

POPULAR INC
Form 10-Q
August 08, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2017

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)

(787) 765-9800

00918

(Zip code)

(Registrant's telephone number, including area code)

NOT APPLICABLE

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

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

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, \$0.01 par value, 102,010,797 shares outstanding as of August 4, 2017.

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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 our 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 words and future or conditional verbs such as will, would, should, could, might, can, may or similar expressions are generally intended to identify forward-looking statements.

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

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

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

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

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

changes in interest rates and market liquidity, which may reduce interest margins, impact funding sources and affect our ability to originate and distribute financial products in the primary and secondary markets;

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

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

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

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

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

the performance of the stock and bond markets;

competition in the financial services industry;

additional Federal Deposit Insurance Corporation (FDIC) assessments;

possible legislative, tax or regulatory changes; and

a failure in or breach of our operational or security systems or infrastructure or those of EVERTEC, Inc., our provider of core financial transaction processing and information technology services, as a result of cyberattacks, including e-fraud, denial-of-services and computer intrusion, that might result in loss or breach of customer data, disruption of services, reputational damage or additional costs to Popular.

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

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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;

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, 2016 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)**

(In thousands, except share information)	June 30, 2017	December 31, 2016
Assets:		
Cash and due from banks	\$ 405,688	\$ 362,394
Money market investments:		
Securities purchased under agreements to resell		23,637
Time deposits with other banks	4,219,630	2,866,580
Total money market investments	4,219,630	2,890,217
Trading account securities, at fair value:		
Pledged securities with creditors right to repledge	4,871	11,486
Other trading securities	45,422	48,319
Investment securities available-for-sale, at fair value:		
Pledged securities with creditors right to repledge	417,303	491,843
Other investment securities available-for-sale	8,992,099	7,717,963
Investment securities held-to-maturity, at amortized cost (fair value 2017 - \$81,584; 2016 - \$75,576)	96,286	98,101
Other investment securities, at lower of cost or realizable value (realizable value 2017 - \$173,576; 2016 - \$170,890)	170,177	167,818
Loans held-for-sale, at lower of cost or fair value	69,797	88,821
Loans held-in-portfolio:		
Loans not covered under loss-sharing agreements with the FDIC	23,046,078	22,895,172
Loans covered under loss-sharing agreements with the FDIC	536,341	572,878
Less Unearned income	127,807	121,425
Allowance for loan losses	540,014	540,651
Total loans held-in-portfolio, net	22,914,598	22,805,974
FDIC loss-share asset	52,583	69,334
Premises and equipment, net	546,986	543,981
Other real estate not covered under loss-sharing agreements with the FDIC	181,096	180,445
Other real estate covered under loss-sharing agreements with the FDIC	25,350	32,128
Accrued income receivable	136,104	138,042
Mortgage servicing assets, at fair value	188,728	196,889
Other assets	2,108,296	2,145,510
Goodwill	627,294	627,294
Other intangible assets	40,361	45,050

Total assets	\$ 41,242,669	\$ 38,661,609
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 7,481,732	\$ 6,980,443
Interest bearing	25,640,301	23,515,781
Total deposits	33,122,033	30,496,224
Assets sold under agreements to repurchase	406,385	479,425
Other short-term borrowings	1,200	1,200
Notes payable	1,560,834	1,574,852
Other liabilities	874,172	911,951
Total liabilities	35,964,624	33,463,652
Commitments and contingencies (Refer to Note 21)		
Stockholders' equity:		
Preferred stock, 30,000,000 shares authorized; 2,006,391 shares issued and outstanding	50,160	50,160
Common stock, \$0.01 par value; 170,000,000 shares authorized; 104,154,626 shares issued (2016 - 104,058,684) and 101,986,758 shares outstanding (2016 - 103,790,932)	1,041	1,040
Surplus	4,263,370	4,255,022
Retained earnings	1,356,504	1,220,307
Treasury stock - at cost, 2,167,868 shares (2016 - 267,752)	(90,087)	(8,286)
Accumulated other comprehensive loss, net of tax	(302,943)	(320,286)
Total stockholders' equity	5,278,045	5,197,957
Total liabilities and stockholders' equity	\$ 41,242,669	\$ 38,661,609

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,	
	2017	2016	2017	2016
Interest income:				
Loans	\$ 367,669	\$ 369,721	\$ 730,805	\$ 732,918
Money market investments	11,131	3,889	17,704	6,752
Investment securities	48,537	36,725	93,423	72,996
Trading account securities	1,396	1,875	2,796	3,564
Total interest income	428,733	412,210	844,728	816,230
Interest expense:				
Deposits	34,092	30,599	67,849	60,473
Short-term borrowings	1,115	2,058	2,210	3,919
Long-term debt	19,047	19,002	38,092	38,875
Total interest expense	54,254	51,659	108,151	103,267
Net interest income	374,479	360,551	736,577	712,963
Provision for loan losses - non-covered loans	49,965	39,668	92,022	87,608
Provision (reversal) for loan losses - covered loans	2,514	804	1,155	(2,301)
Net interest income after provision for loan losses	322,000	320,079	643,400	627,656
Service charges on deposit accounts	41,073	40,296	80,609	80,158
Other service fees (Refer to Note 27)	59,168	56,945	115,343	110,327
Mortgage banking activities (Refer to Note 10)	10,741	16,227	22,110	26,778
Net gain on sale of investment securities	19	1,583	181	1,583
Other-than-temporary impairment losses on investment securities	(8,299)	(209)	(8,299)	(209)
Trading account (loss) profit	(655)	1,117	(933)	955
Net loss on sale of loans, including valuation adjustments on loans held-for-sale				(304)
Adjustments (expense) to indemnity reserves on loans sold	(2,930)	(5,746)	(4,896)	(9,844)
FDIC loss-share expense (Refer to Note 28)	(475)	(12,576)	(8,732)	(15,722)
Other operating income	18,151	12,866	37,279	28,411
Total non-interest income	116,793	110,503	232,662	222,133

Operating expenses:

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Personnel costs	118,815	116,708	244,422	243,799
Net occupancy expenses	22,265	21,714	43,041	42,144
Equipment expenses	16,250	15,261	32,220	29,809
Other taxes	10,740	10,170	21,709	20,365
Professional fees	72,934	80,625	142,184	156,084
Communications	5,899	6,012	11,848	12,332
Business promotion	13,366	13,705	24,942	24,815
FDIC deposit insurance	6,172	5,362	12,665	12,732
Other real estate owned (OREO) expenses	16,670	12,980	29,488	22,121
Other operating expenses	21,380	23,515	50,945	40,680
Amortization of intangibles	2,344	3,097	4,689	6,211
Total operating expenses	306,835	309,149	618,153	611,092
Income before income tax	131,958	121,433	257,909	238,697
Income tax expense	35,732	32,446	68,738	64,711
Net Income	\$ 96,226	\$ 88,987	\$ 189,171	\$ 173,986
Net Income Applicable to Common Stock	\$ 95,295	\$ 88,056	\$ 187,309	\$ 172,124
Net Income per Common Share Basic	\$ 0.94	\$ 0.85	\$ 1.83	\$ 1.67
Net Income per Common Share Diluted	\$ 0.94	\$ 0.85	\$ 1.83	\$ 1.67
Dividends Declared per Common Share	\$ 0.25	\$ 0.15	\$ 0.50	\$ 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,	
	2017	2016	2017	2016
Net income	\$ 96,226	\$ 88,987	\$ 189,171	\$ 173,986
Other comprehensive income before tax:				
Foreign currency translation adjustment	(1,588)	(1,435)	(1,449)	(2,140)
Amortization of net losses of pension and postretirement benefit plans	5,606	5,487	11,213	10,973
Amortization of prior service credit of pension and postretirement benefit plans	(950)	(950)	(1,900)	(1,900)
Unrealized holding gains on investments arising during the period	8,804	38,092	5,897	114,328
Other-than-temporary impairment included in net income	8,299	209	8,299	209
Reclassification adjustment for gains included in net income	(19)		(181)	
Unrealized net losses on cash flow hedges	(377)	(1,539)	(1,014)	(3,539)
Reclassification adjustment for net losses included in net income	1,035	1,271	1,890	2,816
Other comprehensive income before tax	20,810	41,135	22,755	120,747
Income tax expense	(3,841)	(4,997)	(5,412)	(9,473)
Total other comprehensive income, net of tax	16,969	36,138	17,343	111,274
Comprehensive income, net of tax	\$ 113,195	\$ 125,125	\$ 206,514	\$ 285,260

Tax effect allocated to each component of other comprehensive income:

(In thousands)	Quarters ended June 30,		Six months ended, June 30,	
	2017	2016	2017	2016
Amortization of net losses of pension and postretirement benefit plans	\$ (2,185)	\$ (2,140)	\$ (4,371)	\$ (4,280)
Amortization of prior service credit of pension and postretirement benefit plans	370	370	740	740
Unrealized holding gains on investments arising during the period	(214)	(3,289)	84	(6,174)
Other-than-temporary impairment included in net income	(1,559)	(42)	(1,559)	(42)
Reclassification adjustment for gains included in net income	4		36	

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Unrealized net losses on cash flow hedges	147	600	395	1,381
Reclassification adjustment for net losses included in net income	(404)	(496)	(737)	(1,098)
Income tax expense	\$ (3,841)	\$ (4,997)	\$ (5,412)	\$ (9,473)

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)**

(In thousands)	Common stock	Preferred stock	Surplus	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total
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
Tax shortfall 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
Balance at December 31, 2016	\$ 1,040	\$ 50,160	\$ 4,255,022	\$ 1,220,307	\$ (8,286)	\$ (320,286)	\$ 5,197,957
Net income				189,171			189,171
Issuance of stock	1		3,830				3,831
Dividends declared:							
Common stock				(51,112)			(51,112)
Preferred stock				(1,862)			(1,862)
Common stock purchases			4,518		(81,801)		(77,283)
Other comprehensive income, net of tax						17,343	17,343
Balance at June 30, 2017	\$ 1,041	\$ 50,160	\$ 4,263,370	\$ 1,356,504	\$ (90,087)	\$ (302,943)	\$ 5,278,045

June 30,

June 30,

Disclosure of changes in number of shares:	2017	2016
Preferred Stock:		
Balance at beginning and end of period	2,006,391	2,006,391
Common Stock Issued:		
Balance at beginning of period	104,058,684	103,816,185
Issuance of stock	95,942	136,530
Balance at end of period	104,154,626	103,952,715
Treasury stock	(2,167,868)	(249,674)
Common Stock Outstanding	101,986,758	103,703,041

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,	
		2017	2016
Cash flows from operating activities:			
Net income		\$ 189,171	\$ 173,986
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses		93,177	85,307
Amortization of intangibles		4,689	6,211
Depreciation and amortization of premises and equipment		23,928	23,141
Net accretion of discounts and amortization of premiums and deferred fees		(13,510)	(24,724)
Other-than-temporary impairment on investment securities		8,299	209
Fair value adjustments on mortgage servicing rights		14,000	12,817
FDIC loss share expense		8,732	15,722
Adjustments (expense) to indemnity reserves on loans sold		4,896	9,844
Earnings from investments under the equity method		(21,413)	(13,681)
Deferred income tax expense		52,354	49,316
Loss (gain) on:			
Disposition of premises and equipment and other productive assets		5,517	2,424
Sale and valuation adjustments of investment securities		(181)	(1,583)
Sale of loans, including valuation adjustments on loans held-for-sale and mortgage banking activities		(12,631)	(15,577)
Sale of foreclosed assets, including write-downs		13,603	9,571
Acquisitions of loans held-for-sale		(153,085)	(148,725)
Proceeds from sale of loans held-for-sale		58,857	43,110
Net originations on loans held-for-sale		(224,278)	(247,287)
Net decrease (increase) in:			
Trading securities		333,819	393,178
Accrued income receivable		1,939	3,255
Other assets		7,423	(21,351)
Net (decrease) increase in:			
Interest payable		(189)	(1,208)
Pension and other postretirement benefits obligation		883	2,300
Other liabilities		(16,018)	6,310
Total adjustments		190,811	188,579
Net cash provided by operating activities		379,982	362,565
Cash flows from investing activities:			
Net increase in money market investments		(1,329,413)	(605,407)

Purchases of investment securities:		
Available-for-sale	(1,738,920)	(1,682,199)
Other	(4,900)	(70,302)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:		
Available-for-sale	541,660	632,284
Held-to-maturity	2,860	2,209
Other		47,859
Proceeds from sale of investment securities:		
Available-for-sale	423	
Other	2,541	27,710
Net repayments (disbursements) on loans	5,088	(61,199)
Proceeds from sale of loans		95,940
Acquisition of loan portfolios	(261,987)	(308,949)
Net payments (to) from FDIC under loss sharing agreements	(14,819)	88,588
Return of capital from equity method investments	3,862	324
Acquisition of premises and equipment	(29,992)	(60,744)
Proceeds from sale of:		
Premises and equipment and other productive assets	5,186	2,839
Foreclosed assets	60,603	28,895
Net cash used in investing activities	(2,757,808)	(1,862,152)
Cash flows from financing activities:		
Net increase (decrease) in:		
Deposits	2,625,731	1,530,091
Federal funds purchased and assets sold under agreements to repurchase	(73,040)	59,460
Other short-term borrowings		30,000
Payments of notes payable	(35,074)	(216,501)
Proceeds from issuance of notes payable	20,000	128,883
Proceeds from issuance of common stock	3,831	3,710
Dividends paid	(43,045)	(32,953)
Net payments for repurchase of common stock	(75,666)	(238)
Payments related to tax withholding for share-based compensation	(1,617)	(1,231)
Net cash provided by financing activities	2,421,120	1,501,221
Net increase in cash and due from banks	43,294	1,634
Cash and due from banks at beginning of period	362,394	363,674
Cash and due from banks at the end of the period	\$ 405,688	\$ 365,308

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

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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.

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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, 2016 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 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, 2016, included in the Corporation's 2016 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) 2017-11, Earnings per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): Part I: Accounting for Certain Financial Instruments with Down Round Features; Part II: Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception

The FASB issued ASU 2017-11 in July 2017, which changes the classification analysis of certain equity-linked financial instruments with down round features. When determining whether these instruments should be classified as liabilities or equity, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. For EPS purposes, the effect of the down round feature should be recognized as a dividend when triggered.

The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The amendments in this Update may be applied using either a modified retrospective approach or a full retrospective approach.

The Corporation does not anticipate that the adoption of this accounting pronouncement will have a material effect on its consolidated statements of financial condition and results of operations since it does not have any outstanding equity-linked financial instruments with a down round feature.

FASB Accounting Standards Update (ASU) 2017-09, Compensation Stock Compensation (Topic 718): Scope of Modification Accounting

The FASB issued ASU 2017-09 in May 2017, which clarifies that modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions.

The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. The amendments in this Update should be applied prospectively to an award modified on or after the adoption date.

The Corporation does not anticipate that the adoption of this accounting pronouncement will have a material effect on its consolidated statements of financial condition and results of operations since it is not customary for the Corporation to modify the terms or conditions of its share-based payment awards.

FASB Accounting Standards Update (ASU) 2017-08, Receivables Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities

The FASB issued ASU 2017-08 in March 2017, which amends the amortization period for certain callable debt securities held at a premium by shortening such period to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity.

The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The amendments in this Update should be applied on a

modified retrospective basis with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption.

The Corporation does not anticipate that the adoption of this accounting pronouncement will have a material effect on its consolidated statements of financial condition and results of operations since the premium of purchased callable debt securities is not significant.

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

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

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The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The amendments in this Update should be applied retrospectively for the presentation of the service cost component and other components of net benefit cost and prospectively for the capitalization of the service cost component.

The Corporation does not expect that the limitation to capitalize only the service cost component of the net periodic benefit cost will have a material impact on its consolidated statement of operations. Upon adoption, the Corporation will segregate the presentation of the service cost from the other components of net periodic benefit costs, all which are currently reported within personnel costs in its accompanying consolidated statement of operations.

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

The Corporation has continued its evaluation and implementation efforts for ASU 2016-13, Financial Instruments Credit Losses, and has established a cross-discipline governance structure. A Current Expected Credit Losses (CECL) Working Group, with members from different areas within the organization, has been created and assigned the responsibility of assessing the impact of the standard, evaluating interpretative issues, evaluating the current credit loss models against the new guidance to determine any changes necessary and other related implementation activities. The Working Group provides periodic updates to the CECL Steering Committee, which has oversight responsibilities for the implementation efforts.

The Corporation plans to adopt ASU 2016-13 on January 1, 2020 using a modified retrospective approach. Although early adoption is permitted beginning in the first quarter of 2019, the Corporation does not expect to make that election. The Corporation expects an increase in its allowance for loan and lease losses due to the consideration of lifetime credit losses as part of the calculation. For additional information on ASU 2016-13 and other recently issued Accounting Standards Updates not yet effective, refer to Note 3 to the Consolidated Financial Statements included in the 2016 Form 10-K.

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

The Corporation's implementation efforts regarding ASU 2014-09, Revenue from Contracts with Customers, have included a scoping analysis of revenue streams and related costs, reviewing the associated contracts, evaluating the timing of when revenues are currently being recognized in light of when the performance obligations are fulfilled and assessing principal vs. agent considerations. The Corporation does not expect material changes in the timing of when revenues are recognized upon the adoption of this standard. Nonetheless, the Corporation continues to evaluate certain costs, including card interchange fees and certain broker-dealer activities, to determine if these would require changes from a net presentation within revenues to a gross basis. The Corporation plans to adopt this guidance on January 1, 2018 using the modified retrospective approach.

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Note 4 - 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 \$ 1.2 billion at June 30, 2017 (December 31, 2016 - \$ 1.2 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, 2017, the Corporation held \$90 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, 2016 - \$31 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 5 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, 2017 and December 31, 2016.

(In thousands)	At June 30, 2017				Weighted average yield
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	
U.S. Treasury securities					
Within 1 year	\$ 1,084,686	\$ 31	\$ 826	\$ 1,083,891	1.00%
After 1 to 5 years	1,846,416	1,603	9,145	1,838,874	1.27
Total U.S. Treasury securities	2,931,102	1,634	9,971	2,922,765	1.17
Obligations of U.S. Government sponsored entities					
Within 1 year	126,014	5	132	125,887	1.04
After 1 to 5 years	537,162	478	1,757	535,883	1.42
After 5 to 10 years	200	1		201	5.64
Total obligations of U.S. Government sponsored entities	663,376	484	1,889	661,971	1.35
Obligations of Puerto Rico, States and political subdivisions					
After 1 to 5 years	6,542		76	6,466	2.65
After 5 to 10 years	2,988			2,988	1.22
After 10 years	11,352			11,352	1.44
Total obligations of Puerto Rico, States and political subdivisions	20,882		76	20,806	1.79
Collateralized mortgage obligations - federal agencies					
Within 1 year	142			142	2.94
After 1 to 5 years	17,607	328	38	17,897	2.88
After 5 to 10 years	31,542	205	39	31,708	2.69
After 10 years	1,051,189	4,898	20,995	1,035,092	2.03
Total collateralized mortgage obligations - federal agencies	1,100,480	5,431	21,072	1,084,839	2.06
Mortgage-backed securities					
Within 1 year	29			29	4.45
After 1 to 5 years	16,764	350	53	17,061	3.70

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After 5 to 10 years	313,735	2,882	2,238	314,379	2.23
After 10 years	4,408,536	26,964	59,081	4,376,419	2.48
Total mortgage-backed securities	4,739,064	30,196	61,372	4,707,888	2.46
Equity securities (without contractual maturity)	1,008	860		1,868	8.17
Other					
Within 1 year	8,351	5		8,356	2.16
After 5 to 10 years	887	22		909	3.62
Total other	9,238	27		9,265	2.30
Total investment securities available-for-sale ^[1]	\$ 9,465,150	\$ 38,632	\$ 94,380	\$ 9,409,402	1.94%

[1] Includes \$6.2 billion pledged to secure public and trust deposits, assets sold under agreements to repurchase, credit facilities and loan servicing agreements that the secured parties are not permitted to sell or repledge the collateral, of which \$5.4 billion serve as collateral for public funds.

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(In thousands)	At December 31, 2016				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Weighted average yield
U.S. Treasury securities					
Within 1 year	\$ 844,002	\$ 1,254	\$ 28	\$ 845,228	1.00%
After 1 to 5 years	1,300,729	214	9,551	1,291,392	1.11
Total U.S. Treasury securities	2,144,731	1,468	9,579	2,136,620	1.06
Obligations of U.S. Government sponsored entities					
Within 1 year	100,050	102		100,152	0.98
After 1 to 5 years	613,293	710	2,505	611,498	1.38
After 5 to 10 years	200			200	5.64
Total obligations of U.S. Government sponsored entities	713,543	812	2,505	711,850	1.32
Obligations of Puerto Rico, States and political subdivisions					
After 1 to 5 years	6,419		161	6,258	2.89
After 5 to 10 years	5,000		1,550	3,450	3.80
After 10 years	17,605		4,542	13,063	7.09
Total obligations of Puerto Rico, States and political subdivisions	29,024		6,253	22,771	5.60
Collateralized mortgage obligations - federal agencies					
Within 1 year	13			13	1.23
After 1 to 5 years	18,524	429	28	18,925	2.89
After 5 to 10 years	39,178	428	61	39,545	2.68
After 10 years	1,180,686	6,313	23,956	1,163,043	1.99
Total collateralized mortgage obligations - federal agencies	1,238,401	7,170	24,045	1,221,526	2.02
Mortgage-backed securities					
Within 1 year	55	1		56	4.76
After 1 to 5 years	19,960	537	43	20,454	3.86
After 5 to 10 years	317,185	3,701	1,721	319,165	2.29
After 10 years	3,805,675	28,772	68,790	3,765,657	2.47
Total mortgage-backed securities	4,142,875	33,011	70,554	4,105,332	2.46
Equity securities (without contractual maturity)	1,246	876		2,122	7.94
Other					

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Within 1 year	8,539	11	8,550	1.78	
After 5 to 10 years	1,004	31	1,035	3.62	
Total other	9,543	42	9,585	1.97	
Total investment securities available-for-sale ^[1]	\$ 8,279,363	\$ 43,379	\$ 112,936	\$ 8,209,806	1.94%

[1] Includes \$4.1 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 \$3.4 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.

During the six months ended June 30, 2017, the Corporation sold equity securities with a realized gain of \$181 thousand. The proceeds from these sales were \$ 423 thousand. There were no securities sold during the six months ended June 30, 2016.

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, 2017 and December 31, 2016.

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(In thousands)	Less than 12 months		At June 30, 2017 12 months or more		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
U.S. Treasury securities	\$ 2,095,200	\$ 9,971	\$	\$	\$ 2,095,200	\$ 9,971
Obligations of U.S. Government sponsored entities	525,694	1,763	24,952	126	550,646	1,889
Obligations of Puerto Rico, States and political subdivisions	6,466	76			6,466	76
Collateralized mortgage obligations - federal agencies	459,463	7,491	312,521	13,581	771,984	21,072
Mortgage-backed securities	3,641,726	59,757	72,282	1,615	3,714,008	61,372
Total investment securities available-for-sale in an unrealized loss position	\$ 6,728,549	\$ 79,058	\$ 409,755	\$ 15,322	\$ 7,138,304	\$ 94,380

(In thousands)	Less than 12 months		At December 31, 2016 12 months or more		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
U.S. Treasury securities	\$ 1,162,110	\$ 9,579	\$	\$	\$ 1,162,110	\$ 9,579
Obligations of U.S. Government sponsored entities	430,273	2,426	3,126	79	433,399	2,505
Obligations of Puerto Rico, States and political subdivisions	6,258	161	16,512	6,092	22,770	6,253
Collateralized mortgage obligations - federal agencies	505,503	8,112	339,236	15,933	844,739	24,045
Mortgage-backed securities	3,537,606	70,173	15,113	381	3,552,719	70,554
Total investment securities available-for-sale in an unrealized loss position	\$ 5,641,750	\$ 90,451	\$ 373,987	\$ 22,485	\$ 6,015,737	\$ 112,936

As of June 30, 2017, the available-for-sale investment portfolio reflects gross unrealized losses of approximately \$94 million, driven by Mortgage backed securities and Collateralized mortgage obligations.

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 2017, the Corporation recognized an other-than-temporary impairment charge of \$8.3 million on senior Puerto Rico Sales Tax Financing Corporation (COFINA) bonds classified as available-for-sale. On May 5, 2017, the federally-appointed Puerto Rico Management and Oversight Board filed, at the request of the Commonwealth, a petition pursuant to the Title III of PROMESA with respect to COFINA. On May 30, 2017, the U.S. District Court directed that funds held by the Bank of New York Mellon (BONY), as trustee for the COFINA bonds, be escrowed pending resolution of certain legal disputes. The withholding of COFINA funds ordered by the Court during June 2017 resulted in the first missed interest payment on COFINA bonds. As such, the Corporation determined the entire unrealized loss on these securities to be other-than-temporary.

At June 30, 2017, the Corporation did not have the intent to sell debt securities in an unrealized loss position and it was not more likely than not that the Corporation would have to sell the investments securities prior to recovery of their amortized cost basis. Notwithstanding the above, the Corporation sold all senior COFINA bonds held as available-for-sale in July 2017.

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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. The Corporation determined that the entire balance of the unrealized loss carried by this security was attributed to estimated credit losses. Accordingly, an other-than-temporary impairment was recognized in its entirety in the consolidated statement of operations and no amount remained recognized in the statement of other comprehensive income related to this specific security. The security, for which an other-than-temporary impairment was recorded, was sold during the fourth quarter of 2016.

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, 2017		December 31, 2016	
	Amortized cost	Fair value	Amortized cost	Fair value
FNMA	\$ 3,541,838	\$ 3,505,997	\$ 3,255,844	\$ 3,211,443
Freddie Mac	1,463,278	1,446,857	1,381,197	1,361,933

Table of Contents**Note 6 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, 2017 and December 31, 2016.

(In thousands)	At June 30, 2017				Weighted average yield
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	\$ 3,235	\$	\$ 936	\$ 2,299	5.94%
After 1 to 5 years	15,200		5,522	9,678	6.03
After 5 to 10 years	17,485		5,527	11,958	6.24
After 10 years	58,296	3,327	6,020	55,603	1.79
Total obligations of Puerto Rico, States and political subdivisions	94,216	3,327	18,005	79,538	3.44
Collateralized mortgage obligations - federal agencies					
After 5 to 10 years	70	4		74	5.45
Total collateralized mortgage obligations - federal agencies	70	4		74	5.45
Other					
Within 1 year	1,250		19	1,231	1.40
After 1 to 5 years	750		9	741	2.79
Total other	2,000		28	1,972	1.92
Total investment securities held-to-maturity ^[1]	\$ 96,286	\$ 3,331	\$ 18,033	\$ 81,584	3.41%

[1] Includes \$94.2 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, 2016				Weighted average yield
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	
Obligations of Puerto Rico, States and political subdivisions					

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Within 1 year	\$ 3,105	\$	\$ 1,240	\$ 1,865	5.90%
After 1 to 5 years	14,540		5,957	8,583	6.02
After 5 to 10 years	18,635		7,766	10,869	6.20
After 10 years	59,747	1,368	8,892	52,223	1.91
Total obligations of Puerto Rico, States and political subdivisions	96,027	1,368	23,855	73,540	3.49
Collateralized mortgage obligations - federal agencies					
After 5 to 10 years	74	4		78	5.45
Total collateralized mortgage obligations - federal agencies	74	4		78	5.45
Other					
Within 1 year	1,000		3	997	1.65
After 1 to 5 years	1,000		39	961	2.44
Total other	2,000		42	1,958	2.05
Total investment securities held-to-maturity ^[1]	\$ 98,101	\$ 1,372	\$ 23,897	\$ 75,576	3.46%

[1] Includes \$53.1 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.

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, 2017 and December 31, 2016.

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(In thousands)	At June 30, 2017					
	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	\$ 6,925	\$ 98	\$ 33,083	\$ 17,907	\$ 40,008	\$ 18,005
Other	491	9	1,231	19	1,722	28
Total investment securities held-to-maturity in an unrealized loss position	\$ 7,416	\$ 107	\$ 34,314	\$ 17,926	\$ 41,730	\$ 18,033

(In thousands)	At December 31, 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	\$ 31,294	\$ 1,702	\$ 30,947	\$ 22,153	\$ 62,241	\$ 23,855
Other	491	9	1,217	33	1,708	42
Total investment securities held-to-maturity in an unrealized loss position	\$ 31,785	\$ 1,711	\$ 32,164	\$ 22,186	\$ 63,949	\$ 23,897

As indicated in Note 5 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, 2017 are primarily associated with securities issued by municipalities of Puerto Rico and are generally not rated by a credit rating agency. This includes \$51 million of general and special obligation bonds issued by three municipalities of Puerto Rico, which are payable primarily from, and have a lien on, certain property taxes imposed by the issuing municipality. In the case of general obligations, they also benefit from a pledge of the full faith, credit and unlimited taxing power of the issuing municipality and issuing municipalities are required by law to levy property taxes in an amount sufficient for the payment of debt service on such general obligations bonds.

The portfolio also includes approximately \$43 million in securities for which the underlying source of payment is not the central government, but in which a government instrumentality provides a guarantee in the event of default. The Corporation performs periodic credit quality reviews on these issuers. Based on the quarterly analysis performed, management concluded that no individual debt security held-to-maturity was other-than-temporarily impaired at June 30, 2017. 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.

Refer to Note 21 for additional information on the Corporation's exposure to the Puerto Rico Government.

Table of Contents**Note 7 Loans**

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

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

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 2016 Form 10-K.

During the quarter and six months ended June 30, 2017, the Corporation recorded purchases (including repurchases) of mortgage loans amounting to \$124 million and \$260 million, respectively; consumer loans of \$108 million and \$150 million, respectively; and leases of \$2 million, for the six months ended June 30, 2017. 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 of \$51 million during the six months ended June 30, 2016.

The Corporation performed whole-loan sales involving approximately \$26 million and \$54 million of residential mortgage loans during the quarter and six months ended June 30, 2017, respectively (June 30, 2016 \$19 million and \$40 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. Also, the Corporation securitized approximately \$136 million and \$283 million of mortgage loans into Government National Mortgage Association (GNMA) mortgage-backed securities during the quarter and six months ended June 30, 2017, respectively (June 30, 2016 \$170 million and \$304 million, respectively). Furthermore, the Corporation securitized approximately \$37 million and \$65 million of mortgage loans into Federal National Mortgage Association (FNMA) mortgage-backed securities during the quarter and six months ended June 30, 2017, respectively (June 30, 2016 - \$43 million and \$79 million, respectively).

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, 2017 and December 31, 2016, including loans previously covered by the commercial FDIC loss sharing agreements.

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(In thousands)	June 30, 2017 Puerto Rico					Non-covered loans HIP Puerto Rico
	30-59 days	60-89 days	Past due 90 days or more	Total past due	Current	
Commercial multi-family	\$ 199	\$ 603	\$ 561	\$ 1,363	\$ 146,928	\$ 148,291
Commercial real estate non-owner occupied	85,929	12,304	39,102	137,335	2,398,639	2,535,974
Commercial real estate owner occupied	13,388	5,928	105,755	125,071	1,561,362	1,686,433
Commercial and industrial	3,185	2,559	44,445	50,189	2,735,199	2,785,388
Construction			170	170	96,734	96,904
Mortgage	307,222	151,129	743,059	1,201,410	4,616,873	5,818,283
Leasing	7,225	1,214	2,065	10,504	733,099	743,603
Consumer:						
Credit cards	12,067	7,831	19,012	38,910	1,052,164	1,091,074
Home equity lines of credit			926	926	6,574	7,500
Personal	13,174	7,903	19,288	40,365	1,131,067	1,171,432
Auto	31,917	6,955	10,634	49,506	776,453	825,959
Other	681	174	16,764	17,619	148,205	165,824
Total	\$ 474,987	\$ 196,600	\$ 1,001,781	\$ 1,673,368	\$ 15,403,297	\$ 17,076,665

(In thousands)	June 30, 2017 U.S. mainland					Loans HIP U.S. mainland
	30-59 days	60-89 days	Past due 90 days or more	Total past due	Current	
Commercial multi-family	\$	\$	\$ 503	\$ 503	\$ 1,145,927	\$ 1,146,430
Commercial real estate non-owner occupied	1,489	1,029	1,778	4,296	1,492,403	1,496,699
Commercial real estate owner occupied	2,926		487	3,413	248,560	251,973
Commercial and industrial	3,232	6,863	87,468	97,563	898,608	996,171
Construction					687,485	687,485
Mortgage	1,188	5,888	12,280	19,356	715,157	734,513
Legacy	594	309	3,360	4,263	34,804	39,067
Consumer:						
Credit cards	17		2	19	124	143
Home equity lines of credit	5,007	2,600	7,922	15,529	197,796	213,325
Personal	1,950	1,524	2,179	5,653	269,963	275,616
Auto					5	5
Other		21	3	24	155	179
Total	\$ 16,403	\$ 18,234	\$ 115,982	\$ 150,619	\$ 5,690,987	\$ 5,841,606

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(In thousands)	June 30, 2017 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	\$ 199	\$ 603	\$ 1,064	\$ 1,866	\$ 1,292,855	\$ 1,294,721
Commercial real estate non-owner occupied	87,418	13,333	40,880	141,631	3,891,042	4,032,673
Commercial real estate owner occupied	16,314	5,928	106,242	128,484	1,809,922	1,938,406
Commercial and industrial	6,417	9,422	131,913	147,752	3,633,807	3,781,559
Construction			170	170	784,219	784,389
Mortgage	308,410	157,017	755,339	1,220,766	5,332,030	6,552,796
Leasing	7,225	1,214	2,065	10,504	733,099	743,603
Legacy ^[3]	594	309	3,360	4,263	34,804	39,067
Consumer:						
Credit cards	12,084	7,831	19,014	38,929	1,052,288	1,091,217
Home equity lines of credit	5,007	2,600	8,848	16,455	204,370	220,825
Personal	15,124	9,427	21,467	46,018	1,401,030	1,447,048
Auto	31,917	6,955	10,634	49,506	776,458	825,964
Other	681	195	16,767	17,643	148,360	166,003
Total	\$ 491,390	\$ 214,834	\$ 1,117,763	\$ 1,823,987	\$ 21,094,284	\$ 22,918,271

- [1] Non-covered loans held-in-portfolio are net of \$128 million in unearned income and exclude \$70 million in loans held-for-sale.
- [2] Includes \$7.4 billion pledged to secure credit facilities and public funds that the secured parties are not permitted to sell or repledge the collateral, of which \$4.6 billion were pledged at the Federal Home Loan Bank (FHLB) as collateral for borrowings, \$2.3 billion at the Federal Reserve Bank (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, 2016 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	\$ 232	\$	\$ 664	\$ 896	\$ 173,644	\$ 174,540
Commercial real estate non-owner occupied	98,604	4,785	51,435	154,824	2,409,461	2,564,285
Commercial real estate owner occupied	12,967	5,014	112,997	130,978	1,660,497	1,791,475
Commercial and industrial	19,156	2,638	32,147	53,941	2,617,976	2,671,917

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Construction			1,668	1,668	83,890	85,558
Mortgage	289,635	136,558	801,251	1,227,444	4,689,056	5,916,500
Leasing	6,619	1,356	3,062	11,037	691,856	702,893
Consumer:						
Credit cards	11,646	8,752	18,725	39,123	1,061,484	1,100,607
Home equity lines of credit		65	185	250	8,101	8,351
Personal	12,148	7,918	20,686	40,752	1,109,425	1,150,177
Auto	32,441	7,217	12,320	51,978	774,614	826,592
Other	1,259	294	19,311	20,864	154,665	175,529
Total	\$ 484,707	\$ 174,597	\$ 1,074,451	\$ 1,733,755	\$ 15,434,669	\$ 17,168,424

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(In thousands)	December 31, 2016					
	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	\$ 5,952	\$	\$ 206	\$ 6,158	\$ 1,058,138	\$ 1,064,296
Commercial real estate non-owner occupied	1,992	379	1,195	3,566	1,353,750	1,357,316
Commercial real estate owner occupied	2,116	540	472	3,128	240,617	243,745
Commercial and industrial	960	610	101,257	102,827	828,106	930,933
Construction					690,742	690,742
Mortgage	15,974	5,272	11,713	32,959	746,902	779,861
Legacy	833	346	3,337	4,516	40,777	45,293
Consumer:						
Credit cards	8	28	30	66	92	158
Home equity lines of credit	2,908	1,055	4,762	8,725	243,450	252,175
Personal	2,547	1,675	1,864	6,086	234,521	240,607
Auto					9	9
Other			8	8	180	188
Total	\$ 33,290	\$ 9,905	\$ 124,844	\$ 168,039	\$ 5,437,284	\$ 5,605,323

(In thousands)	December 31, 2016					
	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	\$ 6,184	\$	\$ 870	\$ 7,054	\$ 1,231,782	\$ 1,238,836
Commercial real estate non-owner occupied	100,596	5,164	52,630	158,390	3,763,211	3,921,601
Commercial real estate owner occupied	15,083	5,554	113,469	134,106	1,901,114	2,035,220
Commercial and industrial	20,116	3,248	133,404	156,768	3,446,082	3,602,850
Construction			1,668	1,668	774,632	776,300
Mortgage	305,609	141,830	812,964	1,260,403	5,435,958	6,696,361
Leasing	6,619	1,356	3,062	11,037	691,856	702,893
Legacy ^[3]	833	346	3,337	4,516	40,777	45,293
Consumer:						
Credit cards	11,654	8,780	18,755	39,189	1,061,576	1,100,765
Home equity lines of credit	2,908	1,120	4,947	8,975	251,551	260,526
Personal	14,695	9,593	22,550	46,838	1,343,946	1,390,784
Auto	32,441	7,217	12,320	51,978	774,623	826,601
Other	1,259	294	19,319	20,872	154,845	175,717
Total	\$ 517,997	\$ 184,502	\$ 1,199,295	\$ 1,901,794	\$ 20,871,953	\$ 22,773,747

- [1] Non-covered loans held-in-portfolio are net of \$121 million in unearned income and exclude \$89 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 \$4.5 billion were pledged at the FHLB as collateral for borrowings, \$2.3 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, 2017 and December 31, 2016. Accruing loans past due 90 days or more consist primarily of credit cards, Federal Housing Administration (FHA) / U.S. Department of Veterans Affairs (VA) and other insured mortgage loans, and delinquent mortgage loans which are included in the Corporation's financial statements pursuant to GNMA's buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

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(In thousands)	At June 30, 2017					
	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	\$ 561	\$	\$ 503	\$	\$ 1,064	\$
Commercial real estate non-owner occupied	23,107		1,778		24,885	
Commercial real estate owner occupied	94,979		487		95,466	
Commercial and industrial	44,216	229	1,233		45,449	229
Mortgage ^[3]	306,642	370,756	12,280		318,922	370,756
Leasing	2,065				2,065	
Legacy			3,360		3,360	
Consumer:						
Credit cards		19,012	2		2	19,012
Home equity lines of credit		926	7,922		7,922	926
Personal	19,049	11	2,179		21,228	11
Auto	10,634				10,634	
Other	16,129	635	3		16,132	635
Total ^[2]	\$ 517,382	\$ 391,569	\$ 29,747	\$	\$ 547,129	\$ 391,569

[1] Non-covered loans of \$179 million accounted for under ASC Subtopic 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.

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

[3] It is the Corporation's policy to report delinquent residential mortgage loans insured by FHA or guaranteed by the VA as accruing loans past due 90 days or more as opposed to non-performing since the principal repayment is insured. These balances include \$160 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, 2017. Furthermore, the Corporation has approximately \$57 million in reverse mortgage loans in Puerto Rico which are guaranteed by FHA, but which are currently not accruing interest. Due to the guaranteed nature of the loans, it is the Corporation's policy to exclude these balances from non-performing assets.

(In thousands)	At December 31, 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	\$ 664	\$	\$ 206	\$	\$ 870	\$
Commercial real estate non-owner occupied	24,611		1,195		25,806	

Commercial real estate owner occupied	102,771		472		103,243	
Commercial and industrial	31,609	538	1,820		33,429	538
Mortgage ^[3]	318,194	406,583	11,713		329,907	406,583
Leasing	3,062				3,062	
Legacy			3,337		3,337	
Consumer:						
Credit cards		18,725	30		30	18,725
Home equity lines of credit		185	4,762		4,762	185
Personal	20,553	34	1,864		22,417	34
Auto	12,320				12,320	
Other	18,724	587	8		18,732	587
Total ^[2]	\$ 532,508	\$ 426,652	\$ 25,407	\$	\$ 557,915	\$ 426,652

- [1] Non-covered loans by \$215 million accounted for under ASC Subtopic 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.
- [2] For purposes of this table non-performing loans exclude non-performing loans held-for-sale.
- [3] It is the Corporation's policy to report delinquent residential mortgage loans insured by FHA or guaranteed by the VA as accruing loans past due 90 days or more as opposed to non-performing since the principal repayment is insured. These balances include \$181 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, 2016. Furthermore, the Corporation has approximately \$68 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 tables present the composition of loans by past due status at June 30, 2017 and December 31, 2016 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, 2017			Total past due	Current	Covered loans HIP [1]
	Past due					
	30-59 days	60-89 days	90 days or more			
Mortgage	\$ 24,506	\$ 12,270	\$ 56,079	\$ 92,855	\$ 428,211	\$ 521,066
Consumer	650	305	851	1,806	13,469	15,275
Total covered loans	\$ 25,156	\$ 12,575	\$ 56,930	\$ 94,661	\$ 441,680	\$ 536,341

[1] Includes \$314 million pledged to secure credit facilities at the FHLB which are not permitted to sell or repledge the collateral.

	December 31, 2016					
	Past due					
	30-59	60-89	90 days	Total		Covered
(In thousands)	days	days	or more	past	Current	loans HIP [1]
				due		
Mortgage	\$ 25,506	\$ 12,904	\$ 69,856	\$ 108,266	\$ 448,304	\$ 556,570
Consumer	751	245	1,074	2,070	14,238	16,308
Total covered loans	\$ 26,257	\$ 13,149	\$ 70,930	\$ 110,336	\$ 462,542	\$ 572,878

[1] Includes \$337 million pledged to secure credit facilities at the FHLB which are not permitted to sell or repledge the collateral.

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, 2017 and December 31, 2016.

(In thousands)	June 30, 2017		December 31, 2016	
	Non-accrual loans	Accruing loans past due 90 days or more	Non-accrual loans	Accruing loans past due 90 days or more
Mortgage	\$ 3,866	\$	\$ 3,794	\$
Consumer	160		121	

Total ^[1]	\$ 4,026	\$	\$ 3,915	\$
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[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, 2017 (December 31, 2016 \$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.

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(In thousands)	June 30, 2017 Carrying amount			December 31, 2016 Carrying amount		
	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Commercial real estate	\$ 908,923	\$ 14,764	\$ 923,687	\$ 985,181	\$ 14,440	\$ 999,621
Commercial and industrial	96,795		96,795	103,476		103,476
Construction		170	170		1,668	1,668
Mortgage	555,771	22,822	578,593	587,949	25,781	613,730
Consumer	17,707	835	18,542	18,775	1,059	19,834
Carrying amount [1]	1,579,196	38,591	1,617,787	1,695,381	42,948	1,738,329
Allowance for loan losses	(59,165)	(6,509)	(65,674)	(61,855)	(7,022)	(68,877)
Carrying amount, net of allowance	\$ 1,520,031	\$ 32,082	\$ 1,552,113	\$ 1,633,526	\$ 35,926	\$ 1,669,452

[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 \$526 million as of June 30, 2017 and \$563 million as of December 31, 2016.

The outstanding principal balance of Westernbank loans accounted pursuant to ASC Subtopic 310-30, amounted to \$2.0 billion at June 30, 2017 (December 31, 2016 - \$2.1 billion). At June 30, 2017, 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.

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, 2017 and 2016, were as follows:

(In thousands)	Activity in the accretable yield Westernbank loans ASC 310-30 For the quarters ended					
	June 30, 2017			June 30, 2016		
	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	\$ 973,681	\$ 7,525	\$ 981,206	\$ 1,118,276	\$ 10,532	\$ 1,128,808
Accretion	(35,679)	(809)	(36,488)	(45,137)	(3,339)	(48,476)
Change in expected cash flows	(1,798)	(252)	(2,050)	(11,168)	2,516	(8,652)
Ending balance	\$ 936,204	\$ 6,464	\$ 942,668	\$ 1,061,971	\$ 9,709	\$ 1,071,680

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Activity in the accretable yield
Westernbank loans ASC 310-30
For the six months ended

(In thousands)	June 30, 2017			June 30, 2016		
	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	\$ 1,001,908	\$ 8,179	\$ 1,010,087	\$ 1,105,732	\$ 6,726	\$ 1,112,458
Accretion	(71,695)	(1,685)	(73,380)	(87,137)	(4,872)	(92,009)
Change in expected cash flows	5,991	(30)	5,961	43,376	7,855	51,231
Ending balance	\$ 936,204	\$ 6,464	\$ 942,668	\$ 1,061,971	\$ 9,709	\$ 1,071,680

Carrying amount of Westernbank loans accounted for pursuant to ASC 310-30
For the quarters ended

(In thousands)	June 30, 2017			June 30, 2016		
	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	\$ 1,648,328	\$ 40,572	\$ 1,688,900	\$ 1,865,940	\$ 69,501	\$ 1,935,441
Accretion	35,679	809	36,488	45,137	3,339	48,476
Collections / loan sales / charge-offs ^[1]	(104,811)	(2,790)	(107,601)	(156,464)	(27,510)	(183,974)
Ending balance ^[2]	\$ 1,579,196	\$ 38,591	\$ 1,617,787	\$ 1,754,613	\$ 45,330	\$ 1,799,943
Allowance for loan losses ASC 310-30 Westernbank loans	(59,165)	(6,509)	(65,674)	(57,895)	(9,100)	(66,995)
Ending balance, net of ALLL	\$ 1,520,031	\$ 32,082	\$ 1,552,113	\$ 1,696,718	\$ 36,230	\$ 1,732,948

[1] For the quarter ended June 30, 2016, includes the impact of the bulk sale of loans with a carrying value of approximately \$99 million.

[2] 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 \$ 526 million as of June 30, 2017 (June 30, 2016- \$597 million).

Carrying amount of Westernbank loans accounted for pursuant to ASC 310-30
For the six months ended

(In thousands)	June 30, 2017			June 30, 2016		
	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	\$ 1,695,381	\$ 42,948	\$ 1,738,329	\$ 1,898,146	\$ 76,355	\$ 1,974,501

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Accretion	71,695	1,685	73,380	87,137	4,872	92,009
Collections / loan sales / charge-offs ^[1]	(187,880)	(6,042)	(193,922)	(230,670)	(35,897)	(266,567)
Ending balance ^[2]	\$ 1,579,196	\$ 38,591	\$ 1,617,787	\$ 1,754,613	\$ 45,330	\$ 1,799,943
Allowance for loan losses ASC 310-30 Westernbank loans	(59,165)	(6,509)	(65,674)	(57,895)	(9,100)	(66,995)
Ending balance, net of ALLL	\$ 1,520,031	\$ 32,082	\$ 1,552,113	\$ 1,696,718	\$ 36,230	\$ 1,732,948

[1] For the quarter ended June 30, 2016, includes the impact of the bulk sale of loans with a carrying value of approximately \$99 million.

[2] 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 \$526 million as of June 30, 2017 (June 30, 2016- \$597 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 \$679 million at June 30, 2017 (December 31, 2016 - \$700 million). At June 30, 2017, 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.

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Changes in the carrying amount and the accretable yield for the other acquired loans accounted pursuant to the ASC Subtopic 310-30, for the quarters ended June 30, 2017 and 2016 were as follows:

Activity in the accretable yield - other acquired loans ASC 310-30		
(In thousands)	For the quarter ended June 30, 2017	For the quarter ended June 30, 2016
Beginning balance	\$ 309,778	\$ 267,768
Additions	2,601	4,171
Accretion	(8,422)	(8,730)
Change in expected cash flows	(953)	9,400
Ending balance	\$ 303,004	\$ 272,609

Activity in the accretable yield - other acquired loans ASC 310-30		
(In thousands)	For the six months ended June 30, 2017	For the six months ended June 30, 2016
Beginning balance	\$ 278,896	\$ 221,128
Additions	5,855	8,511
Accretion	(17,258)	(17,285)
Change in expected cash flows	35,511	60,255
Ending balance	\$ 303,004	\$ 272,609

Carrying amount of other acquired loans accounted for pursuant to ASC 310-30		
(In thousands)	For the quarter ended June 30, 2017	For the quarter ended June 30, 2016
Beginning balance	\$ 556,724	562,723
Additions	4,298	8,354
Accretion	8,422	8,730
Collections and charge-offs	(18,567)	(17,062)
Ending balance	\$ 550,877	\$ 562,745
Allowance for loan losses ASC 310-30 other acquired loans	(37,923)	(16,059)
Ending balance, net of ALLL	\$ 512,954	\$ 546,686

Carrying amount of other acquired loans accounted for pursuant to ASC 310-30		
(In thousands)	For the six months ended June 30, 2017	For the six months ended June 30, 2016
Beginning balance	\$ 562,695	\$ 564,050
		(4,707)

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Purchase accounting adjustments
related to the Doral Bank
Transaction (Refer to Note 14)

Additions	9,879	18,405
Accretion	17,258	17,285
Collections and charge-offs	(38,955)	(32,288)
Ending balance	\$ 550,877	\$ 562,745
Allowance for loan losses ASC 310-30 other acquired loans	(37,923)	(16,059)
Ending balance, net of ALLL	\$ 512,954	\$ 546,686

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Note 8 Allowance for loan losses

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

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

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

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

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

For the period ended June 30, 2017, 39% (June 30, 2016 51%) 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 personal, other consumer and commercial and industrial portfolios for 2017 and in the other consumer, mortgage, commercial multi-family and commercial and industrial loan portfolios for 2016.

For the period ended June 30, 2017, 2% (June 30, 2016 1 %) of our 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 commercial multifamily loan and legacy portfolios for 2017 and in the consumer loan portfolio for 2016.

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

The following tables present the changes in the allowance for loan losses, loan ending balances and whether such loans and the allowance pertain to loans individually or collectively evaluated for impairment for the quarters and six months ended June 30, 2017 and 2016.

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For the quarter ended June 30, 2017						
Puerto Rico - Non-covered loans						
(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 187,631	\$ 1,961	\$ 144,937	\$ 7,897	\$ 124,091	\$ 466,517
Provision (reversal of provision)	(1,697)	(2,858)	23,682	1,544	21,502	42,173
Charge-offs	(21,575)	(68)	(21,493)	(1,956)	(28,002)	(73,094)
Recoveries	9,830	2,438	740	518	5,313	18,839
Ending balance	\$ 174,189	\$ 1,473	\$ 147,866	\$ 8,003	\$ 122,904	\$ 454,435
Specific ALLL	\$ 41,982	\$	\$ 47,954	\$ 487	\$ 21,999	\$ 112,422