4.85)
Net income from continuing operations	\$	0.85	\$	5.79	\$	(4.94)	\$	1.67	\$	6.49	\$	(4.82)
Net income from discontinued operations	\$		\$		\$		\$		\$	0.01	\$	(0.01)
Net income per Common Share Diluted	\$	0.85	\$	5.79	\$	(4.94)	\$	1.67	\$	6.50	\$	(4.83)

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Selected Statistical Information	Quarters ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Common Stock Data				
Market price				
High	\$ 31.34	\$ 35.45	\$ 31.34	\$ 35.58
Low	26.66	28.86	22.62	28.86
End	29.30	28.86	29.30	28.86
Book value per common share at period end	51.20	47.34	51.52	47.34
Profitability Ratios				
Return on assets	0.96%	6.74%	0.96%	3.91%
Return on common equity	6.80	54.93	6.69	31.34
Net interest spread (taxable equivalent) - Non-GAAP	4.35	4.60	4.41	4.62
Net interest margin (taxable equivalent) - Non-GAAP	4.57	4.80	4.64	4.83
Capitalization Ratios				
Average equity to average assets	14.08%	12.38%	14.27%	12.58%
Tier I capital	16.29	15.93	16.29	15.93
Total capital	19.29	18.50	19.29	18.50
Tier 1 leverage	11.29	11.59	11.29	11.59

Adjusted results of operations Non-GAAP financial measure

The Corporation prepares its Consolidated Financial Statements using accounting principles generally accepted in the U.S. (U.S. GAAP), the (reported basis). In addition to analyzing the Corporation's results on a reported basis, management monitors the performance of the Corporation on an adjusted basis and excludes the impact of certain transactions on the results of its operations. Throughout this MD&A, the Corporation presents a discussion of its financial results excluding the impact of these events to arrive at the adjusted results. Management believes that the adjusted results provide meaningful information about the underlying performance of the Corporation's ongoing operations. The adjusted results are a Non-GAAP financial measure. Refer to tables 42 to 47 for a reconciliation of the reported results for the quarter and six months ended June 30, 2016 and June 30, 2015.

Net interest income on a taxable equivalent basis-Non-GAAP financial measure

Net interest income, on a taxable equivalent basis, is presented with its different components on Tables 2 and 3 for the quarter and six-months ended June 30, 2016 as compared with the same periods in 2015, segregated by major categories of interest earning assets and interest bearing liabilities.

The interest earning assets include investment securities and loans that are exempt from income tax, principally in Puerto Rico. The main sources of tax-exempt interest income are certain investments in obligations of the U.S. Government, its agencies and sponsored entities, and certain obligations of the Commonwealth of Puerto Rico and its agencies and assets held by the Corporation's international banking entities. To facilitate the comparison of all interest related to these assets, the interest income has been converted to a taxable equivalent basis, using the applicable statutory income tax rates for each period. The taxable equivalent computation considers the interest expense and other related expense disallowances required by the Puerto Rico tax law. Under this law, the exempt interest can be deducted up to the amount of taxable income. Net interest income on a taxable equivalent basis is a non-GAAP financial measure. Management believes that this presentation provides meaningful information since it facilitates the comparison of revenues arising from taxable and exempt sources.

Non-GAAP financial measures used by the Corporation may not be comparable to similarly named Non-GAAP financial measures used by other companies.

Table of Contents*Financial highlights for the quarter ended June 30, 2016*

For the quarter ended June 30, 2016, the Corporation recorded net income of \$89.0 million, compared to a net income of \$597.5 million for the same quarter of the previous year. The results for the second quarter of 2015 include a tax benefit of \$544.9 million as a result of the partial reversal of the valuation allowance on the Corporation's deferred tax asset from the U.S. operations. The adjusted net income for the second quarter of 2016 was \$90.6 million, compared to \$90.1 million for the same quarter of 2015. Refer to tables 42 to 44 for a detail of the adjustments to arrive at the adjusted net income.

Net interest income, on a taxable equivalent basis, was \$382.5 million, relatively flat when compared to the same quarter of 2015. Excluding the benefit of the \$2.1 million in income related to the bulk loan sale of WB loans, detailed in table 42, net interest income was \$380.4 million for the second quarter of 2016, a decrease of \$2.3 million when compared to the same quarter of 2015 driven by lower income from WB loans as this portfolio continues its expected run-off, the impact of lower mortgage loans originations and higher expense from deposits due to higher volumes; partially offset by higher income from investment securities and income from commercial and consumer loans at the BPNA segment. Net interest margin, on a taxable equivalent basis, for the second quarter of 2016 was 4.59%, compared to 4.80% for the same quarter of 2015. The adjusted net interest margin for the second quarter of 2016 was 4.57%, a decrease of 23 basis points when compared to the 4.80% for the same quarter of 2015.

Non-interest income decreased by \$30.3 million for the quarter ended June 30, 2016, compared with the same quarter of the previous year. The FDIC loss share income (expense) reflected an unfavorable variance of \$31.7 million mainly from mirror accounting income of \$17.6 million related to the loss on a bulk sale of covered OREO and an unfavorable fair value adjustment on the true up payment obligation, offset by lower amortization of the indemnification asset. The results for the second quarter of 2016 include an unfavorable adjustment of \$2.2 million that represents the Corporation's proportionate share of the impact of the restatement of EVERTEC's financial statements, as described in Note 25 to the financial statements in this form 10Q. The results for the second quarter of 2015 include an other-than-temporary impairment of \$14.4 million on the portfolio of securities classified as Obligations from the Puerto Rico Government. On an adjusted basis, non-interest income declined by \$35.2 million.

The total provision for loan losses was \$40.5 million, compared to \$76.2 million for the same quarter of 2015, reflecting lower loss trends and lower reserves for impairment losses in P.R. Credit metrics for the BPNA segment continued strong, while reflecting the impact of loan growth. The results for the second quarter of 2016, include recoveries of \$5.4 million from the bulk sale of WB loans. On an adjusted basis, the total provision for loan losses reflected a decrease of \$30.3 million compared to the same quarter of 2015.

Total non-performing assets, including covered, were \$836 million at June 30, 2016, a decline of \$7 million, or 1% from December 31, 2015. The decline reflects lower non-performing loans by \$30 million, offset by an increase in OREO of \$23 million, mainly residential properties. At June 30, 2016, NPLs to total loans held-in-portfolio was 2.6% compared to 2.7% in December 31, 2015. Refer to the Credit Risk Management and Loan Quality section of this MD&A for an explanation of the main factors impacting the provision for

loan losses and a detailed analysis of net charge-offs, non-performing assets, the allowance for loan losses and selected loan losses statistics.

Operating expenses decreased by \$54.0 million for the quarter ended June 30, 2016, compared to the same quarter of the previous year, mainly due to lower OREO expenses by \$31.8 million due to the loss of \$22.0 million from the bulk sale of covered OREO completed in 2015, lower other operating expenses and lower restructuring costs from the reorganization of BPNA. On an adjusted basis, operating expenses decreased by \$20.0 million.

The income tax expense for the second quarter of 2016 was \$32.4 million, compared to an income tax benefit of \$533.5 million for the same quarter of the previous year, which reflected the tax benefit of \$544.9 million as a result of the partial reversal of the valuation allowance on the Corporation's deferred tax asset from the U.S. operations. On an adjusted basis, the income tax expense for the second quarter of 2016 was \$32.1 million, compared to \$21.5 million for the same quarter of 2015.

The Corporation's total assets at June 30, 2016 amounted to \$37.6 billion, compared to \$35.8 billion at December 31, 2015. Money market and investment securities increased by \$605.4 million, due mainly to increase in cash balances from deposits. Investment securities available-for-sale increased by \$1.1 billion due to purchases of MBS and U.S. Treasury securities. Total deposits increased by \$1.5 billion, mainly from government deposit accounts at BPPR, NOW accounts and commercial checking accounts, offset by lower brokered CDs.

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Stockholders' equity totalled \$5.4 billion at June 30, 2016, compared with \$5.1 billion at December 31, 2015. The increase resulted mainly from the Corporation's net income of \$174.0 million, a favorable variance of \$108 million in unrealized gains on securities available-for-sale, partially offset by payments of dividends of \$31.1 million on common stock of \$0.15 per share and \$1.9 million in dividends on preferred stock.

Refer to the Financial Condition Analysis section of this MD&A for additional information.

Capital ratios continued to be strong. As of June 30, 2016 the Corporation's Common equity Tier 1 Capital ratio was 16.29% while the tangible common equity ratio was 12.53%. Refer to Table 14 for capital ratios and Table 15 for Non-GAAP reconciliations.

As a financial services company, the Corporation's earnings are significantly affected by general business and economic conditions. Lending and deposit activities and fee income generation are influenced by the level of business spending and investment, consumer income, spending and savings, capital market activities, competition, customer preferences, interest rate conditions and prevailing market rates on competing products.

The Corporation continuously monitors general business and economic conditions, industry-related indicators and trends, competition, interest rate volatility, credit quality indicators, loan and deposit demand, operational and systems efficiencies, revenue enhancements and changes in the regulation of financial services companies.

The Corporation operates in a highly regulated environment and may be adversely affected by changes in federal and local laws and regulations. Also, competition with other financial institutions could adversely affect its profitability.

The description of the Corporation's business contained in Item 1 of the Corporation's 2015 Form 10-K, while not all inclusive, discusses additional information about the business of the Corporation and risk factors, many beyond the Corporation's control that, in addition to the other information in this Form 10-Q, readers should consider.

The Corporation's common stock is traded on the NASDAQ Global Select Market under the symbol BPOP.

CRITICAL ACCOUNTING POLICIES / ESTIMATES

The accounting and reporting policies followed by the Corporation and its subsidiaries conform to generally accepted accounting principles in the United States of America and general practices within the financial services industry. Various elements of the Corporation's accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. These estimates are made under facts and circumstances at a point in time and changes in those facts and circumstances could produce actual results that differ from those estimates.

Management has discussed the development and selection of the critical accounting policies and estimates with the Corporation's Audit Committee. The Corporation has identified as critical accounting policies those related to: (i) Fair Value Measurement of Financial Instruments; (ii) Loans and Allowance for Loan Losses; (iii) Acquisition Accounting for Loans and Related Indemnification Asset; (iv) Income Taxes; (v) Goodwill, and (vi) Pension and Postretirement Benefit Obligations. For a summary of these critical accounting policies and estimates, refer to that particular section in the MD&A included in Popular, Inc.'s 2015 Form 10-K. Also, refer to Note 2 to the consolidated financial statements included in the 2015 Form 10-K for a summary of the Corporation's significant accounting policies.

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OPERATING RESULTS ANALYSIS

NET INTEREST INCOME

Average outstanding securities balances are based on amortized cost excluding any unrealized gains or losses on securities available-for-sale. Non-accrual loans have been included in the respective average loans and leases categories. Loan fees collected and costs incurred in the origination of loans are deferred and amortized over the term of the loan as an adjustment to interest yield. Prepayment penalties, late fees collected and the amortization of premiums / discounts on purchased loans are also included as part of the loan yield. Excluding the discount accretion on covered loans accounted for under Subtopic ASC 310-30, interest income for the quarter and six-months ended June 30, 2016 included a favorable impact for the amortization of these items, of \$3.4 million and \$8.2 million, respectively, compared with a favorable impact of \$4.9 million and \$6.5 million in the same periods in 2015.

Taxable equivalent net interest income was \$382.5 million for the second quarter of 2016, compared to \$382.7 million for the same quarter of the previous year. Net interest margin, on a taxable equivalent basis, for the second quarter of 2016 was 4.59%, compared to 4.80% for the same quarter of 2015.

Excluding the impact of the \$2.1 million in income related to the bulk loan sale, net interest income on a taxable equivalent basis was \$380.4 million for the second quarter of 2016, a decrease of \$2.3 million when compared to the \$382.7 million for same quarter of 2015. The adjusted net interest margin for the second quarter of 2016 was 4.57%, a decrease of 23 basis points when compared to the 4.80% for the same quarter of 2015. The main reasons for the decrease are described below:

Lower interest income from WB loans related to a lower volume as part of the normal portfolio run-off.

Lower income from mortgage loans mainly from lower volumes at both P.R. and U.S. due to slower origination activity.

Higher interest expense on deposits mainly due to higher average volumes in most categories mainly higher volume of deposits from the public sector and higher volumes in the U.S. to fund the loan growth. These increases were partially offset by a decrease in the average volume of brokered CDs. The increase in deposit cost is mostly related to a higher cost of time deposits and money markets in the U.S.

These negative variances were partially offset by:

Higher interest income from investment securities due mainly to higher volumes of mortgage backed securities; partially offset by lower yields on acquired investments.

Higher income from commercial loans mainly due to higher volume of loans in the U.S. at lower yields.

Higher interest income from consumer loans due to higher volume of personal loans related to acquired loans mainly in the BPNA segment, partially offset by lower income from credit cards mainly due to lower average volume in the portfolio.

Table of Contents**Table 2 - Analysis of Levels & Yields on a Taxable Equivalent Basis for Continuing Operations****Quarters ended June 30,**

2016	Average Volume		Average Yields /Costs				Interest			Variance	
	2016	2015	Variance	2016	2015	Variance	2016	2015	Variance	Rate	Volume
	(\$ in millions)								(In thousands)		
\$ 3,003	\$ 2,530	\$ 473	0.52%	0.29%	0.23%	Money market investments	\$ 3,889	\$ 1,845	\$ 2,044	\$ 1,767	\$ 277
7,147	5,812	1,335	2.72	2.66	0.06	Investment securities	48,661	38,591	10,070	(794)	10,864
136	233	(97)	7.13	6.25	0.88	Trading securities	2,415	3,635	(1,220)	447	(1,667)
						Total money market, investment and trading securities					
10,286	8,575	1,711	2.14	2.06	0.08		54,965	44,071	10,894	1,420	9,474
						Loans:					
9,150	8,776	374	5.05	5.19	(0.14)	Commercial	114,925	113,515	1,410	(3,346)	4,756
723	682	41	5.43	6.02	(0.59)	Construction	9,747	10,247	(500)	(1,084)	584
651	583	68	6.73	6.93	(0.20)	Leasing	10,951	10,100	851	(302)	1,153
6,743	7,175	(432)	5.53	5.44	0.09	Mortgage	93,145	97,561	(4,416)	1,534	(5,950)
3,865	3,823	42	10.47	10.45	0.02	Consumer	100,628	99,587	1,041	(481)	1,522
21,132	21,039	93	6.26	6.30	(0.04)	Sub-total loans	329,396	331,010	(1,614)	(3,679)	2,065
2,013	2,350	(337)	9.53	9.44	0.09	WB loans [1]	47,737	55,335	(7,598)	(12)	(7,586)
23,145	23,389	(244)	6.54	6.62	(0.08)	Total loans	377,133	386,345	(9,212)	(3,691)	(5,521)
						Total earning assets					
\$ 33,431	\$ 31,964	\$ 1,467	5.19%	5.40%	(0.21)%		\$ 432,098	\$ 430,416	\$ 1,682	\$ (2,271)	\$ 3,953
						Interest bearing deposits:					
						NOW and money market [2]					
\$ 7,023	\$ 5,507	\$ 1,516	0.38%	0.36%	0.02%		\$ 6,596	\$ 4,911	\$ 1,685	\$ 720	\$ 965
7,487	7,040	447	0.24	0.23	0.01	Savings	4,447	4,102	345	(5)	350
7,866	8,530	(664)	1.00	0.81	0.19	Time deposits	19,556	17,245	2,311	3,373	(1,062)
22,376	21,077	1,299	0.55	0.50	0.05	Total deposits	30,599	26,258	4,341	4,088	253

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801	1,052	(251)	1.03	0.71	0.32	Short-term borrowings	2,058	1,864	194	647	(453)
1,506	1,803	(297)	5.07	4.36	0.71	Other medium and long-term debt	19,002	19,626	(624)	1,412	(2,036)
24,683	23,932	751	0.84	0.80	0.04	Total interest bearing liabilities	51,659	47,748	3,911	6,147	(2,236)
6,481	6,247	234				Non-interest bearing demand deposits					
2,267	1,785	482				Other sources of funds					
\$ 33,431	\$ 31,964	\$ 1,467	0.62%	0.60%	0.02%	Total source of funds	51,659	47,748	3,911	6,147	(2,236)
			4.57%	4.80%	(0.23)%	Adjusted net interest margin/income on a taxable equivalent basis	380,439	382,668	(2,229)	\$ (8,418)	\$ 6,189
			4.35%	4.60%	(0.25)%	Adjusted net interest spread					
						Impact of bulk loan sale	2,057		2,057		
			4.59%	4.80%	(0.21)%	Net interest margin/ income on a taxable equivalent basis	\$ 382,496	\$ 382,668	\$ (172)		
						Taxable equivalent adjustment	21,945	20,115	1,830		
						Net interest income	\$ 360,551	\$ 362,553	\$ (2,002)		

Note: The changes that are not due solely to volume or rate are allocated to volume and rate based on the proportion of the change in each category.

[1] Including the impact of the WB loans bulk sale, the yield for WB loans would have been 9.94%.

[2] Includes interest bearing demand deposits corresponding to certain government entities in Puerto Rico.

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Taxable equivalent net interest income was \$756.4 million for the six-month period ended June 30, 2016, compared to \$746.9 million for the same period of 2015. Net interest margin for the six-month period ended June 30, 2016 was 4.65%, compared to 4.83% for the same period of the previous year.

Excluding the impact of the \$2.1 million in income related to the bulk loan sale, net interest income on a taxable equivalent basis was \$754.4 million for the six-month period ended June 30, 2016, an increase of \$7.5 million when compared to the \$746.9 million for the same period of 2015. The adjusted net interest margin for the six-month period ended June 30, 2016 was 4.64%, a decrease of 19 basis points when compared to the 4.83% for the same period of 2015. The main reasons for the increase are described below:

Higher interest income from investment securities mainly due to higher volumes of mortgage backed securities and money market investments; partially offset by lower yields on acquired investments.

Higher income from commercial, consumer and leasing as a result of higher average volume of loans mainly in the U.S.

These positive variances were partially offset by:

Lower interest income from WB loans related to a lower volume as part of the normal portfolio run-off.

Higher interest expense on deposits mainly due a higher cost of time deposits and money markets in the U.S. to fund loan growth.

Table of Contents**Table 3 - Analysis of Levels & Yields on a Taxable Equivalent Basis from Continuing Operations (Non-GAAP)****Six months ended June 30,**

Average Volume			Average Yields /Costs				Interest			Attributable to	
2016	2015	Variance	2016	2015	Variance		2016	2015	Variance	Rate	Volume
(In millions)							(In thousands)				
						Money market investments					
\$ 2,595	\$ 2,232	\$ 363	0.52%	0.30%	0.22%		\$ 6,752	\$ 3,291	\$ 3,461	\$ 3,105	\$ 356
						Investment securities					
6,894	5,724	1,170	2.81	2.67	0.14		96,778	76,234	20,544	(541)	21,085
						Trading securities					
130	217	(87)	7.11	6.49	0.62		4,586	6,979	(2,393)	631	(3,024)
						Total money market, investment and trading securities					
9,619	8,173	1,446	2.25	2.12	0.13		108,116	86,504	21,612	3,195	18,417
						Loans:					
9,054	8,581	473	5.09	5.18	(0.09)	Commercial	229,016	220,402	8,614	(3,379)	11,993
713	559	154	5.37	5.89	(0.52)	Construction	19,035	16,324	2,711	(1,498)	4,209
641	576	65	6.75	6.97	(0.22)	Leasing	21,626	20,074	1,552	(640)	2,192
6,786	6,955	(169)	5.51	5.39	0.12	Mortgage	187,041	187,602	(561)	4,042	(4,603)
3,836	3,834	2	10.49	10.41	0.08	Consumer	200,148	197,837	2,311	1,271	1,040
						Sub-total loans					
21,030	20,505	525	6.27	6.30	(0.03)		656,866	642,239	14,627	(204)	14,831
						WB loans [1]					
2,035	2,445	(410)	9.14	9.29	(0.15)		92,641	112,765	(20,124)	4,769	(24,893)
23,065	22,950	115	6.52	6.62	(0.10)	Total loans	749,507	755,004	(5,497)	4,565	(10,062)
						Total earning assets					
\$ 32,684	\$ 31,123	\$ 1,561	5.27%	5.44%	(0.17)%		\$ 857,623	\$ 841,508	\$ 16,115	\$ 7,760	\$ 8,355
						Interest bearing deposits: NOW and money market [2]					
\$ 6,367	\$ 5,246	\$ 1,121	0.39%	0.35%	0.04%		\$ 12,203	\$ 9,130	\$ 3,073	\$ 1,374	\$ 1,699
7,381	6,966	415	0.24	0.23	0.01	Savings	8,695	8,026	669	40	629

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7,962	8,141	(179)	1.00	0.87	0.13	Time deposits	39,575	34,966	4,609	5,314	(705)
21,710	20,353	1,357	0.56	0.52	0.04	Total deposits	60,473	52,122	8,351	6,728	1,623
807	1,083	(276)	0.98	0.67	0.31	Short-term borrowings	3,919	3,597	322	1,453	(1,131)
1,567	1,783	(216)	4.97	4.37	0.60	Other medium and long-term debt	38,875	38,908	(33)	2,744	