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ANNUAL REPORT

INFORME ANUAL



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Popular, Inc. (NASDAQ:BPOP) is a full-service financial provider based in Puerto Rico, with operations in Puerto Rico, the Virgin Islands and the United States. In Puerto Rico, Popular is the leading banking institution, by both assets and deposits, and ranks among the largest 50 banks in the United States by assets.

CORPORATE INFORMATION

Independent Registered Public Accounting Firm:
PricewaterhouseCoopers LLP

The company's Form 10-K, proxy statement and any other financial information is available on popular.com/en/investor-relations/annual-reports/

ANNUAL MEETING

The 2018 Annual Stockholders' Meeting of Popular, Inc. will be held on Tuesday, May 8, at 9:00 a.m. at the penthouse of the Popular Center Building, San Juan, Puerto Rico.

Popular, Inc. (NASDAQ:BPOP) es un proveedor de servicios financieros con sede en Puerto Rico y operaciones en Puerto Rico, Islas Vírgenes y Estados Unidos. En Puerto Rico es la institución bancaria líder, tanto en activos como en depósitos, y se encuentra entre los 50 bancos más grandes de los Estados Unidos por total de activos.


INFORMACIÓN CORPORATIVA

Firma registrada de Contabilidad Pública Independiente:
PricewaterhouseCoopers LLP

El Formulario 10-K, el proxy y otra información financiera están disponibles en popular.com/accionistas/informe-anual/

REUNIÓN ANUAL

La Reunión Anual de Accionistas 2018 de Popular, Inc., se llevará a cabo el martes 8 de mayo, a las 9:00 a.m. en el piso PH de Popular Center, San Juan, Puerto Rico.



After 26 years as Popular's CEO, in July of 2017 I assumed the position of Executive Chairman and was proud to see my colleague and friend, Ignacio Alvarez, named as the new CEO by the Board of Directors.

Serving as the CEO for over two decades has undoubtedly been one of the most rewarding experiences of my life. It is immensely gratifying to see an organization that is not only financially strong, but that remains committed to fulfilling the needs of our customers, caring for our employees and taking an active role in the communities we serve. The values that have guided us since our beginnings 125 years ago are stronger than ever today, and it fills me with pride that Popular is, particularly in Puerto Rico, a symbol of excellence and progress. I am grateful to all my colleagues for being a constant source of inspiration, to our clients for their trust and to you, fellow shareholders, for your support throughout all of these years.

With Popular on a solid position, the time was right for both Ignacio and me to assume our new roles. Since he joined Popular in 2010 as General Counsel, and more recently as President and COO, Ignacio demonstrated he has the experience, the skills and the vision to lead this organization.

It is a privilege for me to continue serving Popular from a different position and it is exciting to collaborate with Ignacio and his team as they take Popular into the future. The vision and the strategy are clear, and the energy is evident.

While I have officially been a part of Popular for 41 years, Popular has been, and will be, a part of me for my entire life. From a special vantage point, I have witnessed this organization thrive during good times and persevere and strengthen in challenging ones. The response of all our colleagues in the aftermath of the 2017 hurricanes is the most recent example of the spirit that makes Popular a successful and unique organization. I am confident that Popular's best days lie ahead.

Sincerely,



RICHARD L. CARRIÓN
Executive Chairman
Popular, Inc.



While I have officially been a part of Popular for 41 years, Popular has been, and will be, a part of me for my entire life.

POPULAR, INC. YEAR IN REVIEW

Dear Shareholders:

It is an honor to provide my first annual shareholder update as Popular's CEO, a position that I was privileged to assume in July of 2017.

I am grateful and humbled by the confidence the Board of Directors and Richard have placed in me. Richard is in many ways the founder of the modern Popular, helping it evolve during his tenure as CEO from a much smaller bank in Puerto Rico to a diversified financial services institution that currently ranks among the top 50 in the United States.

As everyone knows, 2017 was an eventful year for Popular and for Puerto Rico. Barely three months after I became CEO, two major hurricanes, Irma and Maria, struck the Virgin Islands and Puerto Rico in the span of two weeks, leaving a trail of destruction in their wake. Throughout this difficult period, we demonstrated the power and resilience of our organization by continuing to serve our clients in an incredibly challenging environment.

In 2017, we achieved net income of \$108 million, compared with \$217 million in 2016. Our 2017 results include a \$168 million expense related to the impact of the U.S. tax reform on the deferred tax asset (DTA) of our U.S. operation. Net income in 2016 included, among other significant items, the effects of two adverse arbitration awards related to claims made by us under the commercial loss-share agreement with the FDIC, as receiver for Westernbank, which resulted in an expense of \$131 million, net of tax.

After adjusting for the impact of these items, among others, adjusted net income for 2017 was \$276 million,

compared to \$358 million in the previous year. The adjusted results for 2017 were adversely affected by the impact of the hurricanes on provision, revenues and expenses, which totaled \$73 million, net of income tax, and a \$38 million loan loss provision expense, net of income tax, related to our taxi medallion portfolio in the U.S. acquired in 2015 as part of the Doral transaction.

Credit quality remained stable during 2017. In Puerto Rico, our credit metrics for the first eight months of the year were stable despite a weak economy. Year-end results include the effect of the loan payment moratorium granted to consumer and commercial borrowers after the hurricanes, which paused inflows into delinquent status. In our U.S. operation, excluding the impact of the taxi medallion portfolio, asset quality remained strong.

During the first quarter of 2017, we executed a series of actions that reflect the strength of our capital position. We increased the quarterly common stock dividend from \$0.15 per share to \$0.25 per share and completed the repurchase of \$75 million in common stock. Our capital base remains strong, closing the year with a Common Equity Tier 1 ratio of 16.3%.

In February 2018, we announced an agreement to acquire and assume from Reliable Financial Services, Inc. and Reliable Finance Holding Company, both subsidiaries of Wells Fargo & Company, certain assets and liabilities related to Wells Fargo's auto finance business in Puerto Rico. As part of the transaction, Popular will acquire

approximately \$1.5 billion in retail auto loans and \$340 million in commercial loans. We anticipate the transaction to close during the second quarter of 2018 and be accretive to earnings.

Despite concerns about Puerto Rico's economic and fiscal situation, for the first nine months of 2017, the price of Popular's shares roughly correlated to the movement of the U.S. KBW Regional Bank Index, albeit with a higher volatility. However, the price of our share was severely affected by the impact of Hurricane Maria, closing the year at \$35.49, 19% lower than 2016 and below our U.S. Peers and the KBW Regional Bank Index. Nevertheless, this performance compared favorably to other Puerto Rican banks. I am happy to report that our share price has increased 21% through the first eight weeks of 2018.

We mobilized to restore operations, support our colleagues in need and assist the most affected communities.

The hurricanes devastated critical infrastructure, leaving the entire population without access to electricity, water and telecommunications in its aftermath. Further complicating matters, the severe damage to roads and the scarcity of fuel delayed initial recovery efforts and hindered the supply of basic necessities such as food, medicines and drinking water. Against this backdrop, as soon as



it was safe, we mobilized to restore operations, support our colleagues in need and assist the most affected communities.

In Puerto Rico, cash became in many cases the only viable payment method due to the impact that the lack of electricity and telecommunications had on the point-of-sale (POS) and automatic teller machines (ATMs) networks. To help stabilize the situation, we provided access to cash and other essential banking services through our ATM and branch network as quickly as possible. Despite many operational challenges, thanks to the remarkable efforts of our colleagues, we opened the first branches within 72 hours of Hurricane Maria's landfall. Thereafter, the number of branches and ATMs in operation increased consistently, reaching 124 or 74% and 333 or 52%, respectively, within four weeks of the storm's passing. In addition, as owners of the most extensive ATM network on the Island, we waived all ATM fees for several weeks after the storm to all customers, including those of other financial institutions. On the credit side, we provided relief to our customers by offering a principal and interest payment moratorium on residential, consumer and commercial loans and waived late payment fees.

At the same time, we made it a priority to take care of our colleagues during this difficult time. Among many initiatives, we increased the Employee Emergency Fund to offer financial assistance to those who suffered severe damages, and we accelerated

the payout of the annual statutory Christmas bonus to employees in Puerto Rico and the U.S. and British Virgin Islands.

We also mobilized quickly to help severely impacted communities by launching the Embracing Puerto Rico fund, which today has commitments of more than \$6 million, including our initial contribution of \$1 million. We are grateful for the generous donations of many business partners and friends that enabled us to deliver immediate relief to the areas most affected by the disaster. The fund, which is managed by our foundation, Fundación Banco Popular, is now focused on helping community-based organizations implement innovative solutions to pressing social problems.

While much of the discussion of 2017 naturally centers on the hurricanes, the year also included other important accomplishments:

- In Puerto Rico, we continued to improve our leading market position. Notwithstanding the protracted economic recession and the effects of the hurricanes, our deposit balances increased by \$4.3 billion and our customer base by 31,000. We also achieved growth in several portfolios, such as commercial loans and auto loans.
- In the United States, we grew commercial loans by 16%, launched a private banking initiative, and strengthened our mortgage origination unit. We continued the transformation of our retail network

In Puerto Rico, our deposit balances increased by \$4.3B and our customer base by 31K.

with the renovation or relocation of eight branches, which has helped spur branch deposit growth.

- We continued making headway in simplifying our technology infrastructure and migrating transactions to digital channels to achieve greater efficiencies and deliver a superior customer experience. Digital deposit transactions surpassed 40% of total deposits in both Puerto Rico and the United States.
- We also expanded our efforts to attract, develop and retain the best talent in the markets we serve. We launched and strengthened initiatives in areas such as training, diversity and inclusion and wellness.

We look forward to 2018, aware of the challenges, but ready to seize opportunities that will undoubtedly arise. The Puerto Rico economy remains the most significant headwind we face. An environment that was already extremely complex due to the

POPULAR, INC. YEAR IN REVIEW

fiscal and public debt situation has become even more challenging after the hurricanes. Processes that were underway will have to be adjusted to reflect the post-hurricane reality.

In the months following the hurricanes, economic activity was inevitably impacted mainly due to delays in the restoration of electricity in Puerto Rico. Nevertheless, we are heartened to see signs that the economic situation on the Island has begun to stabilize, with several metrics - such as our customers' debit card purchases and auto sales - returning to pre-storm levels. There has also been a great deal of discussion of an acceleration of out-migration after the hurricanes. While the increase is undeniable, estimates vary considerably, and it still is unclear how many of those who have left the Island will eventually return as the situation continues to stabilize. In the end, the solution to the migration issue is to accelerate economic growth in Puerto Rico.

The pace of economic recovery will be heavily dependent on the speed of the remaining power restoration and on the magnitude and timing of funds flowing into Puerto Rico from federal agencies and insurance companies. These funds, which are estimated to exceed \$25 billion, are likely to have a stimulative effect on the economy on the short to medium term.

Puerto Rico's longer-term economic prospects will hinge on the decisions regarding Puerto Rico's rebuilding. The Island was facing serious structural problems before the impact of the

hurricanes. We now have a unique opportunity to make significant changes in areas such as energy, housing, health and education. As the leading financial institution on the Island, Popular is ready to play an important role, as we have done throughout our history, in efforts to build a stronger and more sustainable Puerto Rico.

Our U.S. business continues to be strategically important to Popular as the main source of diversification of risk, expansion of revenues, and potential growth. We remain focused on diversifying our loan portfolio, strengthening our deposit franchise, driving fee income, and transforming our retail network.

In December 2017, we unveiled a new strategic framework founded on a vision to deliver an excellent customer experience by offering financial solutions in a simple way. This vision is supported by four strategic pillars:



Sustainable and Profitable Growth
Identifying sustainable and profitable growth opportunities



Simplicity
Simplifying our company by streamlining our processes and technological platform to reduce costs



Customer Focus
Creating a customer-focused service culture with a consistent experience across channels



Fit for the Future
Strengthening our foundation by attracting and developing our talent around the capabilities needed for the future and enhancing our internal controls to effectively manage risks

This framework ensures that we consistently balance our focus between present and future needs, and helps us identify the necessary steps to achieve our strategic goals.

I take this opportunity to express my gratitude to our Board of Directors and my colleagues for their extraordinary response to the crisis brought about by the hurricanes. Managing responsibilities at Popular while tending to difficult situations in their home, our employees in Puerto Rico and the U.S. and British Virgin Islands responded heroically, and we could not have achieved what we did without their dedication and hard work. The support of our colleagues in the mainland United States was also very important throughout those trying months.

I also want to thank Néstor O. Rivera, former head of the Retail Banking Group, who retired in 2017 after a long and successful career at Popular spanning close to 50 years. Néstor's legacy will endure, as he worked to grow our Puerto Rico branch network, helped shape Popular's technology strategy and mentored generations of leaders who learned the importance of our values and organizational culture through his counsel and example. Luis

COMMITTED TO OUR CLIENTS, COLLEAGUES AND COMMUNITIES

Cestero, who joined Popular in 1995 and has close to 20 years of experience in the Retail Banking Group, assumed leadership of this group after Nestor's retirement. Luis has proven his deep knowledge of the business, and, more importantly, has demonstrated strong leadership skills, earning the respect of everyone around him.

Popular is today a much stronger organization than it was before the 2017 hurricanes. We worked as a team, adapted to change, developed creative solutions and responded decisively. We demonstrated all that we can achieve when we have a shared purpose.

We begin 2018, year in which we celebrate our 125th anniversary, committed to preserving the spirit and the attitudes that allowed us to not only face 2017's challenges, but to become a better organization as a result of them. We do not need a crisis to show our very best. Our colleagues, our customers, our communities and our shareholders expect, deserve and will get our best, every day.

Sincerely,



IGNACIO ALVAREZ
President and Chief Executive Officer
Popular, Inc.

In September 2017, Puerto Rico and the Virgin Islands suffered the catastrophic impact of two major hurricanes in the span of two weeks, destroying structures, devastating the natural landscape and leaving entire populations without access to electricity, water, telecommunications, medical services and basic supplies. Popular demonstrated its unwavering commitment to its clients, employees and communities, rapidly restoring access to banking services and reaching out to those who needed it most.

Our Customers



Access to cash and other basic banking services despite operational challenges

Operating 31% of branches and 24% of ATMs one week after Hurricane Maria; reached 92% and 82%, respectively, by year-end.

Reestablished call center operations on September 25; resumed 24/7 service on October 23.

Offered uninterrupted online and mobile banking services.

Relief and support

Implemented a payment moratorium for credit cards, personal loans, auto loans and mortgages.

Waived ATM fees for 25 days to our customers and customers of other financial institutions.

Opened seven hubs across the island to offer commercial clients work spaces with Internet access.

Offered customers and the general public guidance on insurance and FEMA claims processes.

OUR PEOPLE



Financial Assistance

Increased the Employee Emergency Fund and deployed over \$800k to employees who suffered major losses.

Advanced payroll the week of the hurricane and accelerated the payout of the Christmas bonus.

Offered bank-owned properties to colleagues who needed housing.

Wellness and support

Distributed water, food vouchers and packages with basic supplies to employees in need.

Established childcare centers for employees' children in our main buildings.

Temporarily lifted restrictions in the medical insurance plan to ensure care in urgent cases, extended our On Site Health and Wellness Center services to employees' dependents and coordinated specialized programs to address emotional aspects.

OUR COMMUNITIES



Embracing Puerto Rico

Established the Embracing Puerto Rico fund with an initial contribution of \$1 million; has reached \$6.1 million in commitments.

Completed 35 missions to distribute over 800k pounds of basic provisions, impacting over 140k individuals

Currently focused on projects that will stabilize communities by providing access to clean water, solar energy and jump-starting Puerto Rico's economic recovery.

Supported various initiatives, such as United for Puerto Rico and Somos Una Voz.

Moving into a new phase of actions, centered on transitioning our communities across the Island into long-term recovery.

25-YEAR HISTORICAL FINANCIAL SUMMARY

<i>(Dollars in millions, except per share data)</i>	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Selected Financial Information											
Net Income (Loss)	\$109.4	\$124.7	\$146.4	\$185.2	\$209.6	\$232.3	\$257.6	\$276.1	\$304.5	\$351.9	\$470.9
Assets	11,513.4	12,778.4	15,675.5	16,764.1	19,300.5	23,160.4	25,460.5	28,057.1	30,744.7	33,660.4	36,434.7
Gross Loans	6,346.9	7,781.3	8,677.5	9,779.0	11,376.6	13,078.8	14,907.8	16,057.1	18,168.6	19,582.1	22,602.2
Deposits	8,522.7	9,012.4	9,876.7	10,763.3	11,749.6	13,672.2	14,173.7	14,804.9	16,370.0	17,614.7	18,097.8
Stockholders' Equity	834.2	1,002.4	1,141.7	1,262.5	1,503.1	1,709.1	1,661.0	1,993.6	2,272.8	2,410.9	2,754.4
Market Capitalization	\$1,014.7	\$923.7	\$1,276.8	\$2,230.5	\$3,350.3	\$4,611.7	\$3,790.2	\$3,578.1	\$3,965.4	\$4,476.4	\$5,960.2
Return on Average Assets (ROAA)	1.02%	1.02%	1.04%	1.14%	1.14%	1.14%	1.08%	1.04%	1.09%	1.11%	1.36%
Return on Average Common Equity (ROACE)	13.80%	13.80%	14.22%	16.17%	15.83%	15.41%	15.45%	15.00%	14.84%	16.29%	19.30%
Per Common Share¹											
Net Income (Loss) - Basic	\$4.18	\$4.59	\$5.24	\$6.69	\$7.51	\$8.26	\$9.19	\$9.85	\$10.87	\$13.05	\$17.36
Net Income (Loss) - Diluted	4.18	4.59	5.24	6.69	7.51	8.26	9.19	9.85	10.87	13.05	17.36
Dividends (Declared)	1.20	1.25	1.54	1.83	2.00	2.50	3.00	3.20	3.80	4.00	5.05
Book Value	31.86	34.35	39.52	43.98	51.83	59.32	57.54	69.62	79.67	91.02	96.60
Market Price	39.38	35.16	48.44	84.38	123.75	170.00	139.69	131.56	145.40	169.00	224.25
Assets by Geographical Area											
Puerto Rico	79%	76%	75%	74%	74%	71%	71%	72%	68%	66%	62%
United States	16%	20%	21%	22%	23%	25%	25%	26%	30%	32%	36%
Caribbean and Latin America	5%	4%	4%	4%	3%	4%	4%	2%	2%	2%	2%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Traditional Delivery System											
Banking Branches											
Puerto Rico	165	166	166	178	201	198	199	199	196	195	193
Virgin Islands	8	8	8	8	8	8	8	8	8	8	8
United States ²	32	34	40	44	63	89	91	95	96	96	97
Subtotal	205	208	214	230	272	295	298	302	300	299	298
Non-Banking Offices											
Popular Financial Holdings	58	73	91	102	117	128	137	136	149	153	181
Popular Cash Express						51	102	132	154	195	129
Popular Finance	26	28	31	39	44	48	47	61	55	36	43
Popular Auto	8	10	9	8	10	10	12	12	20	18	18
Popular Leasing, U.S.A.					7	8	10	11	13	13	11
Popular Mortgage			3	3	3	11	13	21	25	29	32
Popular Securities				1	2	2	2	3	4	7	8
Popular One											
Popular Insurance and Popular Risk Services								2	2	2	2
Popular Insurance Agency, U.S.A.									1	1	1
Popular Insurance V.I.										1	1
E-LOAN											
EVERTEC							4	4	4	5	5
Subtotal	92	111	134	153	183	258	327	382	427	460	431
Total	297	319	348	383	455	553	625	684	727	759	729
Electronic Delivery System											
ATMs Owned											
Puerto Rico	234	262	281	327	391	421	442	478	524	539	557
Virgin Islands	8	8	8	9	17	59	68	37	39	53	57
United States	11	26	38	53	71	94	99	109	118	131	129
Total	253	296	327	389	479	574	609	624	681	723	743
Employees (full-time equivalent)	7,533	7,606	7,815	7,996	8,854	10,549	11,501	10,651	11,334	11,037	11,474

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
\$489.9	\$540.7	\$357.7	\$(64.5)	\$(1,243.9)	\$(573.9)	\$137.4	\$151.3	\$245.3	\$599.3	\$(313.5)	\$895.3	\$216.7	\$107.7
44,401.6	48,623.7	47,404.0	44,411.4	38,882.8	34,736.3	38,815.0	37,348.4	36,506.9	35,748.8	33,086.8	35,761.7	38,661.6	44,277.3
28,742.3	31,710.2	32,736.9	29,911.0	26,268.9	23,803.9	26,458.9	25,314.4	25,093.6	24,706.7	22,053.2	23,129.2	23,435.4	24,942.5
20,593.2	22,638.0	24,438.3	28,334.4	27,550.2	25,924.9	26,762.2	27,942.1	27,000.6	26,711.1	24,807.5	27,209.7	30,496.2	35,453.5
3,104.6	3,449.2	3,620.3	3,581.9	3,268.4	2,538.8	3,800.5	3,918.8	4,110.0	4,626.2	4,267.4	5,105.3	5,198.0	5,103.9
\$7,685.6	\$5,836.5	\$5,003.4	\$2,968.3	\$1,455.1	\$1,445.4	\$3,211.4	\$1,426.0	\$2,144.9	\$2,970.6	\$3,523.4	\$2,936.6	\$4,548.1	\$3,622.4
1.23%	1.17%	0.74%	-0.14%	-3.04%	-1.57%	0.36%	0.40%	0.68%	1.65%	-0.89%	2.54%	0.58%	0.26%
17.60%	17.12%	9.73%	-2.08%	-44.47%	-32.95%	4.37%	4.01%	6.37%	14.43%	-7.04%	19.16%	4.07%	1.96%
\$17.95	\$19.78	\$12.41	\$(2.73)	\$(45.51)	\$2.39	\$(0.62)	\$1.44	\$2.36	\$5.80	\$(3.08)	\$8.66	\$2.06	\$1.02
17.92	19.74	12.41	(2.73)	(45.51)	2.39	(0.62)	1.44	2.35	5.78	(3.08)	8.65	2.06	\$1.02
6.20	6.40	6.40	6.40	4.80	0.20	-	-	-	-	-	0.30	0.60	1.00
109.45	118.22	123.18	121.24	63.29	38.91	36.67	37.71	39.35	44.26	40.76	48.79	49.60	49.51
288.30	211.50	179.50	106.00	51.60	22.60	31.40	13.90	20.79	28.73	34.05	28.34	43.82	35.49
55%	53%	52%	59%	64%	65%	74%	74%	73%	72%	80%	75%	75%	76%
43%	45%	45%	38%	33%	32%	23%	23%	24%	25%	17%	22%	23%	22%
2%	2%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	2%	2%
100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
192	194	191	196	179	173	185	183	175	171	168	173	171	168
8	8	8	8	8	8	8	9	9	9	9	9	9	9
128	136	142	147	139	101	96	94	92	90	47	50	51	51
328	338	341	351	326	282	289	286	276	270	224	232	231	228
183	212	158	134	2									
114	4												
43	49	52	51	9									
18	17	15	12	12	10	10	10	10	9	9	9	9	9
15	14	11	24	22									
30	33	32	32	32	33	36	37	37	38	25	24	17	14
9	12	12	13	7	6	6	4	4	3	3	3	2	2
							4	5	6	6	6	5	5
2	2	2	2	1	1	1	1	1	1	1	2	2	2
1	1	1	1	1	1	1	1	1	1	1	1	1	1
1	1	1	1	1	1	1	1	1	1	1	1	1	1
5	5	7	9	9	9								
421	351	292	280	97	61	55	58	59	59	46	46	37	34
749	689	633	631	423	343	344	344	335	329	270	278	268	262
568	583	605	615	605	571	624	613	597	599	602	622	635	633
59	61	65	69	74	77	17	20	20	22	21	21	20	22
163	181	192	187	176	136	138	135	134	132	83	87	101	110
790	825	862	871	855	784	779	768	751	753	706	730	756	765
12,139	13,210	12,508	12,303	10,587	9,407	8,277	8,329	8,072	8,059	7,752	7,810	7,828	7,784

¹Per common share data adjusted for stock splits and reverse stock split executed in May 2012.

²Excludes a Banco Popular de Puerto Rico branch operating in New York.

POPULAR, INC. MANAGEMENT & BOARD OF DIRECTORS

Senior Management Team



RICHARD L. CARRIÓN
Executive Chairman
Popular, Inc.



IGNACIO ALVAREZ
President and
Chief Executive Officer
Popular, Inc.



CAMILLE BURCKHART
Executive Vice President &
Chief Information and Digital Officer
Innovation, Technology &
Operations Group
Popular, Inc.



LUIS CESTERO
Executive Vice President
Retail Banking Group
Banco Popular de Puerto Rico



MANUEL A. CHINEA
Executive Vice President
Popular, Inc.
Chief Operating Officer
Popular Community Bank



JAVIER D. FERRER
Executive Vice President, Chief Legal
Officer & Corporate Secretary
General Counsel &
Corporate Matters Group
Popular, Inc.



JUAN O. GUERRERO
Executive Vice President
Financial and Insurance
Services Group
Banco Popular de Puerto Rico



GILBERTO MONZÓN
Executive Vice President
Individual Credit Group
Banco Popular de Puerto Rico



EDUARDO J. NEGRÓN
Executive Vice President
Administration Group
Popular, Inc.



ELI S. SEPÚLVEDA
Executive Vice President
Commercial Credit Group
Banco Popular de Puerto Rico



LIDIO V. SORIANO
Executive Vice President &
Chief Risk Officer
Corporate Risk Management Group
Popular, Inc.



CARLOS J. VÁZQUEZ
Executive Vice President &
Chief Financial Officer
Popular, Inc.

Board of Directors



RICHARD L. CARRIÓN
Executive Chairman
Popular, Inc.



IGNACIO ALVAREZ
President and
Chief Executive Officer
Popular, Inc.



**JOAQUÍN E.
BACARDÍ, III**
Chairman
Edmundo B. Fernández, Inc.



**ALEJANDRO M.
BALLESTER**
President
Ballester Hermanos, Inc.



JOHN W. DIERCKSEN
Principal
Greycrest, LLC



MARÍA LUISA FERRÉ
President & Chief Executive Officer
FRG, Inc.



DAVID E. GOEL
Managing General Partner
Matrix Capital
Management Company, LP



C. KIM GOODWIN
Private Investor



**WILLIAM J.
TEUBER JR.**
Private Investor



CARLOS A. UNANUE
President
Goya de Puerto Rico



Después de 26 años como CEO de Popular, en julio del 2017 asumí el cargo de Presidente Ejecutivo de la Junta de Directores y me llenó de orgullo ver a mi compañero y amigo, Ignacio Álvarez, designado por la Junta como el nuevo CEO.

Servir de CEO por más de dos décadas ha sido, sin duda alguna, una de las experiencias más gratificantes de mi vida. Siento una gran satisfacción al ver una organización que no solo es financieramente fuerte, sino que permanece comprometida con atender las necesidades de nuestros clientes, cuidar de nuestros empleados y asumir un papel activo en las comunidades que servimos. Los valores que nos han guiado desde nuestros inicios hace 125 años son hoy más fuertes que nunca, y me enorgullece que Popular es, particularmente en Puerto Rico, un símbolo de excelencia y progreso. Agradezco a mis colegas por ser una fuente constante de inspiración, a nuestros clientes por su confianza y a ustedes, mis compañeros accionistas, por su apoyo a través de todos estos años.

Con Popular en una posición sólida, éste era el momento indicado para que Ignacio y yo asumiéramos nuevos roles. Desde que se unió a Popular en el 2010, y más recientemente como presidente y COO, Ignacio demostró que tiene la experiencia, las destrezas y la visión para liderar esta organización.

Es un privilegio para mí continuar sirviendo a Popular desde una posición diferente y estoy sumamente entusiasmado de colaborar con Ignacio y su equipo mientras trazan el futuro de Popular. La visión y la estrategia están claras, y la energía es evidente.

Aunque oficialmente he formado parte de Popular por 41 años, Popular ha sido, y continuará siendo, una parte de mí por toda mi vida. Desde un punto de vista especial, he sido testigo de cómo esta organización prospera en tiempos buenos y persevera y se fortalece en tiempos difíciles. La respuesta de nuestros colegas a la crisis provocada por los huracanes del 2017 es el ejemplo más reciente del espíritu que hace a Popular una organización exitosa y única. No tengo duda de que los mejores días de Popular están por delante.

Sinceramente,

RICHARD L. CARRIÓN
Presidente Ejecutivo de la
Junta de Directores
Popular, Inc.

Aunque oficialmente he formado parte de Popular por 41 años, Popular ha sido, y continuará siendo, una parte de mí por toda mi vida.

POPULAR, INC. RESUMEN DEL AÑO

Estimados accionistas:

Es un honor presentar mi primer informe a los accionistas como Principal Oficial Ejecutivo (CEO) de Popular, una posición que tuve el privilegio de asumir en julio de 2017.

Agradezco humildemente la confianza que la Junta de Directores y Richard han puesto en mí. Richard es, en muchos aspectos, el fundador del Popular moderno. Durante sus años como CEO, ayudó a evolucionar la organización de un banco mucho más pequeño en Puerto Rico a una institución de servicios financieros diversificados que hoy se encuentra entre las 50 principales en los Estados Unidos.

Como todos sabemos, el 2017 fue un año retante para Popular y para Puerto Rico. Luego de tan solo tres meses de ser CEO, dos huracanes de gran magnitud, Irma y María, azotaron las Islas Vírgenes y Puerto Rico en menos de dos semanas, dejando a su paso una extensa destrucción. Durante este momento difícil, demostramos la fuerza y resiliencia de nuestra organización, sirviendo a nuestros clientes en un ambiente increíblemente desafiante.

En el 2017 alcanzamos un ingreso neto de \$108 millones, comparado con \$217 millones en el 2016. Nuestros resultados para el 2017 incluyen un gasto de \$168 millones como resultado del impacto de la reforma contributiva federal sobre nuestro activo de contribuciones diferidas relacionado a nuestras operaciones en Estados Unidos. El ingreso neto en el 2016 incluyó, entre otros eventos significativos, el efecto de dos decisiones adversas relacionadas a reclamaciones hechas por nosotros al FDIC como síndico de Westernbank bajo el acuerdo de participación de pérdidas en préstamos comerciales, que resultaron en un gasto de \$131 millones, neto de contribuciones.

Luego de ajustar para excluir el impacto de estas partidas, entre otras, el ingreso neto ajustado para el 2017 fue de \$276 millones, comparado con \$358 millones en el año anterior. Los resultados ajustados del 2017 se afectaron negativamente por el impacto de los huracanes en la provisión, en ingresos y en gastos, que alcanzó \$73 millones, netos de contribuciones, y a una provisión para pérdidas en préstamos de \$38 millones, netos de contribuciones, relacionada a nuestra cartera de préstamos para licencias de taxis en los Estados Unidos adquirida como parte de la transacción de Doral.

La calidad de crédito permaneció estable durante el 2017. En Puerto Rico, los indicadores para los primeros ocho meses del año se mantuvieron estables a pesar de la debilidad de la economía. Las métricas para el fin de año incluyen el efecto de la moratoria de pagos de préstamos ofrecida a clientes individuales y comerciales tras el paso de los huracanes, que suspendió temporariamente el que estos fuesen considerados como delincuentes. En los Estados Unidos, excluyendo la cartera de licencias de taxi, la calidad del crédito se mantuvo fuerte.

Durante el primer trimestre del 2017, tomamos una serie de acciones que reflejan la fortaleza de nuestra posición de capital. Aumentamos el dividendo trimestral de \$0.15 a \$0.25 por acción común y recomparamos \$75 millones de acciones comunes. Nuestra base de capital continúa fuerte, terminando el año con una relación de capital básico (Common Equity Tier 1) de 16.3%.

En febrero del 2018, anunciamos un acuerdo para adquirir y asumir ciertos activos y pasivos de Reliable Financial Services, Inc. y Reliable Finance

Holding Company, subsidiarias de Wells Fargo & Company, relacionados a su negocio de financiamiento de autos en Puerto Rico. Como parte de la transacción, Popular adquirirá aproximadamente \$1,500 millones en préstamos de auto y \$340 millones en préstamos comerciales. Anticipamos que la transacción se completará en el segundo trimestre del 2018 y que contribuirá positivamente a los ingresos de la corporación.

A pesar de las preocupaciones relacionadas a la situación fiscal y económica de Puerto Rico, durante los primeros nueve meses del 2017, el precio de las acciones de Popular tuvo un movimiento parecido al Índice Regional de Bancos de KBW en los Estados Unidos, aunque más volátil. Sin embargo, el precio de nuestras acciones se vio severamente afectado por el impacto del huracán María, cerrando el año en \$35.49, 19% más bajo que en el 2016 y por debajo de nuestros bancos pares en Estados Unidos y del Índice Regional de Bancos de KBW. No obstante, este desempeño compara favorablemente con el de otros bancos en Puerto Rico. Me complace informar que el precio de la acción ha aumentado un 21% durante las primeras ocho semanas del 2018.

Nos movilizamos para restablecer nuestras operaciones, apoyar a aquellos compañeros que lo necesitaban y a asistir a las comunidades más afectadas.

Los huracanes devastaron infraestructura crítica, dejando tras su paso a la población entera sin acceso a



electricidad, agua y telecomunicaciones. Complicando aún más la situación, los daños severos a las carreteras y la escasez de combustible obstaculizaron la distribución de bienes básicos como alimentos, medicamentos y agua potable. En este contexto, tan pronto como fue seguro, nos movilizamos para restablecer nuestras operaciones, apoyar a aquellos compañeros que lo necesitaban y a asistir a las comunidades más afectadas.

En Puerto Rico, el dinero en efectivo se convirtió en muchos casos en el único método de pago viable debido al impacto que la falta de electricidad y telecomunicaciones tuvo en las redes de puntos de venta y de cajeros automáticos. Para ayudar a estabilizar la situación, proporcionamos acceso a efectivo a través de nuestras sucursales y cajeros automáticos a la mayor brevedad posible. A pesar de múltiples retos operacionales, abrimos las primeras sucursales 72 horas después del embate del huracán María. A partir de ese momento, el número de sucursales y cajeros automáticos en operación aumentó consistentemente, alcanzando 124 o 74% y 333 o 52%, respectivamente, cuatro semanas después del paso del huracán. Además, como dueños de la red de cajeros automáticos más extensa en la isla, eliminamos todos los cargos por uso de los cajeros automáticos durante varias semanas después del huracán a todos los clientes, incluyendo a aquellos de otras instituciones financieras. En el lado de crédito, brindamos alivio a nuestros clientes, ofreciendo una moratoria de pago de interés y principal en los préstamos hipotecarios, personales y comerciales y suspendiendo los cargos por pagos tardíos.

A la misma vez, establecimos como una prioridad apoyar a nuestros compañeros

durante ese momento difícil. Entre muchas iniciativas, aumentamos el Fondo de Emergencia de Empleados para ofrecer asistencia financiera a empleados que sufrieron daños severos, y aceleramos el pago del bono anual de Navidad establecido por ley a los empleados en Puerto Rico y las Islas Vírgenes estadounidenses y británicas.

También, nos movilizamos rápidamente para ayudar a comunidades severamente afectadas, lanzando el fondo Abrazando a Puerto Rico, que hoy tiene compromisos de más de \$6 millones, incluyendo nuestra contribución inicial de \$1 millón. Agradecemos las donaciones generosas de muchos socios y amigos que nos permitieron llevar socorro inmediato a las áreas más afectadas por el desastre. El fondo, que es manejado por la Fundación Banco Popular, ahora está enfocado en apoyar a organizaciones comunitarias en la implantación de soluciones innovadoras a problemas sociales apremiantes.

Aunque gran parte de la discusión del 2017 naturalmente gira alrededor de los huracanes, durante el año también alcanzamos otros logros importantes:

- En Puerto Rico, continuamos fortaleciendo nuestra posición de liderazgo en el mercado. A pesar de la recesión económica prolongada y del efecto de los huracanes, nuestros balances de depósitos aumentaron por \$4,300 millones y nuestra base de clientes por 31,000. Alcanzamos crecimiento, además, en varias carteras, como las de préstamos comerciales y préstamos de auto.
- En los Estados Unidos, aumentamos los préstamos comerciales por 16%, lanzamos una iniciativa de banca privada y fortalecimos nuestra unidad de originación hipotecaria.

En Puerto Rico, nuestros balances de depósitos aumentaron por \$4,300 millones y nuestra base de clientes por 31K.

Continuamos la transformación de nuestra red de sucursales, remodelando o relocalizando ocho de estas, lo que ha ayudado a promover el crecimiento de depósitos en las sucursales.

- Seguimos progresando en la simplificación de nuestra infraestructura de tecnología y en la migración de transacciones a canales digitales, para alcanzar mayores eficiencias y ofrecer una experiencia superior a nuestros clientes. Los depósitos a través de canales digitales sobrepasaron el 40% del total de depósitos, tanto en Puerto Rico como los Estados Unidos.
- Además, expandimos nuestros esfuerzos por atraer, desarrollar y retener el mejor talento en los mercados que servimos. Lanzamos y fortalecimos iniciativas en áreas como adiestramientos, diversidad e inclusión y bienestar.

Comenzamos el 2018 con entusiasmo, conscientes de los retos, pero listos para aprovechar las oportunidades que sin duda surgirán. La economía de Puerto Rico continúa siendo el desafío principal que enfrentamos. Un entorno que era complicado de por sí debido a la situación fiscal y de la deuda pública,

POPULAR, INC.

RESUMEN DEL AÑO

se tornó aún más retante tras el paso de los huracanes. Procesos que ya habían comenzado tendrán que ser ajustados para reflejar una nueva realidad.

En los meses posteriores a los huracanes, la actividad económica se impactó inevitablemente por demoras en el restablecimiento del servicio eléctrico en Puerto Rico. Sin embargo, nos alienta ver señales de que la situación económica en la isla ha comenzado a estabilizarse. Algunas métricas, como las compras de nuestros clientes con tarjetas de débito y las ventas de autos, ya están regresando a los niveles previos a los huracanes. Se ha discutido mucho sobre la aceleración de la emigración después de los huracanes. Aunque el aumento es innegable, los estimados varían considerablemente y todavía no está claro cuántos de los que se fueron de la Isla regresarán eventualmente, a medida que la situación continúe estabilizándose. A fin de cuentas, la solución para el tema de migración es acelerar el crecimiento económico en Puerto Rico.

El ritmo de la recuperación económica dependerá en gran parte de la rapidez con que se restablezca el servicio eléctrico restante, así como la magnitud y la velocidad del flujo de los fondos de las agencias federales y de las compañías de seguros hacia Puerto Rico. Estos fondos, que se estima excederán los \$25,000 millones, posiblemente servirán de estímulo a la economía a corto y mediano plazo.

El futuro económico de Puerto Rico a largo plazo dependerá de las decisiones que se tomen sobre durante el proceso de reconstrucción. La isla enfrentaba serios problemas estructurales antes del impacto de los huracanes. Ahora tenemos una

oportunidad única para hacer cambios significativos en áreas como energía, vivienda, salud y educación. Como la principal institución financiera en la isla, Popular está listo para jugar un papel importante, como hemos hecho a través de nuestra historia, en los esfuerzos por construir un Puerto Rico más fuerte y sustentable.

Nuestro negocio en los Estados Unidos continúa teniendo una importancia estratégica como nuestra fuente principal de diversificación de riesgo, expansión de ingresos y potencial de crecimiento. Seguimos enfocados en diversificar nuestra cartera de préstamos, generar ingresos que no provienen de intereses y transformar nuestra red de sucursales.

En diciembre del 2017, develamos un nuevo marco estratégico fundamentado en una visión de brindar una experiencia excelente a nuestros clientes, ofreciéndoles soluciones financieras de una forma sencilla. Esta visión se apoya en cuatro pilares estratégicos:



Crecimiento rentable y sostenible

Identificar oportunidades de crecimiento rentable y sostenible



Sencillez

Simplificar nuestra organización, optimizando nuestros procesos y nuestra plataforma tecnológica para reducir costos



Enfoque en el cliente

Crear una cultura enfocada en el servicio al cliente y proveer una experiencia consistente a través de todos los canales



Preparados para el futuro

Fortalecer nuestra organización, atrayendo y desarrollando nuestro talento alrededor de las capacidades necesarias para el futuro y enfatizando nuestros controles internos para manejar efectivamente el riesgo.

Este marco asegura que consistentemente balanceemos nuestro enfoque entre las necesidades presentes y futuras, y nos ayuda a identificar los pasos necesarios para alcanzar nuestros objetivos estratégicos.

Aprovecho esta oportunidad para expresar mi agradecimiento a la Junta de Directores y a mis compañeros por su respuesta extraordinaria ante la crisis provocada por los huracanes. No hubiésemos logrado lo que hicimos sin la dedicación y trabajo de nuestros empleados en Puerto Rico y las Islas Vírgenes estadounidenses y británicas, quienes respondieron de forma heroica, manejando sus responsabilidades en Popular a la vez que atendían situaciones difíciles en sus hogares. El apoyo de nuestros compañeros en los Estados Unidos también fue de mucho valor a través de esos meses tan complicados.

Quiero agradecer también a Néstor O. Rivera, anteriormente jefe del Grupo de Banca Individual, quien se retiró en el 2017 luego de una larga y exitosa carrera en Popular abarcando cerca de 50 años. El legado de Néstor perdurará, pues trabajó para crecer nuestra red de sucursales en Puerto Rico, ayudó a forjar la estrategia de tecnología de Popular y sirvió de mentor a generaciones de líderes que

COMPROMETIDOS CON NUESTROS CLIENTES, COMPAÑEROS Y COMUNIDADES

aprendieron la importancia de nuestros valores y cultura organizacional a través de su consejo y ejemplo. Luis Cestero, quien se unió a Popular en el 1995 y tiene aproximadamente 20 años de experiencia en el Grupo de Banca Individual, asumió el liderazgo del grupo tras el retiro de Néstor. Luis ha demostrado su profundo conocimiento del negocio y, aún más importante, sus cualidades como líder, ganándose el respeto de todos los que le rodean.

Popular es hoy una organización mucho más fuerte de lo que era antes de los huracanes del 2017. Trabajamos en equipo, nos adaptamos al cambio, desarrollamos soluciones creativas y respondimos decisivamente. Demostramos todo lo que podemos lograr cuando tenemos un propósito común.

Comenzamos el 2018, año en el que celebramos nuestro 125 aniversario, comprometidos con preservar el espíritu y las actitudes que nos permitieron no solo enfrentar los retos del 2017, sino fortalecernos como resultado de ellos. No necesitamos una crisis para mostrar lo mejor de nosotros. Nuestros compañeros, nuestros clientes, nuestras comunidades y nuestros accionistas esperan, merecen y recibirán lo mejor de nosotros, todos los días.

Sinceramente,

IGNACIO ÁLVAREZ
Presidente y Principal Oficial Ejecutivo
Popular, Inc.

En septiembre del 2017, Puerto Rico y las Islas Vírgenes enfrentaron el impacto catastrófico de los poderosos huracanes Irma y María en un periodo de dos semanas, destruyendo estructuras, devastando el paisaje natural y dejando a poblaciones enteras sin acceso a electricidad, agua, telecomunicaciones, servicios médicos y suministros básicos. Popular demostró su compromiso inquebrantable con sus clientes, empleados y comunidades, restableciendo rápidamente el acceso a servicios bancarios y ofreciendo ayuda a los más necesitados.

Nuestros Clientes



Acceso a efectivo y a otros servicios bancarios básicos a pesar de retos operacionales

Operando 31% de las sucursales y 24% de los cajeros automáticos una semana luego del Huracán María; alcanzamos 92% y 82%, respectivamente, para fin de año.

Restablecimos la operación del centro de llamadas el 25 de septiembre; reanudamos el servicio 24/7 el 23 de octubre.

Ofrecimos servicio ininterrumpido a través del Internet y dispositivos móviles.

Alivio y apoyo

Implantamos una moratoria para tarjetas de crédito, préstamos personales, préstamos de auto e hipotecas.

Eliminamos los cargos en cajeros automáticos por 25 días a clientes nuestros y de otras instituciones financieras.

Abrimos siete centros a través de la isla para ofrecer a nuestros clientes comerciales lugares de trabajo con acceso al Internet.

Ofrecimos asesoría a clientes y al público general sobre el proceso de reclamación a FEMA y a compañías de seguro.

Nuestra Gente



Asistencia Financiera

Aumentamos el Fondo de Emergencia de Empleados y distribuimos más de \$800,000 a empleados que sufrieron pérdidas severas.

Adelantamos la nómina la semana del huracán y aceleramos el pago del bono de Navidad.

Ofrecimos propiedades del banco a empleados que necesitaban un hogar.

Bienestar y apoyo

Distribuimos agua, vales de comida y paquetes con suministros básicos a empleados necesitados.

Establecimos centros de cuidado de niños para los hijos de empleados en nuestros edificios principales.

Suspendimos temporariamente las restricciones en el plan médico para asegurar cuidado en casos urgentes, extendimos el servicio de nuestro Centro Interno de Salud y Bienestar a los dependientes de nuestros empleados y coordinamos programas especiales para atender aspectos emocionales.

Nuestras Comunidades



Abrazando a Puerto Rico

Establecimos el fondo Abrazando a Puerto Rico con una contribución inicial de \$1 millón; ha alcanzado \$6.1 millones en compromisos.

Completamos 35 misiones para distribuir más de 800,000 libras de suministros básicos, impactando más de 140,000 individuos.

Enfocados en proyectos para estabilizar comunidades a través de acceso a agua potable y energía solar, y para fomentar la recuperación económica de Puerto Rico.

Apoyamos varias iniciativas, como Unidos por Puerto Rico y Somos una Voz.

Evolucionando a una nueva fase enfocada en transicionar nuestras comunidades en una recuperación a largo plazo.

25 AÑOS RESUMEN FINANCIERO HISTÓRICO

(Dólares en millones, excepto información por acción)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Información Financiera Seleccionada											
Ingreso neto (Pérdida Neta)	\$109.4	\$124.7	\$146.4	\$185.2	\$209.6	\$232.3	\$257.6	\$276.1	\$304.5	\$351.9	\$470.9
Activos	11,513.4	12,778.4	15,675.5	16,764.1	19,300.5	23,160.4	25,460.5	28,057.1	30,744.7	33,660.4	36,434.7
Préstamos Brutos	6,346.9	7,781.3	8,677.5	9,779.0	11,376.6	13,078.8	14,907.8	16,057.1	18,168.6	19,582.1	22,602.2
Depósitos	8,522.7	9,012.4	9,876.7	10,763.3	11,749.6	13,672.2	14,173.7	14,804.9	16,370.0	17,614.7	18,097.8
Capital de Accionistas	834.2	1,002.4	1,141.7	1,262.5	1,503.1	1,709.1	1,661.0	1,993.6	2,272.8	2,410.9	2,754.4
Valor agregado en el mercado	\$1,014.7	\$923.7	\$1,276.8	\$2,230.5	\$3,350.3	\$4,611.7	\$3,790.2	\$3,578.1	\$3,965.4	\$4,476.4	\$5,960.2
Rendimiento de Activos Promedio (ROAA)	1.02%	1.02%	1.04%	1.14%	1.14%	1.14%	1.08%	1.04%	1.09%	1.11%	1.36%
Rendimiento de Capital Común Promedio (ROACE)	13.80%	13.80%	14.22%	16.17%	15.83%	15.41%	15.45%	15.00%	14.84%	16.29%	19.30%
Por Acción Común¹											
Ingreso neto (Pérdida Neta) - Básico	\$4.18	\$4.59	\$5.24	\$6.69	\$7.51	\$8.26	\$9.19	\$9.85	\$10.87	\$13.05	\$17.36
Ingreso neto (Pérdida Neta) - Diluido	4.18	4.59	5.24	6.69	7.51	8.26	9.19	9.85	10.87	13.05	17.36
Dividendos (Declarados)	1.20	1.25	1.54	1.83	2.00	2.50	3.00	3.20	3.80	4.00	5.05
Valor en los Libros	31.86	34.35	39.52	43.98	51.83	59.32	57.54	69.62	79.67	91.02	96.60
Precio en el Mercado	39.38	35.16	48.44	84.38	123.75	170.00	139.69	131.56	145.40	169.00	224.25
Activos por Área Geográfica											
Puerto Rico	79%	76%	75%	74%	74%	71%	71%	72%	68%	66%	62%
Estados Unidos	16%	20%	21%	22%	23%	25%	25%	26%	30%	32%	36%
Caribe y Latinoamérica	5%	4%	4%	4%	3%	4%	4%	2%	2%	2%	2%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Sistema de Distribución Tradicional											
Sucursales Bancarias											
Puerto Rico	165	166	166	178	201	198	199	199	196	195	193
Islas Vírgenes	8	8	8	8	8	8	8	8	8	8	8
Estados Unidos ²	32	34	40	44	63	89	91	95	96	96	97
Subtotal	205	208	214	230	272	295	298	302	300	299	298
Oficinas No Bancarias											
Popular Financial Holdings	58	73	91	102	117	128	137	136	149	153	181
Popular Cash Express						51	102	132	154	195	129
Popular Finance	26	28	31	39	44	48	47	61	55	36	43
Popular Auto	8	10	9	8	10	10	12	12	20	18	18
Popular Leasing, U.S.A.					7	8	10	11	13	13	11
Popular Mortgage			3	3	3	11	13	21	25	29	32
Popular Securities				1	2	2	2	3	4	7	8
Popular One											
Popular Insurance y Popular Risk Services								2	2	2	2
Popular Insurance Agency, U.S.A.									1	1	1
Popular Insurance V.I.										1	1
E-LOAN											
EVERTEC							4	4	4	5	5
Subtotal	92	111	134	153	183	258	327	382	427	460	431
Total	297	319	348	383	455	553	625	684	727	759	729
Sistema Electrónico de Distribución											
Cajeros Automáticos Propios y Administrados											
Puerto Rico	234	262	281	327	391	421	442	478	524	539	557
Islas Vírgenes	8	8	8	9	17	59	68	37	39	53	57
Estados Unidos	11	26	38	53	71	94	99	109	118	131	129
Total	253	296	327	389	479	574	609	624	681	723	743
Empleados (equivalente a tiempo completo)	7,533	7,606	7,815	7,996	8,854	10,549	11,501	10,651	11,334	11,037	11,474

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
\$489.9	\$540.7	\$357.7	\$(64.5)	\$(1,243.9)	\$(573.9)	\$137.4	\$151.3	\$245.3	\$599.3	\$(313.5)	\$895.3	\$216.7	\$107.7
44,401.6	48,623.7	47,404.0	44,411.4	38,882.8	34,736.3	38,815.0	37,348.4	36,506.9	35,748.8	33,086.8	35,761.7	38,661.6	44,277.3
28,742.3	31,710.2	32,736.9	29,911.0	26,268.9	23,803.9	26,458.9	25,314.4	25,093.6	24,706.7	22,053.2	23,129.2	23,435.4	24,942.5
20,593.2	22,638.0	24,438.3	28,334.4	27,550.2	25,924.9	26,762.2	27,942.1	27,000.6	26,711.1	24,807.5	27,209.7	30,496.2	35,453.5
3,104.6	3,449.2	3,620.3	3,581.9	3,268.4	2,538.8	3,800.5	3,918.8	4,110.0	4,626.2	4,267.4	5,105.3	5,198.0	5,103.9
\$7,685.6	\$5,836.5	\$5,003.4	\$2,968.3	\$1,455.1	\$1,445.4	\$3,211.4	\$1,426.0	\$2,144.9	\$2,970.6	\$3,523.4	\$2,936.6	\$4,548.1	\$3,622.4
1.23%	1.17%	0.74%	-0.14%	-3.04%	-1.57%	0.36%	0.40%	0.68%	1.65%	-0.89%	2.54%	0.58%	0.26%
17.60%	17.12%	9.73%	-2.08%	-44.47%	-32.95%	4.37%	4.01%	6.37%	14.43%	-7.04%	19.16%	4.07%	1.96%
\$17.95	\$19.78	\$12.41	\$(2.73)	\$(45.51)	\$2.39	\$(0.62)	\$1.44	\$2.36	\$5.80	\$(3.08)	\$8.66	\$2.06	\$1.02
17.92	19.74	12.41	(2.73)	(45.51)	2.39	(0.62)	1.44	2.35	5.78	(3.08)	8.65	2.06	\$1.02
6.20	6.40	6.40	6.40	4.80	0.20	-	-	-	-	-	0.30	0.60	1.00
109.45	118.22	123.18	121.24	63.29	38.91	36.67	37.71	39.35	44.26	40.76	48.79	49.60	49.51
288.30	211.50	179.50	106.00	51.60	22.60	31.40	13.90	20.79	28.73	34.05	28.34	43.82	35.49
55%	53%	52%	59%	64%	65%	74%	74%	73%	72%	80%	75%	75%	76%
43%	45%	45%	38%	33%	32%	23%	23%	24%	25%	17%	22%	23%	22%
2%	2%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	2%	2%
100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
192	194	191	196	179	173	185	183	175	171	168	173	171	168
8	8	8	8	8	8	8	9	9	9	9	9	9	9
128	136	142	147	139	101	96	94	92	90	47	50	51	51
328	338	341	351	326	282	289	286	276	270	224	232	231	228
183	212	158	134	2									
114	4												
43	49	52	51	9									
18	17	15	12	12	10	10	10	10	9	9	9	9	9
15	14	11	24	22									
30	33	32	32	32	33	36	37	37	38	25	24	17	14
9	12	12	13	7	6	6	4	4	3	3	3	2	2
							4	5	6	6	6	5	5
2	2	2	2	1	1	1	1	1	1	1	2	2	2
1	1	1	1	1	1	1	1	1	1	1	1	1	1
1	1	1	1	1	1	1	1	1	1	1	1	1	1
5	5	7	9	9	9								
421	351	292	280	97	61	55	58	59	59	46	46	37	34
749	689	633	631	423	343	344	344	335	329	270	278	268	262
568	583	605	615	605	571	624	613	597	599	602	622	635	633
59	61	65	69	74	77	17	20	20	22	21	21	20	22
163	181	192	187	176	136	138	135	134	132	83	87	101	110
790	825	862	871	855	784	779	768	751	753	706	730	756	765
12,139	13,210	12,508	12,303	10,587	9,407	8,277	8,329	8,072	8,059	7,752	7,810	7,828	7,784

¹Los datos de las acciones comunes han sido ajustados por las divisiones en acciones y la división de acciones a la inversa realizada en mayo 2012.
²Excluye una sucursal de Banco Popular de Puerto Rico en Nueva York.

POPULAR, INC.

GERENCIA Y JUNTA DE DIRECTORES

Gerencia



RICHARD L. CARRIÓN
Presidente Ejecutivo
de la Junta de Directores
Popular, Inc.



IGNACIO ÁLVAREZ
Presidente y
Principal Oficial Ejecutivo
Popular, Inc.



CAMILLE BURCKHART
Vicepresidenta Ejecutiva y
Principal Oficial de Informática y
Estrategia Digital
Grupo de Innovación, Tecnología y
Operaciones
Popular, Inc.



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Grupo de Banca Individual
Banco Popular de Puerto Rico



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Popular Community Bank



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Principal Oficial de Riesgo
Grupo Corporativo de
Manejo de Riesgo
Popular, Inc.



CARLOS J. VÁZQUEZ
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Principal Oficial Financiero
Popular, Inc.

Junta de Directores



RICHARD L. CARRIÓN
Presidente Ejecutivo
de la Junta de Directores
Popular, Inc.



IGNACIO ÁLVAREZ
Presidente y
Principal Oficial Ejecutivo
Popular, Inc.



**JOAQUÍN E.
BACARDÍ, III**
Presidente de la
Junta de Directores
Edmundo B. Fernández, Inc.



**ALEJANDRO M.
BALLESTER**
Presidente
Ballester Hermanos, Inc.



JOHN W. DIERCKSEN
Principal
Greycrest, LLC



MARÍA LUISA FERRÉ
Presidenta y
Principal Oficial Ejecutiva
FRG, Inc.



DAVID E. GOEL
Socio Gerente General
Matrix Capital
Management Company, LP



C. KIM GOODWIN
Inversionista Privada



**WILLIAM J.
TEUBER JR.**
Inversionista Privado



CARLOS A. UNANUE
Presidente
Goya de Puerto Rico

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The following Management's Discussion and Analysis ("MD&A") provides information which management believes is necessary for understanding the financial performance of Popular, Inc. and its subsidiaries (the "Corporation" or "Popular"). All accompanying tables, consolidated financial statements, and corresponding notes included in this "Financial Review and Supplementary Information - 2017 Annual Report" ("the report") should be considered an integral part of this MD&A.

FORWARD-LOOKING STATEMENTS

The information included in this report 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 ("Popular," the "Corporation," "we," "us," "our") financial condition, results of operations, plans, objectives, future performance and 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 market conditions, capital adequacy and liquidity, the effect of legal and regulatory proceedings and new accounting standards on the Corporation's financial condition and results of operations, the impact of Hurricanes Irma and Maria on us, and the anticipated impact of our acquisition and assumption, if consummated, of certain assets and liabilities of Reliable Financial Services and Reliable Finance Holding Company, subsidiaries of Wells Fargo & Company, related to Wells Fargo's retail auto loan and commercial auto dealership financing business in Puerto Rico (the "Reliable Transaction"). All statements contained herein that are not clearly historical in nature are forward-looking, and the words "anticipate," "believe," "continues," "expect," "estimate," "intend," "project" and similar expressions and future or conditional verbs such as "will," "would," "should," "could," "might," "can," "may" or similar expressions are generally intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance and are based on management's current expectations and, by their nature, involve certain risks, uncertainties, estimates and assumptions by management that are difficult to predict. Various factors, some of which are beyond the Corporation's control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to, the rate of growth or decline in the economy and employment levels, as well as general business and economic conditions in the geographic areas we serve and, in particular, in Puerto Rico, where a significant portion of our business is concentrated; the impact of Hurricanes Irma and Maria on the economies of Puerto Rico and the U.S. and British Virgin Islands, and on our customers and our business, including the impact of measures taken by us

to address customer needs; the impact of the Commonwealth of Puerto Rico's fiscal crisis, 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 Commonwealth's fiscal and economic condition on the value and performance of our portfolio of Puerto Rico government securities and loans to governmental entities, as well as on our commercial, mortgage and consumer loan portfolios where private borrowers could be directly affected by governmental action; 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 (Financial Reform Act) on the Corporation's businesses, business practices and costs 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 FDIC assessments; and possible legislative, tax or regulatory changes; a failure in or breach of our operational or security systems or infrastructure as a result of cyberattacks or otherwise, including those of EVERTEC, Inc., our provider of core financial transaction processing and information technology services, and other third parties providing services to us; and risks related to the Reliable Transaction, if consummated. Other possible events or factors that could cause results or performance to differ materially from those expressed in these forward-looking statements include the following: negative economic conditions that adversely affect the 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; 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

and regulatory proceedings, as discussed in “Part I, Item 3. Legal Proceedings”, is inherently uncertain and depends on judicial interpretations of law and the findings of regulators, judges and juries.

All forward-looking statements included in this report are based upon information available to the Corporation as of the date of this report, and other than as required by law, including the requirements of applicable securities laws, management assumes 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.

The description of the Corporation’s business and risk factors contained in Item 1 and 1A of its Form 10-K for the year ended December 31, 2017 discusses additional information about the business of the Corporation and the material risk factors that, in addition to the other information in this report, readers should consider.

OVERVIEW

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, 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. The Corporation’s mortgage origination business is conducted under the brand name Popular Mortgage, a division of BPPR. In the U.S. mainland, the Corporation operates Banco Popular North America (“BPNA”), including its wholly-owned subsidiary E-LOAN, Inc. The BPNA franchise operates under the brand name of Popular Community Bank. BPNA focuses efforts and resources on the core community banking business. BPNA operates branches in New York, New Jersey and Southern Florida. E-LOAN, Inc. marketed deposit accounts under its name for the benefit of BPNA until March 31, 2017, when said operations were transferred to Popular Direct, a division of BPNA. Commencing in July 2017, the E-LOAN brand is being used by BPPR to offer personal loans through an online platform. Note 41 to the consolidated financial statements presents information about the Corporation’s business segments.

The Corporation has several investments which it accounts for under the equity method. These include the 16.10% interest in EVERTEC, a 15.84% interest in Centro Financiero BHD Leon, S.A. (“BHD Leon”), a 24.9% interest in PR Asset Portfolio 2013-1 International, LLC and a 24.9% interest in PRLP 2011 Holdings LLP, among other investments in limited partnerships which mainly hold investment securities. EVERTEC provides transaction processing services throughout the Caribbean and

Latin America, including servicing many of the Corporation’s systems infrastructure and transaction processing businesses. BHD León is a diversified financial services institution operating in the Dominican Republic. PR Asset Portfolio 2013-1 International, LLC is a joint venture to which the Corporation sold construction and commercial loans and commercial and residential real estate owned assets, most of which were non-performing, with a fair value of \$306 million during the year 2013. PRLP 2011 Holdings LLP is a joint venture to which the Corporation sold construction and commercial loans, most of which were non-performing, with a fair value of \$148 million during the year 2011. For the year ended December 31, 2017, the Corporation recorded approximately \$34.1 million in earnings from these investments on an aggregate basis. The carrying amounts of these investments as of December 31, 2017 were \$215.3 million. Refer to Note 17 to the consolidated financial statements for additional information of the Corporation’s investments under the equity method.

SIGNIFICANT EVENTS

Entry into an Agreement to Acquire Wells Fargo’s Auto Finance Business in Puerto Rico

On February 14, 2018, Banco Popular de Puerto Rico entered into an agreement to acquire and assume from Reliable Financial Services, Inc. and Reliable Finance Holding Company, subsidiaries of Wells Fargo & Company (“Wells Fargo”), certain assets and liabilities related to Wells Fargo’s auto finance business in Puerto Rico (“Reliable”).

As part of the transaction, Banco Popular will acquire approximately \$1.5 billion in retail auto loans and \$340 million in commercial loans. The acquired auto loan portfolio has credit characteristics that are similar to Banco Popular’s existing self-originated portfolio. Banco Popular will also acquire certain other assets and assume certain liabilities of Reliable.

The purchase price for the all-cash transaction is expected to be approximately \$1.7 billion, reflecting an aggregate discount of 4.5% on the assets to be acquired. Banco Popular will fund the purchase price with existing liquidity. The transaction is not subject to the receipt by the parties of any further regulatory approvals. Subject to satisfaction of customary closing conditions, Popular anticipates the transaction to close during the second quarter of 2018 and be accretive to earnings.

On or after closing, Reliable employees will become employees of Banco Popular. Reliable will continue operating independently as a division of Banco Popular for a period of time after closing to provide continuity of service to Reliable customers while allowing Popular to assess best practices before integrating Reliable’s operations with Popular Auto’s operations.

Hurricanes Irma and Maria

During September 2017, Hurricanes Irma and Maria (the “hurricanes”), impacted Puerto Rico, the U.S. and British Virgin

Islands, causing extensive damage and disrupting the markets in which Banco Popular de Puerto Rico (“BPPR”) does business.

On September 6, 2017, Hurricane Irma made landfall in the USVI and the BVI as a Category 5 hurricane on the Saffir-Simpson scale, causing catastrophic wind and water damage to the islands’ infrastructure, homes and businesses. Hurricane Irma’s winds and resulting flooding also impacted certain municipalities of Puerto Rico, causing the failure of electricity infrastructure in a significant portion of the island. While hurricane Irma also struck Popular’s operations in Florida, neither our operations nor those of our clients in the region were materially impacted.

Two weeks later, on September 20, 2017, Hurricane Maria, made landfall in Puerto Rico as a Category 4 hurricane, causing extensive destruction and flooding throughout Puerto Rico. Following the passage of Hurricane Maria, all Puerto Rico was left without electrical power, other basic utility and infrastructure services (such as water, communications, ports and other transportation networks) were severely curtailed and the government imposed a mandatory curfew. The hurricanes caused a significant disruption to the island’s economic activity. Most business establishments, including retailers and wholesalers, financial institutions, manufacturing facilities and hotels, were closed for several days.

Puerto Rico and the USVI were declared disaster zones by President Trump due to the impact of the hurricanes, thus making them eligible for Federal assistance. Notwithstanding the significant recovery operation that is underway by the Federal, state and local governments, as of the date of this report, many businesses and homes in Puerto Rico and the USVI remain without power, other basic utility and infrastructure remains significantly impacted, and many businesses are partially operating or remain closed and others have permanently closed. Electronic transactions, a significant source of revenue for the bank, declined significantly in the months following the hurricanes as a result of the lack of power and telecommunication services. Several reports indicate that the hurricanes have also accelerated the outmigration trends that Puerto Rico was experiencing, with many residents moving to the mainland United States, either on a temporary or permanent basis.

The damages caused by the hurricanes are substantial and have had a material adverse impact on economic activity in Puerto Rico, as reflected by, among other things, the slowdown in production and sales activity and the reduction in the government’s tax revenues. Employment levels are also expected to decrease at least in the short-term. It is still, however, too early, to fully assess and quantify the extent of the damage caused by the hurricanes, as well as their long-term economic impact on economic activity. Furthermore, the hurricanes severely damaged or destroyed buildings, homes and other structures, impacting the value of such properties, some

of which may serve as collateral to our loans. While our collateral is generally insured, the value of such insured structures, as well as other structures unaffected by the hurricanes, may be significantly impacted. Although some of the impact of the hurricanes, including its short-term impact on economic activity, may be offset by recovery and reconstruction activity and the influx of Federal emergency funds and private insurance proceeds, it is too early to know the amount of Federal and private insurance money to be received and whether such transfers will significantly offset the negative economic, fiscal and demographic impact of the hurricanes.

Prior to the hurricanes, the Corporation had implemented its business continuity action program. Although the Corporation’s business critical systems experienced minimal outages as a result of the storms, the Corporation’s physical operations in Puerto Rico, the USVI and the BVI, including its branch and ATM networks, were materially disrupted by the storms mostly due to lack of electricity and communication as well as limited accessibility.

After the hurricanes, Popular has worked diligently to provide service to the Puerto Rico and Virgin Islands markets, including reopening retail locations and providing assistance to the communities it serves. A priority for Popular has been to maintain cash in its branches and ATM’s and to mobilize its workforce to ensure continuity of service to its customers and that of other financial institutions. Popular has implemented several initiatives to provide assistance to individuals and businesses impacted by the hurricanes. Actions taken by Popular, directly or through its affiliated P.R. and U.S.-based foundations, include:

Payment Moratoriums. Payment moratoriums for eligible customers in mortgage, consumer, auto and commercial loans, subject to certain terms and conditions.

Fee Waivers. The waiver of certain fees and service charges, including late-payment charges and ATM transaction fees in hurricane-affected areas.

Employee Relief. Popular increased the Employee Relief Fund to \$750,000 to assist affected employees. Popular also assisted employees by providing means to obtain water, food and other supplies, child care services, orientation on how to submit claims to the Federal Emergency Management Agency (“FEMA”) and other special offers.

Other Charitable Initiatives. The Corporation’s philanthropic arms, Fundación Banco Popular and the Popular Community Bank Foundation, launched relief efforts for the victims of hurricane Irma and Maria, through the “Embracing Puerto Rico” and “Embracing the Islands” campaigns, to which Popular has donated \$1.2 million. As needs unfold, the Foundations are expected to direct funding to address immediate and long-term needs arising from the impact of the hurricanes. Popular also contributed to “Unidos por Puerto Rico”, a fundraising campaign spearheaded by Puerto Rico’s First Lady and was one of two sponsors of the “Somos Una

Voz” concert that has raised over \$35 million for earthquake victims in Mexico and hurricane victims in Texas, Florida, Puerto Rico and the Caribbean. Fundación Banco Popular is leveraging the relationships it has developed with non-profit organizations and community leaders throughout its almost 40-year history, delivering assistance directly to those who need it most.

During the fourth quarter of 2017, the Corporation continued normalizing its operations after the impact of the hurricanes. The government’s restoration of the electric and telecommunication services in the areas in which our branch network operates was the most critical factor leading the Corporation to operate under improved conditions. Reconstruction of the island’s electric infrastructure and restoration of the telecommunications network remain the most critical challenges for Puerto Rico’s recovery from the hurricanes.

Financial impact of the hurricanes

During the year ended December 31, 2017, the Corporation recorded \$88.0 million in pre-tax hurricane-related expenses, including an incremental provision for loan losses of \$67.7 million, which includes \$5.8 million for the covered loan portfolio. These amounts are net of amounts receivable for related insurance claims of \$1.1 million related to physical damages to the Corporation’s premises, equipment and other real estate owned (“OREO”). Refer to additional information on Note 2 to the Financial Statements, Hurricanes Irma and Maria, and the Provision for Loan Losses and Operating Expenses sections of this MD&A.

In addition to the incremental provision and direct operating expenses, results for the year ended December 31, 2017 were impacted by the hurricanes in the form of a reduction in revenue resulting from reduced merchant transaction activity, the waiver of certain late fees and service charges, including ATM transaction fees, to businesses and consumers in hurricane-affected areas, as well as the economic

and operational disruption in the Corporation’s mortgage origination, servicing and loss mitigation activities. These resulted in a decrease in revenue of approximately \$31 million when compared to pre-hurricane levels.

While significant progress has been made in economic and transactional activity since September, the continued impact on transactional and collection based revenues will depend on the speed at which electricity, telecommunications and general merchant services can be restored across the region.

We expect the hurricanes to continue to impact the Corporation’s earnings in future periods. For additional information of the financial impact associated with the hurricanes, refer to Note 2 to the accompanying Financial Statements. Also, refer to the Net Interest Income, Non-Interest Income, Operating Expenses and Credit Quality sections in this MD&A for additional discussions of the impact of the hurricanes in the Corporation’s financial statements.

Tax Cuts and Jobs Act

On December 22, 2017, the Tax Cuts and Jobs Act (the “Act”) was signed into law by President Trump. The Act, among other things, reduced the maximum corporate tax rate from 35% to 21% in the U.S. As a result, during the fourth quarter of 2017 the Corporation recorded an income tax expense of \$168.4 million, related to the write-down of the deferred tax asset (“DTA”) from its U.S. operations.

The Act contains other provisions, effective on January 1, 2018, which may impact the Corporation’s tax calculations and related income tax expense in future years.

Table 1 provides selected financial data for the past five years. For purposes of the discussions, assets subject to loss sharing agreements with the FDIC, including loans and other real estate owned, are referred to as “covered assets” or “covered loans” since the Corporation expects to be reimbursed for 80% of any future losses on those assets, subject to the terms of the FDIC loss sharing agreements.

Table 1 - Selected Financial Data

	Years ended December 31,				
<i>(Dollars in thousands, except per common share data)</i>	2017	2016	2015	2014	2013
CONDENSED STATEMENTS OF OPERATIONS					
Interest income	\$ 1,725,944	\$ 1,634,573	\$ 1,603,014	\$ 1,633,543	\$ 1,647,940
Interest expense	223,980	212,518	194,031	688,471	303,366
Net interest income	1,501,964	1,422,055	1,408,983	945,072	1,344,574
Provision for loan losses:					
Non-covered loans	319,682	171,126	217,458	223,999	536,710
Covered loans	5,742	(1,110)	24,020	46,135	69,396
Non-interest income	419,167	297,936	519,541	386,515	791,013
Operating expenses	1,257,196	1,255,635	1,288,221	1,193,684	1,221,990
Income tax expense (benefit)	230,830	78,784	(495,172)	58,279	(251,327)
Income (loss) from continuing operations	107,681	215,556	893,997	(190,510)	558,818
Income (loss) from discontinued operations, net of tax	–	1,135	1,347	(122,980)	40,509
Net income (loss)	\$ 107,681	\$ 216,691	\$ 895,344	\$ (313,490)	\$ 599,327
Net income (loss) applicable to common stock	\$ 103,958	\$ 212,968	\$ 891,621	\$ (317,213)	\$ 595,604
PER COMMON SHARE DATA					
Net income (loss):					
Basic:					
From continuing operations	\$ 1.02	\$ 2.05	\$ 8.65	\$ (1.88)	\$ 5.41
From discontinued operations	–	0.01	0.01	(1.20)	0.39
Total	\$ 1.02	\$ 2.06	\$ 8.66	\$ (3.08)	\$ 5.80
Diluted:					
From continuing operations	\$ 1.02	\$ 2.05	\$ 8.64	\$ (1.88)	\$ 5.39
From discontinued operations	–	0.01	0.01	(1.20)	0.39
Total	\$ 1.02	\$ 2.06	\$ 8.65	\$ (3.08)	\$ 5.78
Dividends declared	\$ 1.00	\$ 0.60	\$ 0.30	\$ –	\$ –
Common equity per share	49.51	49.60	48.79	40.76	44.26
Market value per common share	35.49	43.82	28.34	34.05	28.73
Outstanding shares:					
Average - basic	101,966,429	103,275,264	102,967,186	102,848,792	102,693,685
Average - assuming dilution	102,045,336	103,377,283	103,124,309	102,848,792	103,061,475
End of period	102,068,981	103,790,932	103,618,976	103,476,847	103,397,699
AVERAGE BALANCES					
Net loans [1]	\$ 23,511,293	\$ 23,062,242	\$ 23,045,308	\$ 22,366,750	\$ 22,799,878
Earning assets	37,668,573	33,713,158	31,451,081	29,897,273	29,741,099
Total assets	41,404,139	37,613,742	35,186,305	35,181,857	36,266,993
Deposits	33,182,522	29,066,010	26,778,582	24,647,355	24,571,382
Borrowings	2,000,840	2,339,399	2,757,334	3,514,203	4,291,861
Total stockholders' equity	5,345,244	5,278,477	4,704,862	4,555,752	4,176,349
PERIOD END BALANCE					
Net loans [1]	\$ 24,942,463	\$ 23,435,446	\$ 23,129,230	\$ 22,053,217	\$ 24,706,719
Allowance for loan losses	623,426	540,651	537,111	601,792	640,555
Earning assets	40,680,553	34,861,193	31,717,124	29,594,365	31,521,963
Total assets	44,277,337	38,661,609	35,761,733	33,086,771	35,748,752
Deposits	35,453,508	30,496,224	27,209,723	24,807,535	26,711,145
Borrowings	2,023,485	2,055,477	2,425,853	2,994,761	3,644,665
Total stockholders' equity	5,103,905	5,197,957	5,105,324	4,267,382	4,626,150
SELECTED RATIOS					
Net interest margin (taxable equivalent basis) [2]	4.28%	4.48%	4.74%	3.45%	4.73%
Return on average total assets	0.26	0.58	2.54	(0.89)	1.65
Return on average common stockholders' equity	1.96	4.07	19.16	(7.04)	14.43
Tier I Capital to risk-adjusted assets	16.30	16.48	16.21	18.13	19.15
Total Capital to risk-adjusted assets	19.22	19.48	18.78	19.41	20.42

[1] Includes loans held-for-sale and covered loans.

[2] Net interest margin for the year ended December 31, 2014 includes the impact of the cost associated with the refinancing of structured repos at BPNA and the accelerated amortization of the discount related to the TARP funds amounting to \$39.2 million and \$414.1 million, respectively.

Adjusted results of operations – Non-GAAP financial measure

Adjusted net income

The Corporation prepares its Consolidated Financial Statements using accounting principles generally accepted in the United States (“U.S. GAAP” or the “reported basis”). In addition to analyzing the Corporation’s results on a reported basis, management monitors Adjusted net income of the Corporation and excludes the impact of certain transactions on the results of its operations. Management believes that Adjusted net income provides meaningful information to investors about the underlying performance of the Corporation’s ongoing operations. Adjusted net income is a non-GAAP financial measure. Refer to tables 46 to 48 for a reconciliation of net income to Adjusted net income for the years ended December 31, 2017, 2016 and 2015.

Net interest income on a taxable equivalent basis

Net interest income, on a taxable equivalent basis, is presented with its different components on Tables 5 and 6 for the years ended December 31, 2017 as compared with the same periods in 2016 and 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.

Financial highlights for the year ended December 31, 2017

The Corporation’s net income for the year ended December 31, 2017 amounted to \$107.7 million, compared to a net income of

\$216.7 million and \$895.3 million, for 2016 and 2015, respectively. The Corporation’s results for the year ended December 31, 2017, include the impact of an income tax expense of \$168.4 million related to the impact of the Federal Tax Cuts and Job Act on the Corporation’s U.S. deferred tax asset during the fourth quarter of 2017 and the expenses related to Hurricanes Irma and Maria of approximately \$88 million, on a pre-tax basis, during the third and fourth quarters of 2017.

Net income for the year ended December 31, 2016 amounted to \$216.7 million. The Corporation’s results include the impact of two unfavorable arbitration review board decisions in disputes with the FDIC, which resulted in a pre-tax charge of \$171.8 million related to unreimbursed losses considered in the arbitrations, the related adjustment to the true-up obligation owed to the FDIC at the end of the loss-share agreements in 2020 and recoveries previously incorporated in the net damages claimed in the arbitration.

Net income from continuing operations of \$895.3 million for the year ended December 31, 2015 include \$18.4 million in restructuring charges related to the U.S. operations; the impact of \$17.9 million of net expenses associated with the acquisition in 2015, of certain assets and assumption of non-brokered deposits of Doral Bank from the FDIC, as receiver (the “Doral Bank Transaction”); an other-than-temporary impairment charge of \$14.4 million on the portfolio of Puerto Rico government investment securities; a write-down of the FDIC indemnification asset of \$10.9 million; a fair value gain of \$4.4 million associated with a portfolio of mortgage servicing rights (“MSRs”) acquired in connection with a backup servicing agreement; losses on proposed bulk sales of loans acquired from Westernbank of \$15.2 million; a loss of \$5.9 million from a bulk sale of non-covered loans; a net loss of \$4.4 million on a bulk sale of covered OREOs completed during the year and a partial reversal of the valuation allowance on its deferred tax assets from its U.S. operations for approximately \$589.0 million.

Excluding the impact of the above mentioned transactions, detailed in Tables 46 through 48, the Adjusted net income for the year ended December 31, 2017 was \$276.0 million, compared to \$358.1 million for 2016 and \$374.8 million for 2015. Refer to Tables 46 through 48 for the reconciliation to the Adjusted net income.

On April 30, 2010, BPPR acquired certain assets and assumed certain liabilities of Westernbank from the FDIC in an assisted transaction. Table 2 provides a summary of the gross revenues derived from the assets acquired in the FDIC-assisted transaction during 2017, 2016 and 2015.

Table 2 - Financial Information - Westernbank FDIC-Assisted Transaction

<i>(In thousands)</i>	Years ended December 31,		
	2017	2016	2015
Interest income on WB loans	\$148,033	\$ 175,207	\$208,779
FDIC loss share (expense) income :			
Amortization of loss share indemnification asset	(469)	(10,201)	(66,238)
80% mirror accounting on credit impairment losses [1]	3,136	(239)	15,658
80% mirror accounting on reimbursable expenses	2,454	8,433	73,205
80% mirror accounting on recoveries on covered assets, including rental income on OREOs, subject to reimbursement to the FDIC	2,405	(31,338)	(13,836)
Change in true-up payment obligation	(11,700)	(33,413)	9,559
Arbitration decision charge	–	(136,197)	–
Other	(5,892)	(4,824)	1,714
Total FDIC loss share (expense) income	(10,066)	(207,779)	20,062
Total revenues (expenses)	137,967	(32,572)	228,841
Provision (reversal) for loan losses	16,336	(3,318)	54,113
Total revenues (expenses) less provision (reversal) for loan losses	\$121,631	\$ (29,254)	\$174,728

[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.

Average balances

<i>(In millions)</i>	Years ended December 31,		
	2017	2016	2015
Loans	\$1,724	\$1,949	\$2,333
FDIC loss share asset	49	191	362

Interest income on Westernbank loans for the year 2017 amounted to \$ 148 million versus \$ 175 million in 2016, reflecting a yield of 8.59% versus 8.99%, for each year, respectively. Interest income on this portfolio, due to its nature, should continue to decline as scheduled payments are received and workout arrangements are made.

The FDIC loss share reflected an expense of \$ 10 million for 2017, compared to an expense of \$ 208 million for 2016. During 2016, the Corporation recorded a \$136 million write-down to the indemnification asset related to the arbitration decision. Refer to the Non-Interest Income section of this MD&A for additional information on the FDIC loss share (expense) income.

An increase in estimated cash flows will reduce any allowance for loan losses established after the acquisition and

then increases the accretable yield to be recognized over the life of the loans. It also has the effect of lowering the realizable value of the loss share asset since the Corporation would receive lower FDIC payments under the loss share agreements. This is reflected in the amortization of the loss share asset.

The discussion that follows provides highlights of the Corporation's results of operations for the year ended December 31, 2017 compared to the results of operations of 2016. It also provides some highlights with respect to the Corporation's financial condition, credit quality, capital and liquidity. Table 3 presents a five-year summary of the components of net income (loss) as a percentage of average total assets.

Table 3 - Components of Net Income (Loss) as a Percentage of Average Total Assets

	2017	2016	2015	2014	2013
Net interest income	3.63%	3.78%	4.00%	2.69%	3.71%
Provision for loan losses	(0.79)	(0.45)	(0.69)	(0.77)	(1.67)
Mortgage banking activities	0.06	0.15	0.23	0.09	0.21
Net gain and valuation adjustments on investment securities	—	—	—	—	0.02
Other-than-temporary impairment losses on investment securities	(0.02)	—	(0.04)	—	—
Net gain (loss) on sale of loans, including valuation adjustments on loans held-for-sale	—	0.02	—	0.12	(0.15)
Adjustments (expense) to indemnity reserves	(0.05)	(0.05)	(0.05)	(0.12)	(0.10)
Trading account (loss) profit	—	—	(0.01)	0.01	(0.04)
FDIC loss share (expense) income	(0.02)	(0.55)	0.06	(0.29)	(0.23)
Other non-interest income	1.05	1.22	1.29	1.29	2.47
Total net interest income and non-interest income, net of provision for loan losses	3.86	4.12	4.79	3.02	4.22
Operating expenses	(3.04)	(3.34)	(3.66)	(3.39)	(3.37)
Income (loss) from continuing operations before income tax	0.82	0.78	1.13	(0.37)	0.85
Income tax expense (benefit)	0.56	0.20	(1.41)	0.17	(0.69)
Income (loss) from continuing operations	0.26	0.58	2.54	(0.54)	1.54
(Loss) income from discontinued operations, net of tax	—	—	—	(0.35)	0.11
Net income (loss)	0.26%	0.58%	2.54%	(0.89)%	1.65%

Net interest income for the year ended December 31, 2017 was \$1.5 billion, an increase of \$79.9 million when compared to 2016. On a taxable equivalent basis, net interest income increased by \$101.3 million. Net interest margin decreased by 23 basis points to 3.99% in 2017, compared to 4.22% in 2016. On a taxable equivalent basis, net interest margin was 4.28% in 2017, compared to 4.48% in 2016. In the low interest rate environment that has prevailed in the past years, the mix and overall size of our earning assets and the cost of funding those assets, although accretive to net interest income, has negatively impacted the Corporation's net interest margin. Refer to the Net Interest Income section of this MD&A for additional information.

The Corporation's total provision for loan losses (including covered and non-covered loans) totaled \$325.4 million for the year ended December 31, 2017, compared with \$170.0 million for 2016. The increase in the provision was mainly due to the impact of the hurricanes on the Corporation's loan portfolios, as previously described, as well as a higher provision for the taxi medallion portfolio.

Credit metrics in 2017 were impacted by the relief initiatives implemented by the Corporation related to the hurricanes, including the loan payment moratorium. Non-performing assets, excluding covered loans and OREO, at December 31, 2017 were \$720 million, a decrease of \$18 million when compared with December 31, 2016. The decrease was mainly reflected in the other real estate ("OREO") category, which decreased by approximately \$11 million, mainly in residential properties at BPPR and write-downs related to Hurricane Maria.

Refer to the Provision for Loan Losses and Credit Risk sections of this MD&A for information on the allowance for loan losses, non-performing assets, troubled debt restructurings, net charge-offs and credit quality metrics.

Non-interest income for the year ended December 31, 2017 amounted to \$419.2 million, an increase of \$121.2 million, when compared with 2016. The increase was mainly due to a favorable variance in FDIC loss share (expense) income of \$197.7 million as a result of a charge of \$136.2 million related to the arbitration award recorded during 2016 and lower fair value adjustments to the true-up payment obligation which were mainly impacted by changes in the discount rate.

Refer to the Non-Interest Income section of this MD&A for additional information on the major variances of the different categories of non-interest income.

Total operating expenses amounted to \$1.3 billion for the year 2017, relatively flat when compared to 2016. Refer to the Operating Expenses section of this MD&A for additional information.

Income tax expense amounted to \$230.8 million for the year ended December 31, 2017, compared with an income tax expense of \$78.8 million for the previous year. As previously described, during the fourth quarter of 2017, the Corporation recognized an income tax expense of \$168.4 million resulting from the impact of the Federal Tax Cuts and Jobs Act in the Corporation's income tax expense. Refer to the Income Taxes section in this MD&A and Note 39 to the consolidated financial statements for additional information on income taxes.

At December 31, 2017, the Corporation's total assets were \$44.3 billion, compared with \$38.7 billion at December 31, 2016, an increase of \$5.6 billion. The increase is mainly driven by an increase in the Corporation's money market investments of \$2.4 billion and in the investment securities available-for-sale portfolio by \$2.0 billion driven by the increase in deposits balances. Also, the loans held-in-portfolio increased by \$1.5 billion due mainly to growth in the commercial and

construction loan portfolios at BPNA and the increase in mortgage loans at BPPR due to the rebooking of loans previously pooled into GNMA securities. Refer to the Statement of Condition Analysis section of this MD&A for additional information.

Deposits amounted to \$35.5 billion at December 31, 2017, compared with \$30.5 billion at December 31, 2016. Table 15 presents a breakdown of deposits by major categories. The increase in deposits was mainly from higher retail and commercial savings, NOW deposits, demand deposits from the Puerto Rico public sector and retail and commercial checking accounts at BPPR. The Corporation's borrowings remained relatively flat at \$2.0 billion at December 31, 2017, compared to \$2.1 billion at December 31, 2016. Refer to Note 20 to the Consolidated Financial Statements for detailed information on the Corporation's borrowings.

Refer to Table 14 in the Statement of Financial Condition Analysis section of this MD&A for the percentage allocation of the composition of the Corporation's financing to total assets.

Stockholders' equity totaled \$5.1 billion at December 31, 2017, compared with \$5.2 billion at December 31, 2016. The decrease was mainly related to the impact of the common stock repurchase of \$75 million completed during the first quarter of 2017 and higher accumulated other comprehensive loss by \$30 million principally in unrealized losses on securities available-for-sale. The Corporation and its banking subsidiaries continue to be well-capitalized at December 31, 2017. The Common Equity Tier 1 Capital ratio at December 31, 2017 was 16.30%, compared to 16.48% at December 31, 2016.

In summary, during 2017, in spite of the significant impact of the hurricanes in Puerto Rico and the USVI, the Corporation reflected strong results, evidenced by an increase in net interest income, year over year, the continued growth of the U.S. portfolios and a solid capital position. The Corporation also continued to benefit from its stake in EVERTEC and BHD León, the second largest bank in the Dominican Republic.

Hurricanes Irma and Maria have had and continue to have an impact on the people and communities in which the Corporation does business. The Corporation will continue to monitor the effects of these hurricanes on its operations and clients. Popular, as the leading financial institution in Puerto Rico, is committed to partnering with our neighbors and communities to aid in the rebuilding process.

The Corporation continues to seek to capitalize on growth opportunities, such as the recently announced agreement to acquire the Reliable auto finance business. We look forward to the benefits from this acquisition and will continue to employ our strategy to strengthen our organization and deliver strong, sustainable results in the future.

For further discussion of operating results, financial condition and business risks refer to the narrative and tables included herein.

The shares of the Corporation's common stock are traded on the NASDAQ Global Select Market under the symbol BPOP. Table 4 shows the Corporation's common stock performance on a quarterly basis during the last five years.

Table 4 - Common Stock Performance

	Market Price		Cash Dividends	Book Value Per Share	Dividend Yield [1]	Price/ Earnings Ratio	Market/Book Ratio
	High	Low	Declared per Share				
2017				\$49.51	2.57%	34.79x	71.68%
4th quarter	\$36.71	\$32.29	\$0.25				
3rd quarter	43.12	35.27	0.25				
2nd quarter	42.69	37.18	0.25				
1st quarter	45.75	38.46	0.25				
2016				49.60	1.87	21.27	88.35
4th quarter	\$44.70	\$35.41	\$0.15				
3rd quarter	39.74	28.00	0.15				
2nd quarter	31.34	26.66	0.15				
1st quarter	28.80	22.62	0.15				
2015				48.79	0.97	3.27	58.09
4th quarter	\$32.39	\$26.96	\$0.15				
3rd quarter	31.49	27.19	0.15				
2nd quarter	35.45	28.86	–				
1st quarter	35.58	30.52	–				
2014				40.76	N.M.	(11.06)	83.54
4th quarter	\$34.14	\$27.34	\$ –				
3rd quarter	34.64	29.44	–				
2nd quarter	34.18	28.93	–				
1st quarter	31.50	25.50	–				
2013				44.26	N.M.	4.95	64.91
4th quarter	\$29.17	\$24.07	\$ –				
3rd quarter	34.20	26.25	–				
2nd quarter	30.60	26.88	–				
1st quarter	28.92	21.70	–				

[1] Based on the average high and low market price for the four quarters.

N.M. – Not meaningful.

CRITICAL ACCOUNTING POLICIES / ESTIMATES

The accounting and reporting policies followed by the Corporation and its subsidiaries conform with generally accepted accounting principles in the United States of America (“GAAP”) and general practices within the financial services industry. The Corporation’s significant accounting policies are described in detail in Note 3 to the consolidated financial statements and should be read in conjunction with this section.

Critical accounting policies require management to make estimates and assumptions, which involve significant judgment about the effect of matters that are inherently uncertain and that involve a high degree of subjectivity. 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. The following MD&A section is a summary of what management considers the Corporation’s critical accounting policies and estimates.

Fair Value Measurement of Financial Instruments

The Corporation currently measures at fair value on a recurring basis its trading assets, available-for-sale securities, derivatives, mortgage servicing rights and contingent consideration.

Occasionally, the Corporation may be required to record at fair value other assets on a nonrecurring basis, such as loans held-for-sale, impaired loans held-in-portfolio that are collateral dependent and certain other assets. These nonrecurring fair value adjustments typically result from the application of lower of cost or fair value accounting or write-downs of individual assets.

The Corporation categorizes its assets and liabilities measured at fair value under the three-level hierarchy. The level within the hierarchy is based on whether the inputs to the valuation methodology used for fair value measurement are observable.

The Corporation requires the use of observable inputs when available, in order to minimize the use of unobservable inputs to determine fair value. The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The amount of judgment involved in estimating the fair value of a financial instrument depends upon the availability of quoted market prices or observable market parameters. In addition, it may be affected by other factors such as the type of instrument, the liquidity of the market for the instrument, transparency around

the inputs to the valuation, as well as the contractual characteristics of the instrument.

If listed prices or quotes are not available, the Corporation employs valuation models that primarily use market-based inputs including yield curves, interest rate curves, volatilities, credit curves, and discount, prepayment and delinquency rates, among other considerations. When market observable data is not available, the valuation of financial instruments becomes more subjective and involves substantial judgment. The need to use unobservable inputs generally results from diminished observability of both actual trades and assumptions resulting from the lack of market liquidity for those types of loans or securities. When fair values are estimated based on modeling techniques such as discounted cash flow models, the Corporation uses assumptions such as interest rates, prepayment speeds, default rates, loss severity rates and discount rates. 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.

Management believes that fair values are reasonable and consistent with the fair value measurement guidance based on the Corporation's internal validation procedure and consistency of the processes followed, which include obtaining market quotes when possible or using valuation techniques that incorporate market-based inputs.

Refer to Note 31 to the consolidated financial statements for information on the Corporation's fair value measurement disclosures required by the applicable accounting standard. At December 31, 2017, approximately \$ 10.2 billion, or 98%, of the assets measured at fair value on a recurring basis used market-based or market-derived valuation methodology and, therefore, were classified as Level 1 or Level 2. The majority of instruments measured at fair value were classified as Level 2, consisted principally of U.S. Treasury securities, obligations of U.S. Government sponsored entities, obligations of Puerto Rico, States and political subdivisions, most mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMOs"), and derivative instruments.

Broker quotes used for fair value measurements inherently reflect any lack of liquidity in the market since they represent an exit price from the perspective of the market participants. Financial assets that were fair valued using broker quotes amounted to \$ 7 million at December 31, 2017, of which \$ 1 million were Level 3 assets and \$ 6 million were Level 2 assets. Level 3 assets consisted principally of tax-exempt GNMA mortgage-backed securities. Fair value for these securities was based on an internally-prepared matrix derived from local broker quotes. The main input used in the matrix pricing was non-binding local broker quotes obtained from limited trade activity. Therefore, these securities were classified as Level 3.

During the year ended December 31, 2017, certain MBS and CMO's amounting to \$4.3 million, were transferred from

Level 3 to Level 2 due to a change in valuation technique from an internally-prepared pricing matrix and discounted cash flow model, respectively, to a bond's theoretical value. 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 years ended December 31, 2016, and 2015. The Corporation's policy is to recognize transfers as of the end of the reporting period.

Trading Account Securities and Investment Securities Available-for-Sale

The majority of the values for trading account securities and investment securities available-for-sale are obtained from third-party pricing services and are validated with alternate pricing sources when available. Securities not priced by a secondary pricing source are documented and validated internally according to their significance to the Corporation's financial statements. Management has established materiality thresholds according to the investment class to monitor and investigate material deviations in prices obtained from the primary pricing service provider and the secondary pricing source used as support for the valuation results. During the year ended December 31, 2017, the Corporation did not adjust any prices obtained from pricing service providers or broker dealers.

Inputs are evaluated to ascertain that they consider current market conditions, including the relative liquidity of the market. When a market quote for a specific security is not available, the pricing service provider generally uses observable data to derive an exit price for the instrument, such as benchmark yield curves and trade data for similar products. To the extent trading data is not available, the pricing service provider relies on specific information including dialogue with brokers, buy side clients, credit ratings, spreads to established benchmarks and transactions on similar securities, to draw correlations based on the characteristics of the evaluated instrument. If for any reason the pricing service provider cannot observe data required to feed its model, it discontinues pricing the instrument. During the year ended December 31, 2017, none of the Corporation's investment securities were subject to pricing discontinuance by the pricing service providers. The pricing methodology and approach of our primary pricing service providers is concluded to be consistent with the fair value measurement guidance.

Furthermore, management assesses the fair value of its portfolio of investment securities at least on a quarterly basis, which includes analyzing changes in fair value that have resulted in losses that may be considered other-than-temporary. Factors considered include, for example, the nature of the investment, severity and duration of possible impairments, industry reports, sector credit ratings, economic environment, creditworthiness of the issuers and any guarantees.

Securities are classified in the fair value hierarchy according to product type, characteristics and market liquidity. At the end

of each period, management assesses the valuation hierarchy for each asset or liability measured. The fair value measurement analysis performed by the Corporation includes validation procedures and review of market changes, pricing methodology, assumption and level hierarchy changes, and evaluation of distressed transactions.

Refer to Note 31 to the consolidated financial statements for a description of the Corporation's valuation methodologies used for the assets and liabilities measured at fair value.

Loans and Allowance for Loan Losses

Interest on loans is accrued and recorded as interest income based upon the principal amount outstanding.

Non-accrual loans are those loans on which the accrual of interest is discontinued. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is charged against income and the loan is accounted for either on a cash-basis method or on the cost-recovery method. Loans designated as non-accruing are returned to accrual status when the Corporation expects repayment of the remaining contractual principal and interest. The determination as to the ultimate collectability of the loan's balance may involve management's judgment in the evaluation of the borrower's financial condition and prospects for repayment.

Refer to the MD&A section titled Credit Risk, particularly the Non-performing assets sub-section, for a detailed description of the Corporation's non-accruing and charge-off policies by major loan categories.

One of the most critical and complex accounting estimates is associated with the determination of the allowance for loan losses. The provision for loan losses charged to current operations is based on this determination. The Corporation's assessment of the allowance for loan losses is determined in accordance with accounting guidance, specifically guidance of loss contingencies in ASC Subtopic 450-20 and loan impairment guidance in ASC Section 310-10-35.

For a detailed description of the principal factors used to determine the general reserves of the allowance for loan losses and for the principal enhancements Management made to its methodology, refer to Note 10.

According to the loan impairment accounting guidance in ASC Section 310-10-35, a loan is impaired when, based on current information and events, it is probable that the principal and/or interest are not going to be collected according to the original contractual terms of the loan agreement. Current information and events include "environmental" factors, e.g. existing industry, geographical, economic and political factors. Probable means the future event or events which will confirm the loss or impairment of the loan is likely to occur. The collateral dependent method is generally used for the impairment determination on commercial and construction loans since the expected realizable value of the loan is based upon the proceeds received from the liquidation of the

collateral property. For commercial properties, the "as is" value or the "income approach" value is used depending on the financial condition of the subject borrower and/or the nature of the subject collateral. In most cases, impaired commercial loans do not have reliable or sustainable cash flow to use the discounted cash flow valuation method. As a general rule, the appraisal valuation used by the Corporation for impaired construction loans is based on discounted value to a single purchaser, discounted sell out or "as is" depending on the condition and status of the project and the performance of the same. Appraisals may be adjusted due to their age, property conditions, geographical area or general market conditions. The adjustments applied are based upon internal information, like other appraisals and/or loss severity information that can provide historical trends in the real estate market. Discount rates used may change from time to time based on management's estimates.

For additional information on the Corporation's policy of its impaired loans, refer to Note 3. In addition, refer to the Credit Risk section of this MD&A for detailed information on the Corporation's collateral value estimation for other real estate.

The Corporation's management evaluates the adequacy of the allowance for loan losses on a quarterly basis following a systematic methodology in order to provide for known and inherent risks in the loan portfolio. In developing its assessment of the adequacy of the allowance for loan losses, the Corporation must rely on estimates and exercise judgment regarding matters where the ultimate outcome is unknown such as economic developments affecting specific customers, industries or markets. Other factors that can affect management's estimates are the years of historical data to include when estimating losses, the level of volatility of losses in a specific portfolio, changes in underwriting standards, financial accounting standards and loan impairment measurement, among others. Changes in the financial condition of individual borrowers, in economic conditions, in historical loss experience and in the condition of the various markets in which collateral may be sold may all affect the required level of the allowance for loan losses. Consequently, the business, financial condition, liquidity, capital and results of operations could also be affected.

A restructuring constitutes a TDR when the Corporation separately concludes that the restructuring constitutes a concession and the debtor is experiencing financial difficulties. For information on the Corporation's TDR policy, refer to Note 3.

Acquisition Accounting for Covered Loans and Related Indemnification Asset

The Corporation accounted for the Westernbank FDIC-assisted transaction under the accounting guidance of ASC Topic 805, *Business Combinations*, which requires the use of the purchase method of accounting. All identifiable assets and liabilities

acquired were initially recorded at fair value. No allowance for loan losses related to the acquired loans was recorded on the acquisition date as the fair value of the loans acquired incorporated assumptions regarding credit risk. Loans acquired were recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820, exclusive of the shared-loss agreements with the FDIC. These fair value estimates associated with the loans included estimates related to expected prepayments and the amount and timing of expected principal, interest and other cash flows.

Because the FDIC has agreed to reimburse the Corporation for losses related to the acquired loans in the Westernbank FDIC-assisted transaction, subject to certain provisions specified in the agreements, an indemnification asset was recorded at fair value at the acquisition date. The indemnification asset was recognized at the same time as the indemnified loans, and is measured on the same basis, subject to collectability or contractual limitations. The loss share indemnification asset on the acquisition date reflected the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflected counterparty credit risk and other uncertainties.

The initial valuation of these loans and related indemnification asset required management to make subjective judgments concerning estimates about how the acquired loans would perform in the future using valuation methods, including discounted cash flow analyses and independent third-party appraisals. Factors that may significantly affect the initial valuation included, among others, market-based and industry data related to expected changes in interest rates, assumptions related to probability and severity of credit losses, estimated timing of credit losses including the timing of foreclosure and liquidation of collateral, expected prepayment rates, required or anticipated loan modifications, unfunded loan commitments, the specific terms and provisions of any loss share agreement, and specific industry and market conditions that may impact discount rates and independent third-party appraisals.

The Corporation applied the guidance of ASC Subtopic 310-30 to all loans acquired in the Westernbank FDIC-assisted transaction (including loans that do not meet the scope of ASC Subtopic 310-30), except for credit cards and revolving lines of credit. ASC Subtopic 310-30 provides two specific criteria that have to be met in order for a loan to be within its scope: (1) credit deterioration on the loan from its inception until the acquisition date and (2) that it is probable that not all of the contractual cash flows will be collected on the loan. Once in the scope of ASC Subtopic 310-30, the credit portion of the fair value discount on an acquired loan cannot be accreted into income until the acquirer has assessed that it expects to receive more cash flows on the loan than initially anticipated.

Acquired loans that meet the definition of nonaccrual status fall within the Corporation's definition of impaired loans under ASC Subtopic 310-30. It is possible that performing loans

would not meet criteria number 1 above related to evidence of credit deterioration since the date of loan origination, and therefore not fall within the scope of ASC Subtopic 310-30. Based on the fair value determined for the acquired portfolio, acquired loans that did not meet the Corporation's definition of non-accrual status also resulted in the recognition of a significant discount attributable to credit quality.

Given the significant discount related to credit in the valuation of the Westernbank acquired portfolio, the Corporation considered two possible options for the performing loans (1) accrete the entire fair value discount (including the credit portion) using the interest method over the life of the loan in accordance with ASC Subtopic 310-20; or (2) analogize to ASC Subtopic 310-30 and only accrete the portion of the fair value discount unrelated to credit.

Pursuant to an AICPA letter dated December 18, 2009, the AICPA summarized the SEC Staff's view regarding the accounting in subsequent periods for discount accretion associated with loan receivables acquired in a business combination or asset purchase. Regarding the accounting for such loan receivables, in the absence of further standard setting, the AICPA understands that the SEC Staff would not object to an accounting policy based on contractual cash flows (Option 1 – ASC Subtopic 310-20 approach) or an accounting policy based on expected cash flows (Option 2 – ASC Subtopic 310-30 approach). As such, the Corporation considered the two allowable options as follows:

- Option 1 – Since the credit portion of the fair value discount is associated with an expectation of cash flows that an acquirer does not expect to receive over the life of the loan, it does not appear appropriate to accrete that portion over the life of the loan as doing so could eventually overstate the acquirer's expected value of the loan and ultimately result in recognizing income (i.e. through the accretion of the yield) on a portion of the loan it does not expect to receive. Therefore, the Corporation does not believe this is an appropriate method to apply.
- Option 2 – The Corporation believes analogizing to ASC Subtopic 310-30 is the more appropriate option to follow in accounting for the credit portion of the fair value discount. By doing so, the loan is only being accreted up to the value that the acquirer expected to receive at acquisition of the loan.

Based on the above, the Corporation elected Option 2 – the ASC Subtopic 310-30 approach to the outstanding balance for all the acquired loans in the Westernbank FDIC-assisted transaction with the exception of revolving lines of credit with active privileges as of the acquisition date, which are explicitly scoped out by the ASC Subtopic 310-30 accounting guidance. New advances / draws after the acquisition date under existing credit lines that did not have revolving privileges as of the

acquisition date, particularly for construction loans, will effectively be treated as a “new” loan for accounting purposes and accounted for under the provisions of ASC Subtopic 310-20, resulting in a hybrid accounting for the overall construction loan balance.

Management used judgment in evaluating factors impacting expected cash flows and probable loss assumptions, including the quality of the loan portfolio, portfolio concentrations, distressed economic conditions in Puerto Rico, quality of underwriting standards of the acquired institution, reductions in collateral real estate values, and material weaknesses disclosed by the acquired institution, including matters related to credit quality review and appraisal report review.

At April 30, 2010, the acquired loans accounted for pursuant to ASC Subtopic 310-30 by the Corporation totaled \$4.9 billion which represented undiscounted unpaid contractually-required principal and interest balances of \$9.9 billion reduced by a discount of \$5.0 billion resulting from acquisition date fair value adjustments. The non-accretable discount on loans accounted for under ASC Subtopic 310-30 amounted to \$3.4 billion or approximately 68% of the total discount, thus indicating a significant amount of expected credit losses on the acquired portfolios.

Pursuant to ASC Section 310-20-15-5, the Corporation aggregated loans acquired in the FDIC-assisted transaction into pools with common risk characteristics for purposes of applying the recognition, measurement and disclosure provisions of this subtopic. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Characteristics considered in pooling loans in the Westernbank FDIC-assisted transaction included loan type, interest rate type, accruing status, amortization type, rate index and source type. Once the pools are defined, the Corporation maintains the integrity of the pool of multiple loans accounted for as a single asset.

Under ASC Subtopic 310-30, the difference between the undiscounted cash flows expected at acquisition and the fair value of the loans, or the “accretable yield,” is recognized as interest income using the effective yield method over the estimated life of the loan if the timing and amount of the future cash flows of the pool is reasonably estimable. The non-accretable difference represents the difference between contractually required principal and interest and the cash flows expected to be collected. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date are recognized as interest income prospectively as an adjustment to accretable yield over the pool’s remaining life. Decreases in expected cash flows after the acquisition date are generally recognized by recording an allowance for loan losses.

The fair value discount of lines of credit with revolving privileges that are accounted for pursuant to the guidance of ASC Subtopic 310-20, represented the difference between the contractually required loan payment receivable in excess of the

initial investment in the loan. Any cash flows collected in excess of the carrying amount of the loan are recognized in earnings at the time of collection. The carrying amount of lines of credit with revolving privileges, which are accounted pursuant to the guidance of ASC Subtopic 310-20, are subject to periodic review to determine the need for recognizing an allowance for loan losses.

The FDIC loss share indemnification asset is measured separately from the related covered assets as it is not contractually embedded in the assets and is not transferable with the assets should the assets be sold.

The FDIC loss share indemnification asset is recognized on the same basis as the assets subject to loss share protection, except that the amortization / accretion terms differ for each asset. For covered loans accounted for pursuant to ASC Subtopic 310-30, decreases in expected reimbursements from the FDIC due to improvements in expected cash flows to be received from borrowers are recognized in non-interest income prospectively over the life of the FDIC loss sharing agreements. For covered loans accounted for under ASC Subtopic 310-20, as the loan discount recorded as of the acquisition date was accreted into income, a reduction of the related indemnification asset was recorded as a reduction in non-interest income. Increases in expected reimbursements from the FDIC are recognized in non-interest income in the same period that the allowance for credit losses for the related loans is recognized.

Over the life of the acquired loans that are accounted under ASC Subtopic 310-30, the Corporation continues to estimate cash flows expected to be collected on individual loans or on pools of loans sharing common risk characteristics. The Corporation evaluates at each balance sheet date whether the present value of its loans determined using the effective interest rates has decreased based on revised estimated cash flows and if so, recognizes a provision for loan loss in its consolidated statement of operations and an allowance for loan losses in its consolidated statement of financial condition. For any increases in cash flows expected to be collected from borrowers, the Corporation adjusts the amount of accretable yield recognized on the loans on a prospective basis over the pool’s remaining life.

The evaluation of estimated cash flows expected to be collected subsequent to acquisition on loans accounted pursuant to ASC Subtopic 310-30 and inherent losses on loans accounted pursuant to ASC Subtopic 310-20 require the continued usage of key assumptions and estimates. Given the current economic environment, the Corporation must apply judgment to develop its estimates of cash flows considering the impact of home price and property value changes, changing loss severities and prepayment speeds. Decreases in the expected cash flows for ASC Subtopic 310-30 loans and decreases in the net realizable value of ASC Subtopic 310-20 loans will generally result in a charge to the provision for credit losses resulting in an increase to the allowance for loan losses.

These estimates are particularly sensitive to changes in loan credit quality.

The amount that the Corporation realizes on the covered loans and related indemnification assets could differ materially from the carrying value reflected in these financial statements, based upon the timing and amount of collections on the acquired loans in future periods. The Corporation's losses on these assets may be mitigated to the extent covered under the specific terms and provisions of the loss share agreement.

Income Taxes

Income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and attributable to operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered or paid. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period when the changes are enacted.

The calculation of periodic income taxes is complex and requires the use of estimates and judgments. The Corporation has recorded two accruals for income taxes: (i) the net estimated amount currently due or to be received from taxing jurisdictions, including any reserve for potential examination issues, and (ii) a deferred income tax that represents the estimated impact of temporary differences between how the Corporation recognizes assets and liabilities under accounting principles generally accepted in the United States (GAAP), and how such assets and liabilities are recognized under the tax code. Differences in the actual outcome of these future tax consequences could impact the Corporation's financial position or its results of operations. In estimating taxes, management assesses the relative merits and risks of the appropriate tax treatment of transactions taking into consideration statutory, judicial and regulatory guidance.

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 realization of deferred tax assets requires the consideration of all sources of taxable income

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

Management evaluates the realization of the deferred tax asset by taxing jurisdiction. The U.S. mainland operations are evaluated as a whole since a consolidated income tax return is filed; on the other hand, the deferred tax asset related to the Puerto Rico operations is evaluated on an entity by entity basis, since no consolidation is allowed in the income tax filing. Accordingly, this evaluation is composed of three major components: U.S. mainland operations, Puerto Rico banking operations and Holding Company.

For the evaluation of the realization of the deferred tax asset by taxing jurisdiction, refer to Note 39.

Under the Puerto Rico Internal Revenue Code, the Corporation and its subsidiaries are treated as separate taxable entities and are not entitled to file consolidated tax returns. The Code provides a dividends-received deduction of 100% on dividends received from "controlled" subsidiaries subject to taxation in Puerto Rico and 85% on dividends received from other taxable domestic corporations.

Changes in the Corporation's estimates can occur due to changes in tax rates, new business strategies, newly enacted guidance, and resolution of issues with taxing authorities regarding previously taken tax positions. Such changes could affect the amount of accrued taxes. The Corporation has made tax payments in accordance with estimated tax payments rules. Any remaining payment will not have any significant impact on liquidity and capital resources.

The valuation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in the financial statements or tax returns and future profitability. The accounting for deferred tax consequences represents management's best estimate of those future events. Changes in management's current estimates, due to unanticipated events, could have a material impact on the Corporation's financial condition and results of operations.

The Corporation establishes tax liabilities or reduces tax assets for uncertain tax positions when, despite its assessment that its tax return positions are appropriate and supportable under local tax law, the Corporation believes it may not succeed in realizing the tax benefit of certain positions if challenged. In evaluating a tax position, the Corporation determines whether it is more-likely-than-not that the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Corporation's estimate of the ultimate tax liability contains assumptions based on past experiences, and judgments about potential actions by taxing jurisdictions as well as judgments about the likely outcome of issues that have been raised by taxing jurisdictions. The tax

position is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Corporation evaluates these uncertain tax positions each quarter and adjusts the related tax liabilities or assets in light of changing facts and circumstances, such as the progress of a tax audit or the expiration of a statute of limitations. The Corporation believes the estimates and assumptions used to support its evaluation of uncertain tax positions are reasonable.

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 \$9.0 million at December 31, 2017 and 2016. Refer to Note 39 to the consolidated financial statements for further information on this subject matter. The Corporation anticipates a reduction in the total amount of unrecognized tax benefits within the next 12 months, which could amount to approximately \$4.6 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. Although the outcome of tax audits is uncertain, the Corporation believes that adequate amounts of tax, interest and penalties have been provided for any adjustments that are expected to result from open years. From time to time, the Corporation is audited by various federal, state and local authorities regarding income tax matters. Although management believes its approach in determining the appropriate tax treatment is supportable and in accordance with the accounting standards, it is possible that the final tax authority will take a tax position that is different than the tax position reflected in the Corporation's income tax provision and other tax reserves. As each audit is conducted, adjustments, if any, are appropriately recorded in the consolidated financial statement in the period determined. Such differences could have an adverse effect on the Corporation's income tax provision or benefit, or other tax reserves, in the reporting period in which such determination is made and, consequently, on the Corporation's results of operations, financial position and / or cash flows for such period.

Goodwill

The Corporation's goodwill and other identifiable intangible assets having an indefinite useful life are tested for impairment. Intangibles with indefinite lives are evaluated for impairment at least annually, and on a more frequent basis, if events or circumstances indicate impairment could have taken place. Such events could include, among others, a significant adverse change in the business climate, an adverse action by a regulator,

an unanticipated change in the competitive environment and a decision to change the operations or dispose of a reporting unit.

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

At December 31, 2017, goodwill amounted to \$627 million. Note 18 to the consolidated financial statements provides the assignment of goodwill by reportable segment.

For a detailed description of the annual goodwill impairment evaluation performed by the Corporation during the third quarter of 2017, refer to Note 18.

Pension and Postretirement Benefit Obligations

The Corporation provides pension and restoration benefit plans for certain employees of various subsidiaries. The Corporation

also provides certain health care benefits for retired employees of BPPR. The non-contributory defined pension and benefit restoration plans (“the Plans”) are frozen with regards to all future benefit accruals.

The estimated benefit costs and obligations of the pension and postretirement benefit plans are impacted by the use of subjective assumptions, which can materially affect recorded amounts, including expected returns on plan assets, discount rates, termination rates, retirement rates and health care trend rates. Management applies judgment in the determination of these factors, which normally undergo evaluation against current industry practice and the actual experience of the Corporation. The Corporation uses an independent actuarial firm for assistance in the determination of the pension and postretirement benefit costs and obligations. Detailed information on the Plans and related valuation assumptions are included in Note 33 to the consolidated financial statements.

The Corporation periodically reviews its assumption for the long-term expected return on pension plan assets. The Plans’ assets fair value at December 31, 2017 was \$767.5 million. The expected return on plan assets is determined by considering various factors, including a total fund return estimate based on a weighted-average of estimated returns for each asset class in each plan. Asset class returns are estimated using current and projected economic and market factors such as real rates of return, inflation, credit spreads, equity risk premiums and excess return expectations.

As part of the review, the Corporation’s independent consulting actuaries performed an analysis of expected returns based on each plan’s expected asset allocation for the year 2018 using the Willis Towers Watson US Expected Return Estimator. This analysis is reviewed by the Corporation and used as a tool to develop expected rates of return, together with other data. This forecast reflects the actuarial firm’s view of expected long-term rates of return for each significant asset class or economic indicator; for example, 8.5% for large cap stocks, 8.8% for small cap stocks, 9.0% for international stocks, 3.9% for aggregate fixed-income securities and 4.1% for long government/credit at January 1, 2018. A range of expected investment returns is developed, and this range relies both on forecasts and on broad-market historical benchmarks for expected returns, correlations, and volatilities for each asset class.

As a consequence of recent reviews, the Corporation decreased its expected return on plan assets for year 2018 to 5.5% for the Banco Popular de Puerto Rico Retirement Plan and to 6.0% for the Tax Qualified Retirement Restoration Plan. Expected rates of return of 6.50% and 6.88% had been used for 2017 and 2016, respectively, for both plans. Since the expected return assumption is on a long-term basis, it is not materially impacted by the yearly fluctuations (either positive or negative) in the actual return on assets. The expected return can be materially impacted by a change in the plan’s asset allocation.

Pension expense for the Plans amounted to \$5.0 million in 2017. The total pension expense included a benefit of \$42.8 million for the expected return on assets.

Pension expense is sensitive to changes in the expected return on assets. For example, decreasing the expected rate of return for 2018 from 5.5 % to 5.25% would increase the projected 2018 expense for the Banco Popular de Puerto Rico Retirement Plan, the Corporation’s largest plan, by approximately \$1.8 million.

If the projected benefit obligation exceeds the fair value of plan assets, the Corporation shall recognize a liability equal to the unfunded projected benefit obligation and vice versa, if the fair value of plan assets exceeds the projected benefit obligation, the Corporation recognizes an asset equal to the overfunded projected benefit obligation. This asset or liability may result in a taxable or deductible temporary difference and its tax effect shall be recognized as an income tax expense or benefit which shall be allocated to various components of the financial statements, including other comprehensive income. The determination of the fair value of pension plan obligations involves judgment, and any changes in those estimates could impact the Corporation’s consolidated statement of financial condition. Management believes that the fair value estimates of the pension plan assets are reasonable given the valuation methodologies used to measure the investments at fair value as described in Note 31. Also, the compositions of the plan assets are primarily in equity and debt securities, which have readily determinable quoted market prices. The Corporation had recorded a liability for the underfunded pension benefit obligation of \$49.4 million at December 31, 2017.

The Corporation uses the spot rate yield curve from the Willis Towers Watson RATE: Link (10/90) Model to discount the expected projected cash flows of the plans. The Corporation used an equivalent single weighted average discount rate of 3.56% for the Banco Popular de Puerto Rico Retirement Plan, 3.54% for the Tax Qualified Retirement Restoration Plan, 3.55% for the Benefit Restoration Plan and 3.62% for the Retiree Health Care Benefit Plan to determine the benefit obligations at December 31, 2017.

A 50 basis point decrease to each of the rates in the December 31, 2017 Willis Towers Watson RATE: Link (10/90) Model as of the beginning of 2018 would increase the projected 2018 expense for the Banco Popular de Puerto Rico Retirement Plan by approximately \$2.2 million. The change would not affect the minimum required contribution to the Plan.

The postretirement health care benefit plan was unfunded (no assets were held by the plan) at December 31, 2017. The Corporation had recorded a liability for the underfunded postretirement benefit obligation of \$170.7 million at December 31, 2017 using an equivalent single discount rate of 3.62%. Assumed health care trend rates may have significant effects on the amounts reported for the health care plan.

Note 33 to the consolidated financial statements provides information on the assumed rates considered by the Corporation and on the sensitivity that a one-percentage point change in the assumed rate may have on specified cost components and the postretirement benefit obligation of the Corporation.

STATEMENT OF OPERATIONS ANALYSIS

Net Interest Income

Net interest income is the difference between the revenue generated from earning assets, including loan fees, less the interest cost of deposits and borrowed money. Several risk factors might influence net interest income including the economic environment in which we operate, market driven events, changes in volumes, repricing characteristics, loans fees collected, moratoriums granted on loan payments and delay charges, interest collected on nonaccrual loans, as well as strategic decisions made by the Corporation's management. Net interest income for the year ended December 31, 2017 was \$1.5 billion compared to \$1.4 billion in 2016. Net interest income, on a taxable equivalent basis, for the year ended December 31, 2017 was \$1.6 billion compared to \$1.5 billion in 2016.

The average key index rates for the years 2015 through 2017 were as follows:

	2017	2016	2015
Prime rate	4.10%	3.51%	3.26%
Fed funds rate	1.00	0.39	0.13
3-month LIBOR	1.26	0.74	0.32
3-month Treasury Bill	0.94	0.31	0.04
10-year Treasury	2.33	1.84	2.13
FNMA 30-year	3.09	2.57	2.92

Average outstanding securities balances are based upon 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. Interest income for the period ended December 31, 2017 included a favorable impact, excluding the discount accretion on covered loans accounted for under ASC Subtopic 310-30, of \$19.0 million, related to those items, compared to \$18.3 million for the same period in 2016. During the fourth quarter of 2017, after hurricanes Irma and Maria, the Corporation waived certain late fees and charges to businesses and consumers which affected the results of these line items during the moratorium period.

Table 5 presents the different components of the Corporation's net interest income, on a taxable equivalent basis, for the year ended December 31, 2017, as compared with the same period in 2016, segregated by major categories of interest earning assets and interest-bearing liabilities. Net interest margin decreased by 23 basis points to 3.99% in 2017, compared to 4.22% in 2016 mainly due to the mix in the asset composition, as balances have increased in lower yielding bond and money market investments. On a taxable equivalent basis, net interest margin was 4.28% in 2017, compared to 4.48% in 2016. In the low interest rate environment that has prevailed in the past years, the mix and overall size of our earning assets and the cost of funding those assets, although accretive to net interest income, has negatively impacted the Corporation's net interest margin. Net interest income increased by \$79.9 million year over year. On a taxable equivalent basis, net interest income increased by \$101.3 million. The increase of \$21.4 million in the taxable equivalent adjustment is directly related to a higher volume of tax exempt investments in Puerto Rico. The main reasons for the variances in net interest income on a taxable equivalent basis were as follows:

- Higher interest income from money market investments due to both an increase in volume of funds available to invest, mainly related to an increase in Puerto Rico government deposits, and to recent increases in rates by the U.S. Federal Reserve. Average rate of such portfolios for the year increased 62 basis points when compared to the same period in 2016;
- Higher interest income from investment securities mainly from higher volumes, particularly on U.S. Treasuries and mortgage-backed securities related to recent purchases; and
- Higher income from commercial and construction loans; due to a higher volume of loans in the U.S. and improved yields in Puerto Rico mostly related to the effect on the variable rate portfolio of the above-mentioned rise in interest rates.

These positive variances were partially offset by:

- Lower interest income from mortgage loans due to lower average balances driven to lower lending activity, the above-mentioned waiver of late payment fees to clients and portfolio run-off in Puerto Rico and the U.S.;
- Lower interest income from loans acquired in the Westernbank FDIC-assisted transaction ("WB Loans") related to the normal portfolio run-off, as well as lower yields; and
- Higher interest expense on deposits mainly due to higher volumes in most categories, predominantly the increase in deposits from the Puerto Rico government and higher volumes in the U.S. to fund loan growth. These increases

were partially offset by a lower average volume of brokered certificates of deposits and lower cost of interest bearing deposits resulting from a higher proportion of low cost deposits both in Puerto Rico and the U.S.

Table 6 presents the different components of the Corporation's net interest income, on a taxable equivalent basis, for the year ended December 31, 2016, as compared with the same period in 2015, segregated by major categories of interest earning assets and interest-bearing liabilities. Net interest margin decreased by 26 basis points to 4.22% in 2016, compared to 4.48% in 2015 mainly driven by the mix in the assets composition. On a taxable equivalent basis, net interest margin was 4.48% in 2016, compared to 4.74% in 2015. The decline in the net interest margin was mainly attributed to a change in the asset composition, due to the maturity of higher yielding assets, such as WB and consumer loans in Puerto Rico and investment in securities and commercial loans at lower rates. On the liability side higher funding costs related to both a higher volume of public sector deposits in Puerto Rico and retail deposits in the U.S. to finance the asset growth. Net interest income increased by \$13.1 million year over year. On a taxable equivalent basis, net interest income increased by \$17.4 million. The main reasons for these variances were as follows:

- Higher volume from money market, trading and investment securities by \$2.2 billion due to a higher

volume of deposits mainly in Puerto Rico. These assets carry a lower yield when compared to in loans, therefore affecting the asset composition and lowering the yield on earning assets;

- Higher volume from commercial and construction loans driven by loan growth in the U.S.; and
- Higher income from leases resulting from a higher average volume at the Puerto Rico auto and equipment leasing and financing subsidiary.

These positive variances were partially offset by:

- Lower volume from WB loans due to normal run-off, partially offset by higher yield as a result of the recast process and loan resolutions;
- Lower volume from mortgage loans due to lower origination activity in Puerto Rico and accelerate run-off of the mortgage portfolio in the U.S.; and
- Higher interest expense on deposits driven by increases in the volume of Puerto Rico deposits, mainly government deposits, and higher deposit costs in the U.S. to fund loan growth.

Table 5 - Analysis of Levels & Yields on a Taxable Equivalent Basis from Continuing Operations (Non-GAAP)

Years ended December 31,										
Average Volume			Average Yields / Costs			Interest			Variance Attributable to	
2017	2016	Variance	2017	2016	Variance	2017	2016	Variance	Rate	Volume
(In millions)						(In thousands)				
\$ 4,481	\$ 3,104	\$1,377	1.15%	0.53%	0.62%	\$ 51,496	\$ 16,428	\$ 35,068	\$25,835	\$ 9,233
9,594	7,422	2,172	2.74	2.72	0.02	262,468	201,955	60,513	8,479	52,034
83	125	(42)	7.20	6.58	0.62	5,953	8,243	(2,290)	717	(3,007)
14,158	10,651	3,507	2.26	2.13	0.13	319,917	226,626	93,291	35,031	58,260
9,971	9,203	768	5.19	5.08	0.11	517,334	467,208	50,126	10,497	39,629
829	726	103	5.64	5.38	0.26	46,758	39,079	7,679	1,912	5,767
742	660	82	6.35	6.71	(0.36)	47,112	44,283	2,829	(2,479)	5,308
6,506	6,701	(195)	5.53	5.54	(0.01)	360,037	371,451	(11,414)	(608)	(10,806)
3,739	3,823	(84)	10.59	10.42	0.17	395,818	398,411	(2,593)	3,402	(5,995)
21,787	21,113	674	6.27	6.25	0.02	1,367,059	1,320,432	46,627	12,724	33,903
1,724	1,949	(225)	8.59	8.99	(0.40)	148,033	175,207	(27,174)	(7,592)	(19,582)
23,511	23,062	449	6.44	6.49	(0.05)	1,515,092	1,495,639	19,453	5,132	14,321
\$37,669	\$33,713	\$3,956	4.87%	5.11%	(0.24)%	\$1,835,009	\$1,722,265	\$112,744	\$40,163	\$ 72,581
\$10,116	\$ 7,020	\$3,096	0.37%	0.39%	(0.02)%	\$ 37,497	\$ 27,548	\$ 9,949	\$ (228)	\$ 10,177
8,103	7,528	575	0.25	0.24	0.01	20,217	18,002	2,215	579	1,636
7,625	7,910	(285)	1.10	1.04	0.06	84,150	82,027	2,123	5,417	(3,294)
25,844	22,458	3,386	0.55	0.57	(0.02)	141,864	127,577	14,287	5,768	8,519
452	763	(311)	1.27	1.02	0.25	5,725	7,812	(2,087)	1,212	(3,299)
1,549	1,576	(27)	4.93	4.89	0.04	76,392	77,129	(737)	(21)	(716)
27,845	24,797	3,048	0.80	0.86	(0.06)	223,981	212,518	11,463	6,959	4,504
7,339	6,608	731								
2,485	2,308	177								
\$37,669	\$33,713	\$3,956	0.59%	0.63%	(0.04)%	223,981	212,518	11,463	6,959	4,504
			4.28%	4.48%	(0.20)%	1,611,028	1,509,747	101,281	\$33,204	\$ 68,077
			4.07%	4.25%	(0.18)%					
						109,065	87,692	21,373		
			3.99%	4.22%	(0.23)%	\$1,501,963	\$1,422,055	\$ 79,908		

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

Table 6 - Analysis of Levels & Yields on a Taxable Equivalent Basis from Continuing Operations (Non-GAAP)

Years ended December 31,										
Average Volume			Average Yields / Costs			Interest			Variance Attributable to	
2016	2015	Variance	2016	2015	Variance	2016	2015	Variance	Rate	Volume
<i>(In millions)</i>						<i>(In thousands)</i>				
\$ 3,104	\$ 2,382	\$ 722	0.53%	0.30%	0.23%	\$ 16,428	\$ 7,243	\$ 9,185	\$ 7,205	\$ 1,980
7,422	5,815	1,607	2.72	2.80	(0.08)	201,955	162,620	39,335	(11,922)	51,257
125	209	(84)	6.58	6.24	0.34	8,243	13,064	(4,821)	677	(5,498)
10,651	8,406	2,245	2.13	2.18	(0.05)	226,626	182,927	43,699	(4,040)	47,739
9,203	8,705	498	5.08	5.10	(0.02)	467,208	444,307	22,901	(2,423)	25,324
726	616	110	5.38	6.00	(0.62)	39,079	36,939	2,140	(4,040)	6,180
660	589	71	6.71	6.91	(0.20)	44,283	40,749	3,534	(1,211)	4,745
6,701	6,978	(277)	5.54	5.39	0.15	371,451	376,308	(4,857)	10,321	(15,178)
3,823	3,824	(1)	10.42	10.37	0.05	398,411	396,411	2,000	196	1,804
21,113	20,712	401	6.25	6.25	–	1,320,432	1,294,714	25,718	2,843	22,875
1,949	2,333	(384)	8.99	8.95	0.04	175,207	208,779	(33,572)	12,088	(45,660)
23,062	23,045	17	6.49	6.52	(0.03)	1,495,639	1,503,493	(7,854)	14,931	(22,785)
\$33,713	\$31,451	\$2,262	5.11%	5.36%	(0.25)%	\$1,722,265	\$1,686,420	\$ 35,845	\$ 10,891	\$ 24,954
\$ 7,020	\$ 5,447	\$1,573	0.39%	0.35%	0.04%	\$ 27,548	\$ 19,061	\$ 8,487	\$ 4,116	\$ 4,371
7,528	7,027	501	0.24	0.23	0.01	18,002	16,211	1,791	354	1,437
7,910	8,158	(248)	1.04	0.89	0.15	82,027	72,261	9,766	10,234	(468)
22,458	20,632	1,826	0.57	0.52	0.05	127,577	107,533	20,044	14,704	5,340
763	1,028	(265)	1.02	0.73	0.29	7,812	7,512	300	2,567	(2,267)
1,576	1,729	(153)	4.89	4.57	0.32	77,129	78,986	(1,857)	3,036	(4,893)
24,797	23,389	1,408	0.86	0.83	0.03	212,518	194,031	18,487	20,307	(1,820)
6,608	6,147	461								
2,308	1,915	393								
\$33,713	\$31,451	\$2,262	0.63%	0.62%	0.01%	212,518	194,031	18,487	20,307	(1,820)
			4.48%	4.74%	(0.26)%	1,509,747	1,492,389	17,358	\$ (9,416)	\$ 26,774
			4.25%	4.53%	(0.28)%					
						87,692	83,406	4,286		
			4.22%	4.48%	(0.26)%	\$1,422,055	\$1,408,983	\$ 13,072		

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

Provision for Loan Losses

The Corporation's total provision for loan losses totaled \$325.4 million for the year ended December 31, 2017, compared with \$170.0 million for 2016 and \$241.5 million for 2015. The provision for loan losses for the non-covered loan portfolio totaled \$319.7 million for the year ended December 31, 2017, compared to \$171.1 million for the year ended December 31, 2016, an increase of \$148.6 million.

The provision for loan losses for the Puerto Rico non-covered portfolio amounted to \$241.7 million for the year ended December 31, 2017, compared to \$155.9 million for the year ended December 31, 2016. The increase of \$85.8 million was mainly related to the \$61.8 million provision related to the best estimate of the impact caused by the hurricanes on the Puerto Rico loan portfolios, coupled with higher net charge-offs by \$28.4 million, driven by an increase of \$13.8 million and \$10.6 million in the consumer and mortgage portfolios, respectively. At December 31, 2017, within the total reserve for loan losses the Corporation maintained a reserve of \$117.6 million for non-covered loans, based on the best estimate of the impact of the hurricanes on the Corporation's loan portfolios. This reserve is based on the near mid-range of the estimated credit losses related to the hurricanes, which management had initially estimated to be in the range of \$70 million to \$160 million. The impact to the provision for loan losses of \$61.8 million related to the hurricanes represents the difference between management's best estimate of these losses and the amount already included as part of the reserves for environmental factors such as unemployment and deterioration in economic activity, which amounted to approximately \$60 million. The consumer net charge-offs increase was in part related to the \$7.1 million recovery in 2016 from the sale of previously charged-off credit cards and personal loans. These increases were partially offset by a decrease of \$6.5 million related to the 2017 annual review of the allowance for loan losses methodology, while for the year 2016 the review resulted in an increase of \$9.4 million.

The provision for loan losses for the U.S. operations amounted to \$77.9 million for the year ended December 31, 2017, compared to \$15.3 million for the year ended December 31, 2016. The increase of \$62.6 million was largely related to higher reserves for the U.S. taxi medallion purchased credit impaired portfolio and an increase of \$1.9 million related to the 2017 ALLL annual review. The effects of the 2016 annual review were immaterial for BPNA.

The provision for loan losses for the covered portfolio amounted to \$5.7 million for the year ended December 31, 2017, compared to a reversal of provision of \$1.1 million for same period of the previous year. The increase of \$6.8 million was mainly due to a \$5.8 million provision for which estimated cash flows were adjusted to reflect the payment moratorium implemented during the fourth quarter of 2017 related to the estimated impact of the hurricanes. The effects of the annual

review of the components of the allowance for loan losses methodology were immaterial for the covered loans portfolio in 2017 and 2016.

The provision for loan losses for the Puerto Rico non-covered portfolio amounted to \$155.9 million for the year ended December 31, 2016, compared to \$216.8 million for the year ended December 31, 2015. The decrease of \$60.9 million was mainly related to lower net charge-offs by \$47.9 million and lower provision related to Westernbank loans by \$32.3 million. Also, the results for the year 2016 include a recovery of \$7.1 million related to the sale of previously charged-off credit cards and personal loans and a \$5.4 million positive impact related to the bulk sale of Westernbank loans. These reductions were partially offset by a \$9.4 million impact related to the 2016 annual review of the components of the allowance for loan losses. The review of the ALLL methodology in 2015 resulted in a net decrease of \$2.6 million for the BPPR segment.

The provision for loan losses for the U.S. operations amounted to \$15.3 million for the year ended December 31, 2016, compared to \$0.6 million for the year ended December 31, 2015. Higher provision levels were the result of portfolio growth and higher net charge-offs by \$5.6 million mostly driven by higher consumer net charge-offs of \$3.6 million. The effect of the 2016 and 2015 annual recalibration was immaterial for BPNA.

The covered portfolio reflected a reversal of provision of \$1.1 million for the year ended December 31, 2016, compared to a provision of \$24.0 million for same period of the previous year. The decrease of \$25.1 million was mainly due to the reclassification to non-covered loans of the non-single family loans that were previously covered by the commercial loss agreement with the FDIC in the second quarter of 2015. The effect of the annual review of the components of the allowance for loan losses methodology was immaterial for the covered loans portfolio in 2016 and 2015.

Refer to the Credit Risk section of this MD&A for a detailed analysis of net charge-offs, non-performing assets, the allowance for loan losses and selected loan losses statistics.

Non-Interest Income

For the year ended December 31, 2017, non-interest income increased by \$121.2 million when compared with the previous year, principally due to:

- Favorable variance in FDIC loss share (expense) income of \$197.7 million as a result of a charge of \$136.2 million related to the arbitration award recorded during 2016 and lower fair value adjustments to the true-up payment obligation which were mainly impacted by changes in the discount rate. Refer to Table 2 for a breakdown of FDIC loss share expense by major categories.

This positive variance was partially offset by the following:

- Lower service charge on deposits accounts by \$7.1 million due to lower transactional cash management billings primarily due to the effects of Hurricane Maria;
- Lower other service fees by \$17.5 million mainly by lower insurance fees as a result of lower contingency commissions of \$7.5 million; lower debit card fees at BPPR due to lower volume of transactions; and lower credit card fees due to waivers offered as part of the hurricanes relief efforts;
- Lower mortgage banking activities by \$31.0 million in part due to \$9.9 million in lower mortgage servicing fees, which are recognized as loan payments are collected, due to lower mortgage payments from the moratoriums offered as part of the hurricanes relief efforts; higher unfavorable fair value adjustments on mortgage servicing rights by \$11.2 million; and lower net gain on sale of loans. Refer to Note 12 for additional details on mortgage banking activities;
- Higher other-than-temporary impairment losses on investment securities by \$8.1 million due to the other-than-temporary impairment charge of \$8.3 million recorded during the second quarter of 2017 on senior Puerto Rico Sales Tax Financing Corporation (“COFINA”) bonds classified as available-for-sale; and
- Unfavorable variance in gain on loans held-for-sale of \$8.7 million as a result of the sale of a non-accrual public sector loan during 2016.

For the year ended December 31, 2016, non-interest income decreased by \$221.6 million when compared with the previous year, principally due to:

- Unfavorable variance in FDIC loss-share (expense) income of \$227.8 million, due to a \$136.2 million write-down to the indemnification asset related to the

arbitration decision, an unfavorable change in the true-up payment obligation which includes the impact of \$17.8 million related to the arbitration decision as well as other commercial loss share agreement adjustments. In addition, there were lower mirror accounting on reimbursable expenses and credit impairment losses, partially offset by lower amortization of the indemnification asset; and

- Lower income from mortgage banking activities by \$25.3 million mainly due to an unfavorable variance in the valuation adjustment on mortgage servicing rights and lower gains on securitization transactions.

These negative variances were partially offset by the following:

- Lower other-than-temporary impairment losses on investment securities by \$14.2 million due to the charge recorded during the second quarter of 2015 on the portfolio of Puerto Rico government investment securities available-for-sale of \$14.4 million;
- Favorable variance in trading account (loss) profit of \$3.9 million principally resulting from favorable fair value adjustments of P.R. government bonds;
- Higher net gain on sale of loans by \$7.7 million as a result of the gain on the sale of a non-accrual public sector loan during the third quarter of 2016; and
- Higher other operating income by \$3.1 million principally due to higher aggregated net earnings from investments under the equity method, partially offset by an unfavorable variance in the fair value adjustments on a contingent consideration at the insurance agency business.

Operating Expenses

Table 7 provides a breakdown of operating expenses by major categories.

Table 7 - Operating Expenses

(In thousands)	Years ended December 31,				
	2017	2016	2015	2014	2013
Personnel costs:					
Salaries	\$ 313,394	\$ 308,135	\$ 304,618	\$ 281,252	\$ 276,072
Commissions, incentives and other bonuses	70,099	73,684	79,305	59,138	57,060
Pension, postretirement and medical insurance	47,533	51,284	44,059	32,416	55,106
Other personnel costs, including payroll taxes	53,204	54,373	49,537	45,873	40,459
Total personnel costs	484,230	487,476	477,519	418,679	428,697
Net occupancy expenses	89,194	85,653	86,888	86,707	86,651
Equipment expenses	65,142	62,225	60,110	48,917	46,028
Other taxes	43,382	42,304	39,797	56,918	58,028
Professional fees:					
Collections, appraisals and other credit related fees	14,415	14,607	23,098	26,257	32,727
Programming, processing and other technology services	199,873	205,466	191,895	173,814	174,921
Legal fees, excluding collections	11,763	42,393	26,122	28,305	15,557
Other professional fees	66,437	60,577	67,870	53,679	54,922
Total professional fees	292,488	323,043	308,985	282,055	278,127
Communications	22,466	23,897	25,146	25,684	25,385
Business promotion	58,445	53,014	52,076	54,016	59,453
FDIC deposit insurance	26,392	24,512	27,626	40,307	56,728
Loss on early extinguishment of debt	–	–	–	532	3,388
Other real estate owned (OREO) expenses	48,540	47,119	85,568	49,611	79,658
Other operating expenses:					
Credit and debit card processing, volume, interchange and other expenses	26,201	20,796	22,854	21,588	19,901
Operational losses	39,612	35,995	20,663	18,543	17,954
All other	51,726	33,656	51,558	55,242	54,021
Total other operating expenses	117,539	90,447	95,075	95,373	91,876
Amortization of intangibles	9,378	12,144	11,019	8,160	–
Goodwill and trademark impairment losses	–	3,801	–	–	–
Restructuring costs	–	–	18,412	26,725	–
Total operating expenses	\$1,257,196	\$1,255,635	\$1,288,221	\$1,193,684	\$1,214,019
Personnel costs to average assets	1.17%	1.30%	1.36%	1.19%	1.18%
Operating expenses to average assets	3.04	3.34	3.66	3.39	3.37
Employees (full-time equivalent)	7,784	7,828	7,810	7,752	8,059
Average assets per employee (in millions)	\$ 5.32	\$ 4.81	\$ 4.51	\$ 4.54	\$ 4.50

Operating expenses for the year ended December 31, 2017 increased by \$1.6 million, when compared with the previous year, mostly due to:

- Higher net occupancy expenses by \$3.5 million due to higher repair and maintenance expense and higher energy costs due to the hurricanes impact;
- Higher equipment expense by \$2.9 million due to higher software and maintenance expenses;
- Higher business promotions by \$5.4 million mainly due to higher sponsorship, promotion and donations related to

disaster relief activities and communications in response to the hurricanes and higher credit card reward expense; and

- Higher other operating expenses by \$27.1 million as a result of a write-down of \$7.6 million recognized during the first quarter of 2017, related to capitalized software cost for a project that was discontinued by the Corporation; higher sundry losses by \$3.6 million; higher provision for unused commitments by \$2.6 million; a write-down of \$3.6 million on premises and equipment and other costs related to Hurricanes Irma and Maria.

These negative variances were partially offset by:

- Lower professional fees by \$30.6 million mainly due to lower legal fees related to the FDIC arbitration proceedings, which were resolved during 2016, and lower expenses related to programming, processing and other technology services;
- Lower amortization of intangibles by \$2.8 million mainly due to core deposits intangible fully amortized in 2016 at BPPR;
- A goodwill impairment charge of \$3.8 million at the securities subsidiary during 2016, recorded as part of the Corporation's annual goodwill impairment analysis.

Operating expenses for the year ended December 31, 2016 decreased by \$32.6 million, or 3%, when compared with the previous year, driven primarily by:

- Lower OREO by \$38.4 million mainly due to the \$22.0 million loss on the bulk sale of covered OREOs completed during the year 2015;
- Lower other operating expenses by \$5.0 million due to lower property tax payments on covered assets at BPPR, most of which was related to loss sharing expenses reimbursable by the FDIC, partially offset by higher operational losses at BPPR and BPNA; and
- A decrease in restructuring cost by \$18.4 million in connection with the reorganization of BPNA.

These positive variances were partially offset by:

- Higher personnel cost by \$10.0 million due to higher pension, postretirement and medical insurance by \$7.2 million mainly driven by changes in actuarial assumptions;
- Higher professional fees by \$14.1 million as a result of higher legal fees by \$16.3 million mainly related to the FDIC arbitration proceedings and higher programming, processing and other technology services, partially offset by lower collections, appraisal and other credit related fees; and
- A goodwill impairment charge of \$3.8 million at the securities subsidiary, recorded as part of the Corporation's annual goodwill impairment analysis.

INCOME TAXES

For the year ended December 31, 2017, the Corporation recorded income tax expense of \$230.8 million, compared to \$78.8 million for the previous year. The results for the year ended December 31, 2017 include an income tax expense of \$168.4 million as a result of the enactment of the Federal Tax Cuts and Jobs Act, primarily from the write down of the DTA of the Corporation's U.S. operations, as a result of the reduction of the U.S. federal corporate income tax rate from a maximum rate of 35% to a single tax rate of 21%. The Act contains other

provisions, effective on January 1, 2018, which may impact the Corporation's tax calculations and related income tax expense in future years. At December 31, 2017, the Corporation had a deferred tax asset amounting to \$1.0 billion, net of a valuation allowance of \$0.4 billion. The DTA related to the U.S. operations was \$0.3 billion, net of a valuation allowance of \$0.4 billion.

The Government of Puerto Rico's draft fiscal plan, submitted in February to the PROMESA Oversight Board, proposes to enact local comprehensive tax reform during the first half of calendar year 2018 with the intention of spurring economic development, lowering the cost of doing business and making Puerto Rico more competitive. The proposed tax reform seeks to, among other things, reduce individual and corporate income tax rates and gradually eliminate, over a two year period, the business-to-business sales and use tax. Maximum corporate tax rates in particular would be reduced from a current rate of 39% to a rate lower than 30%. The proposed changes to the tax code, including the reductions in income tax rates, are subject to the approval of Oversight Board due to their expected fiscal impact, which the government estimates at approximately \$757 million. The Oversight Board has publicly asserted that any tax reform initiative must be revenue neutral.

A reduction in corporate tax rates to 29%, if approved, would result in a write down of the Corporation's DTA related to its P.R. operations of approximately \$190 million, with a corresponding charge to the Corporation's income tax expense. If such a reduction in the Corporation's DTA from its P.R. operations would have occurred as of December 31, 2017, Common Equity Tier 1 Capital and Total Regulatory Capital would have been reduced by an approximate 24 bps and 25 bps, respectively. On a forward-looking basis, a reduction of the maximum corporate income tax rate to 29% could result in a reduction in the Corporation's effective tax rate of between 3% and 4%.

Refer to Note 39 to the Consolidated Financial Statements for a reconciliation of the statutory income tax rate to the effective tax rate and additional information on DTA balances.

Fourth Quarter Results

The Corporation recognized a net loss of \$102.2 million for the quarter ended December 31, 2017, compared with a net loss of \$4.1 million for the same quarter of 2016. The results for the fourth quarter of 2017 reflect an income tax expense of \$168.4 million related to the impact of the Federal Tax Cuts and Jobs Act on the Corporation's U.S. deferred tax asset. These results also include net pre-tax expenses and provision (reversal) for loan losses amounting to \$8.6 million related to the impact of Hurricanes Irma and Maria. The results for the fourth quarter of 2016 include an after-tax charge amounting to \$86.7 million, related to the unfavorable outcome from the FDIC arbitration review board.

Net interest income for the fourth quarter of 2017 amounted to \$387.2 million, compared with \$355.4 million for the fourth quarter of 2016. The increase in net interest income was primarily due to higher income from investment securities due to higher average balances of funds available to invest due to increases in deposit balances, mainly in Puerto Rico. This was partially offset by higher cost of deposits, due to higher average balances as mentioned above.

The provision for loan losses amounted to \$71.5 million for the quarter ended December 31, 2017, compared to \$41.4 million for the fourth quarter of 2016. The increase of \$30.1 million is reflected at BPPR by \$16.6 million mainly related to auto loans, partially offset by a decline in the provision for commercial and mortgage loans, and at BPNA by \$13.5 million mainly related to the taxi medallion portfolio and higher net charge offs.

Non-interest income (expense) amounted to \$86.1 million for the quarter ended December 31, 2017, compared with \$(0.2) million for the same quarter in 2016. The favorable variance was mainly on the FDIC loss share (expense) income due to the \$116.8 million charge related to the arbitration decision denying BPPR's claims under the loss sharing agreement and \$9.9 million additional adjustments related to restructured commercial loans recorded in 2016. Also, the fourth quarter of 2017 reflected a reduction in revenues related to Hurricanes Irma and Maria, including lower credit card late payment fees due to waivers for hurricane relief initiatives, lower mortgage servicing fees from lower collections related to the loan moratoriums and a higher provision for indemnity reserves, including \$3.4 million related to the estimated hurricane losses.

Operating expenses totaled \$322.0 million for the quarter ended December 31, 2017, compared with \$320.9 million for the same quarter in the previous year. The increase reflects approximately \$7.5 million in expenses related to the impact of the hurricanes, including personnel costs, occupancy and business promotions as well as higher operational losses, which were partially offset by lower professional fees, mainly legal costs, and lower OREO expenses.

Income tax expense amounted to \$182.1 million for the quarter ended December 31, 2017, compared with income tax benefit of \$1.8 million for the same quarter of 2016. The results for the fourth quarter include an income tax expense of \$168.4 million from the write down of the DTA of the Corporation's U.S. operations, as a result of the Tax Cuts and Jobs Act, which reduced the maximum federal corporate tax rate from 35% to 21%.

REPORTABLE SEGMENT RESULTS

The Corporation's reportable segments for managerial reporting purposes consist of Banco Popular de Puerto Rico and Banco Popular North America. A Corporate group has been defined to support the reportable segments. For managerial reporting

purposes, the costs incurred by the Corporate group are not allocated to the reportable segments.

For a description of the Corporation's reportable segments, including additional financial information and the underlying management accounting process, refer to Note 41 to the consolidated financial statements.

The Corporate group reported a net loss of \$60.6 million for the years ended December 31, 2017 and 2016.

Highlights on the earnings results for the reportable segments are discussed below:

Banco Popular de Puerto Rico

The Banco Popular de Puerto Rico reportable segment's net income amounted to \$312.4 million for the year ended December 31, 2017, compared with \$230.1 million for the year ended December 31, 2016. The principal factors that contributed to the variance in the financial results included the following:

- Higher net interest income by \$55.1 million impacted by higher interest income on money market investments by \$34.2 million due to an increase in volume of funds available to invest, mainly related to an increase in Puerto Rico government deposits, and to recent increases in interest rates. Also, higher interest income on investment securities by \$34.7 million driven by higher volumes of mortgage-backed securities and U.S. Treasury securities. These variances were partially offset by lower interest income on loans by \$12.6 million driven by normal portfolio run-off of WB loans, lower average balances of mortgage portfolio due to lower lending activity and waiver of late payments fees; offset by improved yields from commercial and construction portfolio driven by the effect on the variable portfolio of the abovementioned rise in rates. The net interest margin in 2017 was 4.32% compared to 4.61% in the prior year. The reduction in margin is driven by earning asset allocation;
- Higher provision for loans losses by \$98.2 million driven by the provision related to the estimate of the impact caused by the hurricanes on the Puerto Rico loan portfolios, higher net charge-offs, mainly in consumer and mortgage portfolios, and the impact of adjusting cash flows of the covered portfolio to reflect the aforementioned payment moratorium. These unfavorable variances were partially offset by a decrease related to the allowance for loan losses methodology annual review;
- Higher non-interest income by \$120.8 million mainly due to:
 - Favorable variance in FDIC loss share (expense) income by \$197.7 million driven by the impact of arbitration award charges of \$136.2 million recorded in prior year and by lower fair value adjustment to the true-up payment obligation,

which were mainly impacted by changes in the discount rate;

Partially offset by:

- Lower service charges on deposits accounts by \$7.5 million driven by lower transactional cash management fees primarily related to the effects of Hurricane Maria;
- Lower other service fees by \$17.6 million mostly due to lower insurance fees resulting from lower contingency commissions of \$7.5 million, lower debit card fees driven by lower volume of transactions, and lower credit card fees due to waivers provided as part of the hurricanes relief efforts;
- Lower income from mortgage banking activities by \$31.1 million driven by a higher unfavorable fair value adjustment on MSRs, lower mortgage servicing fees, and lower net gains from securitization transactions;
- Unfavorable variance in gain (loss) on sale and valuation adjustment on investment securities of \$8.0 million principally resulting from other-than-temporary impairment losses on senior Puerto Rico Sales Tax Financing Corporation (COFINA) bonds;
- Lower net gain on sale of loans by \$8.7 million mainly due to the gain on the sale of a non-accrual public sector loan during 2016; and
- Unfavorable variance in expense to indemnity reserves of \$3.4 million driven by higher credit recourse reserve, including the estimated impact of the Hurricane Maria;
- Lower operating expenses by \$1.9 million, mainly due to:
 - Lower personnel cost by \$3.4 million mostly driven by lower commissions expense;
 - Favorable variance of \$29.9 million in professional fees due to lower legal fees related to the FDIC arbitration proceedings resolved in 2016, and lower expenses related to programming, processing and other technology services; and
 - Lower amortization of intangibles by \$6.7 million mainly due to the impact in 2016 results of the core deposits intangible fully amortized and goodwill impairment charge;

Partially offset by:

- Higher net occupancy expense by \$3.2 million mostly driven by higher energy costs and higher

repairs and maintenance expense associated with hurricanes impact;

- An increase of \$2.9 million in business promotions due to higher sponsorship, promotions and donations related to disaster relief activities and communications in response to the hurricanes, and higher credit cards reward expenses;
- Unfavorable variance of \$3.1 million in FDIC deposit insurance due to asset growth;
- Higher OREO expense by \$3.1 million due to higher write-downs on commercial and mortgage properties and higher mortgage properties expenses; partially offset by a favorable variance in net gains on sale of foreclosed asset; and
- Increase of \$24.8 million in other operating expenses driven by a write-down of \$7.6 million related to capitalized software cost charged-off on a discontinued project, higher sundry losses by \$6.5 million due to higher operational and mortgage servicing losses, and \$5.0 million of other costs related to Hurricanes Irma and Maria, including a premises and equipment write-down of \$3.6 million;
- Favorable variance in income tax expense by \$2.9 million mainly due to a lesser amount of reversal of reserves for uncertain tax positions than in previous year.

The Banco Popular de Puerto Rico reportable segment's net income amounted to \$230.1 million for the year ended December 31, 2016, compared with \$318.4 million for the year ended December 31, 2015. The main factors that contributed to the unfavorable variance of \$88.3 million in the financial results included the following:

- Lower net interest income by \$6.8 million impacted by lower interest income from loans by \$35.9 million driven by normal portfolio run-off of WB loans, partially offset by higher income from investment securities by \$21.9 million due to higher volume of investments. The net interest margin in 2016 was 4.61% compared to 4.87% in the prior year. The reduction in margin is driven by earning asset allocation;
- Lower provision for loans losses by \$86.0 million due to lower net charge-offs and lower provision for the WB portfolio including losses on proposed bulk sales of loans acquired from WB of \$15.2 million recognized in 2015;
- Lower non-interest income by \$221.4 million mainly due to:
 - Unfavorable variance in FDIC loss share (expense) income by \$227.8 million due to a \$136.2 million write-down to the

indemnification asset related to the arbitration decision, an unfavorable change in the true-up payment obligation, and lower mirror accounting on reimbursable expenses and credit impairment losses, partially offset by lower amortization of the indemnification asset; and

- Lower income from mortgage banking activities by \$25.4 million driven by an unfavorable fair value adjustment on MSRs and lower gains from securitization transactions;

Partially offset by:

- Lower other-than-temporary impairment losses on investment securities by \$14.2 million, which is mostly driven by the charge recorded during the second quarter of 2015 on the portfolio of Puerto Rico government investment securities available-for-sale of \$14.4 million;
 - Favorable variance in trading account (loss) profit of \$3.7 million principally resulting from favorable fair value adjustments of Puerto Rico government obligations;
 - Higher net gain on sale of loans by \$7.5 million as a result of the gain on the sale of a non-accrual public sector loan during 2016; and
 - Higher other operating income by \$4.8 million due to higher aggregated net earnings from investments under the equity method, partially offset by an unfavorable variance in the fair value adjustments on a contingent consideration at the insurance agency business;
- Lower operating expenses by \$13.4 million, mainly due to:
 - A decrease in OREO expense by \$34.5 million due to the \$22.0 million loss on the bulk sale of covered OREOs during 2015 and lower write-downs on commercial properties, partially offset by lower net gains on sales of commercial properties;

Partially offset by:

- Higher personnel cost by \$8.7 million mainly due to increases in headcount associated with the Doral Bank Transaction, and higher pension, postretirement benefits, and medical insurance; and
- An increase of \$12.1 million in professional fees mostly driven by higher legal fees mainly related to the FDIC arbitration proceedings and higher technology fees, partially offset by lower collections and appraisal fees;

- Lower income tax expense by \$40.4 million mainly due to lower taxable income and the reversal of reserves for uncertain tax positions.

Banco Popular North America

For the year ended December 31, 2017, the reportable segment of Banco Popular North America reported net loss of \$147.6 million, compared with a net income of \$47.3 million for the year ended December 31, 2016. The principal factors that contributed to the variance in the financial results included the following:

- Higher net interest income by \$22.5 million mainly due to higher interest income from loans by \$30.5 million principally driven by higher volume from commercial and higher volume and yield from construction loans, and higher interest income from investment securities by \$4.6 million due to higher average balances and yield. These favorable variances were partially offset by lower yields from commercial loans and higher interest expense from deposits by \$12.4 million driven by higher volume and cost of money market deposits and time deposits. The BPNA reportable segment's net interest margin was 3.51% for 2017 compared with 3.64% for the same period in 2016;
- Unfavorable variance in the provision for loan losses by \$62.7 million driven by portfolio growth, higher net charge-offs and higher reserves for the U.S. taxi medallion purchased credit impaired portfolio;
- Lower non-interest income by \$1.2 million mostly due to the reversal of a loan indemnification reserve recorded in 2016;
- Lower operating expenses by \$2.7 million driven by a decrease in other operating expenses by \$3.5 million due to lower operational losses, and lower OREO expense by \$1.6 million due lower commercial properties expenses, including the impact of insurance reimbursements of \$1.0 million. These favorable variances were partially offset by higher business promotion by \$2.8 million driven by higher marketing expenses, including advertising, promotions and direct mailing due to new initiatives; and
- Income taxes unfavorable variance of \$155.0 million mainly driven by the partial write-down of the deferred tax asset because of the impact of the Tax Cuts and Jobs Act. The Act reduces the maximum federal Corporate tax rate, thus resulting in lower realizable benefit at lower taxable rates.

For the year ended December 31, 2016, the reportable segment of Banco Popular North America reported net income of \$47.3 million, compared with \$648.6 million for the year ended December 31, 2015. In addition to the recognition during 2015 of

a tax benefit of \$589.0 million as a result of the partial reversal of the valuation allowance of a portion of its deferred tax asset, the principal factors that contributed to the unfavorable variance of \$601.3 million in the financial results included the following:

- Unfavorable variance in the provision for loan losses by \$14.6 million driven by portfolio growth and higher net charge-offs; offset by
- Higher net interest income by \$19.0 million mainly due to higher interest income from loans by \$37.4 million principally driven by higher volume from commercial loans and higher volume and yield from consumer loans, partially offset by higher interest expense from deposits by \$19.6 million driven by higher volume and cost of money market deposits and time deposits. The BPNA reportable segment's net interest margin was 3.64% for 2016 compared with 3.90% for the same period in 2015;
- Lower operating expenses by \$13.0 million driven by \$18.4 million in restructuring cost recorded in 2015 in connection with the reorganization of BPNA, lower OREO expense by \$4.0 million due to lower write-downs on commercial properties, and a decrease in FDIC deposit insurance by \$2.4 million due to a lower assessment rate by the FDIC, partially offset by higher personnel cost by \$2.3 million due to higher medical insurance claims, higher professional fees by \$3.8 million mainly due to loan servicing fees and technology fees, and higher other operating expenses by \$6.1 million related to higher operational losses; and
- Income taxes unfavorable variance of \$617.4 million mainly driven by the recognition during 2015 of a tax benefit of \$589.0 million, as discussed above.

STATEMENT OF FINANCIAL CONDITION ANALYSIS

Assets

The Corporation's total assets were \$44.3 billion at December 31, 2017, compared to \$38.7 billion at December 31, 2016 due mainly to an increase in investments as a result of the deployment of additional funds from deposit growth. Refer to the Corporation's Consolidated Statements of Financial Condition at December 31, 2017 and 2016 included in this 2017 Annual Report. Also, refer to the Statistical Summary 2013-2017 in this MD&A for Condensed Statements of Financial Condition for the past five years.

Money market, trading and investment securities

Money market investments totaled \$5.3 billion at December 31, 2017 compared to \$2.9 billion at December 31, 2016. The increase was mainly at BPPR due to higher liquidity driven by an increase in deposits.

Trading account securities amounted to \$43 million at December 31, 2017, compared to \$60 million at December 31, 2016. The decrease was at the BPPR segment, mainly mortgage-backed securities. Refer to the Market / Interest Rate Risk

section of this MD&A for a table that provides a breakdown of the trading portfolio by security type.

Investment securities available-for-sale and held-to-maturity amounted to \$10.3 billion at December 31, 2017, compared to \$8.3 billion at 2016. The increase of \$2.0 billion was mainly at BPPR due to purchases of U.S. Treasury securities and mortgage-backed agency pools driven by an increase in funds available to invest from increased liquidity, as discussed above. Table 8 provides a breakdown of the Corporation's portfolio of investment securities available-for-sale ("AFS") and held-to-maturity ("HTM") on a combined basis. Also, Notes 7 and 8 to the Consolidated Financial Statements provide additional information with respect to the Corporation's investment securities AFS and HTM.

Table 8 - Breakdown of Investment Securities Available-for-Sale and Held-to-Maturity

<i>(In thousands)</i>	December 31, 2017	December 31, 2016
U.S. Treasury securities	\$ 3,928,164	\$2,136,620
Obligations of U.S. Government sponsored entities	608,933	711,850
Obligations of Puerto Rico, States and political subdivisions	99,364	118,798
Collateralized mortgage obligations	943,819	1,221,600
Mortgage-backed securities	4,688,662	4,105,332
Equity securities	1,815	2,122
Others	1,802	11,585
Total investment securities AFS and HTM	\$10,272,559	\$8,307,907

Loans

Refer to Table 9 for a breakdown of the Corporation's loan portfolio, the principal category of earning assets. Loans covered under the FDIC loss sharing agreements are presented separately in Table 9. The risks on covered loans are significantly different as a result of the loss protection provided by the FDIC. 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 loans. As of December 31, 2017, the Corporation's covered loans portfolio amounted to \$517 million, comprised mainly of residential mortgage loans.

The Corporation's total loan portfolio amounted to \$24.9 billion at December 31, 2017, compared to \$23.4 billion at December 31, 2016. Refer to Note 9 for detailed information about the Corporation's loan portfolio composition and loan purchases and sales.

Table 9 - Loans Ending Balances

	At December 31,				
(in thousands)	2017	2016	2015	2014	2013
Loans not covered under FDIC loss sharing agreements:					
Commercial	\$11,488,861	\$10,798,507	\$10,099,163	\$ 8,134,267	\$10,037,184
Construction	880,029	776,300	681,106	251,820	206,084
Legacy [1]	32,980	45,293	64,436	80,818	211,135
Lease financing	809,990	702,893	627,650	564,389	543,761
Mortgage	7,270,407	6,696,361	7,036,081	6,502,886	6,681,476
Consumer	3,810,527	3,754,393	3,837,679	3,870,271	3,932,226
Total non-covered loans held-in-portfolio	24,292,794	22,773,747	22,346,115	19,404,451	21,611,866
Loans covered under FDIC loss sharing agreements:					
Commercial	—	—	—	1,614,781	1,812,804
Construction	—	—	—	70,336	190,127
Mortgage	502,930	556,570	627,102	822,986	934,373
Consumer	14,344	16,308	19,013	34,559	47,123
Total loans covered under FDIC loss sharing agreements	517,274	572,878	646,115	2,542,662	2,984,427
Total loans held-in-portfolio	24,810,068	23,346,625	22,992,230	21,947,113	24,596,293
Loans held-for-sale:					
Commercial	—	—	45,074	309	603
Construction	—	—	95	—	—
Legacy [1]	—	—	—	319	—
Mortgage	132,395	88,821	91,831	100,166	109,823
Consumer	—	—	—	5,310	—
Total loans held-for-sale	132,395	88,821	137,000	106,104	110,426
Total loans	\$24,942,463	\$23,435,446	\$23,129,230	\$22,053,217	\$24,706,719
[1] 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 reportable segment.					

Non-covered loans

The non-covered loans held-in-portfolio increased by \$1.5 billion from December 31, 2016 mainly driven by growth in the commercial and construction loan portfolios at BPNA by \$0.7 billion and an increase of \$0.8 billion in mortgage loans at BPPR due to the rebooking of loans previously pooled into GNMA securities. Under the GNMA program, issuers such as BPPR have the option but not the obligation to repurchase loans that are 90 days or more past due. For accounting purposes, these loans subject to the repurchase option are required to be reflected on the financial statements of the Corporation with an offsetting liability. While the borrowers for our serviced GNMA portfolio benefited from the loan payment moratorium, the delinquency status of these loans continued to be reported to GNMA without considering the moratorium.

The loans held-for-sale portfolio increased by \$44 million from December 31, 2016, due to lower volume of loan

securitization activity during the fourth quarter of 2017 at BPPR due to operational delays caused by Hurricane Maria.

Covered loans

The covered loans portfolio amounted to \$517 million at December 31, 2017, compared to \$573 million at December 31, 2016. The decrease of \$56 million is due to loan resolutions and the normal portfolio run-off. Refer to Table 9 for a breakdown of covered loans by major loan type categories.

Tables 10 and 11 provide the activity in the carrying amount and outstanding discount on the Westernbank loans accounted for under ASC 310-30. The outstanding accretable discount is impacted by changes in cash flow expectations on the loan pool based on quarterly revisions of the portfolio. An increase in the accretable discount is recognized as interest income using the effective yield method over the estimated life of each applicable loan pool.

Table 10 - Activity in the Carrying Amount of Westernbank Loans Accounted for Under ASC 310-30

<i>(In thousands)</i>	Years ended December 31,	
	2017	2016
Beginning balance	\$1,738,329	\$1,974,501
Accretion	142,605	169,748
Collections / loan sales / charge-offs [1]	(288,013)	(405,920)
Ending balance [2]	\$1,592,921	\$1,738,329
Allowance for loan losses (ALLL)	(70,129)	(68,877)
Ending balance, net of ALLL	\$1,522,792	\$1,669,452

[1] For the year ended December 31, 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 \$507 million as of December 31, 2017 (December 31, 2016 - \$563 million).

Table 11 - Activity in the Accretable Yield on Westernbank Loans Accounted for Under ASC 310-30

<i>(In thousands)</i>	Years ended December 31,	
	2017	2016
Beginning balance	\$1,010,087	\$1,112,458
Accretion [1]	(142,605)	(169,748)
Change in expected cash flows	13,233	67,377
Ending balance	\$ 880,715	\$1,010,087

[1] Positive to earnings, which is included in interest income.

Table 12 sets forth the activity in the FDIC loss share asset for the years ended December 31, 2017, 2016, and 2015.

Table 12 - Activity of Loss Share Asset

<i>(In thousands)</i>	Years ended December 31,		
	2017	2016	2015
Balance at beginning of year	\$ 69,334	\$ 310,221	\$ 542,454
Amortization of loss share indemnification asset	(469)	(10,201)	(66,238)
Credit impairment losses to be covered under loss sharing agreements	3,136	(239)	15,658
Reimbursable expenses	2,454	8,433	73,205
Net payments from FDIC under loss sharing agreements	(22,589)	(102,596)	(247,976)
Arbitration decision charge	–	(136,197)	–
Other adjustments attributable to FDIC loss sharing agreements	(5,550)	(87)	(6,882)
Balance at end of period	\$ 46,316	\$ 69,334	\$ 310,221
Balance due to the FDIC for recoveries on covered assets [1]	(1,124)	(27,578)	(5,570)
Balance at end of period	\$ 45,192	\$ 41,756	\$ 304,651

[1] Balance due to the FDIC for recoveries on covered assets for the years ended December 31, 2016 and 2015 amounting to \$27.6 million and \$5.6 million, respectively, was included in other liabilities in the accompanying Consolidated Statement of Condition.

FDIC loss share asset

The FDIC loss share indemnification asset is recognized on the same basis as the assets subject to the loss share protection from the FDIC, except that the amortization / accretion terms differ. The Corporation revises its expected cash flows and estimated credit losses on a quarterly basis. Decreases in expected reimbursements from the FDIC due to improvements in expected cash flows to be received from borrowers, as compared with the initial estimates, are recognized as a

reduction to non-interest income prospectively over the life of the loss share agreements. This is because the indemnification asset balance is reduced to the expected reimbursement amount from the FDIC (amortization). In contrast, an increase to non-interest income is recognized as a result of increases in expected reimbursements due to higher loss estimates (accretion). Table 13 presents the activity associated with the outstanding balance of the FDIC loss share asset amortization (or negative discount).

Table 13 - Activity in the Remaining FDIC Loss Share Asset Amortization

<i>(In thousands)</i>	Years ended December 31,		
	2017	2016	2015
Balance at beginning of period [1]	\$ 4,812	\$ 26,100	\$ 53,095
Amortization of negative discount [2]	(469)	(10,201)	(66,238)
Impact of changes in (higher) lower projected losses	(2,781)	(11,087)	39,243
Balance at end of period	\$ 1,562	\$ 4,812	\$ 26,100

[1] Positive balance represents negative discount (debit to assets), while a negative balance represents a discount (credit to assets).

[2] Amortization results in a negative impact to non-interest income, while accretion results in a positive impact to non-interest income, particularly FDIC loss share (expense) income.

Other real estate owned

Other real estate owned represents real estate property received in satisfaction of debt. At December 31, 2017, OREO decreased to \$189 million from \$213 million at December 31, 2016 mainly in residential properties at BPPR and the write-down of \$2.7 million for damages associated with Hurricane Maria. Refer to Note 15 to the Consolidated Financial Statements for the activity in other real estate owned. The amounts included as “covered other real estate” are subject to the FDIC loss sharing agreement.

Accrued income receivable

Accrued income receivable increased by \$76 million mainly due to interest accrued but not yet collected resulting from the loan payment moratorium.

Mortgage servicing assets

Mortgage servicing assets decreased by \$29 million to \$168 million principally driven by unfavorable changes in fair value and runoff of the servicing portfolio.

Other assets

Refer to Note 16 for a breakdown of the principal categories that comprise the caption of “Other Assets” in the Consolidated Statements of Financial Condition at December 31, 2017 and 2016. Other assets decreased by \$154 million from December 31, 2016 to December 31, 2017, due mostly to a reduction in the U.S. operations net deferred tax asset due to the write-down taken as a result of the impact of the Act. Refer to Note 39 to the Consolidated Financial Statements for additional information.

Liabilities

The Corporation’s total liabilities were \$39.2 billion at December 31, 2017, compared to \$33.5 billion at December 31, 2016. Refer to the Corporation’s Consolidated Statements of Financial Condition included in this Form 10-K.

Deposits and Borrowings

The composition of the Corporation’s financing to total assets at December 31, 2017 and 2016 is included in Table 14.

Table 14 - Financing to Total Assets

<i>(In millions)</i>	December 31,	December 31,	% increase (decrease) from 2016 to 2017	% of total assets	
	2017	2016		2017	2016
Non-interest bearing deposits	\$ 8,491	\$ 6,980	21.6%	19.2%	18.0%
Interest-bearing core deposits	22,394	18,776	19.3	50.6	48.6
Other interest-bearing deposits	4,569	4,740	(3.6)	10.3	12.3
Repurchase agreements	391	480	(18.5)	0.9	1.2
Other short-term borrowings	96	1	N.M.	0.2	–
Notes payable	1,536	1,575	(2.5)	3.5	4.1
Other liabilities	1,696	912	86.0	3.8	2.4
Stockholders’ equity	5,104	5,198	(1.8)	11.5	13.4

N.M. – Not meaningful.

Deposits

The Corporation’s deposits totaled \$35.5 billion at December 31, 2017, compared to \$30.5 billion at December 31, 2016. The deposits increase of \$5.0 billion was mainly due to an increase in retail and commercial savings, NOW deposits,

demand deposits from the Puerto Rico public sector and retail and commercial checking accounts at BPPR. Refer to Table 15 for a breakdown of the Corporation’s deposits at December 31, 2017 and 2016.

Table 15 - Deposits Ending Balances

<i>(In thousands)</i>	2017	2016	2015	2014	2013
Demand deposits [1]	\$12,460,081	\$ 9,053,897	\$ 7,221,238	\$ 6,606,060	\$ 6,590,963
Savings, NOW and money market deposits (non-brokered)	15,054,242	13,327,298	11,440,693	10,320,782	11,255,309
Savings, NOW and money market deposits (brokered)	424,307	405,487	382,424	406,248	553,521
Time deposits (non-brokered)	7,411,140	7,486,717	7,274,157	5,960,401	6,478,103
Time deposits (brokered CDs)	103,738	222,825	891,211	1,514,044	1,833,249
Total deposits	\$35,453,508	\$30,496,224	\$27,209,723	\$24,807,535	\$26,711,145

[1] Includes interest and non-interest bearing demand deposits.

Borrowings

The Corporation's borrowings remained relatively flat at \$2.0 billion at December 31, 2017, compared to \$2.1 billion at December 31, 2016. Refer to Note 20 to the Consolidated Financial Statements for detailed information on the Corporation's borrowings. Also, refer to the Off-Balance Sheet Arrangements and Other Commitments section in this MD&A for additional information on the Corporation's contractual obligations.

Other liabilities

The Corporation's other liabilities amounted to \$1.7 billion at December 31, 2017, an increase of \$0.8 billion when compared to December 31, 2016. The increase was due to an increase in the liability for GNMA loans sold with a repurchase option of \$0.8 billion due to an increase in delinquency resulting from the moratorium, as noted above.

Stockholders' Equity

Stockholders' equity totaled \$5.1 billion at December 31, 2017, compared to \$5.2 billion at December 31, 2016. The decrease was mainly related to the impact of the common stock repurchase plan of \$75 million completed during the first quarter of 2017 and higher accumulated other comprehensive loss by \$30 million principally in unrealized losses on securities available-for-sale.

Refer to the Consolidated Statements of Financial Condition, Comprehensive Income and of Changes in Stockholders' Equity for information on the composition of stockholders' equity. Also, refer to Note 25 for a detail of accumulated other comprehensive loss, an integral component of stockholders' equity.

REGULATORY CAPITAL

Popular, Inc. and the Banks, BPPR and BPNA are subject to capital adequacy standards established by the Federal Reserve. The current risk-based capital standards applicable to the Corporation and the Banks are based on the final capital framework of Basel III. The capital rules of Basel III which became effective on January 1, 2015, introduced a new capital measure called "Common Equity Tier 1" ("CET1") and specify that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements. Prior to January 1, 2015, the risk-based capital standards applicable to the Corporation and the Banks were based on Basel I. Table 16 presents the Corporation's capital adequacy information for the years 2013 through 2017 under the regulatory guidance applicable during those years. Note 24 to the consolidated financial statements presents further information on the Corporation's regulatory capital requirements, including the regulatory capital ratios of its depository institutions, BPPR and BPNA. The Corporation continues to exceed the well-capitalized guidelines under the federal banking regulations.

Table 16 - Capital Adequacy Data

(Dollars in thousands)	At December 31,				
	2017	2016	2015	2014	2013
Risk-based capital:					
Common Equity Tier 1 capital	\$ 4,226,519	\$ 4,121,208	4,049,576	(A)	(A)
Tier 1 capital	\$ 4,226,519	\$ 4,121,208	\$ 4,049,576	\$ 3,849,891	\$ 4,464,742
Supplementary (Tier 2) capital	758,746	748,007	642,833	272,347	296,813
Total capital	\$ 4,985,265	\$ 4,869,215	\$ 4,692,409	\$ 4,122,238	\$ 4,761,555
Total risk-weighted assets	\$25,935,696	\$25,001,334	\$24,987,144	\$21,233,902	\$23,318,674
Adjusted average quarterly assets	\$42,185,805	\$37,785,070	\$34,253,625	\$32,250,173	\$34,746,137
Ratios:					
Common Equity Tier 1 capital	16.30%	16.48%	16.21%	(A)	(A)
Tier 1 capital	16.30	16.48	16.21	18.13%	19.15%
Total capital	19.22	19.48	18.78	19.41	20.42
Leverage ratio	10.02	10.91	11.82	11.94	12.85
Average equity to assets	12.91	14.03	13.37	12.95	11.52
Average tangible equity to assets	11.48	12.45	11.95	11.45	9.78
Average equity to loans	22.73	22.89	20.42	19.17	16.88
(A) Common equity tier 1 capital measured was introduced by the Basel III Capital Rules which became effective on January 1, 2015. Common equity tier 1 capital is not applicable under the previous Basel I capital rules that were applicable in the previous years.					

The decrease in the CET1 capital ratio, Tier 1 capital ratio and total capital ratio on December 31, 2017 compared to December 31, 2016 was mostly due to the common stock repurchase of \$75 million during the first quarter of 2017, the transition period impact on deferred tax assets and higher risk weighted assets by \$0.9 billion mainly driven by an increase of \$1.5 billion in loans held-in-portfolio which included growth in commercial and construction loans and higher mortgage loans due to the rebooking of loans previously pooled into GNMA securities; partially offset by this year's earnings. The decrease in leverage ratio compared to 2016 was mainly due to the increase in average total assets driven by increases in investment balances and higher loans held-in-portfolio.

To be considered "well-capitalized" an institution had to maintain a total capital ratio of 10%, a Tier 1 capital ratio of 8%, a CET1 capital ratio of 6.5% and a leverage ratio of 5%. The Corporation's ratios presented in Table 16 show that the Corporation was "well capitalized" for regulatory purposes, the highest classification, under Basel III for 2017, 2016 and for all other years presented under Basel I. BPPR and BPNA were also well-capitalized for all years presented.

The Basel III Capital Rules also introduce a new 2.5% "capital conservation buffer", composed entirely of CET1, on top of the three minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on

dividends, equity repurchases and compensation based on the amount of the shortfall. Thus, when fully phased-in on January 1, 2019, Popular, BPPR and BPNA will be required to maintain such an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) Total capital to risk-weighted assets of at least 10.5%.

Table 17 reconciles the Corporation's total common stockholders' equity to common equity Tier 1 capital.

Table 17 - Reconciliation Common Equity Tier 1 Capital

(In thousands)	At December 31,	
	2017	2016
Common stockholders' equity	\$5,053,745	\$5,147,797
AOCI related adjustments due to opt-out election	307,619	280,330
Goodwill, net of associated deferred tax liability (DTL)	(561,604)	(554,614)
Intangible assets, net of associated DTLs	(28,538)	(25,662)
Deferred tax assets and other deductions	(544,703)	(726,643)
Common equity tier 1 capital	\$4,226,519	\$4,121,208
Common equity tier 1 capital to risk-weighted assets	16.30%	16.48%

Non-GAAP financial measures

The tangible common equity ratio and tangible book value per common share, which are presented in the table that follows, are non-GAAP measures. Management and many stock analysts use the tangible common equity ratio and tangible book value per common share in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations with significant amounts of goodwill or other intangible assets, typically stemming from the use of the purchase accounting method of accounting for mergers and acquisitions. Neither tangible common equity nor tangible assets or related measures should be considered in isolation or as a substitute for stockholders' equity, total assets or any other measure calculated in accordance with generally accepted accounting principles in the United States of America ("GAAP"). Moreover, the manner in which the Corporation calculates its tangible common equity, tangible assets and any other related measures may differ from that of other companies reporting measures with similar names.

Table 18 provides a reconciliation of total stockholders' equity to tangible common equity and total assets to tangible assets at December 31, 2017 and 2016.

Table 18 - Reconciliation Tangible Common Equity and Assets

	At December 31,	
<i>(In thousands, except share or per share information)</i>	2017	2016
Total stockholders' equity	\$ 5,103,905	\$ 5,197,957
Less: Preferred stock	(50,160)	(50,160)
Less: Goodwill	(627,294)	(627,294)
Less: Other intangibles	(35,672)	(45,050)
Total tangible common equity	\$ 4,390,779	\$ 4,475,453
Total assets	\$ 44,277,337	\$ 38,661,609
Less: Goodwill	(627,294)	(627,294)
Less: Other intangibles	(35,672)	(45,050)
Total tangible assets	\$ 43,614,371	\$ 37,989,265
Tangible common equity to tangible assets at end of period	10.07%	11.78%
Common shares outstanding at end of period	102,068,981	103,790,932
Tangible book value per common share	\$ 43.02	\$ 43.12

OFF-BALANCE SHEET ARRANGEMENTS AND OTHER COMMITMENTS

In the ordinary course of business, the Corporation engages in financial transactions that are not recorded on the balance sheet, or may be recorded on the balance sheet in amounts that are different than the full contract or notional amount of the transaction. As a provider of financial services, the Corporation routinely enters into commitments with off-balance sheet risk

to meet the financial needs of its customers. These commitments may include loan commitments and standby letters of credit. These commitments are subject to the same credit policies and approval process used for on-balance sheet instruments. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial position. Other types of off-balance sheet arrangements that the Corporation enters in the ordinary course of business include derivatives, operating leases and provision of guarantees, indemnifications, and representation and warranties. Refer to Note 26 for a detailed discussion related to the Corporation's obligations under credit recourse and representation and warranties arrangements.

Contractual Obligations and Commercial Commitments

The Corporation has various financial obligations, including contractual obligations and commercial commitments, which require future cash payments on debt and lease agreements. Also, in the normal course of business, the Corporation enters into contractual arrangements whereby it commits to future purchases of products or services from third parties. Obligations that are legally binding agreements, whereby the Corporation agrees to purchase products or services with a specific minimum quantity defined at a fixed, minimum or variable price over a specified period of time, are defined as purchase obligations.

Purchase obligations include major legal and binding contractual obligations outstanding at the end of 2017, primarily for services, equipment and real estate construction projects. Services include software licensing and maintenance, facilities maintenance, supplies purchasing, and other goods or services used in the operation of the business. Generally, these contracts are renewable or cancelable at least annually, although in some cases the Corporation has committed to contracts that may extend for several years to secure favorable pricing concessions.

As previously indicated, the Corporation also enters into derivative contracts under which it is required either to receive or pay cash, depending on changes in interest rates. These contracts are carried at fair value on the consolidated statements of financial condition with the fair value representing the net present value of the expected future cash receipts and payments based on market rates of interest as of the statement of condition date. The fair value of the contract changes daily as interest rates change. The Corporation may also be required to post additional collateral on margin calls on the derivatives and repurchase transactions.

At December 31, 2017, the aggregate contractual cash obligations, including purchase obligations and borrowings, by maturities, are presented in Table 19.

Table 19 - Contractual Obligations

<i>(In thousands)</i>	Payments Due by Period				Total
	Less than 1 year	1 to 3 years	3 to 5 years	After 5 years	
Certificates of deposits	\$3,941,152	\$2,233,815	\$1,292,255	\$ 47,656	\$ 7,514,878
Federal funds purchased and repurchase agreements	390,921	—	—	—	390,921
Other short-term borrowings	96,208	—	—	—	96,208
Long-term debt	253,793	718,090	23,189	522,642	1,517,714
Purchase obligations	88,929	95,534	32,948	11,798	229,209
Annual rental commitments under operating leases	31,886	58,005	49,082	107,986	246,959
Capital leases	1,295	3,069	3,794	10,484	18,642
Total contractual cash obligations	\$4,804,184	\$3,108,513	\$1,401,268	\$700,566	\$10,014,531

Under the Corporation's repurchase agreements, Popular is required to deposit cash or qualifying securities to meet margin requirements. To the extent that the value of securities previously pledged as collateral declines because of changes in interest rates, the Corporation will be required to deposit additional cash or securities to meet its margin requirements, thereby adversely affecting its liquidity.

At December 31, 2017, the Corporation's liability on its pension, restoration and postretirement benefit plans amounted to approximately \$220 million, compared with \$244 million at December 31, 2016. The Corporation's expected contributions to the pension and benefit restoration plans are minimal, while the expected contributions to the postretirement benefit plan to fund current benefit payment requirements are estimated at \$6.3 million for 2018. Obligations to these plans are based on current and projected obligations of the plans, performance of the plan assets, if applicable, and any participant contributions. Refer to Note 33 to the consolidated financial statements for further information on these plans. Management believes that the effect of the pension and postretirement plans on liquidity is not significant to the Corporation's overall financial condition. The BPPR's non-contributory defined pension and benefit restoration plans are frozen with regards to all future benefit accruals.

At December 31, 2017, the liability for uncertain tax positions was \$7.3 million, compared with \$7.4 million as of the end of 2016. This liability represents an estimate of tax positions that the Corporation has taken in its tax returns which may ultimately not be sustained upon examination by

the tax authorities. The ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty. Under the statute of limitations, the liability for uncertain tax positions expires as follows: 2018 - \$1.1 million, 2019 - \$1.1 million, 2020 - \$1.5 million, 2021 - \$1.1 million, and 2022 - \$1.1 million. Additionally, \$1.4 million is not subject to the statute of limitations. As a result of examinations, the Corporation anticipates a reduction in the total amount of unrecognized tax benefits within the next 12 months, which could amount to approximately \$4.6 million, including interests.

The Corporation also utilizes lending-related financial instruments in the normal course of business to accommodate the financial needs of its customers. The Corporation's exposure to credit losses in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit and commercial letters of credit is represented by the contractual notional amount of these instruments. The Corporation uses credit procedures and policies in making those commitments and conditional obligations as it does in extending loans to customers. Since many of the commitments expire without being drawn upon or a default occurring, the total contractual amounts are not representative of the Corporation's actual future credit exposure or liquidity requirements for these commitments.

The following table presents the contractual amounts related to the Corporation's off-balance sheet lending and other activities at December 31, 2017:

Table 20 - Off-Balance Sheet Lending and Other Activities

<i>(In thousands)</i>	Amount of commitment - Expiration Period				Total
	2018	Years 2019 - 2020	Years 2021 - 2022	Years 2023 - thereafter	
Commitments to extend credit	\$6,871,688	\$499,905	\$150,099	\$43,266	\$7,564,958
Commercial letters of credit	367	1,749	—	—	2,116
Standby letters of credit	6,865	26,768	—	—	33,633
Commitments to originate or fund mortgage loans	14,733	564	—	—	15,297
Total	\$6,893,653	\$528,986	\$150,099	\$43,266	\$7,616,004

RISK MANAGEMENT

Managing risk is an essential component of the Corporation's business. Risk identification and monitoring are key elements in the overall risk management. Popular has a strong disciplined risk management culture where risk management is a shared responsibility by all employees.

Risk Management Framework

Popular's risk management framework seeks to ensure that there is an effective process in place to manage risk across the organization. Popular's risk management framework incorporates three interconnected dependencies: risk appetite, stress testing, and capital planning. The stress testing process incorporates key risks within the context of the Risk Appetite Statement (RAS) defined in our Risk Management Policy. The process analyzes and delineates how much risk Popular is prepared to assume in pursuit of its business strategy and how much capital Popular's activities will consume in light of a forward-looking assessment of the potential impact of adverse economic conditions. The RAS includes risk tolerance, limits, and types of risks the Corporation is willing to accept, as well as processes to maintain compliance with those limits.

Principal Risk Types

- **Credit Risk** – Potential for default or loss resulting from an obligor's failure to meet the terms of any contract with the Corporation or any of its subsidiaries, or failure otherwise to perform as agreed. Credit risk arises from all activities where success depends on counterparty, issuer, or borrower performance.
- **Interest Rate Risk ("IRR")** – The risk to earnings or capital arising from changes in interest rates. Interest rate risk arises from differences between the timing of rate changes and the timing of cash flows (repricing risk); from changing rate relationships among different yield curves affecting bank lending and borrowing activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest related options embedded in bank products (options risk).
- **Market Risk** – Potential for economic loss resulting from changes in market prices of the assets or liabilities in the Corporation's or in any of its subsidiaries' portfolios.
- **Liquidity Risk** – Potential for loss resulting from the Corporation or its subsidiaries not being able to meet their financial obligations when they come due. This could be a result of market conditions, the ability of the Corporation to liquidate assets or manage or diversify various funding sources. This risk also encompasses the possibility that an instrument cannot be closed out or sold at its economic value, which might be a result of stress in the market or in a specific security type given its credit, volume and maturity.

- **Operational Risk** – Possibility that inadequate or failed systems and internal controls or procedures, human error, fraud or external influences such as disasters, can cause losses. It includes the risk for those processes that have been outsourced to third parties and the risk of the inadequate use of models.
- **Compliance Risk** – Potential for loss resulting from violations of or non-conformance with laws, rules, regulations, or prescribed practices.
- **Regulatory and Legal Risk** – Risk of negative impact to business activities, earnings or capital, regulatory relationships or reputation as a result of failure to comply with or a failure to adapt to current and changing regulations, law, rules, regulatory expectations, existing contracts or ethical standards.
- **Strategic Risk** – Potential for loss arising from adverse business decisions or improper implementation of business decisions. Also, it incorporates how management analyzes external factors that impact the strategic direction of the Corporation.
- **Reputational Risk** – Potential for loss arising from negative public opinion.

Risk Governance

The Corporation's Board of Directors (the "Board") has established a Risk Management Committee ("RMC") to undertake the responsibilities of overseeing and approving the Corporation's Risk Management Program, as well as the Corporation's Capital Plan. The Capital Plan is a plan to maintain sufficient regulatory capital at the Corporation, BPPR and BPNA, which considers current and future regulatory capital requirements, expected future profitability and credit trends and, at least, two macroeconomic scenarios, including a base and stress scenario.

The RMC, as an oversight body, monitors and approves corporate policies to identify measure, monitor and control risks while maintaining the effectiveness and efficiency of the business and operational processes. As an approval body for the Corporation, the RMC reviews and approves relevant risk management policies and critical processes. Also, it periodically reports to the Board about its activities.

The Board and RMC have delegated to the Corporation's management the implementation of the risk management processes. This implementation is split into two separate but coordinated efforts that include (i) business and / or operational units who identify, manage and control the risks resulting from their activities, and (ii) a Risk Management Group ("RMG"). In general, the RMG is mandated with responsibilities such as assessing and reporting to the Corporation's management and RMC the risk positions of the Corporation; developing and implementing mechanisms, policies and procedures to identify,

measure and monitor risks; implementing measurement mechanisms and infrastructure to achieve effective risk monitoring; developing and implementing the necessary management information and reporting mechanisms; and monitoring and testing the adequacy of the Corporation's policies, strategies and guidelines.

The RMG is responsible for the overall coordination of risk management efforts throughout the Corporation and is composed of three reporting divisions: (i) Credit Risk Management, (ii) Compliance Management, and (iii) Financial and Operational Risk Management. The latter includes an Enterprise Risk Management function that facilitates, among other aspects, the identification, coordination, and management of multiple and cross-enterprise risks. The Corporation's Model Validation and Loan Review group, which reports directly to the RMC and administratively to the Chief Risk Officer, also provides important risk management functions by validating critical models used in the Corporation and by assessing the adequacy of the Corporation's lending risk function.

Additionally, the Internal Auditing Division provides an independent assessment of the Corporation's internal control structure and related systems and processes. The Internal Audit Division also provides an assessment of the effectiveness of the Corporation's risk management function.

Moreover, management oversight of the Corporation's risk-taking and risk management activities is conducted through management committees:

- CRESCO (Credit Strategy Committee) – Manages the Corporation's overall credit exposure and approves credit policies, standards and guidelines that define, quantify, and monitor credit risk. Through this committee, management reviews asset quality ratios, trends and forecasts, problem loans, establishes the provision for loan losses and assesses the methodology and adequacy of the allowance for loan losses on a quarterly basis.
- ALCO (Asset / Liability Management Committee) – Oversees and approves the policies and processes designed to ensure sound market risk and balance sheet strategies, including the interest rate, liquidity, investment and trading policies. The ALCO monitors the capital position and plan for the Corporation and approves all capital management strategies, including capital market transactions and capital distributions. The ALCO also monitors forecasted results and their impact on capital, liquidity, and net interest margin of the Corporation.
- ORCO (Operational Risk Committee) – Monitors operational risk management activities to ensure the development and consistent application of operational risk policies, processes and procedures that measure, limit and manage the Corporation's operational risks while maintaining the effectiveness and efficiency of the operating and businesses' processes.

- Compliance Committees – Monitors regulatory compliance activities to ensure to compliance with legal and regulatory requirements and the Corporation's policies.
- ERM (Enterprise Management Committee) – Monitors Market, Interest, Liquidity, Compliance, Regulatory, Legal, Strategic, Operational (including Information Security & Cyber), and Reputational risks in the Risk Appetite Statement (RAS) and within the Corporation's ERM framework.

There are other management committees such as the Fair Lending, Section 23A & B, New Products, Fiduciary Risk, and the BSA/Anti-Money Laundering Committees, among others, which provide oversight of specific business risks.

Market / Interest Rate Risk

The financial results and capital levels of the Corporation are constantly exposed to market, interest rate and liquidity risks. The ALCO and the Corporate Finance Group are responsible for planning and executing the Corporation's market, interest rate risk, funding activities and strategy, and for implementing the policies and procedures approved by the RMC and the ALCO. In addition, the Financial and Operational Risk Management Division is responsible for the independent monitoring and reporting of adherence with established policies to the Risk Management Committee, and enhancing and strengthening controls surrounding interest, liquidity and market risk. The ALCO generally meets on a weekly basis and reviews the Corporation's current and forecasted asset and liability levels as well as desired pricing strategies and other relevant financial management and interest rate and risk topics. Also, on a monthly basis the ALCO reviews various interest rate risk sensitivity metrics, ratios and portfolio information, including but not limited to, the Corporation's liquidity positions, projected sources and uses of funds, interest rate risk positions and economic conditions.

Market risk refers to the risk of a reduction in the Corporation's capital due to changes in the market valuation of its assets and/or liabilities.

Most of the assets subject to market valuation risk are securities in the investment portfolio classified as available-for-sale. Refer to Notes 7 and 8 for further information on the investment portfolio. Investment securities classified as available-for-sale amounted to \$10.2 billion as of December 31, 2017. Other assets subject to market risk include loans held-for-sale, which amounted to \$132 million, mortgage servicing rights ("MSRs") which amounted to \$168 million and securities classified as "trading", which amounted to \$43 million, as of December 31, 2017.

Liabilities subject to market risk include the FDIC clawback obligation, which amounted to \$ 165 million at December 31, 2017.

Management believes that market risk is currently not a material source of risk at the Corporation. A significant portion of the Corporation's financial activities is concentrated in Puerto Rico, which has been going through a fiscal and economic crisis and was recently impacted by two major hurricanes. Refer to the Geographic and Government Risk section of this MD&A for highlights on the current status of Puerto Rico's fiscal and economic condition.

Interest Rate Risk ("IRR")

The Corporation's net interest income is subject to various categories of interest rate risk, including repricing, basis, yield curve and option risks. In managing interest rate risk, management may alter the mix of floating and fixed rate assets and liabilities, change pricing schedules, adjust maturities through sales and purchases of investment securities, and enter into derivative contracts, among other alternatives.

Interest rate risk management is an active process that encompasses monitoring loan and deposit flows complemented by investment and funding activities. Effective management of interest rate risk begins with understanding the dynamic characteristics of assets and liabilities and determining the appropriate rate risk position given line of business forecasts, management objectives, market expectations and policy constraints.

Management utilizes various tools to assess IRR, including simulation modeling, static gap analysis, and Economic Value of Equity (EVE). The three methodologies complement each other and are used jointly in the evaluation of the Corporation's IRR. Simulation modeling is prepared for a five-year period, which in conjunction with the EVE analysis, provides Management a better view of long term IRR.

Net interest income simulation analysis performed by legal entity and on a consolidated basis is a tool used by the Corporation in estimating the potential change in net interest income resulting from hypothetical changes in interest rates. Sensitivity analysis is calculated using a simulation model

which incorporates actual balance sheet figures detailed by maturity and interest yields or costs.

Management assesses interest rate risk by comparing various net interest income simulations under different interest rate scenarios that differ in direction of interest rate changes, the degree of change over time, the speed of change and the projected shape of the yield curve. For example, the types of rate scenarios processed during the year included economic most likely scenarios, flat rates, yield curve twists, and parallel rate shocks. Management also performs analyses to isolate and measure basis and prepayment risk exposures.

The asset and liability management group performs validation procedures on various assumptions used as part of the sensitivity analysis as well as validations of results on a monthly basis. In addition, the model and processes used to assess IRR are subject to independent validations according to the guidelines established in the Model Governance and Validation policy.

The Corporation processes net interest income simulations under interest rate scenarios in which the yield curve is assumed to rise and decline by the same amount. The rate scenarios considered in these market risk simulations reflect parallel changes of -200, +200 and +400 basis points during the succeeding twelve-month period. Simulation analyses are based on many assumptions, including relative levels of market interest rates across all yield curve points and indexes, interest rate spreads, loan prepayments and deposit elasticity. Thus, they should not be relied upon as indicative of actual results. Further, the estimates do not contemplate actions that management could take to respond to changes in interest rates. By their nature, these forward-looking computations are only estimates and may be different from what may actually occur in the future. The following table presents the results of the simulations at December 31, 2017 and December 31, 2016, assuming a static balance sheet and parallel changes over flat spot rates over a one-year time horizon:

Table 21 - Net Interest Income Sensitivity (One Year Projection)

<i>(Dollars in thousands)</i>	December 31, 2017		December 31, 2016	
	Amount Change	Percent Change	Amount Change	Percent Change
Change in interest rate				
+400 basis points	\$ 409,924	25.57%	\$236,945	16.52%
+200 basis points	205,011	12.79	121,181	8.45
-200 basis points	(169,126)	(10.55)	(35,314)	(2.46)

At December 31, 2017, the simulations showed that the Corporation maintains an asset-sensitive position. This is primarily due to (i) a high level of money market investments that are highly sensitive to changes in interest rates,

(ii) approximately 36% of the Corporation's loan portfolio being comprised of Prime and Libor-based loans, and (iii) low elasticity of the Corporation's core deposit base. The increase in sensitivity from December 31, 2016 in the +200 and +400

scenarios is mainly driven by an increase in money market investments of \$2.4 billion, from \$2.9 billion at December 31, 2016 to \$5.3 billion at December 31, 2017, that was due to growth in public fund deposits. The increase in sensitivity in the -200 scenario is also driven by the increase in money

market investments that reflect full changes in rates across all scenarios, combined with the increases in the Federal Funds Target Rate in March, June and December of 2017 by the Federal Reserve, which led to an increase in the magnitude of the -200 basis points scenario.

Table 22 - Interest Rate Sensitivity

At December 31, 2017									
By repricing dates									
(Dollars in thousands)	0-30 days	Within 31 - 90 days	After three months but within six months	After six months but within nine months	After nine months but within one year	After one year but within two years	After two years	Non-interest bearing funds	Total
Assets:									
Money market investments	\$ 5,253,880	\$ 1,095	\$ -	\$ 144	\$ -	\$ -	\$ -	\$ -	-\$ 5,255,119
Investment and trading securities	350,910	561,495	443,103	492,766	454,022	1,784,665	6,352,412	43,598	10,482,971
Loans	6,108,555	1,927,714	1,066,908	895,105	864,266	2,802,305	10,435,687	841,923	24,942,463
Other assets	-	-	-	-	-	-	-	3,596,784	3,596,784
Total	11,713,345	2,490,304	1,510,011	1,388,015	1,318,288	4,586,970	16,788,099	4,482,305	44,277,337
Liabilities and									
stockholders' equity:									
Savings, NOW and money market and other interest bearing demand deposits	1,838,755	698,716	977,758	900,376	830,141	2,737,789	11,464,150	-	19,447,685
Certificates of deposit	1,244,174	533,993	938,105	773,633	632,216	1,287,174	2,105,583	-	7,514,878
Federal funds purchased and assets sold under agreements to repurchase	210,555	106,820	59,437	-	-	-	14,109	-	390,921
Other short-term borrowings	-	35,000	60,000	-	-	-	1,208	-	96,208
Notes payable	1,000	11,026	102,857	56,164	82,749	607,564	674,996	-	1,536,356
Non-interest bearing deposits	-	-	-	-	-	-	-	8,490,945	8,490,945
Other non-interest bearing liabilities	-	-	-	-	-	-	-	1,696,439	1,696,439
Stockholders' equity	-	-	-	-	-	-	-	5,103,905	5,103,905
Total	\$ 3,294,484	\$1,385,555	\$2,138,157	\$1,730,173	\$1,545,106	\$4,632,527	\$14,260,046	\$ 15,291,289	\$44,277,337
Interest rate sensitive gap	8,418,861	1,104,749	(628,146)	(342,158)	(226,818)	(45,557)	2,528,053	(10,808,984)	-
Cumulative interest rate sensitive gap	8,418,861	9,523,610	8,895,464	8,553,306	8,326,488	8,280,931	10,808,984	-	-
Cumulative interest rate sensitive gap to earning assets	21.16%	23.93%	22.35%	21.49%	20.92%	20.81%	27.16%	-	-

The Corporation maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in net interest income or market value that are caused by interest rate volatility. The market value of these derivatives is subject to interest rate fluctuations and counterparty credit risk

adjustments which could have a positive or negative effect in the Corporation's earnings.

The Corporation's loan and investment portfolios are subject to prepayment risk, which results from the ability of a third-party to repay debt obligations prior to maturity. Prepayment risk also could have a significant impact on the duration of

mortgage-backed securities and collateralized mortgage obligations, since prepayments could shorten (or lower prepayments could extend) the weighted average life of these portfolios.

Table 23, which presents the maturity distribution of earning assets, takes into consideration prepayment assumptions.

Table 23 - Maturity Distribution of Earning Assets

As of December 31, 2017						
(In thousands)	Maturities					Total
	One year or less	After one year through five years		After five years		
		Fixed interest rates	Variable interest rates	Fixed interest rates	Variable interest rates	
Money market securities	\$ 5,255,119	–	–	–	–	\$ 5,255,119
Investment and trading securities	2,231,726	\$ 5,764,403	\$ 35,044	\$ 2,250,573	\$ 32,185	10,313,931
Loans:						
Commercial	3,268,192	1,977,853	2,029,730	1,350,617	1,864,269	10,490,661
Construction	673,750	35,920	165,292	3,579	1,318	879,859
Lease financing	327,166	482,824	–	–	–	809,990
Consumer	1,142,910	1,502,551	314,923	195,928	735,114	3,891,426
Mortgage	1,322,623	2,128,257	61,173	3,630,558	21,776	7,164,387
Subtotal loans	6,734,641	6,127,405	2,571,118	5,180,682	2,622,477	23,236,323
Westernbank loans	792,433	243,502	244,595	262,437	163,173	1,706,140
Total earning assets	\$15,013,919	\$12,135,310	\$2,850,757	\$7,693,692	\$2,817,835	\$40,511,513

Note: Equity securities available-for-sale and other investment securities, including Federal Reserve Bank stock and Federal Home Loan Bank stock held by the Corporation, are not included in this table.
Loans held-for-sale have been allocated according to the expected sale date.

Covered loans

The loans acquired in the Westernbank FDIC-assisted transaction were initially recorded at estimated fair values. As expressed in the Critical Accounting Policies / Estimates section of this MD&A, most of the covered loans have an accretable yield. The accretable yield includes the future interest expected to be collected over the remaining life of the acquired loans and the purchase premium or discount. The remaining life includes the effects of estimated prepayments and expected credit losses. For covered loans accounted for under ASC Subtopic 310-30, the Corporation is required to periodically evaluate its estimate of cash flows expected to be collected. These evaluations, performed quarterly, require the continued usage of key assumptions and estimates. Management must apply judgment to develop its estimates of cash flows for those covered loans given the impact of home price and property value changes, changes in interest rates and loss severities and prepayment speeds. Decreases in the expected cash flows by pool will generally result in a charge to the provision for credit losses resulting in an increase to the allowance for loan losses, while increases in the expected cash flows of a pool will generally result in an increase in interest income over the remaining life of the loan, or pool of loans.

Trading

The Corporation engages in trading activities in the ordinary course of business at its subsidiaries, Banco Popular de Puerto Rico and Popular Securities. Popular Securities' trading activities consist primarily of market-making activities to meet expected customers' needs related to its retail brokerage business and purchases and sales of U.S. Government and government sponsored securities with the objective of realizing gains from expected short-term price movements. BPPR's trading activities consist primarily of holding U.S. Government sponsored mortgage-backed securities classified as "trading" and hedging the related market risk with "TBA" (to-be-announced) market transactions. The objective is to derive spread income from the portfolio and not to benefit from short-term market movements. In addition, BPPR uses forward contracts or TBAs to hedge its securitization pipeline. Risks related to variations in interest rates and market volatility are hedged with TBAs that have characteristics similar to that of the forecasted security and its conversion timeline.

At December 31, 2017, the Corporation held trading securities with a fair value of \$43 million, representing approximately 0.1% of the Corporation's total assets, compared with \$60 million and 0.2%, respectively, at December 31, 2016. As shown in Table 24 the trading portfolio consists principally of mortgage-backed securities relating to BPPR's mortgage

activities described above, which at December 31, 2017 were investment grade securities. As of December 31, 2017, the trading portfolio also included \$1.3 million in Puerto Rico government obligations and shares of closed-end funds that invest primarily in Puerto Rico government obligations (\$2.6 million as of December 31, 2016). Trading instruments are recognized at fair value, with changes resulting from

fluctuations in market prices, interest rates or exchange rates reported in current period earnings. The Corporation recognized a net trading account loss of \$0.8 million for the years ended December 31, 2017 and December 31, 2016, respectively. Table 24 provides the composition of the trading portfolio at December 31, 2017 and December 31, 2016.

Table 24 - Trading Portfolio

<i>(Dollars in thousands)</i>	December 31, 2017		December 31, 2016	
	Amount	Weighted Average Yield [1]	Amount	Weighted Average Yield [1]
Mortgage-backed securities	\$29,280	5.40%	\$42,746	4.85%
Collateralized mortgage obligations	529	5.74	1,321	5.27
Puerto Rico government obligations	159	0.28	1,164	5.51
Interest-only strips	529	12.58	602	12.35
Other (includes related trading derivatives)	12,690	3.25	13,972	3.03
Total	\$43,187	4.84%	\$59,805	4.52%

[1] Not on a taxable equivalent basis.

The Corporation's trading activities are limited by internal policies. For each of the two subsidiaries, the market risk assumed under trading activities is measured by the 5-day net value-at-risk ("VAR"), with a confidence level of 99%. The VAR measures the maximum estimated loss that may occur over a 5-day holding period, given a 99% probability.

The Corporation's trading portfolio had a 5-day VAR of approximately \$0.2 million for the last week in December 31, 2017. There are numerous assumptions and estimates associated with VAR modeling, and actual results could differ from these assumptions and estimates. Backtesting is performed to compare actual results against maximum estimated losses, in order to evaluate model and assumptions accuracy.

In the opinion of management, the size and composition of the trading portfolio does not represent a significant source of market risk for the Corporation.

Derivatives

Derivatives may be used by the Corporation as part of its overall interest rate risk management strategy to minimize significant unexpected fluctuations in earnings and cash flows that are caused by fluctuations in interest rates. Derivative instruments that the Corporation may use include, among others, interest rate swaps, caps, floors, indexed options, and forward contracts. The Corporation does not use highly leveraged derivative instruments in its interest rate risk management strategy. The Corporation enters into interest rate swaps, interest rate caps and foreign exchange contracts for the benefit of commercial customers. Credit risk embedded in these transactions is reduced by requiring appropriate collateral from counterparties and entering into netting agreements whenever possible. All outstanding derivatives are recognized in the Corporation's consolidated statement of condition at their fair

value. Refer to Note 29 to the consolidated financial statements for further information on the Corporation's involvement in derivative instruments and hedging activities.

The Corporation's derivative activities are entered primarily to offset the impact of market volatility on the economic value of assets or liabilities. The net effect on the market value of potential changes in interest rates of derivatives and other financial instruments is analyzed. The effectiveness of these hedges is monitored to ascertain that the Corporation is reducing market risk as expected. Derivative transactions are generally executed with instruments with a high correlation to the hedged asset or liability. The underlying index or instrument of the derivatives used by the Corporation is selected based on its similarity to the asset or liability being hedged. As a result of interest rate fluctuations, fixed and variable interest rate hedged assets and liabilities will appreciate or depreciate in fair value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by the Corporation's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Management will assess if circumstances warrant liquidating or replacing the derivatives position in the hypothetical event that high correlation is reduced. Based on the Corporation's derivative instruments outstanding at December 31, 2017, it is not anticipated that such a scenario would have a material impact on the Corporation's financial condition or results of operations.

Certain derivative contracts also present credit risk and liquidity risk because the counterparties may not comply with the terms of the contract, or the collateral obtained might be illiquid or become so. The Corporation controls credit risk through approvals, limits and monitoring procedures, and through master netting and collateral agreements whenever

possible. Further, as applicable under the terms of the master agreements, the Corporation may obtain collateral, where appropriate, to reduce credit risk. The credit risk attributed to the counterparty's nonperformance risk is incorporated in the fair value of the derivatives. Additionally, as required by the fair value measurements guidance, the fair value of the Corporation's own credit standing is considered in the fair value of the derivative liabilities. During the year ended December 31, 2017, inclusion of the credit risk in the fair value of the derivatives resulted in a net gain of \$0.1 million (2016 – net loss of \$0.5 million; 2015 – net loss of \$0.5 million), which consisted of a gain of \$0.2 million (2016 – loss of \$ 0.9 million; 2015 – loss of \$ 0.8 million) resulting from the Corporation's credit standing adjustment and a loss of \$0.1 million (2016 – gain of \$ 0.4 million; 2015 – gain of \$0.3 million) from the assessment of the counterparties' credit risk. At December 31, 2017, the Corporation had \$94 thousand (2016 – \$ 4 million) recognized for the right to reclaim cash collateral posted. On the other hand, the Corporation did not have any obligation to return cash collateral received at December 31, 2017 and 2016.

The Corporation performs appropriate due diligence and monitors the financial condition of counterparties that represent a significant volume of credit exposure. Additionally, the Corporation has exposure limits to prevent any undue funding exposure.

Cash Flow Hedges

The Corporation manages the variability of cash payments due to interest rate fluctuations by the effective use of derivatives designated as cash flow hedges and that are linked to specified hedged assets and liabilities. The cash flow hedges relate to forward contracts or TBA mortgage-backed securities that are sold and bought for future settlement to hedge mortgage-backed securities and loans prior to securitization. The seller agrees to deliver on a specified future date a specified instrument at a specified price or yield. These securities are hedging a forecasted transaction and are designated for cash flow hedge accounting. The notional amount of derivatives designated as cash flow hedges at December 31, 2017 amounted to \$ 99 million (2016—\$ 105 million).

Refer to Note 29 to the consolidated financial statements for additional quantitative information on these derivative contracts.

Fair Value Hedges

The Corporation did not have any derivatives designated as fair value hedges during the years ended December 31, 2017 and 2016.

Trading and Non-Hedging Derivative Activities

The Corporation enters into derivative positions based on market expectations or to benefit from price differentials between financial instruments and markets mostly to

economically hedge a related asset or liability. The Corporation also enters into various derivatives to provide these types of derivative products to customers. These free-standing derivatives are carried at fair value with changes in fair value recorded as part of the results of operations for the period.

Following is a description of the most significant of the Corporation's derivative activities that are not designated for hedge accounting. Refer to Note 29 to the consolidated financial statements for additional quantitative and qualitative information on these derivative instruments.

At December 31, 2017, the Corporation had outstanding \$ 2 million (2016 - \$ 113 million) in notional amount of interest rate swap agreements, which were not designated as accounting hedges. These swaps were entered in the Corporation's capacity as an intermediary on behalf of its customers and their offsetting swap position. For the year ended December 31, 2017, the impact of the mark-to-market of interest rate swaps not designated as accounting hedges was a net increase in earnings of approximately \$ 0.1 million, recorded in the other operating income category of the consolidated statement of operations, compared with an earnings increase of approximately \$ 0.3 million, in 2016 and 2015.

At December 31, 2017, the Corporation had \$71 million (2016 - \$0.7 million) in notional amount of forward contracts outstanding not designated as accounting hedges with a positive fair value of \$ 161 thousand (2016 - \$9 thousand). For the year ended December 31, 2017, the impact of the mark-to-market of the forward contracts not designated as accounting hedges was a reduction to non-interest income of \$ 1.5 million (2016 - loss of \$ 0.2 million; 2015 - loss of \$ 0.4 million), which was included in the category of mortgage banking activities in the consolidated statement of operations.

Furthermore, the Corporation has over-the-counter option contracts which are utilized in order to limit the Corporation's exposure on customer deposits whose returns are tied to the S&P 500 or to certain other equity securities or commodity indexes. The Corporation offers certificates of deposit with returns linked to these indexes to its retail customers, principally in connection with individual retirement accounts (IRAs), and certificates of deposit. At December 31, 2017, these deposits amounted to \$ 66 million (2016 - \$ 70 million), or less than 1% (2016 – less than 1%) of the Corporation's total deposits. In these certificates, the customer's principal is guaranteed by the Corporation and insured by the FDIC to the maximum extent permitted by law. The instruments pay a return based on the increase of these indexes, as applicable, during the term of the instrument. Accordingly, this product gives customers the opportunity to invest in a product that protects the principal invested but allows the customer the potential to earn a return based on the performance of the indexes.

The risk of issuing certificates of deposit with returns tied to the applicable indexes is economically hedged by the

Corporation. BPPR and BPNA purchase indexed options from financial institutions with strong credit standings, whose return is designed to match the return payable on the certificates of deposit issued by these banking subsidiaries. By hedging the risk in this manner, the effective cost of these deposits is fixed. The contracts have a maturity and an index equal to the terms of the pool of retail deposits that they are economically hedging.

The purchased option contracts are initially accounted for at cost (i.e., amount of premium paid) and recorded as a derivative asset. The derivative asset is marked-to-market on a quarterly basis with changes in fair value charged to earnings. The deposits are hybrid instruments containing embedded options that must be bifurcated in accordance with the derivatives and hedging activities guidance. The initial value of the embedded option (component of the deposit contract that pays a return based on changes in the applicable indexes) is bifurcated from the related certificate of deposit and is initially recorded as a derivative liability and a corresponding discount on the certificate of deposit is recorded. Subsequently, the discount on the deposit is accreted and included as part of interest expense while the bifurcated option is marked-to-market with changes in fair value charged to earnings.

The purchased indexed options are used to economically hedge the bifurcated embedded option. These option contracts do not qualify for hedge accounting, and therefore, cannot be designated as accounting hedges. At December 31, 2017, the notional amount of the indexed options on deposits approximated \$ 70 million (2016 - \$ 73 million) with a fair value of \$ 16 million (asset) (2016 - \$ 13 million) while the embedded options had a notional value of \$ 66 million (2016 - \$ 70 million) with a fair value of \$ 14 million (liability) (2016 - \$ 11 million).

Refer to Note 29 to the consolidated financial statements for a description of other non-hedging derivative activities utilized by the Corporation during 2017 and 2016.

Foreign Exchange

The Corporation holds an interest in BHD León in the Dominican Republic, which is an investment accounted for under the equity method. The Corporation's carrying value of the equity interest in BHD León approximated \$135 million at December 31, 2017. This business is conducted in the country's foreign currency. The resulting foreign currency translation adjustment, from operations for which the functional currency is other than the U.S. dollar, is reported in accumulated other comprehensive loss in the consolidated statements of condition, except for highly-inflationary environments in which the effects would be included in the consolidated statements of operations. At December 31, 2017, the Corporation had approximately \$43 million in an unfavorable foreign currency translation adjustment as part of accumulated other comprehensive loss,

compared with an unfavorable adjustment of \$40 million at December 31, 2016 and \$36 million at December 31, 2015.

Liquidity

The objective of effective liquidity management is to ensure that the Corporation has sufficient liquidity to meet all of its financial obligations, finance expected future growth and maintain a reasonable safety margin for cash commitments under both normal and stressed market conditions. The Board is responsible for establishing the Corporation's tolerance for liquidity risk, including approving relevant risk limits and policies. The Board has delegated the monitoring of these risks to the RMC and the ALCO. The management of liquidity risk, on a long-term and day-to-day basis, is the responsibility of the Corporate Treasury Division. The Corporation's Corporate Treasurer is responsible for implementing the policies and procedures approved by the Board and for monitoring the Corporation's liquidity position on an ongoing basis. Also, the Corporate Treasury Division coordinates corporate wide liquidity management strategies and activities with the reportable segments, oversees policy breaches and manages the escalation process. The Financial and Operational Risk Management Division is responsible for the independent monitoring and reporting of adherence with established policies.

An institution's liquidity may be pressured if, for example, its credit rating is downgraded, it experiences a sudden and unexpected substantial cash outflow, or some other event causes counterparties to avoid exposure to the institution. Factors that the Corporation does not control, such as the economic outlook, adverse ratings of its principal markets and regulatory changes, could also affect its ability to obtain funding.

Liquidity is managed by the Corporation at the level of the holding companies that own the banking and non-banking subsidiaries. It is also managed at the level of the banking and non-banking subsidiaries. The Corporation has adopted policies and limits to monitor more effectively the Corporation's liquidity position and that of the banking subsidiaries. Additionally, contingency funding plans are used to model various stress events of different magnitudes and affecting different time horizons that assist management in evaluating the size of the liquidity buffers needed if those stress events occur. However, such models may not predict accurately how the market and customers might react to every event, and are dependent on many assumptions.

On January 23, 2017, the Corporation's Board of Directors approved an increase in the Company's quarterly common stock dividend from \$0.15 per share to \$0.25 per share. During the year ended December 31, 2017, the Corporation declared dividends on its common stock of \$ 102.1 million and completed a \$75 million privately negotiated accelerated share

repurchase transaction. Refer to additional information on Note 23 – Stockholder's equity.

Deposits, including customer deposits, brokered deposits and public funds deposits, continue to be the most significant source of funds for the Corporation, funding 80% of the Corporation's total assets at December 31, 2017 and 79% at December 31, 2016. The ratio of total ending loans to deposits was 70% at December 31, 2017, compared to 77% at December 31, 2016. In addition to traditional deposits, the Corporation maintains borrowing arrangements. At December 31, 2017, these borrowings consisted primarily of \$ 391 million in assets sold under agreement to repurchase, \$726 million in advances with the FHLB, \$439 million in junior subordinated deferrable interest debentures (net of debt issuance cost) related to trust preferred securities and \$446 million in term notes (net of debt issuance cost) issued to partially fund the repayment of TARP funds. A detailed description of the Corporation's borrowings, including their terms, is included in Note 20 to the Consolidated Financial Statements. Also, the Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements provide information on the Corporation's cash inflows and outflows.

Given the widespread level of disruption to basic infrastructure and commercial activity in the regions impacted by the passage of hurricanes Irma and Maria, BPPR decided to adopt certain measures to assist its customers in affected areas. These measures include the waiver of certain fees and charges, such as late payment charges and ATM transaction fees, and a temporary payment moratorium to eligible borrowers across most loan portfolios during which BPPR will continue to accrue interest on the loans.

These measures, while important to assist in the recovery of our customers post-hurricane, will negatively impact our results of operations and liquidity. For example, the waiver of fees and other charges negatively impacted the Corporation's revenues for the third quarter and fourth quarters of 2017. The moratorium impacts our liquidity not only due to principal and interest payments that BPPR did not receive during the period, but also as a result of loans serviced by the Corporation where we are required to advance to the owners the payment of principal and interest on a scheduled basis even when such payment is not collected from the borrower.

Management believes that the liquidity impact of these measures is not significant in light of BPPR's existing liquidity resources and that BPPR has sufficient liquidity to meet anticipated cash flow obligations. Deposits at BPPR as of December 31, 2017 were higher by approximately \$2.0 billion than as of the end of the second quarter of 2017. Management will continue to monitor the effect of the moratorium as the period comes to an end and the loan repayment schedule is resumed.

The following sections provide further information on the Corporation's major funding activities and needs, as well as the

risks involved in these activities. A detailed description of the Corporation's borrowings and available lines of credit, including its terms, is included in Note 20 to the Consolidated Financial Statements. Also, the Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements provide information on the Corporation's cash inflows and outflows.

Banking Subsidiaries

Primary sources of funding for the Corporation's banking subsidiaries (BPPR and BPNA), or "the banking subsidiaries," include retail and commercial deposits, brokered deposits, unpledged investment securities, mortgage loan securitization, and, to a lesser extent, loan sales. In addition, the Corporation maintains borrowing facilities with the FHLB and at the discount window of the Federal Reserve Board (the "FRB"), and has a considerable amount of collateral pledged that can be used to quickly raise funds under these facilities.

The principal uses of funds for the banking subsidiaries include loan originations, investment portfolio purchases, loan purchases and repurchases, repayment of outstanding obligations (including deposits), and operational expenses. Also, the banking subsidiaries assume liquidity risk related to collateral posting requirements for certain activities mainly in connection with contractual commitments, recourse provisions, servicing advances, derivatives, credit card licensing agreements and support to several mutual funds administered by BPPR.

During the year ended December 31, 2017, BPPR declared cash dividends of \$192 million, a portion of which was used by Popular, Inc. for the payments of the cash dividends on its outstanding common stock and to complete the repurchase of \$75 million in treasury stock as part of the privately negotiated accelerated share repurchase transaction completed during the first quarter of 2017, as mentioned above.

During the year ended December 31, 2017, BPNA declared a dividend of \$10.4 million to Popular North America, its holding company, who in turn declared a \$10.4 million dividend to Popular, Inc.

Note 44 to the Consolidated Financial Statements provides a consolidating statement of cash flows which includes the Corporation's banking subsidiaries as part of the "All other subsidiaries and eliminations" column.

The banking subsidiaries maintain sufficient funding capacity to address large increases in funding requirements such as deposit outflows. This capacity is comprised mainly of available liquidity derived from secured funding sources, as well as on-balance sheet liquidity in the form of cash balances maintained at the Fed and unused secured lines held at the FRB and FHLB, in addition to liquid unpledged securities. The Corporation has established liquidity guidelines that require the banking subsidiaries to have sufficient liquidity to cover all short-term borrowings and a portion of deposits.

The Corporation's ability to compete successfully in the marketplace for deposits, excluding brokered deposits, depends on various factors, including pricing, service, convenience and financial stability as reflected by operating results, credit ratings (by nationally recognized credit rating agencies), and importantly, FDIC deposit insurance. Although a downgrade in the credit ratings of the Corporation's banking subsidiaries may impact their ability to raise retail and commercial deposits or the rate that it is required to pay on such deposits, management does not believe that the impact should be material. Deposits at all of the Corporation's banking subsidiaries are federally insured (subject to FDIC limits) and this is expected to mitigate the potential effect of a downgrade in the credit ratings.

Deposits are a key source of funding as they tend to be less volatile than institutional borrowings and their cost is less sensitive to changes in market rates. Refer to Table 15 for a breakdown of deposits by major types. Core deposits are

generated from a large base of consumer, corporate and institutional customers. Core deposits include all non-interest bearing deposits, savings deposits and certificates of deposit under \$100,000, excluding brokered deposits with denominations under \$100,000. Core deposits have historically provided the Corporation with a sizable source of relatively stable and low-cost funds. Core deposits totaled \$ 30.9 billion, or 87% of total deposits, at December 31, 2017, compared with \$25.8 billion, or 84% of total deposits, at December 31, 2016. Core deposits financed 76% of the Corporation's earning assets at December 31, 2017, compared with 76% at December 31, 2016.

Certificates of deposit with denominations of \$100,000 and over at December 31, 2017 totaled \$ 4.1 billion, or 11% of total deposits (December 31, 2016 - \$4.1 billion, or 14% of total deposits). Their distribution by maturity at December 31, 2017 is presented in the table that follows:

Table 25 - Distribution by Maturity of Certificate of Deposits of \$100,000 and Over

<i>(In thousands)</i>	
3 months or less	\$1,270,163
3 to 6 months	442,833
6 to 12 months	799,514
Over 12 months	1,555,793
Total	\$4,068,303

Average deposits, including brokered deposits, for the year ended December 31, 2017 represented 88% of average earning assets, compared with 86% and 85% for the years ended December 31, 2016 and 2015, respectively. Table 26 summarizes average deposits for the past five years.

Table 26 - Average Total Deposits

<i>(In thousands)</i>	For the years ended December 31,				
	2017	2016	2015	2014	2013
Non-interest bearing demand deposits	\$ 7,338,455	\$ 6,607,639	\$ 6,146,504	\$ 5,533,649	\$ 5,728,228
Savings accounts	8,268,969	7,528,057	7,027,238	6,733,195	6,792,137
NOW, money market and other interest bearing demand accounts	9,958,772	7,024,810	5,446,933	4,824,402	5,738,189
Certificates of deposit:					
Under \$100,000	2,455,073	2,525,448	3,537,307	3,708,622	4,817,831
\$100,000 and over	4,127,668	4,240,008	3,755,412	3,107,735	2,995,175
Certificates of deposit	6,582,741	6,765,456	7,292,719	6,816,357	7,813,006
Other time deposits	1,033,585	1,140,048	865,189	739,752	700,815
Total interest bearing deposits	25,844,067	22,458,371	20,632,079	19,113,706	21,044,147
Total average deposits	\$33,182,522	\$29,066,010	\$26,778,583	\$24,647,355	\$26,772,375

At December 31, 2017 approximately 1% of the Corporation's assets were financed by brokered deposits (December 31, 2016 - 2%). The Corporation had \$ 0.5 billion in brokered deposits at December 31, 2017 (December 31, 2016 - \$0.6 billion). In the event that any of the Corporation's

banking subsidiaries' regulatory capital ratios fall below those required by a well-capitalized institution or are subject to capital restrictions by the regulators, that banking subsidiary faces the risk of not being able to raise or maintain brokered deposits and faces limitations on the rate paid on deposits,

which may hinder the Corporation's ability to effectively compete in its retail markets and could affect its deposit raising efforts.

To the extent that the banking subsidiaries are unable to obtain sufficient liquidity through core deposits, the Corporation may meet its liquidity needs through short-term borrowings by pledging securities for borrowings under repurchase agreements, by pledging additional loans and securities through the available secured lending facilities, or by selling liquid assets. These measures are subject to availability of collateral.

The Corporation's banking subsidiaries have the ability to borrow funds from the FHLB. At December 31, 2017 and December 31, 2016, the banking subsidiaries had credit facilities authorized with the FHLB aggregating to \$3.9 billion, based on assets pledged with the FHLB at those dates. Outstanding borrowings under these credit facilities totaled \$726 million at December 31, 2017 and \$673 million at December 31, 2016. Such advances are collateralized by loans held-in-portfolio, do not have restrictive covenants and do not have any callable features. At December 31, 2017 the credit facilities authorized with the FHLB were collateralized by \$4.9 billion in loans held-in-portfolio (December 31, 2016 - \$4.9 billion). Refer to Note 20 to the Consolidated Financial Statements for additional information on the terms of FHLB advances outstanding.

At December 31, 2017 and December 31, 2016, the Corporation's borrowing capacity at the Fed's Discount Window amounted to approximately \$1.1 billion and \$1.2 billion, respectively, which remained unused as of both dates. The amount available under this borrowing facility is dependent upon the balance of performing loans, securities pledged as collateral and the haircuts assigned to such collateral. At December 31, 2017, this credit facility with the Fed was collateralized by \$2.0 billion of loans held-in-portfolio (December 31, 2016 - \$2.3 billion).

At December 31, 2017, management believes that the banking subsidiaries had sufficient current and projected liquidity sources to meet their anticipated cash flow obligations, as well as special needs and off-balance sheet commitments, in the ordinary course of business and have sufficient liquidity resources to address a stress event. Although the banking subsidiaries have historically been able to replace maturing deposits and advances, no assurance can be given that they would be able to replace those funds in the future if the Corporation's financial condition or general market conditions were to deteriorate. The Corporation's financial flexibility will be severely constrained if its banking subsidiaries are unable to maintain access to funding or if adequate financing is not available to accommodate future financing needs at acceptable interest rates. The banking subsidiaries also are required to deposit cash or qualifying securities to meet margin requirements. To the extent that the value of securities

previously pledged as collateral declines because of market changes, the Corporation will be required to deposit additional cash or securities to meet its margin requirements, thereby adversely affecting its liquidity. Finally, if management is required to rely more heavily on more expensive funding sources to meet its future growth, revenues may not increase proportionately to cover costs. In this case, profitability would be adversely affected.

Bank Holding Companies

The principal sources of funding for the bank holding companies (the "BHC's"), which are Popular, Inc. (holding company only) ("PIHC") and Popular North America, Inc. ("PNA"), include cash on hand, investment securities, dividends received from banking and non-banking subsidiaries (subject to regulatory limits and authorizations) asset sales, credit facilities available from affiliate banking subsidiaries and proceeds from potential securities offerings.

The principal use of these funds include the repayment of debt, and interest payments to holders of senior debt and junior subordinated deferrable interest (related to trust preferred securities) and capitalizing its banking subsidiaries.

During the year ended December 31, 2017, PIHC received \$192 million in dividends from BPPR, \$12 million in dividends from PIBI, \$10.4 million in dividends from PNA and \$3.5 million in dividends from EVERTEC's parent company. PIHC also received \$0.5 million in distributions from its investment in PRB Investors LP, an equity method investment, and \$19.5 million in dividends from its non-banking subsidiaries. In addition, during the year ended December 31, 2017 Popular International Bank received \$11.8 million in dividends from its investment in BHD Leon. During the year ended December 31, 2017, PNA received \$10.4 million in dividends from BPNA.

Another use of liquidity at the parent holding company is the payment of dividends on its outstanding stock. During the year ended December 31, 2017, the Corporation declared quarterly dividends on its outstanding common stock of \$0.25 per share, for a total of \$ 102.1 million and completed a \$75 million privately negotiated accelerated share repurchase transaction. Refer to additional information on Note 23 – Stockholder's equity. The dividends for the Corporation's Series A and Series B preferred stock amounted to \$3.7 million for the year ended December 31, 2017.

The BHC's have in the past borrowed in the money markets and in the corporate debt market primarily to finance their non-banking subsidiaries, however, the cash needs of the Corporation's non-banking subsidiaries other than to repay indebtedness and interest are now minimal. These sources of funding have become more costly due to the reductions in the Corporation's credit ratings. The Corporation's principal credit ratings are below "investment grade" which affects the Corporation's ability to raise funds in the capital markets. The

Corporation has an automatic shelf registration statement filed and effective with the Securities and Exchange Commission, which permits the Corporation to issue an unspecified amount of debt or equity securities.

Note 44 to the Consolidated Financial Statements provides a statement of condition, of operations and of cash flows for the two BHC's. The loans held-in-portfolio in such financial statements is principally associated with intercompany transactions.

The outstanding balance of notes payable at the BHC's amounted to \$886 million at December 31, 2017, compared with \$884 million at December 31, 2016. The repayment of the BHC's obligations represents a potential cash need which is expected to be met with a combination of internal liquidity resources stemming mainly from future dividend receipts and new borrowings.

The contractual maturities of the BHC's notes payable at December 31, 2017 are presented in Table 27.

Table 27 - Distribution of BHC's Notes Payable by Contractual Maturity

<u>Year</u>	(In thousands)
2018	\$ -
2019	446,873
2020	-
2021	-
2022	-
Later years	439,351
Total	\$886,224

As indicated previously, the BHC did not issue new registered debt in the capital markets during the year ended December 31, 2017.

The BHCs liquidity position continues to be adequate with sufficient cash on hand, investments and other sources of liquidity which are expected to be enough to meet all BHCs obligations during the foreseeable future.

Non-banking subsidiaries

The principal sources of funding for the non-banking subsidiaries include internally generated cash flows from operations, loan sales, repurchase agreements, capital injection and borrowed funds from their direct parent companies or the holding companies. The principal uses of funds for the non-banking subsidiaries include repayment of maturing debt, operational expenses and payment of dividends to the BHCs. The liquidity needs of the non-banking subsidiaries are minimal since most of them are funded internally from operating cash flows or from intercompany borrowings from their holding companies, BPPR or BPNA.

Other Funding Sources and Capital

The investment securities portfolio provides an additional source of liquidity, which may be realized through either securities sales or repurchase agreements. The Corporation's investment securities portfolio consists primarily of liquid U.S. government investment securities, sponsored U.S. agency securities, government sponsored mortgage-backed securities, and collateralized mortgage obligations that can be used to raise funds in the repo markets. The availability of the repurchase agreement would be subject to having sufficient unpledged collateral available at the time the transactions are to be consummated, in addition to overall liquidity and risk appetite of the various counterparties. The Corporation's unpledged investment and trading securities, excluding other investment securities, amounted to \$3.2 billion at December 31, 2017 and \$3.7 billion at December 31, 2016. A substantial portion of these securities could be used to raise financing quickly in the U.S. money markets or from secured lending sources.

Additional liquidity may be provided through loan maturities, prepayments and sales. The loan portfolio can also be used to obtain funding in the capital markets. In particular, mortgage loans and some types of consumer loans, have secondary markets which the Corporation could use.

Risks to Liquidity

Total lines of credit outstanding are not necessarily a measure of the total credit available on a continuing basis. Some of these lines could be subject to collateral requirements, standards of creditworthiness, leverage ratios and other regulatory requirements, among other factors. Derivatives, such as those embedded in long-term repurchase transactions or interest rate swaps, and off-balance sheet exposures, such as recourse, performance bonds or credit card arrangements, are subject to collateral requirements. As their fair value increases, the collateral requirements may increase, thereby reducing the balance of unpledged securities.

The importance of the Puerto Rico market for the Corporation is an additional risk factor that could affect its financing activities. In the case of a deterioration in economic and fiscal conditions in Puerto Rico, the credit quality of the Corporation could be affected and result in higher credit costs. The Puerto Rico economy continues to face various challenges, including significant pressures in some sectors of the residential real estate market and the recent impact of two major hurricanes. Refer to the Geographic and Government Risk section of this MD&A for some highlights on the current status of the Puerto Rico economy and the ongoing fiscal crisis.

Factors that the Corporation does not control, such as the economic outlook and credit ratings of its principal markets and regulatory changes, could also affect its ability to obtain funding. In order to prepare for the possibility of such scenario, management has adopted contingency plans for raising financing under stress scenarios when important sources of

funds that are usually fully available are temporarily unavailable. These plans call for using alternate funding mechanisms, such as the pledging of certain asset classes and accessing secured credit lines and loan facilities put in place with the FHLB and the FRB.

The credit ratings of Popular's debt obligations are a relevant factor for liquidity because they impact the Corporation's ability to borrow in the capital markets, its cost and access to funding sources. Credit ratings are based on the financial strength, credit quality and concentrations in the loan portfolio, the level and volatility of earnings, capital adequacy, the quality of management, geographic concentration in Puerto Rico, the liquidity of the balance sheet, the availability of a significant base of core retail and commercial deposits, and the Corporation's ability to access a broad array of wholesale funding sources, among other factors.

The Corporation's banking subsidiaries have historically not used unsecured capital market borrowings to finance its operations, and therefore are less sensitive to the level and changes in the Corporation's overall credit ratings. At the BHCs, the volume of capital market borrowings has declined substantially, as the non-banking lending businesses that it had historically funded have been shut down and the need to raise unsecured senior debt has been substantially reduced.

Obligations Subject to Rating Triggers or Collateral Requirements

The Corporation's banking subsidiaries currently do not use borrowings that are rated by the major rating agencies, as these banking subsidiaries are funded primarily with deposits and secured borrowings. The banking subsidiaries had \$12 million in deposits at December 31, 2017 that are subject to rating triggers.

Some of the Corporation's derivative instruments include financial covenants tied to the bank's well-capitalized status and certain formal regulatory actions. These agreements could require exposure collateralization, early termination or both. The fair value of derivative instruments in a liability position subject to financial covenants approximated \$10 thousand at December 31, 2017, with the Corporation providing collateral totaling \$94 thousand to cover the net liability position with counterparties on these derivative instruments.

In addition, certain mortgage servicing and custodial agreements that BPPR has with third parties include rating covenants. In the event of a credit rating downgrade, the third parties have the right to require the institution to engage a substitute cash custodian for escrow deposits and/or increase collateral levels securing the recourse obligations. Also, as discussed in Note 26 to the Consolidated Financial Statements, the Corporation services residential mortgage loans subject to credit recourse provisions. Certain contractual agreements require the Corporation to post collateral to secure such recourse obligations if the institution's required credit ratings

are not maintained. Collateral pledged by the Corporation to secure recourse obligations amounted to approximately \$48 million at December 31, 2017. The Corporation could be required to post additional collateral under the agreements. Management expects that it would be able to meet additional collateral requirements if and when needed. The requirements to post collateral under certain agreements or the loss of escrow deposits could reduce the Corporation's liquidity resources and impact its operating results.

Credit Risk

The effective management of credit risk requires the establishment of an appropriate credit risk culture. Credit risk policies and the Corporation's risk appetite are important components to establish this culture. The Corporation has clearly defined credit policies for the approval and management of credit risk. Credit underwriting standards apply to all lending activities. These set the minimum requirements in assessing the ability of debtors and/or counterparties to meet their contracted financial obligations for repayment, acceptable forms of collateral and security and the frequency of credit reviews.

The policies and standards are designed to achieve loan portfolio outcomes that are consistent with Corporation's risk appetite. The Board of Directors, both directly or through the Risk Management Committee, reviews and approves the Corporation's risk appetite statement and the Corporation's credit risk tolerance limits. The CRESCO monitors credit risk management activities both at the corporate level and across all Popular subsidiaries, including the adherence to the Corporation's risk appetite and credit risk tolerance limits.

The Corporation's credit risk limits establish threshold and performance metrics that the Corporation and each subsidiary bank must adhere to in pursuit of its strategic objectives. Credit risk tolerance are defined along three dimensions: (1) loss and credit performance tolerances; (2) portfolio composition and concentration tolerances; and (3) industry and name-level tolerances.

Credit risk occurs any time funds are advanced, committed, invested or otherwise exposed. Credit risk arises primarily from the Corporation's lending activities, as well as from other on-balance sheet and off-balance sheet credit instruments. Credit risk management is based on analyzing the creditworthiness of the borrower or counterparty, the adequacy of underlying collateral given current events and conditions, and the existence and strength of any guarantor support.

Business activities that expose the Corporation to credit risk are managed within the Board's established limits that consider factors, such as maintaining a prudent balance of risk-taking across diversified risk types and business units (compliance with regulatory guidance, considering factors such as concentrations and loan-to-value ratios), controlling the exposure to lower credit quality assets, and limiting growth in,

and overall exposure to, any product or risk segment where the Corporation does not have sufficient experience and a proven ability to predict credit losses.

The significant changes in the economic conditions and the resulting changes in the borrower's profile over the past several years requires the Corporation to continue to focus on the identification, monitoring and managing of its credit risk. The Corporation manages credit risk by maintaining sound underwriting standards, monitoring and evaluating loan portfolio quality, its trends and collectability, and assessing reserves and loan concentrations. Also, credit risk is mitigated by implementing and monitoring lending policies and collateral requirements, and instituting credit review procedures to ensure appropriate actions to comply with laws and regulations. The Corporation's credit policies require prompt identification and quantification of asset quality deterioration or potential loss in order to ensure the adequacy of the allowance for loan losses. Included in these policies, primarily determined by the amount, type of loan and risk characteristics of the credit facility, are various approval levels and lending limit constraints, ranging from the branch or department level to those that are more centralized. When considered necessary, the Corporation requires collateral to support credit extensions and commitments, which is generally in the form of real estate and personal property, cash on deposit and other highly liquid instruments.

The Corporation's Credit Strategy Committee ("CRESCO") is management's top policy-making body with respect to credit-related matters and credit strategies. CRESCO reviews the activities of each subsidiary, in the detail that it deems appropriate, to ensure a proactive and coordinated management of credit granting, credit exposures and credit procedures. CRESCO's principal functions include reviewing the adequacy of the allowance for loan losses and periodically approving appropriate provisions, monitoring compliance with charge-off policy, establishing portfolio diversification standards, yield and quality standards, establishing credit exposure reporting standards, monitoring asset quality, and approving credit policies and amendments thereto for the subsidiaries and/or business lines, including special lending approval authorities when and if appropriate. The analysis of the allowance adequacy is presented to the Risk Management Committee of the Board of Directors for review, consideration and ratification on a quarterly basis.

The Corporation also has a Corporate Credit Risk Management Division ("CCRMD"). CCRMD is a centralized unit, independent of the lending function. The CCRMD's functions include identifying, measuring and controlling credit risk independently from the business units, evaluating the credit risk rating system and reviewing the adequacy of the allowance for loan losses in accordance with GAAP and regulatory standards. CCRMD also ensures that the subsidiaries comply with the credit policies and applicable regulations, and

monitors credit underwriting standards. Also, the CCRMD performs ongoing monitoring of the portfolio, including potential areas of concern for specific borrowers and/or geographic regions. During the past years, the CCRMD has strengthened its quantitative measurement capabilities, part of continued improvements to the credit risk management processes.

The Corporation's Corporate Loan Review and Model Risk Monitoring ("CLR & MRM") Division is an independent function from the CCRMD. Through the Commercial Loan Review Unit at the Corporate Loan Review Department ("CLRDR"), CLR & MRM evaluates compliance with the Bank's Commercial Credit Norms and Procedures and the precision of risk rating accuracy. The CLRDR performs annual credit process reviews of several commercial portfolios, including small and middle market, construction, asset-based and corporate banking lending groups in BPPR, as well as BPNA's commercial and construction portfolios. This group evaluates the credit risk profile of each originating unit along with each unit's credit administration effectiveness, including the assessment of the risk rating representative of the current credit quality of the loans, and the evaluation of credit and collateral documentation. The monitoring performed by CLRDR contributes to assess compliance with credit policies and underwriting standards, to determine the current level of credit risk, to evaluate the effectiveness of the credit management process and to identify control deficiencies that may arise in the credit-origination and management processes. Based on its findings, CLRDR develops recommendations to implement corrective actions, if necessary, that help in maintaining a sound credit process and that credit risk is kept at an acceptable level. The Loan Review Department reports the results of the credit process reviews to the Risk Management Committee of the Corporation's Board of Directors.

At December 31, 2017, the Corporation's credit exposure was centered in its \$24.9 billion total loan portfolio, which represented 61% of its earning assets. The portfolio composition for the last five years is presented in Table 9.

The Corporation issues certain credit-related off-balance sheet financial instruments including commitments to extend credit, standby letters of credit and commercial letters of credit to meet the financing needs of its customers. For these financial instruments, the contract amount represents the credit risk associated with failure of the counterparty to perform in accordance with the terms and conditions of the contract and the decline in value of the underlying collateral. The credit risk associated with these financial instruments varies depending on the counterparty's creditworthiness and the value of any collateral held. Refer to Note 27 to the consolidated financial statements and to the Contractual Obligations and Commercial Commitments section of this MD&A for the Corporation's involvement in these credit-related activities.

At December 31, 2017, the Corporation maintained a reserve of approximately \$10 million for potential losses associated with unfunded loan commitments related to commercial and consumer lines of credit (2016 - \$9 million).

The Corporation is also exposed to credit risk by using derivative instruments but manages the level of risk by only dealing with counterparties of good credit standing, entering into master netting agreements whenever possible and, when appropriate, obtaining collateral. Refer to Note 29 to the consolidated financial statements for further information on the Corporation's involvement in derivative instruments and hedging activities, and the Derivatives sub-section included under Risk Management in this MD&A.

The Corporation may also encounter risk of default in relation to its investment securities portfolio. Refer to Notes 7 and 8 for the composition of the investment securities available-for-sale and held-to-maturity. The investment securities portfolio held by the Corporation at December 31, 2017 are mostly Obligations of U.S. Government sponsored entities, collateralized mortgage obligations, mortgage-backed securities and Obligations of Puerto Rico, States and political subdivisions.

The Corporation's credit risk exposure is spread among individual consumers, small and medium businesses, as well as corporate borrowers engaged in a wide variety of industries. Of these commercial lending relationships, 312 have an aggregate exposure of \$10 million or more. At December 31, 2017, highly leveraged transactions and credit facilities to finance real estate ventures or business acquisitions amounted to \$246 million (2016 - \$195 million), and there are no loans to less developed countries. The Corporation limits its exposure to concentrations of credit risk by the nature of its lending limits.

The Corporation has a significant portfolio of commercial loans, mostly secured by commercial real estate properties. Due to their nature, these loans entail a higher credit risk than consumer and residential mortgage loans, since they are larger in size, may have less collateral coverage, higher concentrated risk in a single borrower and are generally more sensitive to economic downturns. General economic conditions and numerous other factors continue to create volatility in collateral values and have increased the possibility that additional losses may have to be recognized with respect to the Corporation's current nonperforming assets. Furthermore, given the current slowdown in the real estate market, particularly in Puerto Rico, the properties securing these loans may be difficult to dispose of, if foreclosed.

Historically, the levels of real estate prices in Puerto Rico were more stable than in other U.S. markets. Nevertheless, the current economic environment has accelerated the devaluation of properties. In addition, demographic trends are also impacting the demand for housing and hence the devaluation of properties. Over the last few years, as the recession has continued, outmigration has accelerated to leading lower

housing demand in Puerto Rico. Further declines in property values could impact the credit quality of the loan portfolios in Puerto Rico as the value of the collateral underlying the loans is the primary source of repayment in the event of foreclosure. Lower real estate values could increase the provision for loan losses, loan delinquencies, foreclosures and the cost of repossessing and disposing of real estate collateral.

Over the past several years, the Corporation has focused in de-risking its loan portfolios by reducing its exposure in asset classes with historically high loss content. In Puerto Rico, the construction portfolio has been reduced significantly standing at only \$95 million in December 31, 2017. In the U.S., during the second half of 2014, the divestiture of its regional operations in California, Illinois, and Central Florida, as well as the sale of certain non-performing and legacy assets were completed, as part of the U.S. operations reorganization. Furthermore, the Corporation has significantly curtailed the production of non-traditional mortgages as it ceased originating subprime consumer loans and non-conventional mortgage loans in its U.S. mainland operations. This shift in the risk profile of the credit portfolios has strengthened the Corporation and its better positioned to operate in Puerto Rico's complex environment. The Corporation continues to analyze and monitor the higher risk segments of its portfolios, and although deemed appropriately sized and within the risk tolerance limits, remains attentive to changes in trends.

Management continues to refine the Corporation's credit standards to meet the changing economic environment. The Corporation has strengthened its underwriting criteria, as well as enhanced its line management, collection strategies and problem loan management process. The commercial lending and administration groups continue strengthening critical areas to manage more effectively the current scenario, focusing strategies on critical steps in the origination and portfolio management processes to ensure the quality of incoming loans as well as to detect and manage potential problem loans early. The consumer lending group has also tightened the underwriting standards across all business lines and reduced its exposure in areas that are more likely to be impacted under the current economic conditions.

During the month of September, Hurricanes Irma and Maria made landfall causing extensive destruction in Puerto Rico, the U.S. and British Virgin Islands. These natural disasters left unprecedented destruction causing a collapse of the electric, water and telecommunication systems, leaving the population with huge challenges in light of an already fragile economy prior to the hurricanes. Restoration of the island's electric infrastructure and the telecommunications network, as well as the speed of such restoration, remain the most critical challenges for Puerto Rico's recovery from the hurricanes. Power outage has extended much longer than expected, causing people to migrate off-island and business disruptions, among other issues. Power generation is currently at approximately

85% of normal electricity production, up from 30% at the end of October, now reaching 87% of all customers.

During the fourth quarter of 2017, a loan payment moratorium was granted to consumer and commercial borrowers in response to the effects of the hurricanes. The Corporation continues to assess the impact of the hurricanes on its customers and potential credit losses. As of December 31, 2017, the key measures used to evaluate and monitor the Corporation's asset quality have been affected by the payment moratorium, and the temporary suspension of collection and foreclosure activities after the hurricanes.

Geographic and Government Risk

The Corporation is exposed to geographic and government risk. The Corporation's assets and revenue composition by geographical area and by business segment reporting are presented in Note 41 to the Consolidated Financial Statements.

Commonwealth of Puerto Rico

A significant portion of our financial activities and credit exposure is concentrated in the Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico"), which continues to be in a severe economic and fiscal crisis and was recently significantly impacted by two major hurricanes.

Hurricanes Impact

During the month of September 2017, Hurricanes Irma and Maria, two major hurricanes, caused extensive destruction in Puerto Rico, disrupting the primary market in which BPPR does business. Most relevant, Hurricane Maria made landfall on September 20, 2017, causing severe wind and flood damage to infrastructure, homes and businesses throughout Puerto Rico. Following the passage of Hurricane Maria, all Puerto Rico was left without electrical power, other basic utility and infrastructure services (such as water, communications, ports and other transportation networks) were severely curtailed and the government imposed a mandatory curfew. The hurricanes caused significant disruption to the island's economic activity. Most business establishments, including retailers and wholesalers, financial institutions, manufacturing facilities and hotels, were closed for several days.

Puerto Rico was declared a disaster zone by President Trump due to the impact of the hurricanes, thus making it eligible for Federal assistance. Notwithstanding the significant recovery operation that has been carried out by Federal, state and local governments during the past five months, and which is still underway, as of the date of this report, approximately 13% of the clients of the government's electric utility company remain without power (according to the government's estimates), and number of businesses are operating partially or remain closed, while others have permanently closed. Electronic transactions, a significant source of revenue for BPPR, declined significantly in the months following the

hurricanes as a result of the lack of power and telecommunication services, but have already returned to pre-hurricane levels. Several reports indicate that the hurricanes have also accelerated the outmigration trends that Puerto Rico was experiencing, with many residents moving to the mainland United States, either on a temporary or permanent basis.

The damages caused by the hurricanes are substantial and have had a material adverse impact on economic activity in Puerto Rico. As further discussed below, the government's Proposed Fiscal Plan (as defined below) estimates an 11% decrease in real gross national product ("GNP") in fiscal year 2018 (July 2017-June 2018), as well as a steep decrease in the government's tax revenues. It is still, however, too early to fully assess and quantify the extent of the damage caused by the hurricanes, as well as their long-term impact on economic activity. For a discussion of the impact of the hurricanes on the Corporation's operations and financial results during 2017, refer to Note 2 – Hurricanes impact, on the accompanying financial statements. For additional discussion of risk factors related to the impact of the hurricanes, see Item 1A of this report.

Fiscal and Economic Crisis

Even before the hurricanes, the Commonwealth was experiencing a severe fiscal and economic crisis resulting from continuing economic contraction, persistent and significant budget deficits, a high debt burden, unfunded legacy obligations, and lack of access to the capital markets, among other factors. The Commonwealth's deficits were historically covered with bond financings, loans from Government Development Bank for Puerto Rico ("GDB"), and other extraordinary one-time revenue measures, as well through the deferment of the cost of certain legacy obligations, such as pensions.

Notwithstanding the implementation of a number of extraordinary measures aimed at increasing revenues, reducing expenditures, and managing the government's liquidity, the Commonwealth's structural imbalance between revenue and expenditure and its unfunded legacy obligations, coupled with the Commonwealth's inability to access the capital markets, eventually resulted in the Commonwealth and certain of its instrumentalities being unable to pay scheduled debt payments while continuing to provide government services. A moratorium on most debt service payments has been in place 2016 and, as further discussed below, the Commonwealth and several of its instrumentalities are currently pursuing debt restructuring proceedings under Titles III or VI of the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA").

Following the hurricanes, the Commonwealth and its instrumentalities have had to incur significant extraordinary expenditures, while experiencing a substantial decrease in tax

and other revenues. The Commonwealth's municipalities are also facing similar challenges. Such circumstances have aggravated the enduring fiscal and economic crisis and have further strained the government's liquidity, notwithstanding the receipt of significant Federal assistance. The government has announced that it will need to obtain loans from the Federal government in order to continue financing the recovery efforts and to provide necessary, interim support to the Puerto Rico Electric Power Authority ("PREPA") and the Puerto Rico Aqueduct and Sewer Authority ("PRASA"). Furthermore, the Legislative Assembly recently enacted legislation to authorize the government to make loans of up to \$550 million and \$80 million to PREPA and PRASA, respectively, in order to cover the expected liquidity shortfalls of such entities, which provide essential electric power and water services to the residents of Puerto Rico. On February 19, 2018, the federal judge presiding over the pending debt restructuring proceedings under Title III of PROMESA (further discussed below) authorized PREPA to obtain a \$300 million emergency loan from the Commonwealth. Such loan is expected to provide temporary liquidity relief to PREPA to allow for recovery efforts to continue and prevent further service interruptions. The Government anticipates that it will need to implement a number of additional extraordinary measures to address its many challenges, some of which are described in the Proposed Fiscal Plan (further discussed below).

Economic Performance

Puerto Rico entered into recession in the fourth quarter of fiscal year 2006. Puerto Rico's GNP has thereafter contracted in real terms every year between fiscal year 2007 and fiscal year 2016 (inclusive), with the exception of growth of 0.5% in fiscal year 2012 (likely as a result of the large amount of governmental stimulus and deficit spending in that fiscal year). The last Puerto Rico Planning Board estimates, released in April 2017 (before the impact of the hurricanes), project GNP to further contract by 1.7% and 1.5% during fiscal years 2017 and 2018, respectively. The latest Economic Activity Index issued by GDB, which is an indicator of general economic activity and not a direct measurement of GNP, reflected a 2.1% reduction in the average for fiscal year 2017, compared to the prior fiscal year. During the first six months of fiscal year 2018 (July 2017-December 2017), the Economic Activity Index reflected a 9.4% average reduction compared to the corresponding figure for fiscal year 2017.

As discussed above, Hurricanes Irma and Maria have had a material adverse impact on economic activity that is likely to be reflected in further reductions to GNP and the Economic Activity Index during fiscal year 2018. The Puerto Rico economy could also be adversely impacted as a result of the enactment by the U.S. Congress of the Tax Cuts and Jobs Act of 2017, which imposes a 12.5% tax on income generated from patents and licenses held by companies outside of the United

States, including those operating in Puerto Rico. Such new tax could affect Puerto Rico's ability to attract or retain foreign corporations engaged in manufacturing, a dominant sector in the Puerto Rico economy. Considering these factors, the Proposed Fiscal Plan estimates an 11% contraction in real GNP for fiscal year 2018.

Enactment of PROMESA

PROMESA, which was enacted by the Federal government in June 2016, created a seven-member federally-appointed oversight board (the "Oversight Board") with ample powers over the fiscal and economic affairs of the Commonwealth, its instrumentalities, and municipalities. On August 2016, President Obama appointed the seven voting members of the Oversight Board. Pursuant to PROMESA, the Oversight Board will remain in place until market access is restored and balanced budgets, in accordance with modified accrual accounting, are produced for at least four consecutive years.

The Oversight Board has designated the Commonwealth and all of its instrumentalities as "covered entities" under PROMESA. None of the Commonwealth's municipalities, however, have been designated as covered entities as of the date of this report. Such designation has several implications under PROMESA. *First*, it means that the Governor has to submit such entity's annual budgets and, if the Oversight Board so requests, its fiscal plans, to the Oversight Board for its review and approval. *Second*, covered entities may not issue debt or guarantee, exchange, modify, repurchase, redeem, or enter into similar transactions with respect to their debts without the prior approval of the Oversight Board. *Finally*, they could also potentially be eligible to use the restructuring processes provided by PROMESA. One of such restructuring processes, Title VI, is a largely out-of-court process through which a government entity and its financial creditors can agree on terms to restructure such entity's debt. If a supermajority of creditors of a certain category agrees, that agreement can bind all other creditors in such category. The other one, Title III, draws on the federal bankruptcy code and provides a court-supervised process for a comprehensive restructuring led by the Oversight Board. Access to either of these procedures is dependent on compliance with certain requirements established in PROMESA, including the approval of the Oversight Board.

Fiscal Plans

Commonwealth Fiscal Plan. As required by PROMESA, the government submitted a fiscal plan to the Oversight Board, which the Oversight Board certified, with certain amendments, on March 2017 (the "Original Fiscal Plan"). The Original Fiscal Plan, covering the Commonwealth and several of its instrumentalities, estimated that, absent the revenue enhancing and expense reduction measures set forth therein and assuming the payment of debt service as contracted, the Commonwealth's 10-year budget gap would reach approximately \$66.9 billion.

Assuming the successful implementation of all measures set forth therein, the Original Fiscal Plan projected that the Commonwealth and the other entities covered by the fiscal plan would only have \$7.8 billion available for the payment of debt service during said 10-year period (compared to \$35 billion of contractual debt service), thus recognizing the need for significant debt restructuring and/or write downs.

As a result of the aftermath of Hurricanes Irma and Maria, on October 31, 2017, the Oversight Board requested that the government prepare a new fiscal plan (i) revising macroeconomic driver effects on revenue and expenses, (ii) adapting fiscal/structural reform measures and schedule based on feasibility and recovery timeline, and (iii) integrating recovery funds and reimbursement timing with the capital plan. The government submitted such revised fiscal plan to the Oversight Board on January 24, 2018 and, on February 5, 2018, the Oversight Board sent a letter to Governor Rosselló calling for certain revisions to the revised plan. The government submitted a further revised fiscal plan on February 12, 2018 (the "Proposed Fiscal Plan"). The Oversight Board is in the process of reviewing the Proposed Fiscal Plan and has stated that it expects to certify a fiscal plan for the Commonwealth by March 30, 2018. The fiscal plan that is ultimately certified for the Commonwealth, however, may vary significantly from the Proposed Fiscal Plan.

The Proposed Fiscal Plan, which covers a 6-year period, estimates an 11% contraction in real GNP during fiscal year 2018, followed by 5 years of economic growth. It also projects that the Commonwealth will have a cash flow surplus of approximately \$3.4 billion over such period, excluding the payment of any debt service (compared to a \$4.8 billion cash flow surplus projected by the Original Fiscal Plan for the same period, excluding the payment of debt service). The economic performance and cash flow projections take into account the adverse impact of the hurricanes on the economy and government revenues, which is expected to be partially offset by the positive impact of increased federal support, significant reconstruction spending, and structural reforms. The Proposed Fiscal Plan includes illustrative estimates of the implied debt capacity of the Commonwealth and the instrumentalities covered by the plan, based on a range of interest rates and assuming a 30-year term. Such estimates reaffirm the need for significant debt restructuring and/or write-downs. The Proposed Fiscal Plan does not take any position as to the allocation of debt repayments to any particular class of creditors. Pursuant to the Proposed Fiscal Plan, the Commonwealth will need a liquidity facility in fiscal year 2018 to finance the recovery effort and to provide necessary, interim support to PREPA and PRASA. Finally, the Proposed Fiscal Plan includes a number measures intended to be implemented by the government to reduce the financing gap, including public-private partnerships, agency consolidations, the centralization of the government's procurement efforts,

reductions in appropriations and incentives, the implementation of tax and healthcare reforms, the improvement of tax collections, and the consolidation of services provided by municipalities.

Neither the Original Fiscal Plan nor the Proposed Fiscal Plan contemplate a restructuring of the debt of Puerto Rico's municipalities. Both plans, however, as part of their expense reduction measures, contemplate the gradual reduction of budgetary subsidies provided to municipalities, which constitute a material portion of the operating revenues of certain municipalities. The Proposed Fiscal Plan contemplates that such subsidies will be reduced by 80% of current levels by fiscal year 2023. Pursuant to the Proposed Fiscal Plan, the reduction in direct payments to municipalities could be offset by a modernized property tax regime that will focus on updated property values and improved tax collections, and on the regionalization of services through the implementation of a new county structure. Furthermore, according to the Proposed Fiscal Plan, the government is also considering a county support fund of \$100 million per year, with a sunset in fiscal year 2023, to incentivize and enable the transition into the new county structure. The Proposed Fiscal Plan is publicly available at the website of the Puerto Rico Fiscal Agency and Financial Advisory Authority.

Other Fiscal Plans. Pursuant to PROMESA, the Oversight Board also requested and approved fiscal plans for (i) GDB, (ii) Puerto Rico Highways and Transportation Authority, (iii) PREPA, (iv) PRASA and (v) the Public Corporation for the Supervision and Insurance of Cooperatives. All such fiscal plans reflected that the applicable government entity is unable to pay its financial obligations in full, thus recognizing the need for debt relief. Moreover, following the hurricanes, the Oversight Board requested that the government submit new fiscal plans for such entities. The government submitted revised fiscal plans for PREPA and PRASA on January 24, 2018, and the Oversight Board sent a letter to Governor Rosselló calling for certain revisions to the same on February 5, 2018. Further revised fiscal plans for PREPA and PRASA were submitted by the government to the Oversight Board and are currently being reviewed by the Oversight Board. PREPA's certified fiscal plan, as well as the most recent public draft of the fiscal plan for PREPA, assume changes to the treatment of the municipal contribution in lieu of taxes, which could result in increased electricity expenses for municipalities. The Oversight Board has stated that it intends to certify fiscal plans for PREPA and PRASA by March 30, 2018. The fiscal plans ultimately certified by the Oversight Board for PREPA and PRASA may vary significantly from the most recent versions of the fiscal plans for such entities submitted by the government to the Oversight Board.

GDB's certified fiscal plan (a revised fiscal plan for GDB has not yet been submitted to the Oversight Board) contemplates the wind-down of GDB's operations and the distribution of the

cash flows of GDB's loan portfolio among its creditors (including depositors). Pursuant to the Restructuring Support Agreement, dated May 15, 2017, entered into by and among GDB and a significant portion of its financial creditors (the "GDB RSA"), GDB noteholders and municipal depositors would be eligible to exchange their claims against GDB for one of three tranches of bonds to be issued by a new government entity and which would have varied upfront exchange ratios (ranging from 55% to 75%) and coupon rates (ranging from 3.5% to 7.5%). The new bonds would be payable from payments received in respect of certain assets to be transferred by GDB to such new government entity (consisting largely of municipal loans). The legality of the modification of GDB's financial obligations outlined in the GDB RSA is currently being challenged in court by certain dissenting municipalities with deposits in GDB.

Pending Title III and Title VI Proceedings

On May 3, 2017, the Oversight Board, on behalf of the Commonwealth, filed a petition in the U.S. District Court for the District of Puerto Rico to restructure the Commonwealth's liabilities under Title III of PROMESA. The Oversight Board has subsequently filed analogous petitions with respect to COFINA, ERS, HTA and PREPA. As of the date of this report, the plans of adjustment for said entities' debts have not been filed. Based on the projection of funds available for debt service under the applicable fiscal plans, however, the restructuring is expected to result in significant discounts on creditor recoveries.

On July 12, 2017, the Oversight Board conditionally authorized GDB to pursue the modification of its financial obligations outlined in the GDB RSA pursuant to Title VI of PROMESA.

Exposure of the Corporation

The credit quality of BPPR's loan portfolio necessarily reflects, among other things, the general economic conditions in Puerto Rico and other adverse conditions affecting Puerto Rico consumers and businesses. The effects of the prolonged recession are reflected in limited loan demand, an increase in the rate of foreclosures and delinquencies on loans granted in Puerto Rico. While PROMESA provides a process to address the Commonwealth's fiscal crisis, the length and complexity of the Title III proceedings for the Commonwealth and various of its instrumentalities, the adjustment measures required by the fiscal plans and the impact of Hurricanes Irma and Maria suggest a risk of further significant economic contraction. In addition, the measures taken to address the fiscal crisis and those that will have to be taken in the near future will likely affect many of our individual customers and customers' businesses, which could cause credit losses that adversely affect us and may negatively affect consumer confidence. This, in turn, results in reductions in consumer spending that may also adversely impact our interest and non-interest revenues. If

global or local economic conditions worsen or the Government of Puerto Rico and the Oversight Board are unable to adequately manage the Commonwealth's post-hurricane recovery efforts and pre-existing fiscal crisis, including by consummating an orderly restructuring of its debt obligations while continuing to provide essential services, these adverse effects could continue or worsen in ways that we are not able to predict. For additional discussion of risk factors related to the impact of the hurricanes, see Item 1A of this report.

At December 31, 2017, the Corporation's direct exposure to the Puerto Rico government and its instrumentalities and municipalities amounted to \$ 484 million, which is fully outstanding at year-end (compared to a direct exposure of approximately \$584 million, of which \$529 million was outstanding at December 31, 2016). Deterioration of the Commonwealth's fiscal and economic situation, including any negative ratings implications, could further adversely affect the value of our Puerto Rico government obligations, resulting in losses to us. Of the amount outstanding, \$ 435 million consists of loans and \$ 49 million are securities (\$459 million and \$70 million, respectively, at December 31, 2016). All of the amount outstanding at December 31, 2017 were obligations from various Puerto Rico municipalities. In most cases, these were "general obligations" of a municipality, to which the applicable municipality has pledged its good faith, credit and unlimited taxing power, or "special obligations" of a municipality, to which the applicable municipality has pledged other revenues. At December 31, 2017, 74% of the Corporation's exposure to municipal loans and securities was concentrated in the municipalities of San Juan, Guaynabo, Carolina and Bayamón. Although the Oversight Board has not designated any of the Commonwealth's 78 municipalities as covered entities under PROMESA, it may decide to do so in the future. For a more detailed description of the Corporation's direct exposure to the Puerto Rico government and its instrumentalities and municipalities, refer to Note 27 – Commitments and contingencies.

During the third quarter of 2017, the Corporation sold all of its Puerto Rico Sales Tax Financing Corporation ("COFINA") bonds at a gain of approximately \$0.1 million. The Corporation had recorded an other-than-temporary impairment charge of \$8.3 million in respect of those bonds during the second quarter of 2017 as a result of the filing of the Title III proceeding in respect of COFINA and the non-payment of interest on the COFINA bonds in June 2017 pursuant to a court order issued in such proceeding.

In addition, at December 31, 2017, the Corporation had \$386 million in indirect exposure to loans or securities issued or guaranteed by Puerto Rico governmental entities, but whose principal source of repayment are non-governmental entities. In such obligations, the Puerto Rico governmental entity guarantees any shortfall in collateral in the event of borrower default (\$406 million at December 31, 2016). These included

\$310 million in residential mortgage loans guaranteed by the Puerto Rico Housing Finance Authority (“HFA”), an entity that has been designated as a covered entity under PROMESA (December 31, 2016 - \$326 million). These mortgage loans are secured by the underlying properties and the HFA guarantee serves to cover shortfalls in collateral in the event of a borrower default. Although the Governor is currently authorized by local legislation to impose a temporary moratorium on the financial obligations of HFA, he has not exercised this power as of the date hereof. Also, at December 31, 2017, the Corporation had \$44 million in Puerto Rico housing bonds issued by HFA, which are secured by second mortgage loans on Puerto Rico residential properties, \$7 million in pass-through securities that have been economically defeased and refunded and for which collateral including U.S. agencies and Treasury obligations has been escrowed, and \$25 million of commercial real estate notes issued by government entities, but payable from rent paid by private parties (\$43 million, \$6 million and \$31 million December 31, 2016, respectively).

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

BPPR also has a significant amount of deposits from the Commonwealth, its instrumentalities, and municipalities. The amount of such deposits may fluctuate depending on the financial condition and liquidity of such entities, as well as on the ability of BPPR to maintain these customer relationships.

United States Virgin Islands

The Corporation has operations in the United States Virgin Islands (the “USVI”) and has credit exposure to USVI government entities.

The USVI has been experiencing a number of fiscal and economic challenges that could adversely affect the ability of its public corporations and instrumentalities to service their outstanding debt obligations, and was also severely impacted by Hurricanes Irma and María. PROMESA does not apply to the USVI and, as such, there is currently no federal legislation permitting the restructuring of the debts of the USVI and its public corporations and instrumentalities.

To the extent that the fiscal condition of the USVI continues to deteriorate, the U.S. Congress or the Government of the USVI may enact legislation allowing for the restructuring of the financial obligations of USVI government entities or imposing a stay on creditor remedies, including by making PROMESA applicable to the USVI.

At December 31, 2017, the Corporation’s direct exposure to USVI instrumentalities and public corporations amounted to approximately \$82 million, of which approximately \$73 million is outstanding. Of the amount outstanding, approximately (i) \$43 million represents loans to the West Indian Company LTD, a government-owned company that owns and operates a cruise ship pier and shopping mall complex in St. Thomas, (ii) \$14 million represents loans to the Virgin Islands Water and Power Authority, a public corporation of the USVI that operates USVI’s water production and electric generation plants, and (iii) \$16 million represents loans to the Virgin Islands Public Finance Authority, a public corporation of the USVI created for the purpose of raising capital for public projects.

U.S. Government

As further detailed in Notes 7 and 8 to the Consolidated Financial Statements, a substantial portion of the Corporation’s investment securities represented exposure to the U.S. Government in the form of U.S. Government sponsored entities, as well as agency mortgage-backed and U.S. Treasury securities. In addition, \$1.7 billion of residential mortgages and \$88 million commercial loans were insured or guaranteed by the U.S. Government or its agencies at December 31, 2017.

Non-Performing Assets

Non-performing assets include primarily past-due loans that are no longer accruing interest, renegotiated loans, and real estate property acquired through foreclosure. A summary, including certain credit quality metrics, is presented in Table 28.

On June 30, 2015, the shared-loss arrangement under the commercial loss share agreement with the FDIC related to the loans acquired from Westernbank as part of the FDIC assisted transaction in 2010 expired. Loans and OREO’s that remain covered under the terms of the single-family loss share agreement continue to be presented as covered assets in the accompanying tables and credit metrics as of December 31, 2017.

Because of the application of ASC Subtopic 310-30 to the Westernbank acquired loans and the loss protection provided by the FDIC which limits the risks on the covered loans, the Corporation has determined to provide certain quality metrics in this MD&A that exclude such covered loans to facilitate the comparison between loan portfolios and across periods. The Corporation believes the inclusion of these loans in certain asset quality ratios in the numerator or denominator (or both) would result in a distortion to these ratios. In addition, because charge-offs related to the acquired loans are recorded against the non-accretable balance, the net charge-off ratio including the acquired loans is lower for the single-family loan portfolios which includes covered loans. The inclusion of these loans in the asset quality ratios could result in a lack of comparability across periods and could negatively impact comparability with other portfolios that were not impacted by acquisition

accounting. The Corporation believes that the presentation of asset quality measures, excluding covered loans and related amounts from both the numerator and denominator, provides a better perspective into underlying trends related to the quality of its loan portfolio.

Non-performing assets, excluding covered loans and OREO, decreased by \$18 million when compared with December 31, 2016, mainly attributed to lower Puerto Rico OREOs of \$10 million, mostly related to the temporary suspension of foreclosure activities after the hurricanes. Non-performing loans held-in-portfolio decreased by \$7 million from December 31, 2016, mostly driven by lower Puerto Rico mortgage NPLs of \$11 million, impacted by lower inflows as a result of the payment moratorium.

At December 31, 2017, non-performing loans secured by real estate held-in-portfolio, excluding covered loans, amounted to \$449 million in the Puerto Rico operations and \$36 million in the U.S. operations. These figures compare to \$467 million in the Puerto Rico operations and \$21 million in the U.S. operations at December 31, 2016. In addition to the non-performing loans included in Table 28 at December 31, 2017, there were \$155 million of non-covered performing loans, mostly commercial loans, which in management's opinion, are currently subject to potential future classification as non-performing and are considered impaired, compared with \$169 million at December 31, 2016.

Table 28 - Non-Performing Assets

<i>(Dollars in thousands)</i>	December 31, 2017			December 31, 2016			December 31, 2015		
	BPPR	BPNA	Popular, Inc.	BPPR	BPNA	Popular, Inc.	BPPR	BPNA	Popular, Inc.
Non-accrual loans:									
Commercial	\$ 161,226	\$ 3,839	\$ 165,065	\$159,655	\$ 3,693	\$163,348	\$177,902	\$ 3,914	\$181,816
Construction	—	—	—	—	—	—	3,550	—	3,550
Legacy [1]	—	3,039	3,039	—	3,337	3,337	—	3,649	3,649
Leasing	2,974	—	2,974	3,062	—	3,062	3,009	—	3,009
Mortgage	306,697	14,852	321,549	318,194	11,713	329,907	337,933	13,538	351,471
Consumer	40,543	17,787	58,330	51,597	6,664	58,261	52,440	5,864	58,304
Total non-performing loans held-in-portfolio, excluding covered loans	511,440	39,517	550,957	532,508	25,407	557,915	574,834	26,965	601,799
Non-performing loans held-for-sale [2]	—	—	—	—	—	—	44,696	473	45,169
Other real estate owned ("OREO"), excluding covered OREO	167,253	2,007	169,260	177,412	3,033	180,445	151,439	3,792	155,231
Total non-performing assets, excluding covered assets	\$ 678,693	\$41,524	\$ 720,217	\$709,920	\$28,440	\$738,360	\$770,969	\$31,230	\$802,199
Covered loans and OREO [3]	22,948	—	22,948	36,044	—	36,044	40,571	—	40,571
Total non-performing assets	\$ 701,641	\$41,524	\$ 743,165	\$745,964	\$28,440	\$774,404	\$811,540	\$31,230	\$842,770
Accruing loans past-due 90 days or more [4] [5]	\$1,225,149	\$ —	\$1,225,149	\$426,652	\$ —	\$426,652	\$446,725	\$ —	\$446,725
Excluding covered loans: [6]									
Non-performing loans to loans held-in-portfolio			2.27%			2.45%			2.69%
Including covered loans:									
Non-performing loans to loans held-in-portfolio			2.23%			2.41%			2.63%
Interest lost			\$ 29,920			\$ 29,385			\$ 27,644

[1] 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 reportable segment.

[2] There were no non-performing loans held-for-sale as of December 31, 2017 and December 31, 2016 (December 31, 2015 - \$45 million in commercial loans and \$95 thousand in construction loans).

[3] The amount consists of \$3 million in non-performing loans accounted for under ASC Subtopic 310-20 and \$20 million in covered OREO at December 31, 2017 (December 31, 2016 - \$4 million and \$32 million, respectively; December 31, 2015 - \$4 million and \$37 million, respectively). It excludes covered loans accounted for under ASC Subtopic 310-30 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.

- [4] The carrying value of loans accounted for under ASC Subtopic 310-30 that are contractually 90 days or more past due was \$272 million at December 31, 2017 (December 31, 2016 - \$282 million; December 31, 2015 - \$349 million). This amount is excluded from the above table as the loans' accretable yield interest recognition is independent from the underlying contractual loan delinquency status.
- [5] 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. The balance of these loans includes \$840 million related to the rebooking of loans previously pooled into GNMA securities, in which the Corporation had a buy-back option as further described below. These balances include \$178 million of residential mortgage loans insured by FHA or guaranteed by the VA that are no longer accruing interest as of December 31, 2017 (December 31, 2016 - \$181 million; December 31, 2015 - \$164). Furthermore, the Corporation has approximately \$58 million in reverse mortgage loans 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 (December 30, 2016 - \$68 million; December 31, 2015 - \$70 million).
- [6] These asset quality ratios have been adjusted to remove the impact of covered loans. Appropriate adjustments to the numerator and denominator have been reflected in the calculation of these ratios. Management believes the inclusion of acquired loans in certain asset quality ratios that include non-performing assets, past due loans or net charge-offs in the numerator and denominator results in distortions of these ratios and they may not be comparable to other periods presented or to other portfolios that were not impacted by purchase accounting.

Table 28 (continued) - Non-Performing Assets

<i>(Dollars in thousands)</i>	December 31, 2014			December 31, 2013		
	BPPR	BPNA	Popular, Inc.	BPPR	BPNA	Popular, Inc.
Non-accrual loans:						
Commercial	\$257,910	\$ 2,315	\$260,225	\$186,097	\$ 92,956	\$279,053
Construction	13,812	—	13,812	18,108	5,663	23,771
Legacy [1]	—	1,545	1,545	—	15,050	15,050
Leasing	3,102	—	3,102	3,495	—	3,495
Mortgage	295,629	9,284	304,913	206,389	26,292	232,681
Consumer	40,930	5,956	46,886	33,166	10,732	43,898
Total non-performing loans held-in-portfolio, excluding covered loans	611,383	19,100	630,483	447,255	150,693	597,948
Non-performing loans held-for-sale [2]	225	18,674	18,899	489	603	1,092
Other real estate owned ("OREO"), excluding covered OREO	119,144	16,356	135,500	105,206	30,295	135,501
Total non-performing assets, excluding covered assets	\$730,752	\$54,130	\$784,882	\$552,950	\$181,591	\$734,541
Covered loans and OREO [3]	148,099	—	148,099	197,388	—	197,388
Total non-performing assets	\$878,851	\$54,130	\$932,981	\$750,338	\$181,591	\$931,929
Accruing loans past-due 90 days or more [4] [5]	\$447,990	\$ —	\$447,990	\$418,028	\$ —	\$418,028
Excluding covered loans: [6]						
Non-performing loans to loans held-in-portfolio			3.25%			2.77%
Including covered loans:						
Non-performing loans to loans held-in-portfolio			2.95%			2.55%
Interest lost			\$ 23,413			\$ 29,766

- [1] 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 reportable segment.
- [2] Non-performing loans held-for-sale consist of \$14.0 million in mortgage loans, \$309 thousand in commercial loans and \$4.5 million in consumer loans at December 31, 2014 (December 31, 2013 - \$603 thousand in commercial loans and \$489 thousand in mortgage loans).
- [3] The amount consists of \$18 million in non-performing loans accounted for under ASC Subtopic 310-20 and \$130 million in covered OREO at December 31, 2014 (December 31, 2013 - \$29 million and \$168 million, respectively). It excludes covered loans accounted for under ASC Subtopic 310-30 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.
- [4] The carrying value of loans accounted for under ASC Subtopic 310-30 that are contractually 90 days or more past due was \$516 million at December 31, 2014 (December 31, 2013 - \$751 million). This amount is excluded from the above table as the loans' accretable yield interest recognition is independent from the underlying contractual loan delinquency status.
- [5] 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 \$125 million and \$115 million, respectively, of residential mortgage loans insured by FHA or guaranteed by the VA that are no longer accruing interest as of December 31, 2014 and December 31, 2013.
- [6] These asset quality ratios have been adjusted to remove the impact of covered loans. Appropriate adjustments to the numerator and denominator have been reflected in the calculation of these ratios. Management believes the inclusion of acquired loans in certain asset quality ratios that include non-performing assets, past due loans or net charge-offs in the numerator and denominator results in distortions of these ratios and they may not be comparable to other periods presented or to other portfolios that were not impacted by purchase accounting.

Accruing loans past due 90 days or more are composed primarily of credit cards, residential mortgage loans insured by FHA / VA, and delinquent mortgage loans included in the Corporation's financial statements pursuant to GNMA's buy-back option program. Under the GNMA program, issuers such as BPPR have the option but not the obligation to repurchase loans that are 90 days or more past due. For accounting purposes, these loans subject to the repurchase option are required to be reflected on the financial statements of the issuer with an offsetting liability. As of December 31, 2017, loans past due 90 days or more include approximately \$840 million in loans previously pooled into GNMA securities with a buy-back option. While the borrowers for our serviced GNMA portfolio benefited from the loan payment moratorium as part of the hurricane relief efforts, the delinquency status of these loans continued to be reported to GNMA without considering the moratorium. Also, accruing loans past due 90 days or more include residential conventional loans purchased from other financial institutions that, although delinquent, the Corporation has received timely payment from the sellers / servicers, and, in some instances, have partial guarantees under recourse agreements.

The Corporation's commercial loan portfolio secured by real estate ("CRE"), excluding covered loans, amounted to \$7.6 billion at December 31, 2017, of which \$2.1 billion was secured with owner occupied properties, compared with \$7.2 billion and \$2.0 billion, respectively, at December 31, 2016. CRE non-performing loans, excluding covered loans, amounted to \$124 million at December 31, 2017, compared with \$130 million at December 31, 2016. The CRE non-performing loans ratios for the BPPR and BPNA segments were 2.77% and 0.10%, respectively, at December 31, 2017, compared with 2.83% and 0.07%, respectively, at December 31, 2016.

Loan Delinquencies

Another key measure used to evaluate and monitor the Corporation's asset quality is loan delinquencies. Loans delinquent 30 days or more and delinquencies, as a percentage of their related portfolio category at December 31, 2017 and 2016, are presented below.

Table 29 - Loan Delinquencies

	2017			2016		
	Loans delinquent 30 days or more	Total loans	Total delinquencies as a percentage of total loans	Loans delinquent 30 days or more	Total loans	Total delinquencies as a percentage of total loans
Commercial	\$ 364,679	\$11,488,861	3.17%	\$ 456,318	\$10,798,507	4.23%
Construction	170	880,029	0.02	1,668	776,300	0.21
Legacy	3,747	32,980	11.36	4,516	45,293	9.97
Leasing	14,687	809,990	1.81	11,037	702,893	1.57
Mortgage	1,926,939	7,270,407	26.50	1,260,403	6,696,361	18.82
Consumer	156,289	3,810,527	4.10	167,852	3,754,393	4.47
Covered loans	82,764	517,274	16.00	110,336	572,878	19.26
Loans held-for-sale	1,829	132,395	1.38	459	88,821	0.52
Total	\$2,551,104	\$24,942,463	10.23%	\$2,012,589	\$23,435,446	8.59%

For the year ended December 31, 2017, total non-performing loan inflows, excluding consumer loans, decreased by \$77 million, or 17%, when compared to the inflows for the year ended in 2016. Inflows of non-performing loans held-in-portfolio at the BPPR segment decreased by \$60 million, or 15%, compared to the inflows for the year ended 2016, mostly related to lower mortgage inflows of \$59 million, prompted by the payment moratorium implemented after the hurricanes. Under the loan moratorium,

although the repayment schedule was modified, certain borrowers continued to make payments, having an impact on the respective delinquency status. Inflows of non-performing loans held-in-portfolio at the BPNA segment decreased by \$17 million, or 36%, from the same period in 2016, mostly driven by lower commercial inflows of \$13 million. Refer to Note 9 to the consolidated financial statements for more information on loan delinquencies.

Table 30 - Activity in Non-Performing Loans Held-in-Portfolio (Excluding Consumer and Covered Loans)

<i>(Dollars in thousands)</i>	For the year ended December 31, 2017		
	BPPR	BPNA	Popular, Inc.
Beginning balance	\$ 477,849	\$ 18,743	\$ 496,592
Plus:			
New non-performing loans	341,196	29,899	371,095
Advances on existing non-performing loans	–	785	785
Less:			
Non-performing loans transferred to OREO	(40,260)	(46)	(40,306)
Non-performing loans charged-off	(89,896)	(919)	(90,815)
Loans returned to accrual status / loan collections	(220,966)	(26,732)	(247,698)
Ending balance NPLs	\$ 467,923	\$ 21,730	\$ 489,653

Table 31 - Activity in Non-Performing Loans Held-in-Portfolio (Excluding Consumer and Covered Loans)

<i>(Dollars in thousands)</i>	For the year ended December 31, 2016		
	BPPR	BPNA	Popular, Inc.
Beginning balance	\$ 519,385	\$ 21,101	\$ 540,486
Plus:			
New non-performing loans	401,143	47,433	448,576
Advances on existing non-performing loans	–	322	322
Reclassification from construction loans to commercial loans	2,436	–	2,436
Less:			
Non-performing loans transferred to OREO	(50,940)	(1,188)	(52,128)
Non-performing loans charged-off	(89,536)	(3,260)	(92,796)
Loans returned to accrual status / loan collections	(302,203)	(45,665)	(347,868)
Reclassification from construction loans to commercial loans	(2,436)	–	(2,436)
Ending balance NPLs	\$ 477,849	\$ 18,743	\$ 496,592

Table 32 - Activity in Non-Performing Commercial Loans Held-In-Portfolio (Excluding Covered Loans)

<i>(In thousands)</i>	For the year ended December 31, 2017		
	BPPR	BPNA	Popular, Inc.
Beginning balance - NPLs	\$159,655	\$ 3,693	\$163,348
Plus:			
New non-performing loans	78,469	8,071	86,540
Advances on existing non-performing loans	–	4	4
Less:			
Non-performing loans transferred to OREO	(6,282)	–	(6,282)
Non-performing loans charged-off	(37,380)	(117)	(37,497)
Loans returned to accrual status / loan collections	(33,236)	(7,812)	(41,048)
Ending balance - NPLs	\$161,226	\$ 3,839	\$165,065

Table 33 - Activity in Non-Performing Commercial Loans Held-in-Portfolio (Excluding Covered Loans)

<i>(In thousands)</i>	For the year ended December 31, 2016		
	BPPR	BPNA	Popular, Inc.
Beginning balance - NPLs	\$177,902	\$ 3,914	\$181,816
Plus:			
New non-performing loans	77,615	20,542	98,157
Advances on existing non-performing loans	–	178	178
Reclassification from construction loans to commercial loans	2,436	–	2,436
Less:			
Non-performing loans transferred to OREO	(6,700)	–	(6,700)
Non-performing loans charged-off	(41,011)	(811)	(41,822)
Loans returned to accrual status / loan collections	(50,587)	(20,130)	(70,717)
Ending balance - NPLs	\$159,655	\$ 3,693	\$163,348

Table 34 - Activity in Non-Performing Construction Loans Held-In-Portfolio (Excluding Covered Loans)

<i>(In thousands)</i>	For the year ended December 31, 2017		
	BPPR	BPNA	Popular, Inc.
Beginning balance - NPLs	\$ –	\$–	\$ –
Plus:			
New non-performing loans	99	–	99
Less:			
Loans returned to accrual status / loan collections	(99)	–	(99)
Ending balance - NPLs	\$ –	\$–	\$ –

Table 35 - Activity in Non-Performing Construction Loans Held-in-Portfolio (Excluding Covered Loans)

<i>(In thousands)</i>	For the year ended December 31, 2016		
	BPPR	BPNA	Popular, Inc.
Beginning balance - NPLs	\$ 3,550	\$ –	\$ 3,550
Plus:			
New non-performing loans	1,543	671	2,214
Less:			
Non-performing loans transferred to OREO	(304)	–	(304)
Non-performing loans charged-off	(1,103)	–	(1,103)
Loans returned to accrual status / loan collections	(1,250)	(671)	(1,921)
Reclassification from construction loans to commercial loans	(2,436)	–	(2,436)
Ending balance - NPLs	\$ –	\$ –	\$ –

Table 36 - Activity in Non-Performing Mortgage Loans Held-in-Portfolio (Excluding Covered Loans)

<i>(In thousands)</i>	For the year ended December 31, 2017		
	BPPR	BPNA	Popular, Inc.
Beginning balance - NPLs	\$ 318,194	\$ 11,713	\$ 329,907
Plus:			
New non-performing loans	262,628	21,714	284,342
Advances on existing non-performing loans	–	662	662
Less:			
Non-performing loans transferred to OREO	(33,978)	(46)	(34,024)
Non-performing loans charged-off	(52,516)	(775)	(53,291)
Loans returned to accrual status / loan collections	(187,631)	(18,416)	(206,047)
Ending balance - NPLs	\$ 306,697	\$ 14,852	\$ 321,549

Table 37 - Activity in Non-Performing Mortgage Loans Held-in-Portfolio (Excluding Covered Loans)

<i>(In thousands)</i>	For the year ended December 31, 2016		
	BPPR	BPNA	Popular, Inc.
Beginning balance - NPLs	\$ 337,933	\$ 13,538	\$ 351,471
Plus:			
New non-performing loans	321,985	25,002	346,987
Less:			
Non-performing loans transferred to OREO	(43,936)	(1,144)	(45,080)
Non-performing loans charged-off	(47,422)	(2,160)	(49,582)
Loans returned to accrual status / loan collections	(250,366)	(23,523)	(273,889)
Ending balance - NPLs	\$ 318,194	\$ 11,713	\$ 329,907

Allowance for Loan LossesNon-Covered Loan Portfolio

The allowance for loan losses, which represents management's estimate of credit losses inherent in the loan portfolio, is maintained at a sufficient level to provide for estimated credit losses on individually evaluated loans as well as estimated credit losses inherent in the remainder of the loan portfolio. The Corporation's management evaluates the adequacy of the allowance for loan losses on a quarterly basis. In this evaluation, management considers current economic conditions and the resulting impact on Popular Inc.'s loan portfolio, the composition of the portfolio by loan type and risk characteristics, historical loss experience, results of periodic credit reviews of individual loans, regulatory requirements and loan impairment measurement, among other factors.

The Corporation must rely on estimates and exercise judgment regarding matters where the ultimate outcome is

unknown, such as economic developments affecting specific customers, industries or markets. Other factors that can affect management's estimates are the years of historical data when estimating losses, changes in underwriting standards, financial accounting standards and loan impairment measurements, among others. Changes in the financial condition of individual borrowers, in economic conditions, in historical loss experience and in the condition of the various markets in which collateral may be sold may all affect the required level of the allowance for loan losses. Consequently, the business financial condition, liquidity, capital and results of operations could also be affected. Refer to the Critical Accounting Policies / Estimates section of this MD&A for a description of the Corporation's allowance for loans losses methodology.

Refer to Table 38 for a summary of the activity in the allowance for loan losses and selected loan losses statistics for the past 5 years.

Table 38 - Allowance for Loan Losses and Selected Loan Losses Statistics

(Dollars in thousands)	2017			2016			2015		
	Non-covered loans	Covered loans	Total	Non-covered loans	Covered loans	Total	Non-covered loans	Covered loans	Total
Balance at the beginning of year	\$510,301	\$30,350	\$540,651	\$502,935	\$34,176	\$537,111	\$519,719	\$ 82,073	\$601,792
Provision for loan losses (reversal of provision) - Continuing operations [4]	319,682	5,742	325,424	171,126	(1,110)	170,016	217,458	24,020	241,478
Provision for loan losses - Discontinued operations	-	-	-	-	-	-	-	-	-
	829,983	36,092	866,075	674,061	33,066	707,127	737,177	106,093	843,270
Charged-offs:									
BPPR									
Commercial [4]	49,591	-	49,591	62,486	-	62,486	105,716	37,936	143,652
Construction	3,588	-	3,588	3,103	-	3,103	13,628	25,086	38,714
Leasing	8,407	-	8,407	6,151	-	6,151	5,561	-	5,561
Mortgage	78,121	4,049	82,170	68,075	3,524	71,599	53,296	6,158	59,454
Consumer	109,252	122	109,374	106,304	19	106,323	110,384	853	111,237
Discontinued operations	-	-	-	-	-	-	-	-	-
Total BPPR charged-offs	248,959	4,171	253,130	246,119	3,543	249,662	288,585	70,033	358,618
BPNA									
Commercial	36,399	-	36,399	1,115	-	1,115	1,452	-	1,452
Legacy [1]	897	-	897	535	-	535	2,019	-	2,019
Mortgage	1,223	-	1,223	2,506	-	2,506	1,670	-	1,670
Consumer	19,926	-	19,926	13,430	-	13,430	9,507	-	9,507
Discontinued operations	-	-	-	-	-	-	-	-	-
Total BPNA charged-offs	58,445	-	58,445	17,586	-	17,586	14,648	-	14,648
Popular, Inc.									
Commercial	85,990	-	85,990	63,601	-	63,601	107,168	37,936	145,104
Construction	3,588	-	3,588	3,103	-	3,103	13,628	25,086	38,714
Leasing	8,407	-	8,407	6,151	-	6,151	5,561	-	5,561
Legacy [1]	897	-	897	535	-	535	2,019	-	2,019
Mortgage	79,344	4,049	83,393	70,581	3,524	74,105	54,966	6,158	61,124
Consumer	129,178	122	129,300	119,734	19	119,753	119,891	853	120,744
Discontinued operations	-	-	-	-	-	-	-	-	-
Total charged-offs	307,404	4,171	311,575	263,705	3,543	267,248	303,233	70,033	373,266
Recoveries:									
BPPR									
Commercial	27,196	-	27,196	41,731	-	41,731	31,826	6,504	38,330
Construction	6,211	-	6,211	5,124	-	5,124	14,514	4,700	19,214
Leasing	1,637	-	1,637	2,263	-	2,263	2,258	-	2,258
Mortgage	3,177	1,313	4,490	3,759	808	4,567	2,305	930	3,235
Consumer	19,119	10	19,129	29,998	19	30,017	26,508	842	27,350
Discontinued operations	-	-	-	-	-	-	-	-	-
Total BPPR recoveries	57,340	1,323	58,663	82,875	827	83,702	77,411	12,976	90,387
BPNA									
Commercial	2,242	-	2,242	4,428	-	4,428	5,294	-	5,294
Construction	7	-	7	-	-	-	-	-	-
Legacy [1]	2,627	-	2,627	2,448	-	2,448	4,779	-	4,779
Mortgage	983	-	983	573	-	573	391	-	391
Consumer	4,404	-	4,404	4,176	-	4,176	3,858	-	3,858
Discontinued operations	-	-	-	-	-	-	-	-	-
Total BPNA recoveries	10,263	-	10,263	11,625	-	11,625	14,322	-	14,322
Popular, Inc.									
Commercial	29,438	-	29,438	46,159	-	46,159	37,120	6,504	43,624
Construction	6,218	-	6,218	5,124	-	5,124	14,514	4,700	19,214
Leasing	1,637	-	1,637	2,263	-	2,263	2,258	-	2,258
Legacy [1]	2,627	-	2,627	2,448	-	2,448	4,779	-	4,779
Mortgage	4,160	1,313	5,473	4,332	808	5,140	2,696	930	3,626
Consumer	23,523	10	23,533	34,174	19	34,193	30,366	842	31,208
Discontinued operations	-	-	-	-	-	-	-	-	-
Total recoveries	67,603	1,323	68,926	94,500	827	95,327	91,733	12,976	104,709

(Dollars in thousands)	2017			2016			2015		
	Non-covered loans	Covered loans	Total	Non-covered loans	Covered loans	Total	Non-covered loans	Covered loans	Total
Net loans charged-offs (recoveries):									
BPPR									
Commercial	22,395	–	22,395	20,755	–	20,755	73,890	31,432	105,322
Construction	(2,623)	–	(2,623)	(2,021)	–	(2,021)	(886)	20,386	19,500
Leasing	6,770	–	6,770	3,888	–	3,888	3,303	–	3,303
Mortgage	74,944	2,736	77,680	64,316	2,716	67,032	50,991	5,228	56,219
Consumer	90,133	112	90,245	76,306	–	76,306	83,876	11	83,887
Discontinued operations	–	–	–	–	–	–	–	–	–
Total BPPR net charged-offs	191,619	2,848	194,467	163,244	2,716	165,960	211,174	57,057	268,231
BPNA									
Commercial	34,157	–	34,157	(3,313)	–	(3,313)	(3,842)	–	(3,842)
Construction	(7)	–	(7)	–	–	–	–	–	–
Legacy [1]	(1,730)	–	(1,730)	(1,913)	–	(1,913)	(2,760)	–	(2,760)
Mortgage	240	–	240	1,933	–	1,933	1,279	–	1,279
Consumer	15,522	–	15,522	9,254	–	9,254	5,649	–	5,649
Discontinued operations	–	–	–	–	–	–	–	–	–
Total BPNA net charged-offs	48,182	–	48,182	5,961	–	5,961	326	–	326
Popular, Inc.									
Commercial	56,552	–	56,552	17,442	–	17,442	70,048	31,432	101,480
Construction	(2,630)	–	(2,630)	(2,021)	–	(2,021)	(886)	20,386	19,500
Leasing	6,770	–	6,770	3,888	–	3,888	3,303	–	3,303
Legacy [1]	(1,730)	–	(1,730)	(1,913)	–	(1,913)	(2,760)	–	(2,760)
Mortgage	75,184	2,736	77,920	66,249	2,716	68,965	52,270	5,228	57,498
Consumer	105,655	112	105,767	85,560	–	85,560	89,525	11	89,536
Discontinued operations	–	–	–	–	–	–	–	–	–
Total net loans charged-offs	239,801	2,848	242,649	169,205	2,716	171,921	211,500	57,057	268,557
Net write-downs [2]	–	–	–	5,445	–	5,445	(35,779)	(1,823)	(37,602)
Balance transferred from covered to non-covered loans	–	–	–	–	–	–	13,037	(13,037)	–
Balance at end of year	\$ 590,182	\$ 33,244	\$ 623,426	\$ 510,301	\$ 30,350	\$ 540,651	\$ 502,935	\$ 34,176	\$ 537,111
Specific ALLL	\$ 109,091	\$ –	\$ 109,091	\$ 111,377	\$ –	\$ 111,377	\$ 118,072	\$ –	\$ 118,072
General ALLL	\$ 481,091	\$ 33,244	\$ 514,335	\$ 398,924	\$ 30,350	\$ 429,274	\$ 384,863	\$ 34,176	\$ 419,039
Loans held-in-portfolio:									
Outstanding at year end	\$24,292,794		\$24,810,068	\$22,773,747		\$23,346,625	\$22,346,115		\$22,992,230
Average	22,909,181		23,448,298	22,373,143		22,980,546	21,497,403		22,925,237
Ratios:									
Allowance for loan losses to loans held-in-portfolio	2.43%		2.51%	2.24%		2.32%	2.25%		2.34%
Recoveries to charge-offs	21.99		22.12	35.84		35.67	30.25		28.05
Net charge-offs to average loans held-in-portfolio	1.05		1.03	0.76		0.75	0.98		1.17
Allowance for loans losses to net charge-offs	2.46x		2.57x	3.02x		3.14x	2.38x		2.00x
Provision for loan losses to:									
Net charge-offs [3]	1.33		1.34	1.01		0.99	1.03		0.90
Average loans held-in-portfolio	1.40%		1.39%	0.76%		0.74%	1.01%		1.05%
Allowance to non-performing loans held-in-portfolio									
	107.12		112.47	91.47		96.23	83.57		88.68

[1] 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.

[2] Net write-downs are related to loans sold or transferred to held-for-sale.

[3] Excluding the provision for loans losses and net write-down related to loans sold or reclassified to held-for-sale.

[4] For the year ended December 31, 2017, includes the elimination of an incremental \$6.0 million provision for loan losses and corresponding charge-off related to the inter-company transfer of a loan between BPPR and Popular, Inc., its bank holding company, the impact of which is eliminated in the consolidated results of the Corporation in accordance with U.S. GAAP.

Table 38 (continued) - Allowance for Loan Losses and Selected Loan Losses Statistics

<i>(Dollars in thousands)</i>	2014			2013		
	Non-covered loans [4]	Covered loans	Total [4]	Non-covered loans [4]	Covered loans	Total [4]
Balance at the beginning of year	\$538,463	\$102,092	\$640,555	\$ 621,701	\$108,906	\$ 730,607
Provision for loan losses - Continuing operations	223,999	46,135	270,134	536,710	69,396	606,106
Provision for loan losses (reversal) - Discontinued operations	(6,764)	—	(6,764)	(3,543)	—	(3,543)
	755,698	148,227	903,925	1,154,868	178,302	1,333,170
Charged-offs:						
BPPR						
Commercial	70,402	34,741	105,143	112,266	28,423	140,689
Construction	1,722	36,223	37,945	6,757	39,729	46,486
Leasing	6,028	—	6,028	6,034	—	6,034
Mortgage	45,389	9,156	54,545	49,418	10,679	60,097
Consumer	122,400	(2,589)	119,811	113,616	3,952	117,568
Total BPPR charged-offs	245,941	77,531	323,472	288,091	82,783	370,874
BPNA						
Commercial	16,628	—	16,628	26,117	—	26,117
Legacy [1]	8,071	—	8,071	17,423	—	17,423
Mortgage	3,517	—	3,517	10,155	—	10,155
Consumer	15,948	—	15,948	21,622	—	21,622
Discontinued operations	4,452	—	4,452	38,957	—	38,957
Total BPNA charged-offs	48,616	—	48,616	114,274	—	114,274
Popular, Inc.						
Commercial	87,030	34,741	121,771	138,383	28,423	166,806
Construction	1,722	36,223	37,945	6,757	39,729	46,486
Leasing	6,028	—	6,028	6,034	—	6,034
Legacy [1]	8,071	—	8,071	17,423	—	17,423
Mortgage	48,906	9,156	58,062	59,573	10,679	70,252
Consumer	138,348	(2,589)	135,759	135,238	3,952	139,190
Discontinued operations	4,452	—	4,452	38,957	—	38,957
Total charged-offs	294,557	77,531	372,088	402,365	82,783	485,148
Recoveries:						
BPPR						
Commercial	31,020	1,835	32,855	26,665	816	27,481
Construction	5,231	8,537	13,768	15,399	5,621	21,020
Leasing	2,067	—	2,067	2,528	—	2,528
Mortgage	1,389	714	2,103	1,682	65	1,747
Consumer	25,745	291	26,036	38,056	71	38,127
Total BPPR recoveries	65,452	11,377	76,829	84,330	6,573	90,903
BPNA						
Commercial	15,523	—	15,523	16,933	—	16,933
Construction	237	—	237	—	—	—
Legacy [1]	17,141	—	17,141	21,320	—	21,320
Mortgage	2,321	—	2,321	2,352	—	2,352
Consumer	3,783	—	3,783	3,618	—	3,618
Discontinued operations	9,997	—	9,997	20,052	—	20,052
Total BPNA recoveries	49,002	—	49,002	64,275	—	64,275
Popular, Inc.						
Recoveries:						
Commercial	46,543	1,835	48,378	43,598	816	44,414
Construction	5,468	8,537	14,005	15,399	5,621	21,020
Leasing	2,067	—	2,067	2,528	—	2,528
Legacy [1]	17,141	—	17,141	21,320	—	21,320
Mortgage	3,710	714	4,424	4,034	65	4,099

(Dollars in thousands)	2014			2013		
	Non-covered loans [4]	Covered loans	Total [4]	Non-covered loans [4]	Covered loans	Total [4]
Consumer	29,528	291	29,819	41,674	71	41,745
Discontinued operations	9,997	–	9,997	20,052	–	20,052
Total recoveries	114,454	11,377	125,831	148,605	6,573	155,178
Net loans charged-offs (recoveries):						
BPPR						
Commercial	39,382	32,906	72,288	85,601	27,607	113,208
Construction	(3,509)	27,686	24,177	(8,642)	34,108	25,466
Leasing	3,961	–	3,961	3,506	–	3,506
Mortgage	44,000	8,442	52,442	47,736	10,614	58,350
Consumer	96,655	(2,880)	93,775	75,560	3,881	79,441
Total BPPR net loans charged-offs	180,489	66,154	246,643	203,761	76,210	279,971
BPNA						
Commercial	1,105	–	1,105	9,184	–	9,184
Construction	(237)	–	(237)	–	–	–
Legacy [1]	(9,070)	–	(9,070)	(3,897)	–	(3,897)
Mortgage	1,196	–	1,196	7,803	–	7,803
Consumer	12,165	–	12,165	18,004	–	18,004
Discontinued operations	(5,545)	–	(5,545)	18,905	–	18,905
Total BPNA net loans charged-offs (recoveries)	(386)	–	(386)	49,999	–	49,999
Popular, Inc.						
Commercial	40,487	32,906	73,393	94,785	27,607	122,392
Construction	(3,746)	27,686	23,940	(8,642)	34,108	25,466
Leasing	3,961	–	3,961	3,506	–	3,506
Legacy [1]	(9,070)	–	(9,070)	(3,897)	–	(3,897)
Mortgage	45,196	8,442	53,638	55,539	10,614	66,153
Consumer	108,820	(2,880)	105,940	93,564	3,881	97,445
Discontinued operations	(5,545)	–	(5,545)	18,905	–	18,905
Total net loans charged-offs	180,103	66,154	246,257	253,760	76,210	329,970
Net write-downs [2]	(35,674)	–	(35,674)	(362,645)	–	(362,645)
Net write-downs related to loans transferred to discontinued operations	(20,202)	–	(20,202)	–	–	–
Balance at end of year	\$ 519,719	\$82,073	\$ 601,792	\$ 538,463	\$102,092	\$ 640,555
Specific ALLL	\$ 140,141	\$ 5	\$ 140,146	\$ 103,506	\$ 293	\$ 103,799
General ALLL	\$ 379,578	\$82,068	\$ 461,646	\$ 434,957	\$101,799	\$ 536,756
Loans held-in-portfolio:						
Outstanding at year end	\$19,404,451		\$21,947,113	\$21,611,866		\$24,596,293
Average	19,990,182		22,760,961	21,354,143		24,581,862
Ratios:						
Allowance for loan losses to loans held-in-portfolio	2.68%		2.74%	2.49%		2.60%
Recoveries to charge-offs	38.86		33.82	36.93		31.99
Net charge-offs to average loans held-in-portfolio	0.90		1.08	1.19		1.34
Allowance for loans losses to net charge-offs	2.89x		2.44x	2.12x		1.94x
Provision for loan losses to:						
Net charge-offs [3]	1.17		1.04	0.85		0.86
Average loans held-in-portfolio	1.05%		1.13%	2.50%		2.45%
Allowance to non-performing loans held-in-portfolio						
	82.43		92.82	90.05		103.78

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

[2] Net write-downs are related to loans sold or transferred to held-for-sale.

[3] Excluding the provision for loan losses and net write-down related to loans sold or reclassified to held-for-sale.

[4] Prior periods provision for loan losses and net charge-offs presented in this table has been retrospectively adjusted for the impact of the discontinued operations for comparative purposes. Loans (ending and average) balances and credit quality ratios for prior periods included in this table has not been retrospectively adjusted for the impact of the discontinued operations.

The following table presents net charge-offs to average loans held-in-portfolio (“HIP”) ratios by loan category for the years ended December 31, 2017, 2016 and 2015:

Table 39 - Net Charge-Offs (Recoveries) to Average Loans HIP (Non-covered loans)

	December 31, 2017			December 31, 2016			December 31, 2015		
	BPPR	BPNA	Popular Inc.	BPPR	BPNA	Popular Inc.	BPPR	BPNA	Popular Inc.
Commercial	0.31%	0.88%	0.51%	0.28	(0.11)%	0.17%	1.05	(0.16)%	0.74%
Construction	(2.88)	–	(0.32)	(1.98)	–	(0.28)	(0.76)	–	(0.14)
Leasing	0.91	–	0.91	0.59	–	0.59	0.56	–	0.56
Legacy	–	(4.30)	(4.30)	–	(3.67)	(3.67)	–	(3.79)	(3.79)
Mortgage	1.30	0.03	1.15	1.09	0.23	0.98	0.85	0.13	0.75
Consumer	2.77	3.17	2.82	2.31	1.74	2.23	2.49	1.21	2.34
Total	1.13%	0.82%	1.05%	0.95%	0.12%	0.76%	1.24%	0.01%	0.98%

Net charge-offs, excluding covered loans, for the year ended December 31, 2017, increased by \$70.6 million, when compared to the year ended December 31, 2016, and by \$28.3 million, when compared to the year ended December 31,

2015. Increase from 2016 was mainly driven higher U.S. commercial net charge-offs of \$37 million, mainly related to the U.S. taxi medallion portfolio.

Table 40 - Composition of ALLL

	December 31, 2017						
<i>(Dollars in thousands)</i>	Commercial	Construction	Legacy [2]	Leasing	Mortgage	Consumer	Total [3]
Specific ALLL	\$ 36,982	\$ –	\$ –	\$ 475	\$ 48,832	\$ 22,802	\$ 109,091
Impaired loans [1]	\$ 323,455	\$ –	\$ –	\$ 1,456	\$ 518,275	\$ 104,237	\$ 947,423
Specific ALLL to impaired loans [1]	11.43%	–%	–%	32.62%	9.42%	21.88%	11.51%
General ALLL	\$ 178,683	\$ 8,362	\$ 798	\$ 11,516	\$ 114,790	\$ 166,942	\$ 481,091
Loans held-in-portfolio, excluding impaired loans [1]	\$11,165,406	\$880,029	\$32,980	\$808,534	\$6,752,132	\$3,706,290	\$23,345,371
General ALLL to loans held-in-portfolio, excluding impaired loans [1]	1.60%	0.95%	2.42%	1.42%	1.70%	4.50%	2.06%
Total ALLL	\$ 215,665	\$ 8,362	\$ 798	\$ 11,991	\$ 163,622	\$ 189,744	\$ 590,182
Total non-covered loans held-in-portfolio [1]	\$11,488,861	\$880,029	\$32,980	\$809,990	\$7,270,407	\$3,810,527	\$24,292,794
ALLL to loans held-in-portfolio [1]	1.88%	0.95%	2.42%	1.48%	2.25%	4.98%	2.43%

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

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

[3] Excludes covered loans acquired on the Westernbank FDIC-assisted transaction. At December 31, 2017, the general allowance on the covered loans amounted to \$33.2 million.

Table 41 - Composition of ALLL

	December 31, 2016						
<i>(Dollars in thousands)</i>	Commercial	Construction	Legacy [2]	Leasing	Mortgage	Consumer	Total [3]
Specific ALLL	\$ 42,375	\$ –	\$ –	\$ 535	\$ 44,610	\$ 23,857	\$ 111,377
Impaired loans [1]	\$ 338,422	\$ –	\$ –	\$ 1,817	\$ 506,364	\$ 109,454	\$ 956,057
Specific ALLL to impaired loans [1]	12.52%	–%	–%	29.44%	8.81%	21.80%	11.65%
General ALLL	\$ 160,279	\$ 9,525	\$ 1,343	\$ 7,127	\$ 103,324	\$ 117,326	\$ 398,924
Loans held-in-portfolio, excluding impaired loans [1]	\$10,460,085	\$776,300	\$45,293	\$701,076	\$6,189,997	\$3,644,939	\$21,817,690
General ALLL to loans held-in-portfolio, excluding impaired loans [1]	1.53%	1.23%	2.97%	1.02%	1.67%	3.22%	1.83%
Total ALLL	\$ 202,654	\$ 9,525	\$ 1,343	\$ 7,662	\$ 147,934	\$ 141,183	\$ 510,301
Total non-covered loans held-in-portfolio [1]	\$10,798,507	\$776,300	\$45,293	\$702,893	\$6,696,361	\$3,754,393	\$22,773,747
ALLL to loans held-in-portfolio [1]	1.88%	1.23%	2.97%	1.09%	2.21%	3.76%	2.24%

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

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

[3] Excludes covered loans acquired on the Westernbank FDIC-assisted transaction. At December 31, 2016, the general allowance on the covered loans amounted to \$30.4 million.

Table 42 - Composition of ALLL

	December 31, 2015						
<i>(Dollars in thousands)</i>	Commercial	Construction	Legacy [2]	Leasing	Mortgage	Consumer	Total [3]
Specific ALLL	\$ 49,243	\$ 264	\$ –	\$ 573	\$ 44,029	\$ 23,963	\$ 118,072
Impaired loans [1]	\$ 337,133	\$ 2,481	\$ –	\$ 2,404	\$ 471,932	\$ 111,836	\$ 925,786
Specific ALLL to impaired loans [1]	14.61%	10.64%	–%	23.84%	9.33%	21.43%	12.75%
General ALLL	\$ 147,590	\$ 8,605	\$ 2,687	\$ 10,420	\$ 89,283	\$ 126,278	\$ 384,863
Loans held-in-portfolio, excluding impaired loans [1]	\$ 9,762,030	\$678,625	\$64,436	\$625,246	\$6,564,149	\$3,725,843	\$21,420,329
General ALLL to loans held-in-portfolio, excluding impaired loans [1]	1.51%	1.27%	4.17%	1.67%	1.36%	3.39%	1.80%
Total ALLL	\$ 196,833	\$ 8,869	\$ 2,687	\$ 10,993	\$ 133,312	\$ 150,241	\$ 502,935
Total non-covered loans held-in-portfolio [1]	\$10,099,163	\$681,106	\$64,436	\$627,650	\$7,036,081	\$3,837,679	\$22,346,115
ALLL to loans held-in-portfolio [1]	1.95%	1.30%	4.17%	1.75%	1.89%	3.91%	2.25%

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

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

[3] Excludes covered loans acquired on the Westernbank FDIC-assisted transaction. At December 31, 2015, the general allowance on the covered loans amounted to \$34.2 million.

Table 43 details the breakdown of the allowance for loan losses by loan categories. The breakdown is made for analytical purposes, and it is not necessarily indicative of the categories in which future loan losses may occur.

Table 43 - Allocation of the Allowance for Loan Losses

(Dollars in millions)	At December 31,									
	2017		2016		2015		2014		2013	
	ALLL	% of loans in each category to total loans	ALLL	% of loans in each category to total loans	ALLL	% of loans in each category to total loans	ALLL	% of loans in each category to total loans	ALLL	% of loans in each category to total loans
Commercial	\$215.7	47.3%	\$202.7	47.4%	\$196.8	45.2%	\$211.2	41.9%	\$175.0	46.4%
Construction	8.4	3.6	9.5	3.4	8.9	3.0	6.7	1.3	5.3	1.0
Legacy	0.8	0.2	1.3	0.2	2.7	0.3	3.0	0.4	13.7	1.0
Leasing	12.0	3.3	7.7	3.1	11.0	2.8	7.1	2.9	10.6	2.5
Mortgage	163.6	29.9	147.9	29.4	133.3	31.5	123.3	33.5	156.9	30.9
Consumer	189.7	15.7	141.2	16.5	150.2	17.2	168.4	20.0	176.9	18.2
Total [1]	\$590.2	100.0%	\$510.3	100.0%	\$502.9	100.0%	\$519.7	100.0%	\$538.4	100.0%

[1] Note: For purposes of this table the term loans refers to loans held-in-portfolio excluding covered loans and held-for-sale.

Non-covered loans portfolio

At December 31, 2017, the allowance for loan losses, increased by \$80 million when compared with December 31, 2016, mostly driven by an increase in the Puerto Rico segment of \$50 million.

At December 31, 2017, the allowance for loan losses at the BPPR segment increased by \$50 million to \$518 million, or 2.87% of non-covered loans held-in-portfolio, compared with \$468 million, or 2.73% of non-covered loans held-in-portfolio, at December 31, 2016. The allowance for loan losses was \$470 million, or 2.67% of non-covered loans held-in-portfolio, at December 31, 2015. As of December 31, 2017, the Corporation had made a provision charge of \$61.8 million to increase the environmental factors reserve to \$117.6 million, for non-covered loans, based on management's best estimate of the impact of the hurricanes on the ability of the borrowers to repay their loans. Management will continue to carefully assess and review the exposure of the portfolios to hurricane-related factors, economic trends and their effect on credit quality. The Corporation may adjust these estimates as more information becomes available. This increase was offset by a \$6.5 million net decrease resulting from the annual review of the components of the ALLL models. The ratio of the allowance to non-performing loans held-in-portfolio was 101.30% at December 31, 2017, compared with 87.88% at December 31, 2016 and 81.75% at December 31, 2015.

The allowance for loan losses at the BPNA segment increased by \$30 million to \$72 million, or 1.16% of loans held-in-portfolio, compared with \$42 million, or 0.75% of loans held-in-portfolio, at December 31, 2016, and \$33 million, or 0.69% of loans held-in-portfolio, at December 31, 2015, driven by higher reserves for the U.S. taxi medallion portfolio. Total taxi medallion charge-offs during 2017 amounted to

\$36.1 million. The U.S. operation continued to reflect positive results with strong growth and favorable credit quality metrics, once the impact of the taxi medallion portfolio acquired from the FDIC in the assisted sale of Doral Bank is excluded. The effect of the annual review of the allowance methodology was a decrease of \$1.9 million for the BPNA segment. The ratio of the allowance to non-performing loans held-in-portfolio at the BPNA segment was 182.40% at December 31, 2017, compared with 166.56% at December 31, 2016 and 123.43% at December 31, 2015.

Covered loans portfolio

The Corporation's allowance for loan losses for the covered loan portfolio acquired in the Westernbank FDIC-assisted transaction amounted to \$33 million at December 31, 2017, compared to \$30 million at December 31, 2016. This increase was mainly due to a \$5.8 million provision related to adjustments to the estimated cash flows of purchased credit impaired loans accounted for under ASC 310-10 to reflect the payment moratorium offered to certain eligible borrowers on the previous quarter.

Decreases in expected cash flows after the acquisition date for loans (pools) accounted for under ASC Subtopic 310-30 are recognized by recording an allowance for loan losses in the current period. For purposes of loans accounted for under ASC Subtopic 310-20 and new loans originated as a result of loan commitments assumed, the Corporation's assessment of the allowance for loan losses is determined in accordance with the accounting guidance of loss contingencies in ASC Subtopic 450-20 (general reserve for inherent losses) and loan impairment guidance in ASC Section 310-10-35 for loans individually evaluated for impairment. Concurrently, the Corporation records an increase in the FDIC loss share asset for

the expected reimbursement from the FDIC under the loss sharing agreements.

Troubled debt restructurings

The Corporation's TDR loans, excluding covered loans, amounted to \$1.3 billion at December 2017, increasing by \$12 million, or approximately 1%, from December 31, 2016. TDRs in accruing status increased by \$36 million from December 31, 2016, due to sustained borrower performance, while non-accruing TDRs decreased by \$24 million.

Refer to Note 10 to the consolidated financial statements for additional information on modifications considered troubled debt restructurings, including certain qualitative and quantitative data about troubled debt restructurings performed in the past twelve months.

The tables that follow present the approximate amount and percentage of non-covered commercial impaired loans for which the Corporation relied on appraisals dated more than one year old for purposes of impairment requirements at December 31, 2017 and December 31, 2016.

Table 44 - Non-Covered Impaired Loans With Appraisals Dated 1 Year Or Older

December 31, 2017			
<u>Total Impaired Loans – Held-in-portfolio (HIP)</u>			
<i>(In thousands)</i>	Count	Outstanding Principal Balance	Impaired Loans with Appraisals Over One-Year Old [1]
Commercial	112	\$267,302	30%
[1] Based on outstanding balance of total impaired loans.			

Table 45 - Non-Covered Impaired Loans With Appraisals Dated 1 Year Or Older

December 31, 2016			
<u>Total Impaired Loans – Held-in-portfolio (HIP)</u>			
<i>(In thousands)</i>	Count	Outstanding Principal Balance	Impaired Loans with Appraisals Over One-Year Old [1]
Commercial	118	\$283,782	8%
[1] Based on outstanding balance of total impaired loans.			

Enterprise Risk and Operational Risk Management

The Financial and Operational Risk Management Division (the "FORM Division") is responsible for overseeing the implementation of the Enterprise Risk Management (ERM) framework, as well as developing and overseeing the implementation of risk programs and reporting that facilitate a broad integrated view of risks. The FORM Division also leads the ongoing development of a strong risk management culture and the framework that support effective risk governance. For new products and initiatives, the Corporate Compliance Division has put in place processes to ensure that an appropriate standard readiness assessment is performed before launching a new product or initiative. Similar procedures are followed with the Treasury Division for transactions involving the purchase and sale of assets.

Operational risk can manifest itself in various ways, including errors, fraud, cyber attacks, business interruptions, inappropriate behavior of employees, and failure to perform in a timely manner, among others. These events can potentially

result in financial losses and other damages to the Corporation, including reputational harm. The successful management of operational risk is particularly important to a diversified financial services company like Popular because of the nature, volume and complexity of its various businesses.

To monitor and control operational risk and mitigate related losses, the Corporation maintains a system of comprehensive policies and controls. The Corporation's Operational Risk Committee (ORCO), which is composed of senior level representatives from the business lines and corporate functions, provides executive oversight to facilitate consistency of effective policies, best practices, controls and monitoring tools for managing and assessing all types of operational risks across the Corporation. The FORM Division, within the Corporation's Risk Management Group, serves as ORCO's operating arm and is responsible for establishing baseline processes to measure, monitor, limit and manage operational risk. In addition, the Auditing Division provides oversight about policy compliance and ensures adequate attention is paid to correct the identified issues.

Operational risks fall into two major categories: business specific and corporate-wide affecting all business lines. The primary responsibility for the day-to-day management of business specific risks relies on business unit managers. Accordingly, business unit managers are responsible for ensuring that appropriate risk containment measures, including corporate-wide or business segment specific policies and procedures, controls and monitoring tools, are in place to minimize risk occurrence and loss exposures. Examples of these include personnel management practices, data reconciliation processes, transaction processing monitoring and analysis and contingency plans for systems interruptions. To manage corporate-wide risks, specialized functions, such as Legal, Information Security, Business Continuity and Outsourcing Risk Management, and Finance and Compliance, among others, assist the business units in the development and implementation of risk management practices specific to the needs of the individual businesses.

Operational risk management plays a different role in each category. For business specific risks, the FORM Division works with the segments to ensure consistency in policies, processes, and assessments. With respect to corporate-wide risks, such as information security, business continuity and outsourcing risk management, legal and compliance, the risks are assessed and a consolidated corporate view is developed and communicated to the business level. Procedures exist that are designed to ensure that policies relating to conduct, ethics, and business practices are followed. We continually monitor the system of internal controls, data processing systems, and corporate-wide processes and procedures to manage operational risk at appropriate, cost-effective levels. An additional level of review is applied to

current and potential regulation and its impact on business processes, to ensure that appropriate controls are put in place to address regulation requirements. Today's threats to customer information and information systems are complex, more wide spread, continually emerging, and increasing at a rapid pace. The Corporation continuously monitors these threats and, to date, we have not experienced any material losses as a result of cyber attacks.

ADOPTION OF NEW ACCOUNTING STANDARDS AND ISSUED BUT NOT YET EFFECTIVE ACCOUNTING STANDARDS

Refer to Note 4, "New Accounting Pronouncements" to the Consolidated Financial Statements.

Adjusted net income – Non-GAAP Financial Measure

The Corporation prepares its Consolidated Financial Statements using accounting principles generally accepted in the United States ("U.S. GAAP" or the "reported basis"). In addition to analyzing the Corporation's results on a reported basis, management monitors the "adjusted net income" of the Corporation and excludes the impact of certain transactions on the results of its operations. Adjusted net income is a non-GAAP financial measure. Management believes that the adjusted net income provides meaningful information to investors about the underlying performance of the Corporation's ongoing operations.

Tables 46, 47 and 48 present a reconciliation of reported results to Adjusted net income for the years ended December 31, 2017, 2016 and 2015.

Table 46 - Adjusted Net Income for the Year Ended December 31, 2017 (Non-GAAP)

<i>(In thousands)</i>	Pre-tax	Income tax effect	Impact on net income
U.S. GAAP Net income			\$107,681
Non-GAAP Adjustments:			
Impact of the Tax Cuts and Jobs Act [1]	–	168,358	168,358
Adjusted net income (Non-GAAP)			\$276,039

[1] On December 22, 2017, the Tax Cuts and Jobs Act ("the Act") was signed into law by the President of the United States. The Act, among other things, reduced the maximum federal Corporate Tax rate from 35% to 21%. The adjustments reduced the DTA related to the Corporation's U.S. operations as a result of lower realizable benefit at the lower tax rate.

Table 47 - Adjusted Net Income for the Year Ended December 31, 2016 (Non-GAAP)

<i>(In thousands)</i>	Pre-tax	Income tax effect	Impact on net income
U.S. GAAP Net income			\$216,691
Non-GAAP Adjustments:			
Impact of EVERTEC restatement [1]	2,173	–	2,173
Bulk sale of WB loans and OREO [2]	(891)	347 [4]	(544)
FDIC arbitration award [3]	171,757	(41,108) [4]	130,649
Goodwill impairment charge [5]	3,801	–	3,801
Other FDIC - LSA adjustments [6]	8,806	(2,380) [4]	6,426
Income from discontinued operations [7]	(2,015)	880	(1,135)
Adjusted net income (Non-GAAP)			\$358,061

- [1] Represents Popular Inc.'s proportionate share of the cumulative impact of EVERTEC restatement and other corrective adjustments to its financial statements, as disclosed in EVERTEC's 2015 Annual Report on Form 10K. Due to the preferential tax rate on the income from EVERTEC, the tax effect of this transaction was insignificant to the Corporation.
- [2] Represents the impact of the bulk sale of Westernbank loans and OREO. Gains and losses related to assets acquired from Westernbank as part of the FDIC assisted transaction are subject to the capital gains tax rate of 20%.
- [3] Represents the arbitration decision denying BPPR's request for reimbursement in certain shared loss claims. Gains and losses related to assets acquired from Westernbank as part of the FDIC assisted transaction are subject to the capital gains tax rate of 20%.
- [4] Gains and losses related to assets acquired from Westernbank as part of the FDIC assisted transaction are subject to the capital gains tax rate of 20%. Other items related to the FDIC loss-sharing agreements are subject to the statutory tax rate of 39%.
- [5] Represents goodwill impairment charge in the Corporation's securities subsidiary. The securities subsidiary is a limited liability company with a partnership election. Accordingly, its earnings flow through Popular, Inc., holding company, for income tax purposes. Since Popular, Inc. has a full valuation allowance on its deferred tax assets, this results in an effective tax rate of 0%.
- [6] Additional adjustments, including prior period recoveries, related to restructured commercial loans to reduce the indemnification asset to its expected realizable value.
- [7] Represents income from discontinued operations associated with the BPNA reorganization.

Table 48 - Adjusted Net Income for the Year Ended December 31, 2015 (Non-GAAP)

<i>(In thousands)</i>	Pre-tax	Income tax effect	Impact on net income
U.S. GAAP Net income			\$ 895,344
Non-GAAP Adjustments:			
BPNA reorganization [1]	17,065	–	17,065
Doral Transaction [2]	25,576	(7,690)	17,886
OTTI [3]	14,445	(2,486)	11,959
Reversal DTA - PNA [4]	–	(589,030)	(589,030)
Loss on bulk sale of covered OREOs [5]	4,391	(1,712)	2,679
Adjustment to FDIC indemnification asset [6]	10,887	(2,177)	8,710
MSR's acquired [7]	(4,378)	1,707	(2,671)
Impairment of loans under proposed portfolio sale [8]	15,190	(5,924)	9,266
Bulk sale [9]	5,852	(2,282)	3,570
Adjusted net income (Non-GAAP)			\$ 374,778

- [1] Represents restructuring charges associated with the reorganization of BPNA. The impact of the partial reversal of the valuation allowance of the deferred tax asset at BPNA corresponding to the income for the year 2015 was reflected in the effective tax rate, effectively reducing the income tax expense by the benefit of such reversal.
- [2] Includes approximately \$0.8 million of fees charged for loan servicing cost to the FDIC, \$2.1 million of fees charged for services provided to the alliance co-bidders, personnel costs related to former Doral Bank employees retained on a temporary basis and incentive compensation for an aggregate of \$7.1 million, building rent expense of Doral Bank's administrative offices for \$4.1 million, professional fees and business promotion expenses directly associated with the Doral Bank Transaction and systems conversion for \$16.0 million and other expenses, including equipment, business promotions and communications, of \$1.3 million. Includes items corresponding to BPPR, which were taxed at 39% and items corresponding to BPNA, which had an effective tax rate of 0% due to the impact of the partial reversal of the valuation allowance, mentioned above.
- [3] Represents an other than temporary impairment ("OTTI") recorded on Puerto Rico government investment securities available- for- sale. These securities had an amortized cost of approximately \$41.1 million and a market value of \$26.6 million. Based on the fiscal and economic situation in Puerto Rico, together with the government's announcements regarding its ability to pay its debt, Popular determined that the unrealized loss, a portion of which had been in an unrealized loss for a period exceeding twelve months, was other than temporary. The tax effect of this impairment is reflected at the capital gains rate of 20%, except for entities which had a full valuation allowance on its deferred tax asset.
- [4] Represents the partial reversal of the valuation allowance of a portion of the deferred tax asset amounting to approximately \$1.2 billion, at the U.S. operations.
- [5] Represents the loss on a bulk sale of covered OREOs completed in the second quarter and the related mirror accounting of the 80% reimbursable from the FDIC.

- [6] The negative amortization of the FDIC's Indemnification Asset included a \$10.9 million expense related to losses incurred by the corporation that were not claimed to the FDIC before the expiration of the loss-share portion of the agreement on June 30, 2015, and that are not subject to the ongoing arbitrations. Gains and losses related to assets acquired from Westernbank as part of the FDIC assisted transaction are subject to the capital gains tax rate of 20%.
 - [7] Represents the fair value of mortgage servicing rights acquired for a portfolio previously serviced by Doral Bank, for which Popular acted as a backup servicer, under a pre-existing contract.
 - [8] Represents impairment based on the estimated fair value of loans acquired from Westernbank, that Popular has the intent to sell and were subject to the ongoing arbitration with the FDIC.
 - [9] Represents the impact of a bulk sale of loans at the BPPR segment, which had a book value of approximately \$34.4 million.
-

Statistical Summary 2013-2017

Statements of Financial Condition

<i>(In thousands)</i>	At December 31,				
	2017	2016	2015	2014	2013
Assets:					
Cash and due from banks	\$ 402,857	\$ 362,394	\$ 363,674	\$ 381,095	\$ 423,211
Money market investments:					
Federal funds sold and securities purchased under agreements to resell	–	23,637	96,338	151,134	181,020
Time deposits with other banks	5,255,119	2,866,580	2,083,754	1,671,252	677,433
Total money market investments	5,255,119	2,890,217	2,180,092	1,822,386	858,453
Trading account securities, at fair value	43,187	59,805	71,659	138,527	339,743
Investment securities available-for-sale, at fair value	10,178,738	8,209,806	6,062,992	5,315,159	5,294,800
Investment securities held-to-maturity, at amortized cost	93,821	98,101	100,903	103,170	140,496
Other investment securities, at lower of cost or realizable value	167,225	167,818	172,248	161,906	181,752
Loans held-for-sale, at lower of cost or fair value	132,395	88,821	137,000	106,104	110,426
Loans held-in-portfolio:					
Loans not covered under loss-sharing agreements with the FDIC	24,423,427	22,895,172	22,453,813	19,498,286	21,704,010
Loans covered under loss-sharing agreements with the FDIC	517,274	572,878	646,115	2,542,662	2,984,427
Less – Unearned income	130,633	121,425	107,698	93,835	92,144
Allowance for loan losses	623,426	540,651	537,111	601,792	640,555
Total loans held-in-portfolio, net	24,186,642	22,805,974	22,455,119	21,345,321	23,955,738
FDIC loss-share asset	45,192	69,334	310,221	542,454	948,608
Premises and equipment, net	547,142	543,981	502,611	494,581	519,516
Other real estate not covered under loss-sharing agreements with the FDIC	169,260	180,445	155,231	135,500	135,501
Other real estate covered under loss-sharing agreements with the FDIC	19,595	32,128	36,685	130,266	168,007
Accrued income receivable	213,844	138,042	124,234	121,818	131,536
Mortgage servicing assets, at fair value	168,031	196,889	211,405	148,694	161,099
Other assets	1,991,323	2,145,510	2,193,162	1,636,519	1,686,977
Goodwill	627,294	627,294	626,388	465,676	647,757
Other intangible assets	35,672	40,050	58,109	37,595	45,132
Total assets	\$44,277,337	\$38,661,609	\$35,761,733	\$33,086,771	\$35,748,752
Liabilities and Stockholders' Equity					
Liabilities:					
Deposits:					
Non-interest bearing	\$ 8,490,945	\$ 6,980,443	\$ 6,401,515	\$ 5,783,748	\$ 5,922,682
Interest bearing	26,962,563	23,515,781	20,808,208	19,023,787	20,788,463
Total deposits	35,453,508	30,496,224	27,209,723	24,807,535	26,711,145
Federal funds purchased and assets sold under agreements to repurchase	390,921	479,425	762,145	1,271,657	1,659,292
Other short-term borrowings	96,208	1,200	1,200	21,200	401,200
Notes payable	1,536,356	1,574,852	1,662,508	1,701,904	1,584,173
Other liabilities	1,696,439	911,951	1,019,018	1,012,029	766,792
Liabilities from discontinued operations	–	–	1,815	5,064	–
Total liabilities	39,173,432	33,463,652	30,656,409	28,819,389	31,122,602
Stockholders' equity:					
Preferred stock	50,160	50,160	50,160	50,160	50,160
Common stock	1,042	1,040	1,038	1,036	1,034
Surplus	4,298,503	4,255,022	4,229,156	4,196,458	4,170,152
Retained earnings	1,194,994	1,220,307	1,087,957	253,717	594,430
Treasury stock – at cost	(90,142)	(8,286)	(6,101)	(4,117)	(881)
Accumulated other comprehensive loss, net of tax	(350,652)	(320,286)	(256,886)	(229,872)	(188,745)
Total stockholders' equity	5,103,905	5,197,957	5,105,324	4,267,382	4,626,150
Total liabilities and stockholders' equity	\$44,277,337	\$38,661,609	\$35,761,733	\$33,086,771	\$35,748,752

Statistical Summary 2013-2017

Statements of Operations

<i>(In thousands)</i>	For the years ended December 31,				
	2017	2016	2015	2014	2013
Interest income:					
Loans	\$1,478,765	\$1,459,720	\$1,458,706	\$1,478,750	\$1,481,096
Money market investments	51,495	16,428	7,243	4,224	3,464
Investment securities	191,197	152,011	126,064	132,631	141,807
Trading account securities	4,487	6,414	11,001	17,938	21,573
Total interest income	1,725,944	1,634,573	1,603,014	1,633,543	1,647,940
Less - Interest expense	223,980	212,518	194,031	688,471	303,366
Net interest income	1,501,964	1,422,055	1,408,983	945,072	1,344,574
Provision for loan losses - non-covered loans	319,682	171,126	217,458	223,999	536,710
Provision (reversal) for loan losses - covered loans	5,742	(1,110)	24,020	46,135	69,396
Net interest income after provision for loan losses	1,176,540	1,252,039	1,167,505	674,938	738,468
Mortgage banking activities	25,496	56,538	81,802	30,615	71,657
Net gain (loss) and valuation adjustments on investment securities	334	1,962	141	(870)	7,966
Other-than-temporary impairment losses on investment securities	(8,299)	(209)	(14,445)	-	-
Trading account (loss) profit	(817)	(785)	(4,723)	4,358	(13,483)
Net (loss) gain on sale of loans, including valuation adjustments on loans held-for-sale	(420)	8,245	542	40,591	(52,708)
Adjustments (expense) to indemnity reserves	(22,377)	(17,285)	(18,628)	(40,629)	(37,054)
FDIC loss-share (expense) income	(10,066)	(207,779)	20,062	(103,024)	(82,051)
Other non-interest income	435,316	457,249	454,790	455,474	896,686
Total non-interest income	419,167	297,936	519,541	386,515	791,013
Operating expenses:					
Personnel costs	484,230	487,476	477,519	418,679	428,697
All other operating expenses	772,966	768,159	810,702	775,005	793,293
Total operating expenses	1,257,196	1,255,635	1,288,221	1,193,684	1,221,990
Income (loss) from continuing operations, before income tax	338,511	294,340	398,825	(132,231)	307,491
Income tax expense (benefit)	230,830	78,784	(495,172)	58,279	(251,327)
Income (loss) from continuing operations	\$ 107,681	\$ 215,556	\$ 893,997	\$ (190,510)	\$ 558,818
Income (loss) from discontinued operations, net of income tax	-	1,135	1,347	(122,980)	40,509
Net Income (Loss)	\$ 107,681	\$ 216,691	\$ 895,344	\$ (313,490)	\$ 599,327
Net Income (Loss) Applicable to Common Stock	\$ 103,958	\$ 212,968	\$ 891,621	\$ (317,213)	\$ 595,604

Statistical Summary 2013-2017

Average Balance Sheet and Summary of Net Interest Income

On a Taxable Equivalent Basis*

(Dollars in thousands)	2017			2016			2015		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets									
Interest earning assets:									
Money market investments	\$ 4,480,651	\$ 51,496	1.15%	\$ 3,103,390	\$ 16,428	0.53%	\$ 2,382,045	\$ 7,243	0.30%
U.S. Treasury securities	2,969,635	49,916	1.68	1,567,364	21,835	1.39	921,249	13,559	1.47
Obligations of U.S. Government sponsored entities	667,140	13,593	2.04	810,568	15,743	1.94	1,278,469	21,962	1.72
Obligations of Puerto Rico, States and political subdivisions	111,455	7,409	6.65	127,694	8,496	6.65	159,110	11,776	7.40
Collateralized mortgage obligations and mortgage-backed securities	5,667,586	182,485	3.22	4,735,418	147,097	3.11	3,275,702	105,562	3.22
Other	178,110	9,065	5.09	181,255	8,784	4.85	179,928	9,761	5.42
Total investment securities	9,593,926	262,468	2.74	7,422,299	201,955	2.72	5,814,458	162,620	2.80
Trading account securities	82,673	5,953	7.20	125,231	8,243	6.58	209,270	13,064	6.24
Loans	21,787,574	1,367,059	6.27	21,113,219	1,320,432	6.25	20,712,524	1,294,714	6.25
WB loans	1,723,719	148,033	8.59	1,949,023	175,207	8.99	2,332,784	208,779	8.95
Total loans (net of unearned income)	23,511,293	1,515,092	6.44	23,062,242	1,495,639	6.49	23,045,308	1,503,493	6.52
Total interest earning assets/ Interest income	\$37,668,543	\$1,835,009	4.87%	\$33,713,162	\$1,722,265	5.11%	\$31,451,081	\$1,686,420	5.36%
Total non-interest earning assets	3,735,596			3,900,580			3,735,224		
Total assets from continuing operations	\$41,404,139			\$37,613,742			\$35,186,305		
Total assets from discontinued operations	-	-	-	-	-	-	-	-	-
Total assets	\$41,404,139			\$37,613,742			\$35,186,305		
Liabilities and Stockholders' Equity									
Interest bearing liabilities:									
Savings, NOW, money market and other interest bearing demand accounts	\$18,218,583	\$ 57,714	0.32%	\$14,548,307	\$ 45,550	0.31%	\$12,474,170	\$ 35,272	0.28%
Time deposits	7,625,484	84,150	1.10	7,910,063	82,027	1.04	8,157,908	72,261	0.89
Short-term borrowings	452,205	5,725	1.27	763,496	7,812	1.02	1,028,406	7,512	0.73
Notes payable	1,548,635	76,392	4.93	1,575,903	77,129	4.89	1,728,928	78,986	4.57
Total interest bearing liabilities/ Interest expense	27,844,907	223,981	0.80	24,797,769	212,518	0.86	23,389,412	194,031	0.83
Total non-interest bearing liabilities	8,214,703			7,535,742			7,089,940		
Total liabilities from continuing operations	36,059,610			32,333,511			30,479,352		
Total liabilities from discontinued operations	-	-	-	1,754	-	-	2,091	-	-
Total liabilities	36,059,610			32,335,265			30,481,443		
Stockholders' equity	5,344,529			5,278,477			4,704,862		
Total liabilities and stockholders' equity	\$41,404,139			\$37,613,742			\$35,186,305		
Net interest income on a taxable equivalent basis		\$1,611,028			\$1,509,747			\$1,492,389	
Cost of funding earning assets			0.59%			0.63%			0.62%
Net interest margin			4.28%			4.48%			4.74%
Effect of the taxable equivalent adjustment		109,065			87,692			83,406	
Net interest income per books		\$1,501,963			\$1,422,055			\$1,408,983	

* Shows the effect of the tax exempt status of some loans and investments on their yield, using the applicable statutory income tax rates. The computation considers the interest expense disallowance required by the Puerto Rico Internal Revenue Code. This adjustment is shown in order to compare the yields of the tax exempt and taxable assets on a taxable basis.

Note: Average loan balances include the average balance of non-accruing loans. No interest income is recognized for these loans in accordance with the Corporation's policy.

Statistical Summary 2013-2017

Average Balance Sheet and Summary of Net Interest Income

On a Taxable Equivalent Basis

(Dollars in thousands)	2014			2013		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets						
Interest earning assets:						
Money market investments	\$ 1,305,326	\$ 4,224	0.32%	\$ 1,036,495	\$ 3,464	0.33%
U.S. Treasury securities	264,393	4,730	1.79	37,429	1,505	4.02
Obligations of U.S. Government sponsored entities	2,006,170	31,913	1.59	1,273,766	28,926	2.27
Obligations of Puerto Rico, States and political subdivisions	188,125	13,450	7.15	172,403	12,295	7.13
Collateralized mortgage obligations and mortgage-backed securities	3,231,806	101,650	3.15	3,758,610	106,377	2.83
Other	195,139	10,265	5.26	245,980	12,765	5.19
Total investment securities	5,885,633	162,008	2.75	5,488,188	161,868	2.95
Trading account securities	339,563	20,914	6.16	416,538	26,026	6.25
Loans	19,595,972	1,239,469	6.33	19,572,159	1,218,349	6.22
WB loans	2,770,779	293,610	10.60	3,227,719	300,745	9.32
Total loans (net of unearned income)	22,366,751	1,533,079	6.85	22,799,878	1,519,094	6.66
Total interest earning assets/Interest income	\$ 29,897,273	\$ 1,720,225	5.75%	\$ 29,741,099	\$ 1,710,452	5.75%
Total non-interest earning assets	3,758,897			4,362,183		
Total assets from continuing operations	\$ 33,656,170			\$ 34,103,282		
Total assets from discontinued operations	1,525,687	–	–	2,163,711	–	–
Total assets	\$ 35,181,857			\$ 36,266,993		
Liabilities and Stockholders' Equity						
Interest bearing liabilities:						
Savings, NOW, money market and other interest bearing demand accounts	\$ 11,557,597	\$ 30,187	0.26%	\$ 11,243,095	\$ 31,080	0.28%
Time deposits	7,556,109	74,900	0.99	7,956,922	93,777	1.18
Short-term borrowings	1,886,662	67,376	3.57	2,571,875	38,430	1.49
Notes payable	1,627,541	516,008	31.70	1,719,985	140,079	8.14
Total interest bearing liabilities/Interest expense	22,627,909	688,471	3.04	23,491,877	303,366	1.29
Total non-interest bearing liabilities	6,409,810			6,390,174		
Total liabilities from continuing operations	29,037,719			29,882,051		
Total liabilities from discontinued operations	1,588,386	–	–	2,208,593	–	–
Total liabilities	30,626,105			32,090,644		
Stockholders' equity	4,555,752			4,176,349		
Total liabilities and stockholders' equity	\$ 35,181,857			\$ 36,266,993		
Net interest income on a taxable equivalent basis		\$ 1,031,754			\$ 1,407,086	
Cost of funding earning assets			2.30%			1.02%
Net interest margin			3.45%			4.73%
Effect of the taxable equivalent adjustment		86,682			62,512	
Net interest income per books		\$ 945,072			\$ 1,344,574	

* Shows the effect of the tax exempt status of loans and investments on their yield, using the applicable statutory income tax rates. The computation considers the interest expense disallowance required by the Puerto Rico Internal Revenue Code. This adjustment is shown in order to compare the yield of the tax exempt and taxable assets on a taxable basis.

Note: Average loan balances include the average balance of non-accruing loans. No interest income is recognized for these loans in accordance with the Corporation's policy.

Statistical Summary 2016-2017

Quarterly Financial Data

	2017				2016			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
<i>(In thousands, except per common share information)</i>								
Summary of Operations								
Interest income	\$ 445,333	\$435,883	\$428,733	\$415,995	\$ 411,044	\$407,299	\$412,210	\$404,020
Interest expense	58,117	57,712	54,254	53,897	55,639	53,612	51,659	51,608
Net interest income	387,216	378,171	374,479	362,098	355,405	353,687	360,551	352,412
Provision for loan losses - non-covered loans	70,001	157,659	49,965	42,057	40,924	42,594	39,668	47,940
Provision (reversal) for loan losses - covered loans	1,487	3,100	2,514	(1,359)	441	750	804	(3,105)
Mortgage banking activities	(1,853)	5,239	10,741	11,369	14,488	15,272	16,227	10,551
Net gain and valuation adjustments on investment securities	50	103	19	162	30	349	1,583	—
Other-than-temporary impairment losses on investment securities	—	—	(8,299)	—	—	—	(209)	—
Trading account (loss) profit	(137)	253	(655)	(278)	(1,627)	(113)	1,117	(162)
Net (loss) gain on sale of loans, including valuation adjustments on loans held-for-sale	—	(420)	—	—	—	8,549	—	(304)
Adjustments (expense) to indemnity reserves on loans sold	(11,075)	(6,406)	(2,930)	(1,966)	(3,051)	(4,390)	(5,746)	(4,098)
FDIC loss-share income (expense)	2,614	(3,948)	(475)	(8,257)	(130,334)	(61,723)	(12,576)	(3,146)
Other non-interest income	96,532	105,553	118,392	114,839	120,319	118,034	110,107	108,789
Operating expenses	321,955	317,088	306,835	311,318	320,871	323,672	309,149	301,943
Income (loss) from continuing operations before income tax	79,904	698	131,958	125,951	(7,006)	62,649	121,433	117,264
Income tax expense (benefit)	182,058	(19,966)	35,732	33,006	(1,766)	15,839	32,446	32,265
(Loss) income from continuing operations	\$(102,154)	\$ 20,664	\$ 96,226	\$ 92,945	\$(5,240)	\$ 46,810	\$ 88,987	\$ 84,999
Income from discontinued operations, net of tax	—	—	—	—	1,135	—	—	—
Net (loss) income	\$(102,154)	\$ 20,664	\$ 96,226	\$ 92,945	\$(4,105)	\$ 46,810	\$ 88,987	\$ 84,999
Net (loss) income applicable to common stock	\$(103,085)	\$ 19,734	\$ 95,295	\$ 92,014	\$(5,036)	\$ 45,880	\$ 88,056	\$ 84,068
Net (loss) income per common share - basic	\$ (1.01)	\$ 0.19	\$ 0.94	\$ 0.89	\$(0.05)	\$ 0.44	\$ 0.85	\$ 0.81
Net (loss) income per common share - diluted	\$ (1.01)	\$ 0.19	\$ 0.94	\$ 0.89	\$(0.05)	\$ 0.44	\$ 0.85	\$ 0.81
Dividends Declared per Common Share	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.15
Selected Average Balances								
<i>(In millions)</i>								
Total assets	\$ 43,252	\$ 41,703	\$ 41,071	\$ 39,546	\$ 39,086	\$ 38,091	\$ 37,371	\$ 35,892
Loans	23,830	23,548	23,309	23,353	23,077	23,042	23,144	22,986
Interest earning assets	39,496	38,031	37,327	35,775	35,262	34,201	33,431	31,937
Deposits	34,905	33,503	32,940	31,340	30,637	29,411	28,857	27,338
Interest-bearing liabilities	29,075	26,692	27,665	23,660	25,868	25,129	24,679	23,481
Selected Ratios								
Return on assets	(0.94)%	0.20%	0.94%	0.95%	(0.04)%	0.49%	0.96%	0.95%
Return on equity	(7.67)	1.47	7.24	7.13	(0.38)	3.46	6.80	6.58

Note: Because each reporting period stands on its own the sum of the net income (loss) per common share for the quarters may not equal to the net income (loss) per common share for the year.



Report of Management on Internal Control Over Financial Reporting

The management of Popular, Inc. (the “Corporation”) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a - 15(f) and 15d - 15(f) under the Securities Exchange Act of 1934 and for our assessment of internal control over financial reporting. The Corporation’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America, and includes controls over the preparation of financial statements in accordance with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C) to comply with the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA). The Corporation’s internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The management of Popular, Inc. has assessed the effectiveness of the Corporation’s internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria set forth in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our assessment, management concluded that the Corporation maintained effective internal control over financial reporting as of December 31, 2017 based on the criteria referred to above.

The Corporation’s independent registered public accounting firm, PricewaterhouseCoopers LLP, has audited the effectiveness of the Corporation’s internal control over financial reporting as of December 31, 2017, as stated in their report dated March 1, 2018 which appears herein.

A handwritten signature in black ink, appearing to read 'Ignacio Alvarez'.

Ignacio Alvarez
President and
Chief Executive Officer

A handwritten signature in black ink, appearing to read 'Carlos J. Vázquez'.

Carlos J. Vázquez
Executive Vice President
and Chief Financial Officer



Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of Popular, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of financial condition of Popular, Inc. and its subsidiaries (“the Corporation”) as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2017, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Corporation’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Corporation’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express opinions on the Corporation’s consolidated financial statements and on the Corporation’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Management's assessment and our audit of Popular, Inc.'s internal control over financial reporting also included controls over the preparation of financial statements in accordance with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C) to comply with the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA). A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PRICEWATERHOUSECOOPERS LLP
San Juan, Puerto Rico
March 1, 2018

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
License No. LLP-216 Expires Dec. 1, 2019
Stamp E299588 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

We have served as the Corporation's auditor since 1971, which includes periods before the Corporation became subject to SEC reporting requirements.

POPULAR, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

<i>(In thousands, except share information)</i>	December 31, 2017	December 31, 2016
Assets:		
Cash and due from banks	\$ 402,857	\$ 362,394
Money market investments:		
Securities purchased under agreements to resell	–	23,637
Time deposits with other banks	5,255,119	2,866,580
Total money market investments	5,255,119	2,890,217
Trading account securities, at fair value:		
Pledged securities with creditors' right to repledge	625	11,486
Other trading securities	42,562	48,319
Investment securities available-for-sale, at fair value:		
Pledged securities with creditors' right to repledge	393,634	491,843
Other investment securities available-for-sale	9,785,104	7,717,963
Investment securities held-to-maturity, at amortized cost (fair value 2017 - \$84,303; 2016 - \$75,576)	93,821	98,101
Other investment securities, at lower of cost or realizable value (realizable value 2017 - \$170,539; 2016 - \$170,890)	167,225	167,818
Loans held-for-sale, at lower of cost or fair value	132,395	88,821
Loans held-in-portfolio:		
Loans not covered under loss-sharing agreements with the FDIC	24,423,427	22,895,172
Loans covered under loss-sharing agreements with the FDIC	517,274	572,878
Less – Unearned income	130,633	121,425
Allowance for loan losses	623,426	540,651
Total loans held-in-portfolio, net	24,186,642	22,805,974
FDIC loss-share asset	45,192	69,334
Premises and equipment, net	547,142	543,981
Other real estate not covered under loss-sharing agreements with the FDIC	169,260	180,445
Other real estate covered under loss-sharing agreements with the FDIC	19,595	32,128
Accrued income receivable	213,844	138,042
Mortgage servicing assets, at fair value	168,031	196,889
Other assets	1,991,323	2,145,510
Goodwill	627,294	627,294
Other intangible assets	35,672	45,050
Total assets	\$44,277,337	\$38,661,609
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 8,490,945	\$ 6,980,443
Interest bearing	26,962,563	23,515,781
Total deposits	35,453,508	30,496,224
Assets sold under agreements to repurchase	390,921	479,425
Other short-term borrowings	96,208	1,200
Notes payable	1,536,356	1,574,852
Other liabilities	1,696,439	911,951
Total liabilities	39,173,432	33,463,652
Commitments and contingencies (Refer to Note 27)		
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; 104,238,159 shares issued (2016 - 104,058,684) and 102,068,981 shares outstanding (2016 - 103,790,932)	1,042	1,040
Surplus	4,298,503	4,255,022
Retained earnings	1,194,994	1,220,307
Treasury stock - at cost, 2,169,178 shares (2016 - 267,752)	(90,142)	(8,286)
Accumulated other comprehensive loss, net of tax	(350,652)	(320,286)
Total stockholders' equity	5,103,905	5,197,957
Total liabilities and stockholders' equity	\$44,277,337	\$38,661,609

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

POPULAR, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share information)	Years ended December 31,		
	2017	2016	2015
Interest income:			
Loans	\$1,478,765	\$1,459,720	\$1,458,706
Money market investments	51,495	16,428	7,243
Investment securities	191,197	152,011	126,064
Trading account securities	4,487	6,414	11,001
Total interest income	1,725,944	1,634,573	1,603,014
Interest expense:			
Deposits	141,864	127,577	107,533
Short-term borrowings	5,724	7,812	7,512
Long-term debt	76,392	77,129	78,986
Total interest expense	223,980	212,518	194,031
Net interest income	1,501,964	1,422,055	1,408,983
Provision for loan losses - non-covered loans	319,682	171,126	217,458
Provision (reversal) for loan losses - covered loans	5,742	(1,110)	24,020
Net interest income after provision for loan losses	1,176,540	1,252,039	1,167,505
Service charges on deposit accounts	153,709	160,836	160,108
Other service fees (Refer to Note 36)	217,267	234,770	236,090
Mortgage banking activities (Refer to Note 12)	25,496	56,538	81,802
Net gain and valuation adjustments on investment securities	334	1,962	141
Other-than-temporary impairment losses on investment securities	(8,299)	(209)	(14,445)
Trading account loss	(817)	(785)	(4,723)
Net (loss) gain on sale of loans, including valuation adjustments on loans held-for-sale	(420)	8,245	542
Adjustments (expense) to indemnity reserves on loans sold	(22,377)	(17,285)	(18,628)
FDIC loss-share (expense) income (Refer to Note 37)	(10,066)	(207,779)	20,062
Other operating income	64,340	61,643	58,592
Total non-interest income	419,167	297,936	519,541
Operating expenses:			
Personnel costs	484,230	487,476	477,519
Net occupancy expenses	89,194	85,653	86,888
Equipment expenses	65,142	62,225	60,110
Other taxes	43,382	42,304	39,797
Professional fees	292,488	323,043	308,985
Communications	22,466	23,897	25,146
Business promotion	58,445	53,014	52,076
FDIC deposit insurance	26,392	24,512	27,626
Other real estate owned (OREO) expenses	48,540	47,119	85,568
Other operating expenses	117,539	90,447	95,075
Amortization of intangibles	9,378	12,144	11,019
Goodwill impairment charge	-	3,801	-
Restructuring costs	-	-	18,412
Total operating expenses	1,257,196	1,255,635	1,288,221
Income from continuing operations before income tax	338,511	294,340	398,825
Income tax expense (benefit)	230,830	78,784	(495,172)
Income from continuing operations	107,681	215,556	893,997
Income from discontinued operations, net of tax	-	1,135	1,347
Net Income	\$ 107,681	\$ 216,691	\$ 895,344
Net Income Applicable to Common Stock	\$ 103,958	\$ 212,968	\$ 891,621
Net Income per Common Share – Basic			
Net income from continuing operations	1.02	2.05	8.65
Net income from discontinued operations	-	0.01	0.01
Net Income per Common Share – Basic	\$ 1.02	\$ 2.06	\$ 8.66
Net Income per Common Share – Diluted			
Net income from continuing operations	1.02	2.05	8.64
Net income from discontinued operations	-	0.01	0.01
Net Income per Common Share – Diluted	\$ 1.02	\$ 2.06	\$ 8.65
Dividends Declared per Common Share	\$ 1.00	\$ 0.60	\$ 0.30

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

POPULAR, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(In thousands)</i>	Years ended December 31,		
	2017	2016	2015
Net income	\$107,681	\$216,691	\$895,344
Other comprehensive loss before tax:			
Foreign currency translation adjustment	(3,078)	(4,026)	(3,098)
Adjustment of pension and postretirement benefit plans	(8,465)	(18,691)	(26,283)
Amortization of net losses	22,428	21,948	20,100
Amortization of prior service credit	(3,800)	(3,800)	(3,800)
Unrealized holding losses on investments arising during the period	(45,156)	(59,666)	(32,440)
Other-than-temporary impairment included in net income	8,299	209	14,445
Reclassification adjustment for gains included in net income	(334)	(379)	(141)
Unrealized net losses on cash flow hedges	(1,295)	(3,612)	(4,376)
Reclassification adjustment for net losses included in net income	1,888	3,149	4,702
Other comprehensive loss before tax	(29,513)	(64,868)	(30,891)
Income tax (expense) benefit	(853)	1,468	3,877
Total other comprehensive loss, net of tax	(30,366)	(63,400)	(27,014)
Comprehensive income, net of tax	\$ 77,315	\$153,291	\$868,330

Tax effect allocated to each component of other comprehensive loss:

<i>(In thousands)</i>	Years ended December 31,		
	2017	2016	2015
Adjustment of pension and postretirement benefit plans	\$ 3,301	\$ 7,289	\$10,251
Amortization of net losses	(8,744)	(8,562)	(7,839)
Amortization of prior service credit	1,482	1,482	1,482
Unrealized holding losses on investments arising during the period	4,831	1,081	2,569
Other-than-temporary impairment included in net income	(1,559)	(42)	(2,486)
Reclassification adjustment for gains included in net income	67	39	28
Unrealized net losses on cash flow hedges	505	1,409	1,707
Reclassification adjustment for net losses included in net income	(736)	(1,228)	(1,835)
Income tax (expense) benefit	\$ (853)	\$ 1,468	\$ 3,877

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

POPULAR, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands)	Common stock		Preferred stock	Surplus	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total
	Balance at December 31, 2014	\$1,036	\$50,160	\$4,196,458	\$ 253,717	\$ (4,117)	\$ (229,872)	\$4,267,382
Net income				895,344			895,344	
Issuance of stock	2		6,224				6,226	
Tax windfall benefit on vesting of restricted stock			169				169	
Dividends declared:								
Common stock				(31,076)			(31,076)	
Preferred stock				(3,723)			(3,723)	
Common stock purchases					(2,086)		(2,086)	
Common stock reissuance					102		102	
Other comprehensive loss, net of tax						(27,014)	(27,014)	
Transfer to statutory reserve			26,305	(26,305)			—	
Balance at December 31, 2015	\$1,038	\$50,160	\$4,229,156	\$1,087,957	\$ (6,101)	\$(256,886)	\$5,105,324	
Net income				216,691			216,691	
Issuance of stock	2		7,435				7,437	
Tax windfall benefit on vesting of restricted stock			47				47	
Dividends declared:								
Common stock				(62,234)			(62,234)	
Preferred stock				(3,723)			(3,723)	
Common stock purchases					(2,202)		(2,202)	
Common stock reissuance					17		17	
Other comprehensive loss, net of tax						(63,400)	(63,400)	
Transfer to statutory reserve			18,384	(18,384)			—	
Balance at December 31, 2016	\$1,040	\$50,160	\$4,255,022	\$1,220,307	\$ (8,286)	\$(320,286)	\$5,197,957	
Net income				107,681			107,681	
Issuance of stock	2		6,945				6,947	
Dividends declared:								
Common stock				(102,136)			(102,136)	
Preferred stock				(3,723)			(3,723)	
Common stock purchases			4,518		(81,938)		(77,420)	
Common stock reissuance			(13)		82		69	
Stock based compensation			4,896				4,896	
Other comprehensive loss, net of tax						(30,366)	(30,366)	
Transfer to statutory reserve			27,135	(27,135)			—	
Balance at December 31, 2017	\$1,042	\$50,160	\$4,298,503	\$1,194,994	\$(90,142)	\$(350,652)	\$5,103,905	

	Years ended December 31,		
	2017	2016	2015
Disclosure of changes in number of shares:			
Preferred Stock:			
Balance at beginning and end of year	2,006,391	2,006,391	2,006,391
Common Stock:			
Balance at beginning of year	104,058,684	103,816,185	103,614,553
Issuance of stock	179,475	242,499	201,632
Balance at end of year	104,238,159	104,058,684	103,816,185
Treasury stock	(2,169,178)	(267,752)	(197,209)
Common Stock – Outstanding	102,068,981	103,790,932	103,618,976

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

POPULAR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Years ended December 31,		
	2017	2016	2015
Cash flows from operating activities:			
Net income	\$ 107,681	\$ 216,691	\$ 895,344
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	325,424	170,016	241,478
Goodwill impairment losses	—	3,801	—
Amortization of intangibles	9,378	12,144	11,019
Depreciation and amortization of premises and equipment	48,364	46,874	47,474
Net accretion of discounts and amortization of premiums and deferred fees	(22,310)	(40,786)	(73,496)
Impairment losses on long-lived assets	4,784	—	—
Other-than-temporary impairment on investment securities	8,299	209	14,445
Fair value adjustments on mortgage servicing rights	36,519	25,336	7,904
FDIC loss-share expense (income)	10,066	207,779	(20,062)
Adjustments to indemnity reserves on loans sold	22,377	17,285	18,628
Earnings from investments under the equity method	(34,083)	(31,288)	(24,373)
Deferred income tax expense (benefit)	207,428	61,574	(519,128)
Loss (gain) on:			
Disposition of premises and equipment	4,281	4,094	(3,629)
Sale and valuation adjustments of investment securities	(334)	(1,962)	(141)
Sale of loans, including valuation adjustments on loans held-for-sale and mortgage banking activities	(16,670)	(35,517)	(35,013)
Sale of foreclosed assets, including write-downs	21,715	19,357	60,378
Acquisitions of loans held-for-sale	(244,385)	(310,217)	(401,991)
Proceeds from sale of loans held-for-sale	69,464	89,887	124,111
Net originations on loans held-for-sale	(315,522)	(510,783)	(792,821)
Net decrease (increase) in:			
Trading securities	501,618	753,839	1,083,683
Accrued income receivable	(75,802)	(13,808)	5,392
Other assets	(50,508)	(26,304)	100,133
Net increase (decrease) in:			
Interest payable	2,549	165	528
Pension and other postretirement benefits obligation	(13,100)	(55,678)	3,252
Other liabilities	28,279	(13,241)	(72,980)
Total adjustments	527,831	372,776	(225,209)
Net cash provided by operating activities	635,512	589,467	670,135
Cash flows from investing activities:			
Net increase in money market investments	(2,364,902)	(710,125)	(357,706)
Purchases of investment securities:			
Available-for-sale	(4,139,762)	(3,407,779)	(2,014,315)
Held-to-maturity	—	—	(750)
Other	(29,672)	(14,130)	(40,847)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:			
Available-for-sale	2,023,295	1,227,966	1,362,712
Held-to-maturity	6,232	4,588	4,856
Other	—	11,122	46,341
Proceeds from sale of investment securities:			
Available-for-sale	14,992	5,259	96,760
Other	30,265	9,021	14,950
Net (disbursements) repayments on loans	(398,676)	(267,205)	431,676
Proceeds from sale of loans	415	141,363	30,160
Acquisition of loan portfolios	(535,534)	(535,445)	(338,447)
Acquisition of trademark	—	—	(50)
Net payments (to) from FDIC under loss sharing agreements	(7,679)	98,518	247,976
Net cash received and acquired from business combination	—	—	731,279
Acquisition of servicing advances	—	—	(61,304)
Cash paid related to business acquisitions	—	—	(17,250)
Return of capital from equity method investments	8,694	907	13,329
Mortgage servicing rights purchased	—	—	(2,400)
Acquisition of premises and equipment	(62,697)	(100,320)	(62,656)
Proceeds from sale of:			
Premises and equipment and other productive assets	9,753	8,897	12,880
Foreclosed assets	96,540	83,357	141,145
Net cash (used in) provided by investing activities	(5,348,736)	(3,444,006)	238,339
Cash flows from financing activities:			
Net increase (decrease) in:			
Deposits	4,954,105	3,286,428	207,338
Federal funds purchased and assets sold under agreements to repurchase	(88,505)	(282,719)	(509,512)
Other short-term borrowings	95,008	—	(148,215)
Payments of notes payable	(95,607)	(254,816)	(737,889)
Proceeds from issuance of notes payable	55,000	165,047	277,398
Proceeds from issuance of common stock, including reissuance of treasury shares	7,016	7,437	6,226
Dividends paid	(95,910)	(65,932)	(19,257)
Net payments for repurchase of common stock	(75,664)	(563)	(1,021)
Payments related to tax withholding for share-based compensation	(1,756)	(1,623)	(963)
Net cash provided by (used in) financing activities	4,753,687	2,853,259	(925,895)
Net increase (decrease) in cash and due from banks	40,463	(1,280)	(17,421)
Cash and due from banks at beginning of period	362,394	363,674	381,095
Cash and due from banks at end of period	\$ 402,857	\$ 362,394	\$ 363,674

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

During the year ended December 31, 2017 there have not been any cash flows associated with discontinued operations. The Consolidated Statement of Cash Flows for the years ended December 31, 2016 and 2015 includes the cash flows from operating, investing and financing activities associated with discontinued operations.

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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. Note 41 to the consolidated financial statements presents information about the Corporation’s business segments.

Note 2 - Hurricanes impact

During September 2017, Hurricanes Irma and Maria (the “hurricanes”), impacted Puerto Rico, the U.S. and British Virgin Islands, causing extensive damage and disrupting the markets in which Banco Popular de Puerto Rico (“BPPR”) does business.

On September 6, 2017, Hurricane Irma made landfall in the USVI and the BVI as a Category 5 hurricane on the Saffir-Simpson scale, causing catastrophic wind and water damage to the islands’ infrastructure, homes and businesses. Hurricane Irma’s winds and resulting flooding also impacted certain municipalities of Puerto Rico, causing the failure of electricity infrastructure in a significant portion of the island. While hurricane Irma also struck Popular’s operations in Florida, neither our operations nor those of our clients in the region were materially impacted.

Two weeks later, on September 20, 2017, Hurricane Maria, made landfall in Puerto Rico as a Category 4 hurricane, causing extensive destruction and flooding throughout Puerto Rico. Following the passage of Hurricane Maria, all Puerto Rico was left without electrical power, other basic utility and infrastructure services (such as water, communications, ports and other transportation networks) were severely curtailed and the government imposed a mandatory curfew. The hurricanes caused a significant disruption to the island’s economic activity. Most business establishments, including retailers and wholesalers, financial institutions, manufacturing facilities and hotels, were closed for several days.

Puerto Rico and the USVI were declared disaster zones by President Trump due to the impact of the hurricanes, thus making them eligible for Federal assistance. Notwithstanding the significant recovery operation that is underway by the Federal, state and local governments, as of the date of this report, many businesses and homes in Puerto Rico and the

USVI remain without power, other basic utility and infrastructure remains significantly impacted, and many businesses are partially operating or remain closed. Electronic transactions, a significant source of revenue for the bank, declined significantly as a result of the lack of power and telecommunication services. Several reports indicate that the hurricanes have also accelerated the outmigration trends that Puerto Rico was experiencing, with many residents moving to the mainland United States, either on a temporary or permanent basis.

While it is too early to assess and quantify the full extent of the damage caused by the hurricanes, as well as their long-term impact on economic activity, the damages are substantial and have, at least in the short-term, had a material adverse impact on economic activity, as reflected by, among other things, the slowdown in production and sales activity and the reduction in the government’s tax revenues. Employment levels have also decreased in the short-term and could continue to decline as a result of the impact of the hurricanes on economic activity and outmigration trends. Furthermore, the hurricanes severely damaged or destroyed buildings, homes and other structures, impacting the value of such properties, some of which may serve as collateral to our loans. While our collateral is generally insured, the value of such insured structures, as well as other structures unaffected by the hurricanes, may be significantly impacted. Although some of the impact of the hurricanes, including its short-term impact on economic activity, may be offset by recovery and reconstruction activity and the influx of Federal emergency funds and private insurance proceeds, it is too early to know the amount of Federal and private insurance money to be received and whether such transfers will significantly offset the negative economic, fiscal and demographic impact of the hurricanes.

Prior to the hurricanes, the Corporation had implemented its business continuity action program. Although the Corporation’s business critical systems experienced minimal outages as a result of the storms, the Corporation’s physical operations in Puerto Rico, the USVI and the BVI, including its branch and ATM networks, were materially disrupted by the storms mostly due to lack of electricity and communication as well as limited accessibility.

During the fourth quarter of 2017, the Corporation continued normalizing its operations after the impact of the hurricanes, pursuant to the government’s partial restoration of the electric and telecommunications services in the areas in which the Corporation’s branch network operates. Reconstruction of the island’s electric infrastructure and restoration of the telecommunications network remain the most critical challenges for Puerto Rico’s recovery from the hurricanes.

The following summarizes the estimated impact on the Corporation’s earnings for the year ended December 31, 2017

as a result of the impact caused by Hurricanes Irma and Maria, net of estimated insurance receivables of \$1.1 million.

<i>(In thousands)</i>	Year ended December 31, 2017
Provision for loan losses [1]	\$67,615
Provision for indemnity reserves on loans sold	\$ 3,436
Operating expenses:	
Personnel costs	\$ 1,841
Net occupancy expenses	2,905
Equipment expenses	531
Business promotion	
Donations	1,248
Other sponsorship and promotions expenses	2,372
Total business promotion	3,620
Professional fees	167
Communications	33
OREO expenses	2,893
Other expenses	
Write-down of premises and equipment	3,626
Other operating expense	1,365
Total other expenses	4,991
Total operating expenses	\$16,981
Total pre-tax hurricane expenses	\$88,032

[1] Includes \$5.8 million in provision for covered loans.

Provision for Loan Losses

Damages associated with Hurricanes Irma and Maria impacted certain of the Corporation's asset quality measures, including higher delinquencies and non-performing loans. Payment channels, collection efforts and loss mitigation operations were interrupted as a result of the hurricanes.

At December 31, 2017, within the total allowance for loan losses the Corporation maintained a reserve of \$117.6 million, for non-covered loans, based on the best estimate of the impact of the hurricanes on the Corporation's loan portfolios. This reserve is based on the near mid-range of the estimated credit losses related to the hurricanes, which management had initially estimated to be in the range of \$70 million to \$160 million. The impact to the provision for loan losses of \$67.6 million, including \$5.8 million for covered loans, related to the hurricanes represents the difference between management's best estimate of these losses and the amount already included as part of the reserves for environmental factors such as unemployment and deterioration in economic activity, which amounted to approximately \$60 million. This provision includes \$5.6 million for the portfolio of purchased credit impaired loans, accounted for under ASC 310-30, for which the estimated cash flows were adjusted to reflect a payment moratorium offered to certain eligible borrowers during the third quarter of 2017. The Corporation may make

further adjustments to these estimates as more information becomes available.

Indemnity reserve

The Corporation services a portfolio of loans amounting to \$1.5 billion at December 31, 2017 which were previously sold by the Corporation with credit recourse. The Corporation has estimated additional losses associated with the potential repurchase liability of loans subject to credit recourse as a result of the hurricanes. For the year 2017, the provision for loans sold for indemnity reserves of \$22.4 million included \$3.4 million to account for these estimated losses. At December 31, 2017, the reserve for loans subject to credit recourse amounted to \$58.8 million.

Operating Expenses

The Corporation has recorded year to date expenses related to structural damages of \$6.5 million, net of the related insurance receivable of \$1.1 million. The results also include other operating expenses for costs such as donations, debris removal, fuel for backup generators, satellite telecommunications, personnel support and other ancillary costs associated with hurricane recovery efforts.

Revenue Reduction

In addition to the previously mentioned incremental provision and direct operating expenses, results for the year 2017 were impacted by the hurricanes in the form of a reduction in revenue resulting from reduced merchant transaction activity, the waiver of certain late fees and service charges to businesses and consumer in hurricane-affected areas, as well as the economic and operational disruption on the Corporation's mortgage originations, servicing and loss mitigation activities.

While significant progress has been made in economic and transactional activity since September, the continued impact on transactional and collection based revenues will depend on the speed at which electricity, telecommunications and general merchant services can be restored across the region.

Note 3 - Summary of significant accounting policies

The accounting and financial reporting policies of Popular, Inc. and its subsidiaries (the "Corporation") conform with accounting principles generally accepted in the United States of America and with prevailing practices within the financial services industry.

The following is a description of the most significant of these policies:

Principles of consolidation

The consolidated financial statements include the accounts of Popular, Inc. and its subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. In accordance with the consolidation guidance for variable interest

entities, the Corporation would also consolidate any variable interest entities (“VIEs”) for which it has a controlling financial interest; and therefore, it is the primary beneficiary. Assets held in a fiduciary capacity are not assets of the Corporation and, accordingly, are not included in the consolidated statements of financial condition.

Unconsolidated investments, in which there is at least 20% ownership, are generally accounted for by the equity method which the Corporation exercises significant influence, with earnings recorded in other operating income. These investments are included in other assets and the Corporation’s proportionate share of income or loss is included in other operating income. Those investments in which there is less than 20% ownership, are generally carried under the cost method of accounting, unless significant influence is exercised. Under the cost method, the Corporation recognizes income when dividends are received. Limited partnerships are accounted for by the equity method unless the investor’s interest is so “minor” that the limited partner may have virtually no influence over partnership operating and financial policies.

Statutory business trusts that are wholly-owned by the Corporation and are issuers of trust preferred securities are not consolidated in the Corporation’s consolidated financial statements.

Business combinations

Business combinations are accounted for under the acquisition method. Under this method, assets acquired, liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date are measured at their fair values as of the acquisition date. The acquisition date is the date the acquirer obtains control. Also, assets or liabilities arising from noncontractual contingencies are measured at their acquisition date at fair value only if it is more likely than not that they meet the definition of an asset or liability. Acquisition-related restructuring costs that do not meet certain criteria of exit or disposal activities are expensed as incurred. Transaction costs are expensed as incurred. Changes in income tax valuation allowances for acquired deferred tax assets are recognized in earnings subsequent to the measurement period as an adjustment to income tax expense. Contingent consideration classified as an asset or a liability is remeasured to fair value at each reporting date until the contingency is resolved. The changes in fair value of the contingent consideration are recognized in earnings unless the arrangement is a hedging instrument for which changes are initially recognized in other comprehensive income.

There were no significant business combinations during 2017 and 2016.

On February 27, 2015, BPPR, in 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”). The Corporation determined that this acquisition constituted a business combination as defined by the Financial Accounting Standards Board (“FASB”) Codification (“ASC”) Topic 805 “Business Combinations”.

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.

Fair value measurements

The Corporation determines the fair values of its financial instruments based on the fair value framework established in the guidance for Fair Value Measurements in ASC Subtopic 820-10, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The standard describes three levels of inputs that may be used to measure fair value which are (1) quoted market prices for identical assets or liabilities in active markets, (2) observable market-based inputs or unobservable inputs that are corroborated by market data, and (3) unobservable inputs that are not corroborated by market data. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

The guidance in ASC Subtopic 820-10 also addresses measuring fair value in situations where markets are inactive and transactions are not orderly. Transactions or quoted prices for assets and liabilities may not be determinative of fair value when transactions are not orderly, and thus, may require adjustments to estimate fair value. Price quotes based on transactions that are not orderly should be given little, if any, weight in measuring fair value. Price quotes based on transactions that are orderly shall be considered in determining fair value, and the weight given is based on facts and circumstances. If sufficient information is not available to determine if price quotes are based on orderly transactions, less weight should be given to the price quote relative to other transactions that are known to be orderly.

Covered assets

Assets subject to loss sharing agreements with the FDIC, including certain loans and other real estate properties, are

labeled “covered” on the consolidated statements of financial condition and throughout the notes to the consolidated financial statements. Loans acquired in the Westernbank FDIC-assisted transaction, except for credit cards, which remain subject to the terms of the FDIC loss sharing agreement, are considered “covered loans” because the Corporation will be reimbursed for 80% of any future losses on these loans subject to the terms of such agreement.

Investment securities

Investment securities are classified in four categories and accounted for as follows:

- Debt securities that the Corporation has the intent and ability to hold to maturity are classified as securities held-to-maturity and reported at amortized cost. The Corporation may not sell or transfer held-to-maturity securities without calling into question its intent to hold other debt securities to maturity, unless a nonrecurring or unusual event that could not have been reasonably anticipated has occurred. An investment in debt securities is considered impaired if the fair value of the investment is less than its amortized cost. For other-than-temporary impairments the Corporation assesses if it has both the intent and the ability to hold the security for a period of time sufficient to allow for an anticipated recovery in its fair value to its amortized cost. An other-than-temporary impairment not related to a credit loss (defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis) for a held-to-maturity security is recognized in other comprehensive loss and amortized over the remaining life of the debt security. The amortized cost basis for a debt security is adjusted by the credit loss amount of other-than-temporary impairments.
- Debt and equity securities classified as trading securities are reported at fair value, with unrealized gains and losses included in non-interest income.
- Debt and equity securities (equity securities with readily available fair value) not classified as either securities held-to-maturity or trading securities, and which have a readily available fair value, are classified as securities available-for-sale and reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, in accumulated other comprehensive income or loss. The specific identification method is used to determine realized gains and losses on securities available-for-sale, which are included in net gains or losses on sale and valuation adjustment of investment securities in the consolidated statements of operations. Declines in the value of debt and equity securities that are considered other-than-temporary reduce the value of the asset, and the estimated loss is

recorded in non-interest income. For debt securities, the Corporation assesses whether (a) it has the intent to sell the debt security, or (b) it is more likely than not that it will be required to sell the debt security before its anticipated recovery. If either of these conditions is met, an other-than-temporary impairment on the security is recognized. In instances in which a determination is made that a credit loss (defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis) exists but the entity does not intend to sell the debt security and it is not more likely than not that the entity will be required to sell the debt security before the anticipated recovery of its remaining amortized cost basis (i.e., the amortized cost basis less any current-period credit loss), the impairment is separated into (a) the amount of the total impairment related to the credit loss, and (b) the amount of the total impairment related to all other factors. The amount of the total impairment related to the credit loss is recognized in the statement of operations. The amount of the total impairment related to all other factors is recognized in other comprehensive loss. The other-than-temporary impairment analyses for both debt and equity securities are performed on a quarterly basis.

- Investments in equity or other securities that do not have readily available fair values are classified as other investment securities in the consolidated statements of financial condition, and are subject to impairment testing, if applicable. These securities are stated at the lower of cost or realizable value. The source of this value varies according to the nature of the investment, and is primarily obtained by the Corporation from valuation analyses prepared by third-parties or from information derived from financial statements available for the corresponding venture capital and mutual funds. Stock that is owned by the Corporation to comply with regulatory requirements, such as Federal Reserve Bank and Federal Home Loan Bank (“FHLB”) stock, is included in this category, and their realizable value equals their cost.

The amortization of premiums is deducted and the accretion of discounts is added to net interest income based on the interest method over the outstanding period of the related securities. The cost of securities sold is determined by specific identification. Net realized gains or losses on sales of investment securities and unrealized loss valuation adjustments considered other-than-temporary, if any, on securities available-for-sale, held-to-maturity and other investment securities are determined using the specific identification method and are reported separately in the consolidated statements of operations. Purchases and sales of securities are recognized on a trade date basis.

Derivative financial instruments

All derivatives are recognized on the statements of financial condition at fair value. The Corporation's policy is not to offset the fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a master netting arrangement nor to offset the fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from the same master netting arrangement as the derivative instruments.

For a cash flow hedge, changes in the fair value of the derivative instrument, to the extent that it is effective, are recorded net of taxes in accumulated other comprehensive income and subsequently reclassified to net income (loss) in the same period(s) that the hedged transaction impacts earnings. The ineffective portion of cash flow hedges is immediately recognized in current earnings. For free-standing derivative instruments, changes in fair values are reported in current period earnings.

Prior to entering a hedge transaction, the Corporation formally documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivative instruments to specific assets and liabilities on the statements of financial condition or to specific forecasted transactions or firm commitments along with a formal assessment, at both inception of the hedge and on an ongoing basis, as to the effectiveness of the derivative instrument in offsetting changes in fair values or cash flows of the hedged item. Hedge accounting is discontinued when the derivative instrument is not highly effective as a hedge, a derivative expires, is sold, terminated, when it is unlikely that a forecasted transaction will occur or when it is determined that it is no longer appropriate. When hedge accounting is discontinued the derivative continues to be carried at fair value with changes in fair value included in earnings.

For non-exchange traded contracts, fair value is based on dealer quotes, pricing models, discounted cash flow methodologies or similar techniques for which the determination of fair value may require significant management judgment or estimation.

The fair value of derivative instruments considers the risk of non-performance by the counterparty or the Corporation, as applicable.

The Corporation obtains or pledges collateral in connection with its derivative activities when applicable under the agreement.

Loans

Loans are classified as loans held-in-portfolio when management has the intent and ability to hold the loan for the foreseeable future, or until maturity or payoff. The foreseeable

future is a management judgment which is determined based upon the type of loan, business strategies, current market conditions, balance sheet management and liquidity needs. Management's view of the foreseeable future may change based on changes in these conditions. When a decision is made to sell or securitize a loan that was not originated or initially acquired with the intent to sell or securitize, the loan is reclassified from held-in-portfolio into held-for-sale. Due to changing market conditions or other strategic initiatives, management's intent with respect to the disposition of the loan may change, and accordingly, loans previously classified as held-for-sale may be reclassified into held-in-portfolio. Loans transferred between loans held-for-sale and held-in-portfolio classifications are recorded at the lower of cost or fair value at the date of transfer.

Purchased loans are accounted at fair value upon acquisition. Credit discounts are included in the determination of fair value; therefore, an allowance for loan losses is not recorded at the acquisition date.

Loans held-for-sale are stated at the lower of cost or fair value, cost being determined based on the outstanding loan balance less unearned income, and fair value determined, generally in the aggregate. Fair value is measured based on current market prices for similar loans, outstanding investor commitments, prices of recent sales or discounted cash flow analyses which utilize inputs and assumptions which are believed to be consistent with market participants' views. The cost basis also includes consideration of deferred origination fees and costs, which are recognized in earnings at the time of sale. Upon reclassification to held-for-sale, credit related fair value adjustments are recorded as a reduction in the allowance for loan losses ("ALLL"). To the extent that the loan's reduction in value has not already been provided for in the allowance for loan losses, an additional loan loss provision is recorded. Subsequent to reclassification to held-for-sale, the amount, by which cost exceeds fair value, if any, is accounted for as a valuation allowance with changes therein included in the determination of net income (loss) for the period in which the change occurs.

Loans held-in-portfolio are reported at their outstanding principal balances net of any unearned income, charge-offs, unamortized deferred fees and costs on originated loans, and premiums or discounts on purchased loans. Fees collected and costs incurred in the origination of new loans are deferred and amortized using the interest method or a method which approximates the interest method over the term of the loan as an adjustment to interest yield.

The past due status of a loan is determined in accordance with its contractual repayment terms. Furthermore, loans are reported as past due when either interest or principal remains unpaid for 30 days or more in accordance with its contractual repayment terms.

Non-accrual loans are those loans on which the accrual of interest is discontinued. When a loan is placed on non-accrual

status, all previously accrued and unpaid interest is charged against income and the loan is accounted for either on a cash-basis method or on the cost-recovery method. Loans designated as non-accruing are returned to accrual status when the Corporation expects repayment of the remaining contractual principal and interest.

Recognition of interest income on commercial and construction loans is discontinued when the loans are 90 days or more in arrears on payments of principal or interest or when other factors indicate that the collection of principal and interest is doubtful. The impaired portion of secured loan past due as to principal and interest is charged-off not later than 365 days past due. However, in the case of a collateral dependent loan individually evaluated for impairment, the excess of the recorded investment over the fair value of the collateral (portion deemed uncollectible) is generally promptly charged-off, but in any event, not later than the quarter following the quarter in which such excess was first recognized. Commercial unsecured loans are charged-off no later than 180 days past due. Recognition of interest income on mortgage loans is generally discontinued when loans are 90 days or more in arrears on payments of principal or interest. The impaired portion of a mortgage loan is charged-off when the loan is 180 days past due. The Corporation discontinues the recognition of interest on residential mortgage loans insured by the Federal Housing Administration (“FHA”) or guaranteed by the U.S. Department of Veterans Affairs (“VA”) when 15-months delinquent as to principal or interest. The principal repayment on these loans is insured. Recognition of interest income on closed-end consumer loans and home equity lines of credit is discontinued when the loans are 90 days or more in arrears on payments of principal or interest. Income is generally recognized on open-end consumer loans, except for home equity lines of credit, until the loans are charged-off. Recognition of interest income for lease financing is ceased when loans are 90 days or more in arrears. Closed-end consumer loans and leases are charged-off when they are 120 days in arrears. Open-end (revolving credit) consumer loans are charged-off when 180 days in arrears. Commercial and consumer overdrafts are generally charged-off no later than 60 days past their due date.

Purchased impaired loans accounted for under ASC Subtopic 310-30 are not considered non-performing and 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. Also, loans charged-off against the non-accretable difference established in purchase accounting are not reported as charge-offs. Charge-offs on loans accounted under ASC Subtopic 310-30 are recorded only to the extent that losses exceed the non-accretable difference established with purchase accounting.

A loan classified as a troubled debt restructuring (“TDR”) is typically in non-accrual status at the time of the modification.

The TDR loan continues in non-accrual status until the borrower has demonstrated a willingness and ability to make the restructured loan payments (at least six months of sustained performance after the modification (or one year for loans providing for quarterly or semi-annual payments)) and management has concluded that it is probable that the borrower would not be in payment default in the foreseeable future.

Lease financing

The Corporation leases passenger and commercial vehicles and equipment to individual and corporate customers. The finance method of accounting is used to recognize revenue on lease contracts that meet the criteria specified in the guidance for leases in ASC Topic 840. Aggregate rentals due over the term of the leases less unearned income are included in finance lease contracts receivable. Unearned income is amortized using a method which results in approximate level rates of return on the principal amounts outstanding. Finance lease origination fees and costs are deferred and amortized over the average life of the lease as an adjustment to the interest yield.

Revenue for other leases is recognized as it becomes due under the terms of the agreement.

Loans acquired as part of the Westernbank FDIC-assisted transaction

Loans acquired in a business acquisition are recorded at fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan losses is not recorded at the acquisition date.

The Corporation applied the guidance of ASC Subtopic 310-30 to all loans acquired in Westernbank FDIC-assisted transaction (including loans that do not meet scope of ASC Subtopic 310-30), except for credit cards and revolving lines of credit that were expressly scoped out from the application of this guidance since they continued to have revolving privileges after acquisition. Management used its judgment in evaluating factors impacting expected cash flows and probable loss assumptions, including the quality of the loan portfolio, portfolio concentrations, distressed economic conditions, quality of underwriting standards of the acquired institution, reductions in collateral real estate values, among other considerations that could also impact the expected cash inflows on the loans.

Loans accounted for under ASC Subtopic 310-30 represent loans showing evidence of credit deterioration and that it is probable, at the date of acquisition, that the Corporation would not collect all contractually required principal and interest payments. Generally, acquired loans that meet the definition for nonaccrual status fall within the Corporation’s definition of impaired loans under ASC Subtopic 310-30. Also, based on the fair value determined for the acquired portfolio, acquired loans that did not meet the definition of nonaccrual status also

resulted in the recognition of a significant discount attributable to credit quality. Accordingly, an election was made by the Corporation to apply the accretable yield method (expected cash flow model of ASC Subtopic 310-30), as a loan with credit deterioration and impairment, instead of the standard loan discount accretion guidance of ASC Subtopic 310-20, for the loans acquired in the Westernbank FDIC-assisted transaction. These loans are disclosed as a loan that was acquired with credit deterioration and impairment.

Loans acquired as part of the Doral Bank FDIC-assisted transaction

Certain residential mortgage loans and commercial loans acquired as part of the Doral Bank Transaction were considered impaired. Accordingly, the Corporation applied the guidance of ASC Subtopic 310-30. Refer to Note 9 to the consolidated financial statements for additional information with respect to the loans acquired as part of the Doral Bank Transaction that were considered impaired.

Under ASC Subtopic 310-30, the loans acquired from the FDIC were aggregated into pools based on loans that had common risk characteristics. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Characteristics considered in pooling loans in the FDIC-assisted transaction included loan type, interest rate type, accruing status, amortization type, rate index and source type. Once the pools are defined, the Corporation maintains the integrity of the pool of multiple loans accounted for as a single asset.

Under ASC Subtopic 310-30, the difference between the undiscounted cash flows expected at acquisition and the fair value in the loans, or the “accretable yield,” is recognized as interest income using the effective yield method over the estimated life of the loan if the timing and amount of the future cash flows of the pool is reasonably estimable. The non-accretable difference represents the difference between contractually required principal and interest and the cash flows expected to be collected. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date are recognized as a reduction of any allowance for loan losses established after the acquisition and then as an increase in the accretable yield for the loans prospectively. Decreases in expected cash flows after the acquisition date are recognized by recording an allowance for loan losses.

The fair value discount of lines of credit with revolving privileges that are accounted for pursuant to the guidance of ASC Subtopic 310-20 represents the difference between the contractually required loan payment receivable in excess of the initial investment in the loan. This discount is accreted into interest income over the life of the loan if the loan is in accruing status. Any cash flows collected in excess of the carrying amount of the loan are recognized in earnings at the time of collection. The carrying amount of lines of credit with

revolving privileges, which are accounted pursuant to the guidance of ASC Subtopic 310-20, are subject to periodic review to determine the need for recognizing an allowance for loan losses.

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 analogy, by evaluating decreases in expected cash flows after the acquisition date.

For a detailed description of the principal factors used to determine the general reserves of the allowance for loan losses and for the principal enhancements Management made to its methodology, refer to Note 10 to the consolidated financial statements.

According to the loan impairment accounting guidance in ASC Section 310-10-35, a loan is impaired when, based on current information and events, it is probable that the principal and/or interest are not going to be collected according to the original contractual terms of the loan agreement. Current information and events include “environmental” factors, e.g. existing industry, geographical, economic and political factors. Probable means the future event or events which will confirm the loss or impairment of the loan is likely to occur.

The Corporation defines commercial and construction impaired loans as borrowers with total debt greater than or equal to \$1 million with 90 days or more past due, as well as all loans whose terms have been modified in a troubled debt restructuring (“TDRs”). In addition, larger commercial and construction loans (\$1 million and over) that exhibit probable or observed credit weaknesses are subject to individual review and thus evaluated for impairment. Commercial and construction loans that originally met the Corporation’s threshold for impairment identification in a prior period, but due to charge-offs or payments are currently below the \$1 million threshold and are still 90 days past due, except for TDRs, are accounted for under the Corporation’s general reserve methodology. Although the accounting codification guidance for specific impairment of a loan excludes large

groups of smaller balance homogeneous loans that are collectively evaluated for impairment (e.g. mortgage and consumer loans), it specifically requires that loan modifications considered troubled debt restructurings (“TDRs”) be analyzed under its provisions. An allowance for loan impairment is recognized to the extent that the carrying value of an impaired loan exceeds the present value of the expected future cash flows discounted at the loan’s effective rate, the observable market price of the loan, if available, or the fair value of the collateral if the loan is collateral dependent. The fair value of the collateral is generally based on appraisals. Appraisals may be adjusted due to their age, and the type, location, and condition of the property or area or general market conditions to reflect the expected change in value between the effective date of the appraisal and the impairment measurement date. The Corporation requests updated appraisal reports from pre-approved appraisers for loans that are considered impaired following the Corporation’s reappraisals policy. This policy requires updated appraisals for loans secured by real estate (including construction loans) either annually or every two years depending on the total exposure of the borrower. As a general procedure, the Corporation internally reviews appraisals as part of the underwriting and approval process and also for credits considered impaired.

Troubled debt restructurings

A restructuring constitutes a TDR when the Corporation separately concludes that both of the following conditions exist: 1) the restructuring constitute a concession and 2) the debtor is experiencing financial difficulties. The concessions stem from an agreement between the Corporation and the debtor or are imposed by law or a court. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. A concession has been granted when, as a result of the restructuring, the Corporation does not expect to collect all amounts due, including interest accrued at the original contract rate. If the payment of principal is dependent on the value of collateral, the current value of the collateral is taken into consideration in determining the amount of principal to be collected; therefore, all factors that changed are considered to determine if a concession was granted, including the change in the fair value of the underlying collateral that may be used to repay the loan. Classification of loan modifications as TDRs involves a degree of judgment. Indicators that the debtor is experiencing financial difficulties which are considered include: (i) the borrower is currently in default on any of its debt or it is probable that the borrower would be in payment default on any of its debt in the foreseeable future without the modification; (ii) the borrower has declared or is in the process of declaring bankruptcy; (iii) there is significant doubt as to whether the borrower will continue to be a going concern; (iv) the borrower has securities

that have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange; (v) based on estimates and projections that only encompass the borrower’s current business capabilities, it is forecasted that the entity-specific cash flows will be insufficient to service the debt (both interest and principal) in accordance with the contractual terms of the existing agreement through maturity; and (vi) absent the current modification, the borrower cannot obtain funds from sources other than the existing creditors at an effective interest rate equal to the current market interest rate for similar debt for a non-troubled debtor. The identification of TDRs is critical in the determination of the adequacy of the allowance for loan losses. Loans classified as TDRs may be excluded from TDR status if performance under the restructured terms exists for a reasonable period (at least twelve months of sustained performance) and the loan yields a market rate.

A loan may be restructured in a troubled debt restructuring into two (or more) loan agreements, for example, Note A and Note B. Note A represents the portion of the original loan principal amount that is expected to be fully collected along with contractual interest. Note B represents the portion of the original loan that may be considered uncollectible and charged-off, but the obligation is not forgiven to the borrower. Note A may be returned to accrual status provided all of the conditions for a TDR to be returned to accrual status are met. The modified loans are considered TDRs and thus, are evaluated under the framework of ASC Section 310-10-35 as long as the loans are not part of a pool of loans accounted for under ASC Subtopic 310-30.

Refer to Note 10 to the consolidated financial statements for additional qualitative information on TDRs and the Corporation’s determination of the allowance for loan losses.

Reserve for unfunded commitments

The reserve for unfunded commitments is maintained at a level believed by management to be sufficient to absorb estimated probable losses related to unfunded credit facilities and is included in other liabilities in the consolidated statements of financial condition. The determination of the adequacy of the reserve is based upon an evaluation of the unfunded credit facilities. Net adjustments to the reserve for unfunded commitments are included in other operating expenses in the consolidated statements of operations.

FDIC loss share indemnification asset and true-up payment obligation (contingent consideration)

The FDIC loss share indemnification asset was initially recorded at fair value. Fair value was estimated using projected cash flows related to the loss sharing agreement.

The FDIC loss share indemnification asset is measured separately from the related covered assets as it is not contractually embedded in the assets and is not transferable with the assets should the assets be sold.

The FDIC loss share indemnification asset is recognized on the same basis as the assets subject to loss share protection. As such, for covered loans accounted pursuant to ASC Subtopic 310-30, decreases in expected reimbursements from the FDIC due to improvements in expected cash flows to be received from borrowers, are recognized in non-interest income prospectively over the life of the FDIC loss sharing agreements. For covered loans accounted for under ASC Subtopic 310-20, as the loan discount recorded as of the acquisition date is accreted into income, a reduction of the related indemnification asset is recorded as a reduction in non-interest income. Increases in expected reimbursements from the FDIC are recognized in non-interest income in the same period that the allowance for credit losses for the related loans is recognized.

The amortization or accretion due to discounting of the loss share asset and changes in expected loss sharing reimbursements is included in non-interest income, particularly in the category of FDIC loss share (expense) income.

The true-up payment obligation associated with the loss share agreements is accounted for at fair value in accordance with ASC Section 805-30-25-6 as it is considered contingent consideration. The true-up payment obligation is included as part of other liabilities in the consolidated statements of financial condition. Any changes in the carrying value of the obligation are included in the category of FDIC loss share (expense) income in the consolidated statements of operations.

Refer to Note 11 for additional information on the FDIC loss share indemnification asset and true-up payment obligation.

Transfers and servicing of financial assets

The transfer of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset in which the Corporation surrenders control over the assets is accounted for as a sale if all of the following conditions set forth in ASC Topic 860 are met: (1) the assets must be isolated from creditors of the transferor, (2) the transferee must obtain the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the transferor cannot maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. When the Corporation transfers financial assets and the transfer fails any one of these criteria, the Corporation is prevented from derecognizing the transferred financial assets and the transaction is accounted for as a secured borrowing. For federal and Puerto Rico income tax purposes, the Corporation treats the transfers of loans which do not qualify as “true sales” under the applicable accounting guidance, as sales, recognizing a deferred tax asset or liability on the transaction.

For transfers of financial assets that satisfy the conditions to be accounted for as sales, the Corporation derecognizes all assets sold; recognizes all assets obtained and liabilities incurred in consideration as proceeds of the sale, including

servicing assets and servicing liabilities, if applicable; initially measures at fair value assets obtained and liabilities incurred in a sale; and recognizes in earnings any gain or loss on the sale.

The guidance on transfer of financial assets requires a true sale analysis of the treatment of the transfer under state law as if the Corporation was a debtor under the bankruptcy code. A true sale legal analysis includes several legally relevant factors, such as the nature and level of recourse to the transferor, and the nature of retained interests in the loans sold. The analytical conclusion as to a true sale is never absolute and unconditional, but contains qualifications based on the inherent equitable powers of a bankruptcy court, as well as the unsettled state of the common law. Once the legal isolation test has been met, other factors concerning the nature and extent of the transferor’s control over the transferred assets are taken into account in order to determine whether derecognition of assets is warranted.

The Corporation sells mortgage loans to the Government National Mortgage Association (“GNMA”) in the normal course of business and retains the servicing rights. The GNMA programs under which the loans are sold allow the Corporation to repurchase individual delinquent loans that meet certain criteria. At the Corporation’s option, and without GNMA’s prior authorization, the Corporation may repurchase the delinquent loan for an amount equal to 100% of the remaining principal balance of the loan. Once the Corporation has the unconditional ability to repurchase the delinquent loan, the Corporation is deemed to have regained effective control over the loan and recognizes the loan on its balance sheet as well as an offsetting liability, regardless of the Corporation’s intent to repurchase the loan.

Servicing assets

The Corporation periodically sells or securitizes loans while retaining the obligation to perform the servicing of such loans. In addition, the Corporation may purchase or assume the right to service loans originated by others. Whenever the Corporation undertakes an obligation to service a loan, management assesses whether a servicing asset or liability should be recognized. A servicing asset is recognized whenever the compensation for servicing is expected to more than adequately compensate the servicer for performing the servicing. Likewise, a servicing liability would be recognized in the event that servicing fees to be received are not expected to adequately compensate the Corporation for its expected cost. Mortgage servicing assets recorded at fair value are separately presented on the consolidated statements of financial condition.

All separately recognized servicing assets are initially recognized at fair value. For subsequent measurement of servicing rights, the Corporation has elected the fair value method for mortgage loans servicing rights (“MSRs”). Under the fair value measurement method, MSRs are recorded at fair value each reporting period, and changes in fair value are

reported in mortgage banking activities in the consolidated statement of operations. Contractual servicing fees including ancillary income and late fees, as well as fair value adjustments, and impairment losses, if any, are reported in mortgage banking activities in the consolidated statement of operations. Loan servicing fees, which are based on a percentage of the principal balances of the loans serviced, are credited to income as loan payments are collected.

The fair value of servicing rights is estimated by using a cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected loan prepayment rates, discount rates, servicing costs, and other economic factors, which are determined based on current market conditions.

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed on a straight-line basis over the estimated useful life of each type of asset. Amortization of leasehold improvements is computed over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Costs of maintenance and repairs which do not improve or extend the life of the respective assets are expensed as incurred. Costs of renewals and betterments are capitalized. When assets are disposed of, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in earnings as realized or incurred, respectively.

The Corporation capitalizes interest cost incurred in the construction of significant real estate projects, which consist primarily of facilities for its own use or intended for lease. The amount of interest cost capitalized is to be an allocation of the interest cost incurred during the period required to substantially complete the asset. The interest rate for capitalization purposes is to be based on a weighted average rate on the Corporation's outstanding borrowings, unless there is a specific new borrowing associated with the asset. Interest cost capitalized for the years ended December 31, 2016, 2015 and 2014 was not significant.

The Corporation has operating lease arrangements primarily associated with the rental of premises to support its branch network or for general office space. Certain of these arrangements are non-cancellable and provide for rent escalations and renewal options. Rent expense on non-cancellable operating leases with scheduled rent increases are recognized on a straight-line basis over the lease term.

Impairment of long-lived assets

The Corporation evaluates for impairment its long-lived assets to be held and used, and long-lived assets to be disposed of, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Restructuring costs

A liability for a cost associated with an exit or disposal activity is recognized and measured initially at its fair value in the period in which the liability is incurred. If future service is required for employees to receive the one-time termination benefit, the liability is initially measured at its fair value as of the termination date and recognized over the future service period.

Other real estate

Other real estate, received in satisfaction of a loan, is recorded at fair value less estimated costs of disposal. The difference between the carrying amount of the loan and the fair value less cost to sell is recorded as an adjustment to the allowance for loan losses. Subsequent to foreclosure, any losses in the carrying value arising from periodic re-evaluations of the properties, and any gains or losses on the sale of these properties are credited or charged to expense in the period incurred and are included as OREO expenses. The cost of maintaining and operating such properties is expensed as incurred.

Updated appraisals are obtained to adjust the value of the other real estate assets. The frequency depends on the loan type and total credit exposure. The appraisal for a commercial or construction other real estate property with a book value equal to or greater than \$1 million is updated annually and if lower than \$1 million it is updated every two years. For residential mortgage properties, the Corporation requests appraisals annually.

Appraisals may be adjusted due to age, collateral inspections, property profiles, or general market conditions. The adjustments applied are based upon internal information such as other appraisals for the type of properties and/or loss severity information that can provide historical trends in the real estate market, and may change from time to time based on market conditions.

Goodwill and other intangible assets

Goodwill is recognized when the purchase price is higher than the fair value of net assets acquired in business combinations under the purchase method of accounting. Goodwill is not amortized, but is tested for impairment at least annually or more frequently if events or circumstances indicate possible impairment using a two-step process at each reporting unit level. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, the goodwill of the reporting unit is not considered impaired and the second step of the impairment test is unnecessary. If needed, the second step consists of comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. In determining the fair value of a reporting

unit, the Corporation generally uses a combination of methods, which include market price multiples of comparable companies and the discounted cash flow analysis. Goodwill impairment losses are recorded as part of operating expenses in the consolidated statement of operations.

Other intangible assets deemed to have an indefinite life are not amortized, but are tested for impairment using a one-step process which compares the fair value with the carrying amount of the asset. In determining that an intangible asset has an indefinite life, the Corporation considers expected cash inflows and legal, regulatory, contractual, competitive, economic and other factors, which could limit the intangible asset's useful life.

Other identifiable intangible assets with a finite useful life, mainly core deposits, are amortized using various methods over the periods benefited, which range from 5 to 10 years. These intangibles are evaluated periodically for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments on intangible assets with a finite useful life are evaluated under the guidance for impairment or disposal of long-lived assets.

Assets sold / purchased under agreements to repurchase / resell

Repurchase and resell agreements are treated as collateralized financing transactions and are carried at the amounts at which the assets will be subsequently reacquired or resold as specified in the respective agreements.

It is the Corporation's policy to take possession of securities purchased under agreements to resell. However, the counterparties to such agreements maintain effective control over such securities, and accordingly those securities are not reflected in the Corporation's consolidated statements of financial condition. The Corporation monitors the fair value of the underlying securities as compared to the related receivable, including accrued interest.

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.

The Corporation may require counterparties to deposit additional collateral or return collateral pledged, when appropriate.

Software

Capitalized software is stated at cost, less accumulated amortization. Capitalized software includes purchased software and capitalizable application development costs associated with internally-developed software. Amortization, computed on a straight-line method, is charged to operations over the estimated useful life of the software. Capitalized software is included in "Other assets" in the consolidated statement of financial condition.

Guarantees, including indirect guarantees of indebtedness of others

The Corporation, as a guarantor, recognizes at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. Refer to Note 26 to the consolidated financial statements for further disclosures on guarantees.

Treasury stock

Treasury stock is recorded at cost and is carried as a reduction of stockholders' equity in the consolidated statements of financial condition. At the date of retirement or subsequent reissue, the treasury stock account is reduced by the cost of such stock. At retirement, the excess of the cost of the treasury stock over its par value is recorded entirely to surplus. At reissuance, the difference between the consideration received upon issuance and the specific cost is charged or credited to surplus.

Income Recognition - Insurance agency business

Commissions and fees are recognized when related policies are effective. Additional premiums and rate adjustments are recorded as they occur. Contingent commissions are recorded on an accrual basis when the amount to be received is notified by the insurance company. Commission income from advance business is deferred. An allowance is created for expected adjustments to commissions earned relating to policy cancellations.

Income Recognition - Investment banking revenues and commissions

Investment banking revenue is recorded as follows: underwriting fees at the time the underwriting is completed and income is reasonably determinable; corporate finance advisory fees as earned, according to the terms of the specific contracts; and sales commissions on a trade-date basis. Commission income and expenses related to customers' securities transactions are recorded on a trade-date basis.

Foreign exchange

Assets and liabilities denominated in foreign currencies are translated to U.S. dollars using prevailing rates of exchange at the end of the period. Revenues, expenses, gains and losses are translated using weighted average rates for the period. The resulting foreign currency translation adjustment from operations for which the functional currency is other than the U.S. dollar is reported in accumulated other comprehensive loss, except for highly inflationary environments in which the effects are included in other operating expenses.

The Corporation holds interests in Centro Financiero BHD León, S.A. ("BHD León") in the Dominican Republic. The business of BHD León is mainly conducted in their country's foreign currency. The resulting foreign currency translation

adjustment from these operations is reported in accumulated other comprehensive loss.

Refer to the disclosure of accumulated other comprehensive loss included in Note 25.

Income taxes

The Corporation recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Corporation's financial statements or tax returns. Deferred income tax assets and liabilities are determined for differences between financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. The computation is based on enacted tax laws and rates applicable to periods in which the temporary differences are expected to be recovered or settled.

The guidance for income taxes requires a reduction of the carrying amounts of deferred tax assets by a valuation allowance if, based on the available evidence, it is more likely than not (defined as a likelihood of more than 50 percent) that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed periodically by the Corporation based on the more likely than not realization threshold criterion. In the assessment for a valuation allowance, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, all sources of taxable income available to realize the deferred tax asset, including the future reversal of existing temporary differences, the future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in carryback years and tax-planning strategies. In making such assessments, significant weight is given to evidence that can be objectively verified.

The valuation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in the Corporation's financial statements or tax returns and future profitability. The Corporation's accounting for deferred tax consequences represents management's best estimate of those future events.

Positions taken in the Corporation's tax returns may be subject to challenge by the taxing authorities upon examination. Uncertain tax positions are initially recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. Interest on income tax uncertainties is classified within income tax expense in the statement of operations; while the penalties, if any, are accounted for as other operating expenses.

The Corporation accounts for the taxes collected from customers and remitted to governmental authorities on a net basis (excluded from revenues).

Income tax expense or benefit for the year is allocated among continuing operations, discontinued operations, and other comprehensive income, as applicable. The amount allocated to continuing operations is the tax effect of the pre-tax income or loss from continuing operations that occurred during the year, plus or minus income tax effects of (a) changes in circumstances that cause a change in judgment about the realization of deferred tax assets in future years, (b) changes in tax laws or rates, (c) changes in tax status, and (d) tax-deductible dividends paid to shareholders, subject to certain exceptions.

Employees' retirement and other postretirement benefit plans

Pension costs are computed on the basis of accepted actuarial methods and are charged to current operations. Net pension costs are based on various actuarial assumptions regarding future experience under the plan, which include costs for services rendered during the period, interest costs and return on plan assets, as well as deferral and amortization of certain items such as actuarial gains or losses.

The funding policy is to contribute to the plan, as necessary, to provide for services to date and for those expected to be earned in the future. To the extent that these requirements are fully covered by assets in the plan, a contribution may not be made in a particular year.

The cost of postretirement benefits, which is determined based on actuarial assumptions and estimates of the costs of providing these benefits in the future, is accrued during the years that the employee renders the required service.

The guidance for compensation retirement benefits of ASC Topic 715 requires the recognition of the funded status of each defined pension benefit plan, retiree health care and other postretirement benefit plans on the statement of financial condition.

Stock-based compensation

The Corporation opted to use the fair value method of recording stock-based compensation as described in the guidance for employee share plans in ASC Subtopic 718-50.

Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances, except those resulting from investments by owners and distributions to owners. The presentation of comprehensive income (loss) is included in separate consolidated statements of comprehensive income (loss).

Net income (loss) per common share

Basic income (loss) per common share is computed by dividing net income (loss) adjusted for preferred stock dividends, including undeclared or unpaid dividends if cumulative, and charges or credits related to the extinguishment of preferred stock or induced conversions of preferred stock, by the weighted average number of common shares outstanding during the year. Diluted income per common share takes into consideration the weighted average common shares adjusted for the effect of stock options, restricted stock, performance shares and warrants, if any, using the treasury stock method.

Statement of cash flows

For purposes of reporting cash flows, cash includes cash on hand and amounts due from banks.

Note 4 - New accounting pronouncements

Recently Issued Accounting Standards Updates

FASB Accounting Standards Update ("ASU") 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

The FASB issued ASU 2018-02 in February 2018, which allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. These stranded tax effects result from recognizing in income the impact of changes in tax rates even when the related tax effects were recognized in accumulated other comprehensive income. The amendments also require certain disclosures about stranded tax effects.

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

As of December 31, 2017, the Corporation maintained a full valuation allowance on the deferred tax assets, which were recognized in accumulated other comprehensive income related to its U.S. operations. As such, the Corporation does not anticipate that the adoption of this accounting pronouncement will have a material impact on its consolidated statements of financial condition and results of operations. However, the Corporation will continue to evaluate the impact of this ASU until its planned adoption date of January 1, 2019.

FASB Accounting Standards Update ("ASU") 2018-01, Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842

The FASB issued ASU 2018-01 in January 2018, which provides an optional transition practical expedient to not evaluate under Topic 842 existing or expired land easements that were not previously accounted for as leases under Topic 840. An entity that elects this practical expedient should evaluate new or modified land easements under Topic 842 after the effective date.

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

The Corporation does not 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 land easements that have not been previously accounted for as leases under Topic 840.

FASB Accounting Standards Update ("ASU") 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities

The FASB issued ASU 2017-12 in August 2017, which makes more financial and nonfinancial hedging strategies eligible for hedge accounting and changes how companies assess effectiveness by, among other things, eliminating the requirement for entities to recognize hedge ineffectiveness each reporting period for cash flow hedges and requiring presentation of the changes in fair value of cash flow hedges in the same income statement line item(s) as the earnings effect of the hedged items when the hedged item affects earnings.

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 using a modified retrospective approach as of the adoption date.

The Corporation will be impacted by the simplified application of hedge accounting. 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 hedge ineffectiveness has been immaterial to the Corporation and the earnings effect of the hedges and the hedged items are already presented in the same income statement line item.

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.

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

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

The amendments of these Updates 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 and results of operations.

FASB Accounting Standards Update ("ASU") 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment

The FASB issued ASU 2017-04 in January 2017, which simplifies the accounting for goodwill impairment by removing Step 2 of the two-step goodwill impairment test under the current guidance. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its

fair value, not to exceed the carrying amount of goodwill. Entities will be required to disclose the amount of goodwill at reporting units with zero or negative carrying amounts.

The amendments of this Update, which should be applied on a prospective basis, are effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

Upon adoption of this standard, if the carrying amount of any of the reporting units exceeds its fair value, the Corporation would be required to record an impairment charge for the difference up to the amount of the goodwill.

FASB Accounting Standards Update ("ASU") 2017-03, Accounting Changes and Error Corrections (Topic 250) and Investments- Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC Update)

The FASB issued ASU 2017-03 in January 2017, which incorporates into the Accounting Standards Codification recent SEC guidance about certain investments in qualified affordable housing and disclosing under SEC SAB Topic 11.M the effect on financial statements of adopting the revenue, leases and credit losses standards.

The Corporation has considered the guidance in this Update related to the disclosure on the effect on financial statements of adopting the revenue, leases and credit losses standards in the preparation of the consolidated financial statements.

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

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

The amendments of this Update, which should be applied on a prospective basis, are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted.

The Corporation will consider this guidance in any business combinations completed after the effective date.

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

The FASB issued ASU 2016-18 in November 2016, which require entities to present the changes in total cash, cash

equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The new guidance also requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet if restricted cash and restricted cash equivalents are presented in a different line item in the balance sheet.

The amendments of this Update, which should be applied using a retrospective transition method to each period presented, are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted.

The adoption of this standard will change the presentation in the consolidated statements of cash flows.

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

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

The amendments of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted, but the guidance can only be adopted in the first interim period of a fiscal year. The modified retrospective approach will be required for transition to the new guidance, with a cumulative-effect adjustment recorded in 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. Therefore, the Corporation will consider this guidance in any intra-entity transfers of assets other than inventory completed after the effective date.

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

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

The amendments of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. Entities will be required to apply the guidance retrospectively to all periods presented, unless it is impracticable to do so.

The Corporation does not anticipate that the adoption of this accounting pronouncement will have a material effect on its consolidated statements of cash flows.

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 and 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 has continued its evaluation and implementation efforts for ASU 2016-13, Financial Instruments – Credit Losses, and has established a cross-discipline governance structure. A 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.

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

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

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

The ASU is expected to impact the Corporation's consolidated financial statements since the Corporation has operating and land lease arrangements for which it is the lessee. Although the Corporation is still evaluating the impact that the adoption of this accounting pronouncement will have on its consolidated financial statements, preliminarily it expects that the amounts to be recognized as ROU assets and lease liabilities will be less than 1% of its total assets and will not have a material impact on its regulatory capital.

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

The FASB has issued a series of ASUs which, among other things, clarify the principles for recognizing revenue and develop a common revenue standard. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services, that is, the satisfaction of performance obligations, to customers in an amount that reflects the consideration to which the entity

expects to be entitled in exchange for those goods or services. A five-step process is defined to achieve this core principle. The new guidance also requires disclosures to enable users of financial statements to understand the nature, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

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

The Corporation's implementation efforts regarding ASU 2014-09, Revenue from Contracts with Customers, 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 concluded its implementation efforts during the fourth quarter of 2017. There will be no material changes in the timing of when revenues are recognized. Although there will be changes on the presentation of certain costs in the broker-dealer subsidiary, these changes in presentation are not material to the Corporation's financial statements. The Corporation adopted this guidance on January 1, 2018 using the modified retrospective approach.

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

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

The amendments of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption can only be elected for the provision to record credit-related fair value changes for financial liabilities under the fair value option through other comprehensive income for those financial statements of fiscal years and interim periods that have not yet been issued.

Currently, the Corporation does not have any financial liabilities under the fair value option. In addition, the Corporation does not expect to be significantly impacted by the changes in the accounting for equity investments under the revised guidance.

Note 5 - 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 \$ 1.4 billion at December 31, 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 December 31, 2017, the Corporation held \$41 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.

Note 6 - Securities purchased under agreements to resell

The securities purchased underlying the agreements to resell were delivered to, and are held by, the Corporation. The counterparties to such agreements maintain effective control over such securities. The Corporation is permitted by contract to repledge the securities, and has agreed to resell to the counterparties the same or substantially similar securities at the maturity of the agreements.

The fair value of the collateral securities held by the Corporation on these transactions at December 31, was as follows:

<i>(In thousands)</i>	2017	2016
Not repledged	\$—	\$27,388
Total	\$—	\$27,388

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 December 31, 2017 and 2016.

	At December 31, 2017				
<i>(In thousands)</i>	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Weighted average yield
U.S. Treasury securities					
Within 1 year	\$ 1,112,791	\$ 8	\$ 2,101	\$ 1,110,698	1.06%
After 1 to 5 years	2,550,116	–	26,319	2,523,797	1.55
After 5 to 10 years	293,579	281	191	293,669	2.24
Total U.S. Treasury securities	3,956,486	289	28,611	3,928,164	1.46
Obligations of U.S. Government sponsored entities					
Within 1 year	276,304	21	818	275,507	1.26
After 1 to 5 years	336,922	22	3,518	333,426	1.48
Total obligations of U.S. Government sponsored entities	613,226	43	4,336	608,933	1.38
Obligations of Puerto Rico, States and political subdivisions					
After 1 to 5 years	6,668	–	59	6,609	2.30
Total obligations of Puerto Rico, States and political subdivisions	6,668	–	59	6,609	2.30
Collateralized mortgage obligations - federal agencies					
Within 1 year	40	–	–	40	2.60
After 1 to 5 years	16,972	173	75	17,070	2.90
After 5 to 10 years	36,186	57	526	35,717	2.31
After 10 years	914,568	2,789	26,431	890,926	2.01
Total collateralized mortgage obligations - federal agencies	967,766	3,019	27,032	943,753	2.03
Mortgage-backed securities					
Within 1 year	484	8	–	492	4.23
After 1 to 5 years	14,599	206	211	14,594	3.50
After 5 to 10 years	339,161	2,390	3,765	337,786	2.21
After 10 years	4,385,368	19,493	69,071	4,335,790	2.46
Total mortgage-backed securities	4,739,612	22,097	73,047	4,688,662	2.44
Equity securities (without contractual maturity)	1,039	776	–	1,815	8.21
Other					
After 5 to 10 years	789	13	–	802	3.62
Total other	789	13	–	802	3.62
Total investment securities available-for-sale ^[1]	\$10,285,586	\$26,237	\$133,085	\$10,178,738	1.96%

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

At December 31, 2016

<i>(In thousands)</i>	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					
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.

The following table presents the aggregate amortized cost and fair value of investment securities available-for-sale at December 31, 2017 by contractual maturity.

<i>(In thousands)</i>	Amortized cost	Fair value
Within 1 year	\$ 1,389,619	\$ 1,386,737
After 1 to 5 years	2,925,277	2,895,496
After 5 to 10 years	669,715	667,974
After 10 years	5,299,936	5,226,716
Total	10,284,547	10,176,923
Equity securities	1,039	1,815
Total investment securities available-for-sale	\$10,285,586	\$10,178,738

During the year ended December 31, 2017, the Corporation sold equity securities and obligations from the Puerto Rico government and its political subdivisions. The proceeds from these sales were \$ 15.0 million. During the year ended December 31, 2016, the Corporation sold mortgage-backed securities, equity securities and obligations from the Puerto Rico government and its political subdivisions. The proceeds from these sales were \$ 5.3 million. Gross realized gains and losses on the sale of investment securities available-for-sale for

the years ended December 31, 2017, 2016 and 2015 were as follows:

(In thousands)	Years ended December 31,		
	2017	2016	2015
Gross realized gains	\$346	\$378	\$226
Gross realized losses	(12)	—	(85)
Net realized gains on sale of investment securities available-for-sale	\$334	\$378	\$141

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 December 31, 2017 and 2016.

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

(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
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 December 31, 2017, the available-for-sale investment portfolio reflects gross unrealized losses of approximately \$133 million, driven mainly by U.S. Treasury securities, collateralized mortgage obligations, and mortgage-backed securities.

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.

At December 31, 2017, management performed its quarterly analysis of all debt securities in an unrealized loss position. Based on the analysis performed, management concluded that no individual debt security was other-than-temporarily impaired as of such date. During the quarter ended June 30, 2017, the Corporation recognized an other-than-temporary impairment charge of \$8.3 million on Puerto Rico Sales Tax Financing Corporation (“COFINA”) bonds classified as available-for-sale. These were subsequently sold by the Corporation during the third quarter of 2017, at a gain of approximately \$0.1 million.

At December 31, 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.

During the quarter ended June 30, 2016, the Corporation recognized an other-than-temporary impairment charge of \$209 thousand on an investment security available-for-sale classified as obligations from Puerto Rico government and its political subdivisions. Puerto Rico’s fiscal and economic situation, together with, among other factors, the moratorium declared on the payment of principal and interest on

obligations of 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 security, for which an other-than-temporary impairment was recorded, was sold during the fourth quarter of 2016, resulting in a realized gain of \$30 thousand. The proceeds from this sale were \$882 thousand.

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)	2017		2016	
	Amortized cost	Fair value	Amortized cost	Fair value
FNMA	\$3,621,537	\$3,572,474	\$3,255,844	\$3,211,443
Freddie Mac	1,358,708	1,335,685	1,381,197	1,361,933

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 December 31, 2017 and 2016.

(In thousands)	At December 31, 2017				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Weighted average yield
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	\$ 3,295	\$ –	\$ 79	\$ 3,216	5.96%
After 1 to 5 years	15,485	–	4,143	11,342	6.05
After 5 to 10 years	29,240	–	8,905	20,335	3.89
After 10 years	44,734	3,834	222	48,346	1.93
Total obligations of Puerto Rico, States and political subdivisions	92,754	3,834	13,349	83,239	3.38
Collateralized mortgage obligations - federal agencies					
After 5 to 10 years	67	4	–	71	5.45
Total collateralized mortgage obligations - federal agencies	67	4	–	71	5.45
Other					
Within 1 year	500	–	7	493	1.96
After 1 to 5 years	500	–	–	500	2.97
Total other	1,000	–	7	993	2.47
Total investment securities held-to-maturity [1]	\$93,821	\$3,838	\$13,356	\$84,303	3.37%

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

At December 31, 2016

<i>(In thousands)</i>	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Weighted average yield
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	\$ 3,105	\$ —	\$ 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 table presents the aggregate amortized cost and fair value of investment securities held-to-maturity at December 31, 2017 by contractual maturity.

<i>(In thousands)</i>	Amortized cost	Fair value
Within 1 year	\$ 3,795	\$ 3,709
After 1 to 5 years	15,985	11,842
After 5 to 10 years	29,307	20,406
After 10 years	44,734	48,346
Total investment securities held-to-maturity	\$93,821	\$84,303

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 December 31, 2017 and 2016:

<i>(In thousands)</i>	At December 31, 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	\$—	\$—	\$35,696	\$13,349	\$35,696	\$13,349
Other	—	—	743	7	743	7
Total investment securities held-to-maturity in an unrealized loss position	\$—	\$—	\$36,439	\$13,356	\$36,439	\$13,356

<i>(In thousands)</i>	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 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 December 31, 2017 are primarily associated with securities issued by municipalities of Puerto Rico and are generally not rated by a credit rating agency. This includes \$49 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 \$44 million in securities for which the underlying source of payment is not the central government, but in which a government instrumentality provides a guarantee in the event of default. The Corporation performs periodic credit quality reviews on these issuers. Based on the quarterly analysis performed, management concluded that no individual debt security held-to-maturity was other-than-temporarily impaired at December 31, 2017. Further deterioration of the fiscal crisis of the Government of Puerto Rico or of Puerto Rico’s economy could further affect the value of these securities, resulting in losses to the Corporation. The Corporation does not have the intent to sell 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 27 for additional information on the Corporation’s exposure to the Puerto Rico Government.

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.

During the year ended December 31, 2017, the Corporation recorded purchases (including repurchases) of mortgage loans amounting to \$460 million, consumer loans of \$311 million, commercial loans of \$2 million and leases of \$2 million, compared to purchases (including repurchases) of mortgage loans of \$619 million, consumer loans of \$164 million and commercial loans of \$51 million, during the year ended December 31, 2016.

The Corporation performed whole-loan sales involving approximately \$64 million of residential mortgage loans during the year ended December 31, 2017 (December 31, 2016 - \$83 million). There were no sales of commercial and construction loans during the year ended December 31, 2017. For the year ended December 31, 2016, 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 \$47 million. Also, during the year ended December 31, 2017, the Corporation securitized approximately \$376 million of mortgage loans into Government National Mortgage Association (“GNMA”) mortgage-backed securities and \$86 million of mortgage loans into Federal National Mortgage Association (“FNMA”) mortgage-backed securities, compared to \$613 million and \$163 million, respectively, during the year ended December 31, 2016.

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

December 31, 2017

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

December 31, 2017

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

December 31, 2017

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

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

[2] Includes \$7.1 billion pledged to secure credit facilities and public funds that the secured parties are not permitted to sell or repledge the collateral, of which \$4.6 billion were pledged at the Federal Home Loan Bank ("FHLB") as collateral for borrowings, \$2.0 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.

December 31, 2016

Puerto Rico						
<i>(In thousands)</i>	Past due				Current	Non-covered loans HIP Puerto Rico
	30-59 days	60-89 days	90 days or more	Total past due		
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
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

December 31, 2016

(In thousands)	U.S. mainland					
	Past due					Loans HIP U.S. mainland
	30-59 days	60-89 days	90 days or more	Total past due	Current	
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

December 31, 2016

(In thousands)	Popular, Inc.					
	Past due					Non-covered loans HIP Popular, Inc. [1] [2]
	30-59 days	60-89 days	90 days or more	Total past due	Current	
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 level of delinquencies for mortgage loans as of December 31, 2017 was impacted by the loan moratorium implemented by the Corporation as part of its hurricane relief measures. Although the repayment schedule was modified as part of the moratorium, certain borrowers continued to make payments, having an impact on the respective delinquency status. Also, loans with a delinquency status of 90 days past due as of December 31, 2017 include approximately \$840 million in loans previously pooled into GNMA securities. Under the GNMA program, issuers such as BPPR have the option but not

the obligation to repurchase loans that are 90 days or more past due. For accounting purposes, these loans subject to the repurchase option are required to be reflected on the financial statements of the Bank with an offsetting liability. While the borrowers for our serviced GNMA portfolio benefited from the loan payment moratorium, the delinquency status of these loans continued to be reported to GNMA without considering the moratorium. Management will continue to monitor the effect of the moratorium as the period comes to an end and the loan repayment schedule is resumed.

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 December 31, 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.

At December 31, 2017

<i>(In thousands)</i>	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	\$ 1,115	\$ –	\$ 784	\$–	\$ 1,899	\$ –
Commercial real estate non-owner occupied	18,866	–	1,599	–	20,465	–
Commercial real estate owner occupied	101,068	–	862	–	101,930	–
Commercial and industrial	40,177	685	594	–	40,771	685
Mortgage [3]	306,697	1,204,691	14,852	–	321,549	1,204,691
Leasing	2,974	–	–	–	2,974	–
Legacy	–	–	3,039	–	3,039	–
Consumer:						
Credit cards	–	18,227	11	–	11	18,227
Home equity lines of credit	–	257	14,997	–	14,997	257
Personal	19,460	141	2,779	–	22,239	141
Auto	5,466	–	–	–	5,466	–
Other	15,617	1,148	–	–	15,617	1,148
Total [2]	\$511,440	\$1,225,149	\$39,517	\$–	\$550,957	\$1,225,149

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

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

[3] It is the Corporation’s policy to report delinquent residential mortgage loans insured by FHA or guaranteed by the VA as accruing loans past due 90 days or more as opposed to non-performing since the principal repayment is insured. The balance of these loans increased by \$760 million due mainly to the rebooking of loans previously pooled into GNMA securities. Under the GNMA program, issuers such as BPPR have the option but not the obligation to repurchase loans that are 90 days or more past due. For accounting purposes, these loans subject to the repurchase option are required to be reflected on the financial statements of the Bank with an offsetting liability. While the borrowers for our serviced GNMA portfolio benefited from the loan payment moratorium, the delinquency status of these loans continued to be reported to GNMA without considering the moratorium. These balances include \$178 million of residential mortgage loans in Puerto Rico insured by FHA or guaranteed by the VA that are no longer accruing interest as of December 31, 2017. Furthermore, the Corporation has approximately \$58 million in reverse mortgage loans in Puerto Rico which are guaranteed by FHA, but which are currently not accruing interest. Due to the guaranteed nature of the loans, it is the Corporation’s policy to exclude these balances from non-performing assets.

At December 31, 2016

(In thousands)	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.

The components of the net financing leases receivable at December 31, 2017 and 2016 were as follows:

(In thousands)	2017	2016
Total minimum lease payments	\$681,198	\$601,317
Estimated residual value of leased property (unguaranteed)	246,248	210,761
Deferred origination costs, net of fees	9,496	8,309
Less - Unearned financing income	126,797	117,296
Net minimum lease payments	810,145	703,091
Less - Allowance for loan losses	12,000	7,677
Net minimum lease payments, net of allowance for loan losses	\$798,145	\$695,414

At December 31, 2017, future minimum lease payments are expected to be received as follows:

(In thousands)	
2018	\$ 44,986
2019	56,421
2020	121,121
2021	173,305
2022 and thereafter	285,365
Total	\$681,198

Covered loans

The following tables present the composition of loans by past due status at December 31, 2017 and 2016 for covered loans held-in-portfolio. The information considers covered loans accounted for under ASC Subtopic 310-20 and ASC Subtopic 310-30.

December 31, 2017

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

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

December 31, 2016

(In thousands)	Past due			Total past due	Current	Covered loans HIP [1]
	30-59 days	60-89 days	90 days or more			
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 nonperforming status and accruing loans past due 90 days or more by loan class at December 31, 2017 and 2016.

(In thousands)	December 31, 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	\$3,165	\$-	\$3,794	\$-
Consumer	188	-	121	-
Total [1]	\$3,353	\$-	\$3,915	\$-

[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 December 31, 2017 (December 31, 2016 - \$10 million).

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.

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.

(In thousands)	December 31, 2017			December 31, 2016		
	Carrying amount			Carrying amount		
	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Commercial real estate	\$ 909,389	\$14,035	\$ 923,424	\$ 985,181	\$14,440	\$ 999,621
Commercial and industrial	88,130	-	88,130	103,476	-	103,476
Construction	-	170	170	-	1,668	1,668
Mortgage	542,182	21,357	563,539	587,949	25,781	613,730
Consumer	16,900	758	17,658	18,775	1,059	19,834
Carrying amount [1]	1,556,601	36,320	1,592,921	1,695,381	42,948	1,738,329
Allowance for loan losses	(64,520)	(5,609)	(70,129)	(61,855)	(7,022)	(68,877)
Carrying amount, net of allowance	\$1,492,081	\$30,711	\$1,522,792	\$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 \$507 million as of December 31, 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 \$1.9 billion at December 31, 2017 (December 31, 2016—\$2.1 billion). At December 31, 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 accretible yield for the Westernbank loans accounted pursuant to the ASC Subtopic 310-30, for the years ended December 31, 2017 and 2016, were as follows:

	Activity in the accretible yield					
	Westernbank loans ASC 310-30					
	For the year ended					
	December 31, 2017			December 31, 2016		
(In thousands)	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	(139,557)	(3,048)	(142,605)	(162,983)	(6,765)	(169,748)
Change in expected cash flows	13,486	(253)	13,233	59,159	8,218	67,377
Ending balance	\$ 875,837	\$ 4,878	\$ 880,715	\$1,001,908	\$ 8,179	\$1,010,087

	Carrying amount of Westernbank loans accounted for pursuant to ASC 310-30					
	For the year ended					
	December 31, 2017			December 31, 2016		
	(In thousands)	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans
Beginning balance	\$1,695,381	\$42,948	\$1,738,329	\$1,898,146	\$ 76,355	\$1,974,501
Accretion	139,557	3,048	142,605	162,983	6,765	169,748
Collections / loan sales / charge-offs [1]	(278,337)	(9,676)	(288,013)	(365,748)	(40,172)	(405,920)
Ending balance [2]	\$1,556,601	\$36,320	\$1,592,921	\$1,695,381	\$ 42,948	\$1,738,329
Allowance for loan losses ASC 310-30 Westernbank loans	(64,520)	(5,609)	(70,129)	(61,855)	(7,022)	(68,877)
Ending balance, net of ALLL	\$1,492,081	\$30,711	\$1,522,792	\$1,633,526	\$ 35,926	\$1,669,452

[1] For the year ended December 31, 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 \$507 million as of December 31, 2017 (December 31, 2016- \$563 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 \$556 million at December 31, 2017 (December 31, 2016 - \$700 million). At December 31, 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.

Changes in the carrying amount and the accretible yield for the other acquired loans accounted pursuant to the ASC Subtopic 310-30, for the years ended December 31, 2017 and 2016 were as follows:

	Activity in the accretible yield - Other acquired loans ASC 310-30	
	For the years ended	
	December 31, 2017	December 31, 2016
(In thousands)		
Beginning balance	\$278,896	\$221,128
Additions	11,218	17,635
Accretion	(32,516)	(35,030)
Change in expected cash flows	76,175	75,163
Ending balance	\$333,773	\$278,896

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

<i>(In thousands)</i>	For the years ended	
	December 31, 2017	December 31, 2016
Beginning balance	\$562,695	\$564,050
Purchase accounting adjustments related to the Doral Bank Transaction (Refer to Note 18)	–	(4,707)
Additions	18,824	36,221
Accretion	32,516	35,030
Collections and charge-offs	(97,963)	(67,899)
Ending balance	\$516,072	\$562,695
Allowance for loan losses ASC 310-30 non-covered loans	(49,376)	(22,431)
Ending balance, net of allowance for loan losses	\$466,696	\$540,264

Note 10 - Allowance for loan losses

The Corporation follows a systematic methodology to establish and evaluate the adequacy of the allowance for loan losses (“ALLL”) to provide for inherent losses in the loan portfolio. This methodology includes the consideration of factors such as current economic conditions, portfolio risk characteristics, prior loss experience and results of periodic credit reviews of individual loans. The provision for loan losses charged to current operations is based on this methodology. Loan losses are charged and recoveries are credited to the 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 December 31, 2017, 69% (December 31, 2016–38%) 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 leasing, credit cards, personal, auto and mortgage loan portfolios for 2017 and in the leasing, auto, other consumer loan and commercial and industrial loan portfolios for 2016.

For the period ended December 31, 2017, 3% (December 31, 2016 - 0.11 %) 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 consumer portfolios for 2017 and commercial multifamily 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.

As discussed in Note 2 - Hurricanes impact, during the year ended December 31, 2017, an incremental provision expense of \$67.6 million which includes \$5.8 million in provision for covered loans, was made to the allowance for loan losses based on management’s best estimate of the impact of the hurricanes on the Corporation’s loan portfolios and the ability of borrowers to repay their loans, taking into consideration currently available information and the already challenging economic environment in Puerto Rico prior to the hurricanes. Refer to Note 2 for additional information.

During the fourth quarter of 2017, management completed the annual review of the components of the ALLL models. As part of this review management updated core metrics related to the estimation process for evaluating the adequacy of the

general reserve of the allowance for loan losses. These updates to the ALLL models, which are described in the paragraph below, were implemented as of December 31, 2017 and resulted in a net decrease to the allowance for loan losses of \$4.9 million for the non-covered portfolio. The effect of the aforementioned updates was immaterial for the covered loans portfolio.

Management made the following revisions to the ALLL models during the fourth quarter of 2017:

- Annual review and recalibration of the environmental factors adjustment. The environmental factor adjustments are developed by performing regression analyses on

selected credit and economic indicators for each applicable loan segment. During the fourth quarter of 2017, the environmental factor models used to account for changes in current credit and macroeconomic conditions were reviewed and recalibrated based on the latest applicable trends.

The effect of the recalibration to the environmental factors adjustment resulted in a decrease to the allowance for loan losses of \$6.5 million and offset by an increase of \$1.6 million at December 31, 2017, related to the non-covered BPPR and BPNA segments, respectively.

The following tables present the changes in the allowance for loan losses, loan ending balances and whether such loans and the allowance pertain to loans individually or collectively evaluated for impairment for the years ended December 31, 2017 and 2016.

For the year ended December 31, 2017

Puerto Rico - Non-covered loans						
<i>(In thousands)</i>	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 189,686	\$ 1,353	\$ 143,320	\$ 7,662	\$ 125,963	\$ 467,984
Provision (reversal of provision)	4,240	(2,690)	90,705	11,099	138,385	241,739
Charge-offs	(49,591)	(3,588)	(78,121)	(8,407)	(109,252)	(248,959)
Recoveries	27,196	6,211	3,177	1,637	19,119	57,340
Ending balance	\$ 171,531	\$ 1,286	\$ 159,081	\$ 11,991	\$ 174,215	\$ 518,104
Specific ALLL	\$ 36,982	\$ –	\$ 46,354	\$ 475	\$ 21,849	\$ 105,660
General ALLL	\$ 134,549	\$ 1,286	\$ 112,727	\$ 11,516	\$ 152,366	\$ 412,444
Loans held-in-portfolio:						
Impaired non-covered loans	\$ 323,455	\$ –	\$ 509,033	\$ 1,456	\$ 99,180	\$ 933,124
Non-covered loans held-in-portfolio excluding impaired loans	6,942,444	95,369	6,067,746	808,534	3,230,841	17,144,934
Total non-covered loans held-in-portfolio	\$7,265,899	\$95,369	\$6,576,779	\$809,990	\$3,330,021	\$18,078,058

For the year ended December 31, 2017

Puerto Rico - Covered loans						
<i>(In thousands)</i>	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ –	\$ –	\$ 30,159	\$ –	\$ 191	\$ 30,350
Provision	–	–	5,098	–	644	5,742
Charge-offs	–	–	(4,049)	–	(122)	(4,171)
Recoveries	–	–	1,313	–	10	1,323
Ending balance	\$ –	\$ –	\$ 32,521	\$ –	\$ 723	\$ 33,244
Specific ALLL	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
General ALLL	\$ –	\$ –	\$ 32,521	\$ –	\$ 723	\$ 33,244
Loans held-in-portfolio:						
Impaired covered loans	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Covered loans held-in-portfolio excluding impaired loans	–	–	502,929	–	14,345	517,274
Total covered loans held-in-portfolio	\$ –	\$ –	\$ 502,929	\$ –	\$ 14,345	\$ 517,274

For the year ended December 31, 2017

	U.S. Mainland						
<i>(In thousands)</i>	Commercial	Construction	Mortgage	Legacy	Consumer	Total	
Allowance for credit losses:							
Beginning balance	\$ 12,968	\$ 8,172	\$ 4,614	\$ 1,343	\$ 15,220	\$ 42,317	
Provision (reversal of provision)	65,323	(1,103)	167	(2,275)	15,831	77,943	
Charge-offs	(36,399)	–	(1,223)	(897)	(19,926)	(58,445)	
Recoveries	2,242	7	983	2,627	4,404	10,263	
Ending balance	\$ 44,134	\$ 7,076	\$ 4,541	\$ 798	\$ 15,529	\$ 72,078	
Specific ALLL	\$ –	\$ –	\$ 2,478	\$ –	\$ 953	\$ 3,431	
General ALLL	\$ 44,134	\$ 7,076	\$ 2,063	\$ 798	\$ 14,576	\$ 68,647	
Loans held-in-portfolio:							
Impaired loans	\$ –	\$ –	\$ 9,242	\$ –	\$ 5,057	\$ 14,299	
Loans held-in-portfolio excluding impaired loans	4,222,962	784,660	684,386	32,980	475,449	6,200,437	
Total loans held-in-portfolio	\$4,222,962	\$784,660	\$693,628	\$32,980	\$480,506	\$6,214,736	

For the year ended December 31, 2017

	Popular, Inc.							
<i>(In thousands)</i>	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total	
Allowance for credit losses:								
Beginning balance	\$ 202,654	\$ 9,525	\$ 178,093	\$ 1,343	\$ 7,662	\$ 141,374	\$ 540,651	
Provision (reversal of provision)	69,563	(3,793)	95,970	(2,275)	11,099	154,860	325,424	
Charge-offs	(85,990)	(3,588)	(83,393)	(897)	(8,407)	(129,300)	(311,575)	
Recoveries	29,438	6,218	5,473	2,627	1,637	23,533	68,926	
Ending balance	\$ 215,665	\$ 8,362	\$ 196,143	\$ 798	\$ 11,991	\$ 190,467	\$ 623,426	
Specific ALLL	\$ 36,982	\$ –	\$ 48,832	\$ –	\$ 475	\$ 22,802	\$ 109,091	
General ALLL	\$ 178,683	\$ 8,362	\$ 147,311	\$ 798	\$ 11,516	\$ 167,665	\$ 514,335	
Loans held-in-portfolio:								
Impaired loans	\$ 323,455	\$ –	\$ 518,275	\$ –	\$ 1,456	\$ 104,237	\$ 947,423	
Loans held-in-portfolio excluding impaired loans	11,165,406	880,029	7,255,061	32,980	808,534	3,720,635	23,862,645	
Total loans held-in-portfolio	\$11,488,861	\$880,029	\$7,773,336	\$32,980	\$809,990	\$3,824,872	\$24,810,068	

For the year ended December 31, 2016

	Puerto Rico - Non-covered loans						
<i>(In thousands)</i>	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)	19,147	(6,539)	79,309	557	63,386	155,860	
Charge-offs	(62,486)	(3,103)	(68,075)	(6,151)	(106,304)	(246,119)	
Recoveries	41,731	5,124	3,759	2,263	29,998	82,875	
Net recoveries (write-downs)	4,369	914	–	–	162	5,445	
Ending balance	\$ 189,686	\$ 1,353	\$ 143,320	\$ 7,662	\$ 125,963	\$ 467,984	
Specific ALLL	\$ 42,375	\$ –	\$ 42,428	\$ 535	\$ 23,185	\$ 108,523	
General ALLL	\$ 147,311	\$ 1,353	\$ 100,892	\$ 7,127	\$ 102,778	\$ 359,461	
Loans held-in-portfolio:							
Impaired non-covered loans	\$ 338,422	\$ –	\$ 497,488	\$ 1,817	\$ 106,615	\$ 944,342	
Non-covered loans held-in-portfolio excluding impaired loans	6,863,795	85,558	5,419,012	701,076	3,154,641	16,224,082	
Total non-covered loans held-in-portfolio	\$7,202,217	\$85,558	\$5,916,500	\$702,893	\$3,261,256	\$17,168,424	

For the year ended December 31, 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)	-	-	(1,092)	-	(18)	(1,110)
Charge-offs	-	-	(3,524)	-	(19)	(3,543)
Recoveries	-	-	808	-	19	827
Ending balance	\$-	\$-	\$ 30,159	\$-	\$ 191	\$ 30,350
Specific ALLL	\$-	\$-	\$ -	\$-	\$ -	\$ -
General ALLL	\$-	\$-	\$ 30,159	\$-	\$ 191	\$ 30,350
Loans held-in-portfolio:						
Impaired covered loans	\$-	\$-	\$ -	\$-	\$ -	\$ -
Covered loans held-in-portfolio excluding impaired loans	-	-	556,570	-	16,308	572,878
Total covered loans held-in-portfolio	\$-	\$-	\$556,570	\$-	\$16,308	\$572,878

For the year ended December 31, 2016

U.S. Mainland						
(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)	(253)	4,260	1,562	(3,257)	12,954	15,266
Charge-offs	(1,115)	-	(2,506)	(535)	(13,430)	(17,586)
Recoveries	4,428	-	573	2,448	4,176	11,625
Ending balance	\$ 12,968	\$ 8,172	\$ 4,614	\$ 1,343	\$ 15,220	\$ 42,317
Specific ALLL	\$ -	\$ -	\$ 2,182	\$ -	\$ 672	\$ 2,854
General ALLL	\$ 12,968	\$ 8,172	\$ 2,432	\$ 1,343	\$ 14,548	\$ 39,463
Loans held-in-portfolio:						
Impaired loans	\$ -	\$ -	\$ 8,876	\$ -	\$ 2,839	\$ 11,715
Loans held-in-portfolio excluding impaired loans	3,596,290	690,742	770,985	45,293	490,298	5,593,608
Total loans held-in-portfolio	\$3,596,290	\$690,742	\$779,861	\$45,293	\$493,137	\$5,605,323

For the year ended December 31, 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)	18,894	(2,279)	79,779	(3,257)	557	76,322	170,016
Charge-offs	(63,601)	(3,103)	(74,105)	(535)	(6,151)	(119,753)	(267,248)
Recoveries	46,159	5,124	5,140	2,448	2,263	34,193	95,327
Net recoveries (write-downs)	4,369	914	-	-	-	162	5,445
Ending balance	\$ 202,654	\$ 9,525	\$ 178,093	\$ 1,343	\$ 7,662	\$ 141,374	\$ 540,651
Specific ALLL	\$ 42,375	\$ -	\$ 44,610	\$ -	\$ 535	\$ 23,857	\$ 111,377
General ALLL	\$ 160,279	\$ 9,525	\$ 133,483	\$ 1,343	\$ 7,127	\$ 117,517	\$ 429,274
Loans held-in-portfolio:							
Impaired loans	\$ 338,422	\$ -	\$ 506,364	\$ -	\$ 1,817	\$ 109,454	\$ 956,057
Loans held-in-portfolio excluding impaired loans	10,460,085	776,300	6,746,567	45,293	701,076	3,661,247	22,390,568
Total loans held-in-portfolio	\$10,798,507	\$776,300	\$7,252,931	\$45,293	\$702,893	\$3,770,701	\$23,346,625

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

<i>(In thousands)</i>	ASC 310-30 Westernbank loans	
	For the years ended	
	December 31, 2017	December 31, 2016
Balance at beginning of period	\$ 68,877	\$63,563
Provision for loan losses	13,496	1,342
Net (charge-offs) recoveries	(12,244)	3,972
Balance at end of period	\$ 70,129	\$68,877

Impaired loans

The following tables present loans individually evaluated for impairment at December 31, 2017 and December 31, 2016.

<i>(In thousands)</i>	December 31, 2017								
	Puerto Rico								
	Impaired Loans - With an Allowance			Impaired Loans With No Allowance			Impaired Loans - Total		
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance	
Commercial multi-family	\$ 206	\$ 206	\$ 32	\$ -	\$ -	\$ 206	\$ 206	\$ 32	
Commercial real estate non-owner occupied	101,485	102,262	23,744	11,454	27,522	112,939	129,784	23,744	
Commercial real estate owner occupied	127,634	153,495	10,221	24,634	57,219	152,268	210,714	10,221	
Commercial and industrial	43,493	46,918	2,985	14,549	23,977	58,042	70,895	2,985	
Mortgage	450,226	504,006	46,354	58,807	75,228	509,033	579,234	46,354	
Leasing	1,456	1,456	475	-	-	1,456	1,456	475	
Consumer:									
Credit cards	33,676	33,676	5,569	-	-	33,676	33,676	5,569	
Personal	62,488	62,488	15,690	-	-	62,488	62,488	15,690	
Auto	2,007	2,007	425	-	-	2,007	2,007	425	
Other	1,009	1,009	165	-	-	1,009	1,009	165	
Total Puerto Rico	\$823,680	\$907,523	\$105,660	\$109,444	\$183,946	\$933,124	\$1,091,469	\$105,660	

<i>(In thousands)</i>	December 31, 2017								
	U.S. mainland								
	Impaired Loans - With an Allowance			Impaired Loans With No Allowance			Impaired Loans - Total		
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance	
Mortgage	\$ 6,774	\$ 8,439	\$2,478	\$2,468	\$3,397	\$ 9,242	\$11,836	\$2,478	
Consumer:									
HELOCs	3,530	3,542	722	761	780	4,291	4,322	722	
Personal	542	542	231	224	224	766	766	231	
Total U.S. mainland	\$10,846	\$12,523	\$3,431	\$3,453	\$4,401	\$14,299	\$16,924	\$3,431	

December 31, 2017

Popular, Inc.

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

December 31, 2016

Puerto Rico

<i>(In thousands)</i>	Impaired Loans - With an Allowance			Impaired Loans With No Allowance		Impaired Loans - Total		
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial multi-family	\$ 82	\$ 82	\$ 34	\$ -	\$ -	\$ 82	\$ 82	\$ 34
Commercial real estate non-owner occupied	104,119	105,047	24,537	15,935	29,631	120,054	134,678	24,537
Commercial real estate owner occupied	131,634	169,013	13,007	31,962	50,094	163,596	219,107	13,007
Commercial and industrial	46,862	49,301	4,797	7,828	11,478	54,690	60,779	4,797
Mortgage	426,737	466,249	42,428	70,751	87,806	497,488	554,055	42,428
Leasing	1,817	1,817	535	-	-	1,817	1,817	535
Consumer:								
Credit cards	37,464	37,464	5,588	-	-	37,464	37,464	5,588
Personal	66,043	66,043	16,955	-	-	66,043	66,043	16,955
Auto	2,117	2,117	474	-	-	2,117	2,117	474
Other	991	991	168	-	-	991	991	168
Total Puerto Rico	\$817,866	\$898,124	\$108,523	\$126,476	\$179,009	\$944,342	\$1,077,133	\$108,523

December 31, 2016

U.S. mainland								
<i>(In thousands)</i>	Impaired Loans - With an Allowance			Impaired Loans With No Allowance		Impaired Loans - Total		
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
	Mortgage	\$ 6,381	\$ 7,971	\$ 2,182	\$ 2,495	\$ 3,369	\$ 8,876	\$ 11,340
Consumer:								
HELOCs	2,421	2,429	667	300	315	2,721	2,744	667
Personal	39	39	5	79	79	118	118	5
Total U.S. mainland	\$ 8,841	\$ 10,439	\$ 2,854	\$ 2,874	\$ 3,763	\$ 11,715	\$ 14,202	\$ 2,854

December 31, 2016

Popular, Inc.								
<i>(In thousands)</i>	Impaired Loans - With an Allowance			Impaired Loans With No Allowance		Impaired Loans - Total		
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
	Commercial multi-family	\$ 82	\$ 82	\$ 34	\$ –	\$ –	\$ 82	\$ 82
Commercial real estate non-owner occupied	104,119	105,047	24,537	15,935	29,631	120,054	134,678	24,537
Commercial real estate owner occupied	131,634	169,013	13,007	31,962	50,094	163,596	219,107	13,007
Commercial and industrial	46,862	49,301	4,797	7,828	11,478	54,690	60,779	4,797
Mortgage	433,118	474,220	44,610	73,246	91,175	506,364	565,395	44,610
Leasing	1,817	1,817	535	–	–	1,817	1,817	535
Consumer:								
Credit Cards	37,464	37,464	5,588	–	–	37,464	37,464	5,588
HELOCs	2,421	2,429	667	300	315	2,721	2,744	667
Personal	66,082	66,082	16,960	79	79	66,161	66,161	16,960
Auto	2,117	2,117	474	–	–	2,117	2,117	474
Other	991	991	168	–	–	991	991	168
Total Popular, Inc.	\$826,707	\$908,563	\$111,377	\$129,350	\$182,772	\$956,057	\$1,091,335	\$111,377

The following tables present the average recorded investment and interest income recognized on impaired loans for the years ended December 31, 2017 and 2016.

For the year ended December 31, 2017

<i>(In thousands)</i>	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
	Commercial multi-family	\$ 130	\$ 4	\$ –	\$ –	\$ 130
Commercial real estate non-owner occupied	117,182	4,745	–	–	117,182	4,745
Commercial real estate owner occupied	156,890	4,939	–	–	156,890	4,939
Commercial and industrial	60,466	1,899	–	–	60,466	1,899
Mortgage	504,709	12,661	9,006	200	513,715	12,861
Leasing	1,642	–	–	–	1,642	–
Consumer:						
Credit cards	36,109	–	–	–	36,109	–
HELOCs	–	–	2,964	–	2,964	–
Personal	64,467	–	505	–	64,972	–
Auto	2,065	–	–	–	2,065	–
Other	915	–	–	–	915	–
Total Popular, Inc.	\$944,575	\$24,248	\$12,475	\$200	\$957,050	\$24,448

For the year ended December 31, 2016

(In thousands)	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
Commercial multi-family	\$ 33	\$ 6	\$ —	\$ —	\$ 33	\$ 6
Commercial real estate non-owner occupied	127,508	5,275	—	—	127,508	5,275
Commercial real estate owner occupied	150,563	5,757	—	—	150,563	5,757
Commercial and industrial	57,752	1,959	—	—	57,752	1,959
Construction	1,107	—	—	—	1,107	—
Mortgage	479,584	13,860	8,212	178	487,796	14,038
Leasing	2,124	—	—	—	2,124	—
Consumer:						
Credit cards	38,168	—	—	—	38,168	—
HELOCs	—	—	1,937	—	1,937	—
Personal	67,308	—	529	—	67,837	—
Auto	2,575	—	—	—	2,575	—
Other	683	—	—	—	683	—
Total Popular, Inc.	\$927,405	\$26,857	\$10,678	\$178	\$938,083	\$27,035

Modifications

Troubled debt restructurings (“TDRs”) related to non-covered loan portfolios amounted to \$ 1.3 billion at December 31, 2017 (December 31, 2016 - \$ 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 December 31, 2017 (December 31, 2016 - \$8 million).

At December 31, 2017, the mortgage loan TDRs include \$449 million guaranteed by U.S. sponsored entities at BPPR, compared to \$407 million at December 31, 2016.

A modification of a loan constitutes a troubled debt restructuring when a borrower is experiencing financial difficulty and the modification constitutes a concession. For a summary of the accounting policy related to TDRs, refer to the summary of significant accounting policies included in Note 3 to these consolidated financial statements.

The following tables present the non-covered and covered loans classified as TDRs according to their accruing status and the related allowance at December 31, 2017 and December 31, 2016.

(In thousands)	Popular, Inc.							
	Non-Covered Loans							
	December 31, 2017			December 31, 2016				
	Accruing	Non-Accruing	Total	Related Allowance	Accruing	Non-Accruing	Total	Related Allowance
Commercial	\$ 161,220	\$ 59,626	\$ 220,846	\$ 32,472	\$ 176,887	\$ 83,157	\$ 260,044	\$ 40,810
Mortgage	803,278	126,798	930,076	48,832	744,926	127,071	871,997	44,610
Leases	863	393	1,256	475	1,383	434	1,817	535
Consumer	93,916	12,233	106,149	22,802	100,277	12,442	112,719	23,857
Total	\$1,059,277	\$199,050	\$1,258,327	\$104,581	\$1,023,473	\$223,104	\$1,246,577	\$109,812

(In thousands)	Popular, Inc.							
	Covered Loans							
	December 31, 2017			December 31, 2016				
	Accruing	Non-Accruing	Total	Related Allowance	Accruing	Non-Accruing	Total	Related Allowance
Mortgage	\$2,658	\$3,227	\$5,885	\$—	\$2,950	\$2,580	\$5,530	\$—
Total	\$2,658	\$3,227	\$5,885	\$—	\$2,950	\$2,580	\$5,530	\$—

The following tables present the loan count by type of modification for those loans modified in a TDR during the years ended December 31, 2017 and 2016. Loans modified as TDRs for the U.S. operations are considered insignificant to the Corporation.

Popular, Inc.				
For the year ended December 31, 2017				
	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Commercial real estate non-owner occupied	4	2	–	–
Commercial real estate owner occupied	4	17	–	–
Commercial and industrial	3	40	–	–
Mortgage	55	39	348	125
Leasing	–	1	9	–
Consumer:				
Credit cards	491	–	5	537
HELOCs	–	14	8	1
Personal	757	6	2	3
Auto	–	5	4	1
Other	32	1	–	1
Total	1,346	125	376	668

Popular, Inc.				
For the year ended December 31, 2016				
	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Commercial real estate non-owner occupied	7	1	–	–
Commercial real estate owner occupied	43	7	–	–
Commercial and industrial	36	7	–	–
Mortgage	78	80	505	170
Leasing	–	1	1	–
Consumer:				
Credit cards	766	–	2	668
HELOCs	–	1	5	1
Personal	1,007	19	1	1
Auto	–	12	8	2
Other	35	–	–	–
Total	1,972	128	522	842

The following tables present by class, quantitative information related to loans modified as TDRs during the years ended December 31, 2017 and 2016.

Popular, Inc.				
For the year ended December 31, 2017				
<i>(Dollars in thousands)</i>	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	6	\$ 2,172	\$ 2,032	\$ 146
Commercial real estate owner occupied	21	5,356	5,346	313
Commercial and industrial	43	2,655	4,786	507
Mortgage	567	69,084	64,552	4,108
Leasing	10	347	347	101
Consumer:				
Credit cards	1,033	9,283	10,196	1,241
HELOCs	23	2,504	2,421	299
Personal	768	12,884	12,911	3,027
Auto	10	2,043	1,999	362
Other	34	2,014	2,014	72
Total	2,515	\$108,342	\$106,604	\$10,176

Popular, Inc.				
For the year ended December 31, 2016				
<i>(Dollars in thousands)</i>	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	8	\$ 7,667	\$ 10,272	\$ 5,109
Commercial real estate owner occupied	50	29,935	30,097	894
Commercial and industrial	43	8,402	9,733	242
Mortgage	833	93,511	90,840	6,822
Leasing	2	36	37	8
Consumer:				
Credit cards	1,436	13,329	14,918	2,042
HELOCs	7	602	662	296
Personal	1,028	17,192	17,296	3,548
Auto	22	263	281	54
Other	35	96	98	17
Total	3,464	\$171,033	\$174,234	\$19,032

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 December 31, 2017 is inclusive of all partial paydowns and charge-offs since the modification date. Loans modified as a TDR that were fully paid down, charged-off or foreclosed upon by period end are not reported.

Popular, Inc.		
Defaulted during the year ended December 31, 2017		
<i>(Dollars in thousands)</i>	Loan count	Recorded investment as of first default date
Commercial real estate non-owner occupied	3	\$ 543
Commercial real estate owner occupied	4	1,912
Commercial and industrial	5	636
Mortgage	110	10,112
Leasing	4	146
Consumer:		
Credit cards	369	3,286
HELOCs	1	97
Personal	139	3,461
Auto	5	103
Other	1	9
Total	641	\$20,305

Popular, Inc.		
Defaulted during the year ended December 31, 2016		
<i>(Dollars in thousands)</i>	Loan count	Recorded investment as of first default date
Commercial real estate non-owner occupied	2	\$ 327
Commercial real estate owner occupied	11	3,296
Commercial and industrial	7	905
Mortgage	169	18,261
Leasing	3	28
Consumer:		
Credit cards	451	4,794
HELOCs	1	43
Personal	135	3,329
Auto	9	171
Other	3	8
Total	791	\$31,162

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

Credit Quality

The Corporation has defined a risk rating system to assign a rating to all credit exposures, particularly for the commercial and construction loan portfolios. Risk ratings in the aggregate provide the Corporation's management the asset quality profile for the loan portfolio. The risk rating system provides for the assignment of ratings at the obligor level based on the financial condition of the borrower. The Corporation's consumer and

mortgage loans are not subject to the risk rating system. Consumer and mortgage loans are classified substandard or loss based on their delinquency status. All other consumer and mortgage loans that are not classified as substandard or loss would be considered "unrated".

The Corporation's obligor risk rating scales range from rating 1 (Excellent) to rating 14 (Loss). The obligor risk rating reflects the risk of payment default of a borrower in the ordinary course of business.

Pass Credit Classifications:

Pass (Scales 1 through 8) - Loans classified as pass have a well defined primary source of repayment, with no apparent risk, strong financial position, minimal operating risk, profitability, liquidity and strong capitalization.

Watch (Scale 9) - Loans classified as watch have acceptable business credit, but borrower's operations, cash flow or financial condition evidence more than average risk, requires above average levels of supervision and attention from Loan Officers.

Special Mention (Scale 10) - Loans classified as special mention have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Corporation's credit position at some future date.

Adversely Classified Classifications:

Substandard (Scales 11 and 12) - Loans classified as substandard are deemed to be inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Loans classified as such have well-defined weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful (Scale 13) - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the additional characteristic that the weaknesses make the collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss (Scale 14) - Uncollectible and of such little value that continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this asset even though partial recovery may be effected in the future.

Risk ratings scales 10 through 14 conform to regulatory ratings. The assignment of the obligor risk rating is based on relevant information about the ability of borrowers to service their debts such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors.

The Corporation periodically reviews its loans classification to evaluate if they are properly classified, and to determine impairment, if any. The frequency of these reviews will depend on the amount of the aggregate outstanding debt, and the risk rating classification of the obligor. In addition, during the renewal and annual review process of applicable credit facilities, the Corporation evaluates the corresponding loan grades.

The Corporation has a Loan Review Group that reports directly to the Corporation's Risk Management Committee and administratively to the Chief Risk Officer, which performs annual comprehensive credit process reviews of all lending groups in BPPR. This group evaluates the credit risk profile of each originating unit along with each unit's credit administration effectiveness, including the assessment of the risk rating representative of the current credit quality of the loans, and the evaluation of collateral documentation. The monitoring performed by this group contributes to assess compliance with credit policies and underwriting standards, determine the current level of credit risk, evaluate the effectiveness of the credit management process and identify control deficiencies that may arise in the credit-granting process. Based on its findings, the Loan Review Group recommends corrective actions, if necessary, that help in maintaining a sound credit process. The Loan Review Group reports the results of the credit process reviews to the Risk Management Committee of the Corporation's Board of Directors.

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 December 31, 2017 and 2016.

December 31, 2017								
(In thousands)	Watch	Special Mention	Substandard	Doubtful	Loss	Sub-total	Pass/ Unrated	Total
Puerto Rico [1]								
Commercial multi-family	\$ 1,387	\$ 1,708	\$ 6,831	\$ –	\$ –	\$ 9,926	\$ 136,473	\$ 146,399
Commercial real estate non-owner occupied	327,811	335,011	307,579	–	–	970,401	1,434,158	2,404,559
Commercial real estate owner occupied	243,966	215,652	354,990	2,124	–	816,732	1,006,882	1,823,614
Commercial and industrial	453,546	108,554	241,695	471	126	804,392	2,086,935	2,891,327
Total Commercial	1,026,710	660,925	911,095	2,595	126	2,601,451	4,664,448	7,265,899
Construction	110	4,122	1,545	–	–	5,777	89,592	95,369
Mortgage	2,748	3,564	155,074	–	–	161,386	6,415,393	6,576,779
Leasing	–	–	1,926	–	1,048	2,974	807,016	809,990
Consumer:								
Credit cards	–	–	18,227	–	–	18,227	1,074,994	1,093,221
HELOCs	–	–	257	–	–	257	5,830	6,087
Personal	429	659	20,790	–	–	21,878	1,200,434	1,222,312
Auto	–	–	5,446	–	20	5,466	845,347	850,813
Other	–	–	16,324	–	440	16,764	140,824	157,588
Total Consumer	429	659	61,044	–	460	62,592	3,267,429	3,330,021
Total Puerto Rico	\$1,029,997	\$669,270	\$1,130,684	\$2,595	\$ 1,634	\$2,834,180	\$15,243,878	\$18,078,058
U.S. mainland								
Commercial multi-family	\$ 11,808	\$ 6,345	\$ 7,936	\$ –	\$ –	\$ 26,089	\$ 1,184,604	\$ 1,210,693
Commercial real estate non-owner occupied	46,523	16,561	37,178	–	–	100,262	1,588,049	1,688,311
Commercial real estate owner occupied	28,183	30,893	8,590	–	–	67,666	251,309	318,975
Commercial and industrial	4,019	603	123,935	–	–	128,557	876,426	1,004,983
Total Commercial	90,533	54,402	177,639	–	–	322,574	3,900,388	4,222,962
Construction	36,858	8,294	54,276	–	–	99,428	685,232	784,660
Mortgage	–	–	14,852	–	–	14,852	678,776	693,628
Legacy	688	426	3,302	–	–	4,416	28,564	32,980
Consumer:								
Credit cards	–	–	11	–	–	11	89	100
HELOCs	–	–	6,084	–	8,914	14,998	167,087	182,085
Personal	–	–	2,069	–	704	2,773	295,229	298,002
Other	–	–	–	–	–	–	319	319
Total Consumer	–	–	8,164	–	9,618	17,782	462,724	480,506
Total U.S. mainland	\$ 128,079	\$ 63,122	\$ 258,233	\$ –	\$ 9,618	\$ 459,052	\$ 5,755,684	\$ 6,214,736
Popular, Inc.								
Commercial multi-family	\$ 13,195	\$ 8,053	\$ 14,767	\$ –	\$ –	\$ 36,015	\$ 1,321,077	\$ 1,357,092
Commercial real estate non-owner occupied	374,334	351,572	344,757	–	–	1,070,663	3,022,207	4,092,870
Commercial real estate owner occupied	272,149	246,545	363,580	2,124	–	884,398	1,258,191	2,142,589
Commercial and industrial	457,565	109,157	365,630	471	126	932,949	2,963,361	3,896,310
Total Commercial	1,117,243	715,327	1,088,734	2,595	126	2,924,025	8,564,836	11,488,861
Construction	36,968	12,416	55,821	–	–	105,205	774,824	880,029
Mortgage	2,748	3,564	169,926	–	–	176,238	7,094,169	7,270,407
Legacy	688	426	3,302	–	–	4,416	28,564	32,980
Leasing	–	–	1,926	–	1,048	2,974	807,016	809,990
Consumer:								
Credit cards	–	–	18,238	–	–	18,238	1,075,083	1,093,321
HELOCs	–	–	6,341	–	8,914	15,255	172,917	188,172
Personal	429	659	22,859	–	704	24,651	1,495,663	1,520,314
Auto	–	–	5,446	–	20	5,466	845,347	850,813
Other	–	–	16,324	–	440	16,764	141,143	157,907
Total Consumer	429	659	69,208	–	10,078	80,374	3,730,153	3,810,527
Total Popular, Inc.	\$1,158,076	\$732,392	\$1,388,917	\$2,595	\$11,252	\$3,293,232	\$20,999,562	\$24,292,794

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

Weighted average obligor risk rating	(Scales 11 and 12)	(Scales 1 through 8)
Puerto Rico: [1]	Substandard	Pass
Commercial multi-family	11.16	5.89
Commercial real estate non-owner occupied	11.06	6.99
Commercial real estate owner occupied	11.28	7.14
Commercial and industrial	11.16	7.11
Total Commercial	11.17	7.06
Construction	11.00	7.76
U.S. mainland:	Substandard	Pass
Commercial multi-family	11.00	7.28
Commercial real estate non-owner occupied	11.04	6.74
Commercial real estate owner occupied	11.10	7.14
Commercial and industrial	11.82	6.17
Total Commercial	11.59	6.80
Construction	11.00	7.70
Legacy	11.11	7.93

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

December 31, 2016

<i>(In thousands)</i>	Watch	Special Mention	Substandard	Doubtful	Loss	Sub-total	Pass/ Unrated	Total
Puerto Rico [1]								
Commercial multi-family	\$ 2,016	\$ 383	\$ 6,108	\$ –	\$ –	\$ 8,507	\$ 166,033	\$ 174,540
Commercial real estate non-owner occupied	310,510	377,858	342,054	155	–	1,030,577	1,533,708	2,564,285
Commercial real estate owner occupied	310,484	109,873	360,941	17,788	–	799,086	992,389	1,791,475
Commercial and industrial	136,091	133,270	227,360	11,514	12	508,247	2,163,670	2,671,917
Total Commercial	759,101	621,384	936,463	29,457	12	2,346,417	4,855,800	7,202,217
Construction	50	1,705	1,668	–	–	3,423	82,135	85,558
Mortgage	4,407	1,987	190,090	–	–	196,484	5,720,016	5,916,500
Leasing	–	–	3,062	–	–	3,062	699,831	702,893
Consumer:								
Credit cards	–	–	18,725	–	–	18,725	1,081,882	1,100,607
HELOCs	–	–	185	–	–	185	8,166	8,351
Personal	1,068	812	21,496	–	–	23,376	1,126,801	1,150,177
Auto	–	–	12,321	–	–	12,321	814,271	826,592
Other	–	–	19,311	–	–	19,311	156,218	175,529
Total Consumer	1,068	812	72,038	–	–	73,918	3,187,338	3,261,256
Total Puerto Rico	\$764,626	\$625,888	\$1,203,321	\$29,457	\$ 12	\$2,623,304	\$14,545,120	\$17,168,424
U.S. mainland								
Commercial multi-family	\$ 13,537	\$ 7,796	\$ 658	\$ –	\$ –	\$ 21,991	\$ 1,042,305	\$ 1,064,296
Commercial real estate non-owner occupied	57,111	9,778	1,720	–	–	68,609	1,288,707	1,357,316
Commercial real estate owner occupied	9,271	–	9,119	–	–	18,390	225,355	243,745
Commercial and industrial	3,048	937	153,793	–	–	157,778	773,155	930,933
Total Commercial	82,967	18,511	165,290	–	–	266,768	3,329,522	3,596,290
Construction	3,000	8,153	16,950	–	–	28,103	662,639	690,742
Mortgage	–	–	11,711	–	–	11,711	768,150	779,861
Legacy	921	786	4,400	–	–	6,107	39,186	45,293
Consumer:								
Credit cards	–	–	30	–	–	30	128	158
HELOCs	–	–	1,923	–	2,839	4,762	247,413	252,175
Personal	–	–	1,252	–	609	1,861	238,746	240,607
Auto	–	–	–	–	–	–	9	9
Other	–	–	8	–	–	8	180	188
Total Consumer	–	–	3,213	–	3,448	6,661	486,476	493,137
Total U.S. mainland	\$ 86,888	\$ 27,450	\$ 201,564	\$ –	\$3,448	\$ 319,350	\$ 5,285,973	\$ 5,605,323
Popular, Inc.								
Commercial multi-family	\$ 15,553	\$ 8,179	\$ 6,766	\$ –	\$ –	\$ 30,498	\$ 1,208,338	\$ 1,238,836
Commercial real estate non-owner occupied	367,621	387,636	343,774	155	–	1,099,186	2,822,415	3,921,601
Commercial real estate owner occupied	319,755	109,873	370,060	17,788	–	817,476	1,217,744	2,035,220
Commercial and industrial	139,139	134,207	381,153	11,514	12	666,025	2,936,825	3,602,850
Total Commercial	842,068	639,895	1,101,753	29,457	12	2,613,185	8,185,322	10,798,507
Construction	3,050	9,858	18,618	–	–	31,526	744,774	776,300
Mortgage	4,407	1,987	201,801	–	–	208,195	6,488,166	6,696,361
Legacy	921	786	4,400	–	–	6,107	39,186	45,293
Leasing	–	–	3,062	–	–	3,062	699,831	702,893
Consumer:								
Credit cards	–	–	18,755	–	–	18,755	1,082,010	1,100,765
HELOCs	–	–	2,108	–	2,839	4,947	255,579	260,526
Personal	1,068	812	22,748	–	609	25,237	1,365,547	1,390,784
Auto	–	–	12,321	–	–	12,321	814,280	826,601
Other	–	–	19,319	–	–	19,319	156,398	175,717
Total Consumer	1,068	812	75,251	–	3,448	80,579	3,673,814	3,754,393
Total Popular, Inc.	\$851,514	\$653,338	\$1,404,885	\$29,457	\$3,460	\$2,942,654	\$19,831,093	\$22,773,747

The following table presents the weighted average obligor risk rating at December 31, 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	11.12	5.95
Commercial real estate non-owner occupied	11.07	6.91
Commercial real estate owner occupied	11.23	7.09
Commercial and industrial	11.09	7.19
Total Commercial	11.14	7.06
Construction	11.00	7.67
U.S. mainland:	Substandard	Pass
Commercial multi-family	11.31	7.26
Commercial real estate non-owner occupied	11.70	6.67
Commercial real estate owner occupied	11.05	7.32
Commercial and industrial	11.65	6.15
Total Commercial	11.62	6.78
Construction	11.00	7.67
Legacy	11.10	7.91

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

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 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.

<i>(In thousands)</i>	Years ended December 31,		
	2017	2016	2015
Balance at beginning of year	\$ 69,334	\$ 310,221	\$ 542,454
Amortization of loss share indemnification asset	(469)	(10,201)	(66,238)
Credit impairment losses to be covered under loss sharing agreements	3,136	(239)	15,658
Reimbursable expenses	2,454	8,433	73,205
Net payments from FDIC under loss sharing agreements	(22,589)	(102,596)	(247,976)
Arbitration decision charge	-	(136,197)	-
Other adjustments attributable to FDIC loss sharing agreements	(5,550)	(87)	(6,882)
Balance at end of period	\$ 46,316	\$ 69,334	\$ 310,221
Balance due to the FDIC for recoveries on covered assets ^[1]	(1,124)	(27,578)	(5,570)
Balance at end of period	\$ 45,192	\$ 41,756	\$ 304,651

[1] Balance due to the FDIC for recoveries on covered assets for the years ended December 31, 2016 and 2015 amounting to \$27.6 million and \$5.6 million, respectively, was included in other liabilities in the accompanying Consolidated Statement of Condition.

The loss-share component of the arrangements applicable to commercial (including construction) and consumer loans expired during the quarter ended June 30, 2015. The agreement provides for reimbursement of recoveries to the FDIC to continue through the quarter ending June 30, 2018, and for the single family mortgage loss-share component of such agreement to expire on the quarter ended June 30, 2020.

The weighted average life of the single family loan portfolio accounted for under ASC 310-30 subject to the FDIC loss-sharing agreement at December 31, 2017 is 7.2 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.

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 December 31, 2017 and 2016.

<i>(In thousands)</i>	December 31, 2017	December 31, 2016
Carrying amount (fair value)	\$164,858	\$153,158
Undiscounted amount	\$188,958	\$188,258

The increase in the fair value of the true-up payment obligation was principally driven by a decrease in the discount

rate from 5.97% in 2016 to 5.47% in 2017 due to a lower risk premium. The estimated fair value of the true-up payment obligation corresponds to the difference between the initial estimated losses to be reimbursed by the FDIC and the revised estimate of reimbursable losses. As the amount of estimated reimbursable losses decreases, the value of the true-up payment obligation increases.

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

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

- manage and administer the covered assets and collect and effect charge-offs and recoveries with respect to such covered assets in a manner consistent with its usual and prudent business and banking practices and, with respect to single family shared-loss loans, the procedures (including collection procedures) customarily employed by BPPR in servicing and administering mortgage loans for its own account and the servicing procedures established by FNMA or the Federal Home Loan Mortgage Corporation (“FHLMC”), as in effect from time to time, and in accordance with accepted mortgage servicing practices of prudent lending institutions;
- exercise its best judgment in managing, administering and collecting amounts on covered assets and effecting charge-offs with respect to the covered assets;
- use commercially reasonable efforts to maximize recoveries with respect to losses on single family shared-loss assets and best efforts to maximize collections with respect to commercial shared-loss assets;
- retain sufficient staff to perform the duties under the loss-share agreements;
- adopt and implement accounting, reporting, record-keeping and similar systems with respect to the commercial shared-loss assets;
- comply with the terms of the modification guidelines approved by the FDIC or another federal agency for any single-family shared-loss loan;
- provide notice with respect to proposed transactions pursuant to which a third party or affiliate will manage, administer or collect any commercial shared-loss assets;
- file monthly and quarterly certificates with the FDIC specifying the amount of losses, charge-offs and recoveries; and

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

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:

<i>(In thousands)</i>	Years ended December 31,		
	2017	2016	2015
Mortgage servicing fees, net of fair value adjustments:			
Mortgage servicing fees	\$ 48,300	\$ 58,208	\$59,461
Mortgage servicing rights fair value adjustments	(36,519)	(25,336)	(7,904)
Total mortgage servicing fees, net of fair value adjustments	11,781	32,872	51,557
Net gain on sale of loans, including valuation on loans held for sale	17,088	26,976	35,336
Trading account loss:			
Unrealized gains (losses) on outstanding derivative positions	184	(1)	17
Realized losses on closed derivative positions	(3,557)	(3,309)	(5,108)
Total trading account loss	(3,373)	(3,310)	(5,091)
Total mortgage banking activities	\$ 25,496	\$ 56,538	\$81,802

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. 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 26 to the

consolidated financial statements for a description of such arrangements.

No liabilities were incurred as a result of these securitizations during the years ended December 31, 2017 and 2016 because they did not contain any credit recourse arrangements. The Corporation recorded a net gain of \$15.2 million and \$24.6 million, respectively, during the years ended December 31, 2017 and 2016 related to the residential mortgage loan securitized.

The following tables present the initial fair value of the assets obtained as proceeds from residential mortgage loans securitized during the years ended December 31, 2017 and 2016:

<i>(In thousands)</i>	Proceeds obtained during the year ended December 31, 2017			
	Level 1	Level 2	Level 3	Initial fair value
Assets				
Investments securities available for sale:				
Mortgage-backed securities - FNMA	\$-	\$ 16,049	\$ -	\$ 16,049
Total investment securities available-for-sale	\$-	\$ 16,049	\$ -	\$ 16,049
Trading account securities:				
Mortgage-backed securities - GNMA	\$-	\$376,186	\$ -	\$376,186
Mortgage-backed securities - FNMA	-	69,798	-	69,798
Total trading account securities	\$-	\$445,984	\$ -	\$445,984
Mortgage servicing rights	\$-	\$ -	\$6,898	\$ 6,898
Total	\$-	\$462,033	\$6,898	\$468,931

<i>(In thousands)</i>	Proceeds obtained during the year ended December 31, 2016			
	Level 1	Level 2	Level 3	Initial fair value
Assets				
Investments securities available for sale:				
Mortgage-backed securities - GNMA	\$-	\$ 41,466	\$ -	\$ 41,466
Mortgage-backed securities - FNMA	-	18,605	-	18,605
Total investment securities available-for-sale	\$-	\$ 60,071	-	\$ 60,071
Trading account securities:				
Mortgage-backed securities - GNMA	\$-	\$571,602	\$ -	\$571,602
Mortgage-backed securities - FNMA	-	143,939	-	143,939
Total trading account securities	\$-	\$715,541	\$ -	\$715,541
Mortgage servicing rights	\$-	\$ -	\$9,889	\$ 9,889
Total	\$-	\$775,612	\$9,889	\$785,501

During the year ended December 31, 2017, the Corporation retained servicing rights on whole loan sales involving approximately \$49 million in principal balance outstanding (2016 - \$70 million), with net realized gains of approximately \$1.7 million (2016 - \$2.3 million). All loan sales performed during the years ended December 31, 2017 and 2016 were without credit recourse agreements.

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

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

The following table presents the changes in MSRs measured using the fair value method for the years ended December 31, 2017 and 2016.

<i>(In thousands)</i>	Residential MSRs	
	December 31, 2017	December 31, 2016
Fair value at beginning of period	\$196,889	\$211,405
Additions	7,661	10,835
Changes due to payments on loans [1]	(15,308)	(17,482)
Reduction due to loan repurchases	(2,225)	(3,109)
Changes in fair value due to changes in valuation model inputs or assumptions	(18,986)	(4,745)
Other disposals	-	(15)
Fair value at end of period	\$ 168,031	\$ 196,889

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

Residential mortgage loans serviced for others were \$16.1 billion at December 31, 2017 (2016 - \$18.0 billion), which in part was impacted by a reduction of \$840 million in mortgage loans at BPPR due to the rebooking of loans previously pooled into GNMA securities.

Net mortgage servicing fees, a component of mortgage banking activities in the consolidated statements of operations, include the changes from period to period in the fair value of the MSRs, including changes due to collection / realization of expected cash flows. The banking subsidiaries receive servicing fees based on a percentage of the outstanding loan balance. These servicing fees are credited to income when they are collected. At December 31, 2017, those weighted average

mortgage servicing fees were 0.28% (2016 – 0.30%). Under these servicing agreements, the banking subsidiaries do not generally earn significant prepayment penalty fees on the underlying loans serviced.

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

Key economic assumptions used in measuring the servicing rights derived from loans securitized or sold by the Corporation

during the years ended December 31, 2017 and 2016 were as follows:

	Years ended	
	December 31, 2017	December 31, 2016
Prepayment speed	4.5%	5.2%
Weighted average life (in years)	10.8	10.2
Discount rate (annual rate)	11.0%	11.0%

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

<i>(In thousands)</i>	Originated MSRs		Purchased MSRs	
	December 31,	December 31,	December 31,	December 31,
	2017	2016	2017	2016
Fair value of servicing rights	\$73,951	\$88,056	\$94,080	\$108,833
Weighted average life (in years)	7.3	7.8	6.5	6.9
Weighted average prepayment speed (annual rate)	5.1%	4.6%	5.7%	4.8%
Impact on fair value of 10% adverse change	\$ (1,503)	\$ (1,668)	\$ (2,070)	\$ (2,051)
Impact on fair value of 20% adverse change	\$ (2,976)	\$ (3,590)	\$ (3,999)	\$ (4,400)
Weighted average discount rate (annual rate)	11.5%	11.5%	11.0%	11.0%
Impact on fair value of 10% adverse change	\$ (3,091)	\$ (3,851)	\$ (3,785)	\$ (4,369)
Impact on fair value of 20% adverse change	\$ (5,971)	\$ (7,699)	\$ (7,235)	\$ (8,778)

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 December 31, 2017, the Corporation serviced \$1.5 billion (2016 - \$1.7 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 December 31, 2017, the Corporation had recorded \$840 million in mortgage loans on its consolidated statements of financial condition related to this

buy-back option program (2016 - \$49 million). While the borrowers for our serviced GNMA portfolio benefited from the loan payment moratorium, the delinquency status of these loans continued to be reported to GNMA without considering the moratorium. As long as the Corporation continues to service the loans that continue to be collateral in a GNMA guaranteed mortgage-backed security, the MSR is recognized by the Corporation. During the year ended December 31, 2017, the Corporation repurchased approximately \$160 million of mortgage loans under the GNMA buy-back option program (2016 - \$224 million). 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.

Quantitative information about delinquencies, net credit losses, and components of securitized financial assets and other assets managed together with them by the Corporation, including its own loan portfolio, for the years ended December 31, 2017 and 2016, are disclosed in the following tables. Loans securitized/sold represent loans in which the Corporation has continuing involvement in the form of credit recourse.

2017			
<i>(In thousands)</i>	Total principal amount of loans, net of unearned	Principal amount 60 days or more past due	Net credit losses (recoveries)
Loans (owned and managed):			
Commercial	\$11,488,861	\$ 305,281	\$ 56,552
Construction	880,029	170	(2,630)
Legacy	32,980	3,456	(1,730)
Lease financing	809,990	4,464	6,770
Mortgage	8,891,107	2,193,772	76,235
Consumer	3,810,527	101,666	105,655
Covered loans	517,274	65,606	2,848
Less:			
Loans securitized / sold	1,488,305	497,304	1,051
Loans held-for-sale	132,395	872	-
Loans held-in-portfolio	<u>\$24,810,068</u>	<u>\$2,176,239</u>	<u>\$242,649</u>

2016			
<i>(In thousands)</i>	Total principal amount of loans, net of unearned	Principal amount 60 days or more past due	Net credit losses (recoveries)
Loans (owned and managed):			
Commercial	\$10,798,507	\$ 314,339	\$ 13,073
Construction	776,300	1,668	(2,935)
Legacy	45,293	3,683	(1,913)
Lease financing	702,893	4,418	3,888
Mortgage	8,448,883	1,074,252	68,530
Consumer	3,754,393	104,895	85,398
Covered loans	572,878	84,079	2,716
Less:			
Loans securitized / sold	1,663,701	119,458	2,281
Loans held-for-sale	88,821	-	(5,445)
Loans held-in-portfolio	<u>\$23,346,625</u>	<u>\$1,467,876</u>	<u>\$171,921</u>

Note 14 - Premises and equipment

The premises and equipment are stated at cost less accumulated depreciation and amortization as follows:

<i>(In thousands)</i>	Useful life in years	2017	2016
Land		\$120,519	\$120,519
Buildings	10-50	523,438	516,758
Equipment	2-10	319,394	309,294
Leasehold improvements	3-10	77,915	76,637
		920,747	902,689
Less - Accumulated depreciation and amortization		524,901	514,892
Subtotal		395,846	387,797
Construction in progress		30,777	35,665
Total premises and equipment, net		<u>\$547,142</u>	<u>\$543,981</u>

Depreciation and amortization of premises and equipment for the year 2017 was \$48.4 million (2016 - \$46.9 million; 2015 - \$47.5 million), of which \$23.7 million (2016 - \$22.6 million; 2015 - \$22.9 million) was charged to occupancy expense and

\$24.7 million (2016 - \$24.3 million; 2015 - \$24.6 million) was charged to equipment, communications and other operating expenses. Occupancy expense is net of rental income of \$26.6 million (2016 - \$27.8 million; 2015 - \$28.1 million).

Note 15 - Other real estate owned

The following tables present the activity related to Other Real Estate Owned (“OREO”), for the years ended December 31, 2017, 2016 and 2015. During the second quarter of 2015, the Corporation completed a bulk sale of \$37 million of covered OREOs.

For the year ended December 31, 2017				
<i>(In thousands)</i>	Non-covered OREO	Non-covered OREO	Covered OREO	Total
	Commercial/Construction	Mortgage	Mortgage	
Balance at beginning of period	\$20,401	\$160,044	\$ 32,128	\$212,573
Write-downs in value [1]	(5,011)	(16,876)	(3,311)	(25,198)
Additions	8,918	70,763	9,912	89,593
Sales	(2,765)	(68,145)	(16,273)	(87,183)
Other adjustments	(132)	2,063	(2,861)	(930)
Ending balance	\$21,411	\$147,849	\$ 19,595	\$188,855

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

For the year ended December 31, 2016				
<i>(In thousands)</i>	Non-covered OREO	Non-covered OREO	Covered OREO	Total
	Commercial/Construction	Mortgage	Mortgage	
Balance at beginning of period	\$ 32,471	\$122,760	\$ 36,685	\$191,916
Write-downs in value	(2,909)	(9,889)	(2,273)	(15,071)
Additions	7,372	105,140	17,588	130,100
Sales	(15,894)	(56,826)	(18,206)	(90,926)
Other adjustments	(639)	(1,141)	(1,666)	(3,446)
Ending balance	\$ 20,401	\$160,044	\$ 32,128	\$212,573

For the year ended December 31, 2015					
<i>(In thousands)</i>	Non-covered OREO	Non-covered OREO	Covered OREO	Covered OREO	Total
	Commercial/Construction	Mortgage	Commercial/Construction	Mortgage	
Balance at beginning of period	\$ 38,983	\$ 96,517	\$ 85,394	\$ 44,872	\$ 265,766
Write-downs in value	(13,356)	(8,567)	(20,350)	(3,891)	(46,164)
Additions	17,671	86,040	9,661	25,019	138,391
Sales	(25,065)	(53,782)	(59,749)	(25,990)	(164,586)
Other adjustments	(266)	(540)	(452)	(233)	(1,491)
Transfer to non-covered status [1]	14,504	3,092	(14,504)	(3,092)	—
Ending balance	\$ 32,471	\$122,760	\$ —	\$ 36,685	\$ 191,916

[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.

Note 16 - Other assets

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

<i>(In thousands)</i>	2017	2016
Net deferred tax assets (net of valuation allowance)	\$1,035,110	\$1,243,668
Investments under the equity method	215,349	218,062
Prepaid taxes	168,852	172,550
Other prepaid expenses	84,771	90,320
Derivative assets	16,539	14,085
Trades receivable from brokers and counterparties	7,514	46,630
Receivables from investments maturities	70,000	-
Principal, interest and escrow servicing advances	107,299	69,711
Guaranteed mortgage loan claims receivable	163,819	152,403
Others	122,070	138,081
Total other assets	\$1,991,323	\$2,145,510

Note 17 - Investments in equity investees

During the year ended December 31, 2017, the Corporation recorded earnings of \$34.1 million, from its equity investments, compared to \$31.3 million for the year ended December 31, 2016. The carrying value of the Corporation's equity method

investments was \$215 million and \$ 218 million at December 31, 2017 and 2016, respectively.

The following table presents aggregated summarized financial information of the Corporation's equity method investees:

<i>Years ended December 31,</i>	2017	2016	2015
<i>(In thousands)</i>			
Operating results:			
Total revenues	\$931,627	\$852,160	\$643,632
Total expenses	663,069	634,173	414,975
Income tax expense	42,799	47,434	33,920
Net income	\$225,759	\$170,553	\$194,737

<i>At December 31,</i>	2017	2016
<i>(In thousands)</i>		
Balance Sheet:		
Total assets	\$8,439,622	\$7,640,819
Total liabilities	\$6,009,911	\$5,778,619

Summarized financial information for these investees may be presented on a lag, due to the unavailability of information for the investees, at the respective balance sheet dates.

Note 18 - Goodwill and other intangible assets

There were no changes in the carrying amount of goodwill for the year ended December 31, 2017. The changes in the carrying amount of goodwill for the year ended December 31, 2016, allocated by reportable segments, were as follows (refer to Note 41 for the definition of the Corporation's reportable segments):

<i>(In thousands)</i>	2016				
	Balance at January 1, 2016	Goodwill on acquisition	Purchase accounting adjustments	Goodwill impairment	Balance at December 31, 2016
Banco Popular de Puerto Rico	\$280,221	\$-	\$ -	\$(3,801)	\$276,420
Banco Popular North America	346,167	-	4,707	-	350,874
Total Popular, Inc.	\$626,388	\$-	\$4,707	\$(3,801)	\$627,294

During the year ended December 31, 2016, the Corporation recorded a goodwill impairment charge of \$3.8 million at Popular Securities as part of its annual goodwill impairment

test and purchase accounting adjustments of \$4.7 million related to the Doral Bank Transaction.

At December 31, 2017 and 2016, 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:

<i>(In thousands)</i>	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
December 31, 2017			
Core deposits	\$37,224	\$22,347	\$14,877
Other customer relationships	35,683	21,051	14,632
Total other intangible assets	\$72,907	\$43,398	\$29,509
December 31, 2016			
Core deposits	\$37,274	\$18,624	\$18,650
Other customer relationships	36,449	16,162	20,287
Total other intangible assets	\$73,723	\$34,786	\$38,937

During the year ended December 31, 2016, core deposit intangibles with a gross amount of \$26.3 million became fully amortized.

During the year ended December 31, 2017, the Corporation recognized \$ 9.4 million in amortization expense related to other intangible assets with definite useful lives (2016 - \$ 12.1 million; 2015 - \$11.0 million).

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

<i>(In thousands)</i>	
Year 2018	\$9,286
Year 2019	9,042
Year 2020	4,967
Year 2021	2,157
Year 2022	1,281
Later years	2,776

Results of the Annual Goodwill Impairment Test

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

Under applicable accounting standards, goodwill impairment analysis is a two-step test. The first step of the goodwill impairment test involves comparing the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, the second step must be performed. The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step

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

The Corporation performed the annual goodwill impairment evaluation for the entire organization during the third quarter of 2017 using July 31, 2017 as the annual evaluation date. The reporting units utilized for this evaluation were those that are one level below the business segments, which are the legal entities within the reportable segment. The Corporation follows

push-down accounting, as such all goodwill is assigned to the reporting units when carrying out a business combination.

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

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

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

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

For purposes of the discounted cash flows (“DCF”) approach, the valuation is based on estimated future cash flows. The financial projections used in the DCF valuation analysis for each reporting unit are based on the most recent (as of the valuation date) financial projections presented to the Corporation’s Asset / Liability Management Committee (“ALCO”). The growth assumptions included in these projections are based on management’s expectations for each reporting unit’s financial prospects considering economic and industry conditions as well as particular plans of each entity (i.e. restructuring plans, de-leveraging, etc.). The cost of equity used to discount the cash flows was calculated using the

Ibbotson Build-Up Method and ranged from 11.58% to 14.49% for the 2017 analysis. The Ibbotson Build-Up Method builds up a cost of equity starting with the rate of return of a “risk-free” asset (20-year U.S. Treasury note) and adds to it additional risk elements such as equity risk premium, size premium and industry risk premium. The resulting discount rates were analyzed in terms of reasonability given the current market conditions and adjustments were made when necessary.

BPPR passed Step 1 in the annual test as of July 31, 2017. The results indicated that the average estimated fair value calculated in Step 1 using all valuation methodologies exceeded BPPR’s equity value by approximately \$871 million or 26%. Accordingly, there was no indication of impairment on the goodwill recorded in BPPR at July 31, 2017 and there was no need for a Step 2 analysis. As indicated in Note 2, during the month of September Hurricanes Irma and Maria made landfall and subsequently caused extensive destruction in the U.S. and British Virgin Islands and Puerto Rico, disrupting the markets in which BPPR does business. The hurricanes have and may continue to impact the Corporation’s financial results, as detailed in Note 2, which may have an effect on BPPR’s estimated fair value. However, given the excess of BPPR’s fair value over its carrying amount, the Corporation has determined, based on the information currently available, that there is no indication of impairment of goodwill. The Corporation will continue monitoring the impact of the hurricanes as new information becomes available.

BPNA passed Step 1 in the annual test as of July 31, 2017. The results indicated that the average estimated fair value calculated in Step 1 using all valuation methodologies exceeded BPNA’s equity value by approximately \$183 million or 11%. Accordingly, there was no indication of impairment on the goodwill recorded in BPNA at July 31, 2017 and there was no need for a Step 2 analysis.

The goodwill balance of BPPR and BPNA, as legal entities, represented approximately 98% of the Corporation’s total goodwill balance as of the July 31, 2017 valuation date.

Furthermore, as part of the analyses, management performed a reconciliation of the aggregate fair values determined for the reporting units to the market capitalization of Popular, Inc. concluding that the fair value results determined for the reporting units in the July 31, 2017 annual assessment were reasonable.

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

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

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

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

December 31, 2016						
(In thousands)	Balance at January 1, 2016 (gross amounts)	Accumulated impairment losses	Balance at January 1, 2016 (net amounts)	Balance at December 31, 2016 (gross amounts)	Accumulated impairment losses	Balance at December 31, 2016 (net amounts)
Banco Popular de Puerto Rico	\$280,221	\$ –	\$280,221	\$280,221	\$ 3,801	\$276,420
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	\$168,212	\$627,294

Note 19 - Deposits

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

(In thousands)	December 31, 2017	December 31, 2016
Savings accounts	\$ 8,561,718	\$ 7,793,533
NOW, money market and other interest bearing demand deposits	10,885,967	8,012,706
Total savings, NOW, money market and other interest bearing demand deposits	19,447,685	15,806,239
Certificates of deposit:		
Under \$100,000	3,446,575	3,570,956
\$100,000 and over	4,068,303	4,138,586
Total certificates of deposit	7,514,878	7,709,542
Total interest bearing deposits	\$26,962,563	\$23,515,781

A summary of certificates of deposit by maturity at December 31, 2017 follows:

(In thousands)	
2018	\$3,941,152
2019	1,150,663
2020	1,083,152
2021	710,484
2022	581,771
2023 and thereafter	47,656
Total certificates of deposit	\$7,514,878

At December 31, 2017, the Corporation had brokered deposits amounting to \$ 0.5 billion (December 31, 2016 - \$ 0.6 billion).

The aggregate amount of overdrafts in demand deposit accounts that were reclassified to loans was \$4 million at December 31, 2017 (December 31, 2016 - \$6 million).

Note 20 - Borrowings

The following table presents the balances of assets sold under agreements to repurchase at December 31, 2017 and December 31, 2016.

(In thousands)	December 31, 2017	December 31, 2016
Assets sold under agreements to repurchase	\$390,921	\$479,425
Total assets sold under agreements to repurchase	\$390,921	\$479,425

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

<i>(Dollars in thousands)</i>	December 31, 2017		December 31, 2016	
	Repurchase liability	Repurchase liability weighted average interest rate	Repurchase liability	Repurchase liability weighted average interest rate
U.S. Treasury Securities				
Within 30 days	\$148,516	1.70%	\$ 32,700	0.85%
After 30 to 90 days	87,357	1.70	—	—
After 90 days	43,500	2.00	19,819	1.61
Total U.S. Treasury Securities	279,373	1.75	52,519	1.14
Obligations of U.S. government sponsored entities				
Within 30 days	30,656	1.77	95,720	1.00
After 30 to 90 days	19,463	1.48	142,299	0.91
After 90 days	15,937	1.60	25,380	1.08
Total obligations of U.S. government sponsored entities	66,056	1.64	263,399	0.96
Mortgage-backed securities				
Within 30 days	31,383	1.51	39,108	1.05
After 30 to 90 days	—	—	58,552	0.94
After 90 days	—	—	54,560	1.09
Total mortgage-backed securities	31,383	1.51	152,220	1.02
Collateralized mortgage obligations				
Within 30 days	14,109	0.28	11,287	0.28
Total collateralized mortgage obligations	14,109	0.28	11,287	0.28
Total	\$390,921	1.66%	\$479,425	0.98%

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

Assets sold under agreements to repurchase:

<i>(Dollars in thousands)</i>	2017	2016
Maximum aggregate balance outstanding at any month-end	\$471,083	\$954,253
Average monthly aggregate balance outstanding	\$399,422	\$757,230
Weighted average interest rate:		
For the year	1.22%	1.01%
At December 31	1.50%	1.12%

The following table presents information related to the Corporation's other short-term borrowings for the periods ended December 31, 2017 and December 31, 2016.

Other short-term borrowings:

<i>(Dollars in thousands)</i>	2017	2016
Advances with the FHLB paying interest at maturity ranging from 1.43% to 1.66%	\$ 95,000	\$ –
Others	1,208	1,200
Balance outstanding at the end of the period	\$ 96,208	\$ 1,200
Maximum aggregate balance outstanding at any month-end	\$240,598	\$31,200
Average monthly aggregate balance outstanding	\$ 52,784	\$ 6,266
Weighted average interest rate:		
For the year	1.61%	2.15%
At December 31	1.55%	9.00%

The following table presents the composition of notes payable at December 31, 2017 and December 31, 2016.

<i>(In thousands)</i>	December 31, 2017	December 31, 2016
Advances with the FHLB with maturities ranging from 2018 through 2029 paying interest at monthly fixed rates ranging from 0.84% to 4.19 % (2016 - 0.81% to 4.19%)	\$ 572,307	\$ 608,193
Advances with the FHLB with maturities ranging from 2018 through 2019 paying interest monthly at a floating rate ranging from 0.22% to 0.34% over the 1 month LIBOR (2016 - 0.22% to 0.34%)	34,164	34,164
Advances with the FHLB with maturities ranging from 2018 through 2019 paying interest quarterly at a floating rate from 0.09% to 0.24% over the 3 month LIBOR (2016 - (0.01)% to 0.24%)	25,019	30,313
Unsecured senior debt securities maturing on 2019 paying interest semiannually at a fixed rate of 7.00%, net of debt issuance costs of \$3,127 (2016 - \$5,212)	446,873	444,788
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 \$449 (2016 - \$476)	439,351	439,323
Others	18,642	18,071
Total notes payable	\$1,536,356	\$1,574,852

A breakdown of borrowings by contractual maturities at December 31, 2017 is included in the table below.

<i>(In thousands)</i>	Assets sold under agreements to repurchase	Short-term borrowings	Notes payable	Total
2018	\$390,921	\$96,200	\$ 255,088	\$ 742,209
2019	—	—	609,015	609,015
2020	—	—	112,144	112,144
2021	—	—	21,840	21,840
2022	—	—	5,143	5,143
Later years	—	—	533,126	533,126
No stated maturity	—	8	—	8
Total borrowings	\$390,921	\$96,208	\$1,536,356	\$2,023,485

At December 31, 2017 and 2016, the Corporation had FHLB borrowing facilities whereby the Corporation could borrow up to \$3.9 billion and \$3.8 billion, respectively, of which \$726 million and \$673 million, respectively, were used. In addition, at December 31, 2017 and 2016, the Corporation had placed \$260 million and \$200 million, respectively, of the available FHLB credit facility as collateral for a municipal letter of credit to secure deposits. The FHLB borrowing facilities are

collateralized with loans held-in-portfolio, and do not have restrictive covenants or callable features.

Also, at December 31, 2017, the Corporation has a borrowing facility at the discount window of the Federal Reserve Bank of New York amounting to \$1.1 billion (2016 - \$1.2 billion), which remained unused at December 31, 2017 and 2016. The facility is a collateralized source of credit that is highly reliable even under difficult market conditions.

Note 21 - 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 December 31, 2017 and December 31, 2016.

As of December 31, 2017							
<i>(In thousands)</i>	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position			
				Financial Instruments	Securities Collateral Received	Cash Collateral Received	Net Amount
Derivatives	\$16,719	\$-	\$16,719	\$121	\$-	\$-	\$16,598
Total	\$16,719	\$-	\$16,719	\$121	\$-	\$-	\$16,598

As of December 31, 2017							
<i>(In thousands)</i>	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position			
				Financial Instruments	Securities Collateral Pledged	Cash Collateral Pledged	Net Amount
Derivatives	\$ 14,431	\$-	\$ 14,431	\$121	\$ 8	\$-	\$14,302
Repurchase agreements	390,921	-	390,921	-	390,921	-	-
Total	\$405,352	\$-	\$405,352	\$121	\$390,929	\$-	\$14,302

As of December 31, 2016							
<i>(In thousands)</i>	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position			
				Financial Instruments	Securities Collateral Received	Cash Collateral Received	Net Amount
Derivatives	\$ 14,094	\$-	\$ 14,094	\$551	\$ -	\$-	\$13,543
Reverse repurchase agreements	23,637	-	23,637	-	23,637	-	-
Total	\$ 37,731	\$-	\$ 37,731	\$551	\$ 23,637	\$-	\$13,543

As of December 31, 2016

(In thousands)	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position			Net Amount
				Financial Instruments	Securities Collateral Pledged	Cash Collateral Pledged	
Derivatives	\$ 12,842	\$—	\$ 12,842	\$551	\$ 747	\$—	\$11,544
Repurchase agreements	479,425	—	479,425	—	479,425	—	—
Total	\$492,267	\$—	\$492,267	\$551	\$480,172	\$—	\$11,544

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.

Note 22 - Trust preferred securities

At December 31, 2017 and 2016, statutory trusts established by the Corporation (BanPonce Trust I, Popular Capital Trust I, Popular North America Capital Trust I and Popular Capital Trust II) had issued trust preferred securities (also referred to as "capital securities") to the public. The proceeds from such issuances, together with the proceeds of the related issuances of

common securities of the trusts (the "common securities"), were used by the trusts to purchase junior subordinated deferrable interest debentures (the "junior subordinated debentures") issued by the Corporation.

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

The junior subordinated debentures are included by the Corporation as notes payable in the consolidated statements of financial condition, while the common securities issued by the issuer trusts are included as other investment securities. The common securities of each trust are wholly-owned, or indirectly wholly-owned, by the Corporation.

The following table presents financial data pertaining to the different trusts at December 31, 2017 and 2016.

(Dollars in thousands)

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

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

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

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

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

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

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

At December 31, 2017 and 2016, the Corporation had \$427 million in trust preferred securities outstanding which do not qualify for Tier 1 capital treatment, but instead qualify for Tier 2 capital treatment.

Note 23 – Stockholders' equity

The Corporation has 30,000,000 shares of authorized preferred stock that may be issued in one or more series, and the shares of each series shall have such rights and preferences as shall be fixed by the Board of Directors when authorizing the issuance of that particular series. The Corporation's shares of preferred stock issued and outstanding at December 31, 2017 and 2016 consisted of:

- 6.375% non-cumulative monthly income preferred stock, 2003 Series A, no par value, liquidation preference value of \$25 per share. Holders on record of the 2003 Series A Preferred Stock are entitled to receive, when, as and if declared by the Board of Directors of the Corporation or an authorized committee thereof, out of funds legally available, non-cumulative cash dividends at the annual rate per share of 6.375% of their liquidation preference value, or \$0.1328125 per share per month. These shares of preferred stock are perpetual, nonconvertible, have no preferential rights to purchase any securities of the Corporation and are redeemable solely at the option of the Corporation with the consent of the Board of Governors of the Federal Reserve System. The redemption price per share is \$25.00. The shares of 2003 Series A Preferred Stock have no voting rights, except for certain rights in instances when the Corporation does not pay dividends for a defined period. These shares are not subject to any sinking fund requirement. Cash dividends declared and paid on the 2003 Series A Preferred Stock amounted to \$ 1.4 million for the year ended December 31, 2017, 2016 and 2015. Outstanding shares of 2003 Series A Preferred Stock amounted to 885,726 at December 31, 2017, 2016 and 2015.
- 8.25% non-cumulative monthly income preferred stock, 2008 Series B, no par value, liquidation preference value of \$25 per share. The shares of 2008 Series B Preferred Stock were issued in May 2008. Holders of record of the 2008 Series B Preferred Stock are entitled to receive, when, as and if declared by the Board of Directors of the Corporation or an authorized committee thereof, out of funds legally available, non-cumulative cash dividends at the annual rate per share of 8.25% of their liquidation preferences, or \$0.171875 per share per month. These shares of preferred stock are perpetual, nonconvertible, have no preferential rights to purchase any securities of the Corporation and are redeemable solely at the option of the Corporation with the consent of the Board of Governors of the Federal Reserve System beginning on

May 28, 2013. The redemption price per share is \$25.00. Cash dividends declared and paid on the 2008 Series B Preferred Stock amounted to \$ 2.3 million for the year ended December 31, 2017, 2016 and 2015. Outstanding shares of 2008 Series B Preferred Stock amounted to 1,120,665 at December 31, 2017, 2016 and 2015.

The Corporation's common stock trades on the NASDAQ Stock Market LLC (the "NASDAQ") under the symbol BPOP. The 2003 Series A and 2008 Series B Preferred Stock is not listed on NASDAQ.

The Corporation's common stock ranks junior to all series of preferred stock as to dividend rights and / or as to rights on liquidation, dissolution or winding up of the Corporation. Dividends on each series of preferred stocks are payable if declared. The Corporation's ability to declare or pay dividends on, or purchase, redeem or otherwise acquire, its common stock is subject to certain restrictions in the event that the Corporation fails to pay or set aside full dividends on the preferred stock for the latest dividend period. The ability of the Corporation to pay dividends in the future is limited by regulatory requirements, legal availability of funds, recent and projected financial results, capital levels and liquidity of the Corporation, general business conditions and other factors deemed relevant by the Corporation's Board of Directors.

During the year 2015 the Corporation reinstated the payment of dividends to shareholders of common stock. On January 23, 2017, the Corporation's Board of Directors approved an increase in the Company's quarterly common stock dividend from \$0.15 per share to \$0.25 per share. During the year 2017, cash dividends of \$ 1.00 (2016 - \$ 0.60; 2015 - \$0.30) per common share outstanding amounting to \$ 102.1 million (2016 - \$62.2 million; 2015 - \$31.1 million) of which \$ 25.5 million were payable to shareholders of common stock at December 31, 2017 (2016 - \$15.6 million; 2015 - \$15.5 million). The quarterly dividend declared to shareholders of record as of the close of business on December 5, 2017, which amounted to \$25.5 million, was paid on January 2, 2018.

During the first quarter of 2017, the Corporation completed a \$75 million privately negotiated accelerated share repurchase transaction ("ASR"). As part of this transaction, the Corporation received 1,847,372 shares and recognized \$79.5 million in treasury stock, based on the stock's spot price, offset by a \$4.5 million adjustment to capital surplus, resulting from the decline in the Corporation's stock price during the term of the ASR.

The Banking Act of the Commonwealth of Puerto Rico requires that a minimum of 10% of BPPR's net income for the year be transferred to a statutory reserve account until such statutory reserve equals the total of paid-in capital on common and preferred stock. Any losses incurred by a bank must first be charged to retained earnings and then to the reserve fund. Amounts credited to the reserve fund may not be used to pay

dividends without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The failure to maintain sufficient statutory reserves would preclude BPPR from paying dividends. BPPR's statutory reserve fund amounted to \$ 540 million at December 31, 2017 (2016 - \$ 513 million; 2015 - \$ 495 million). During 2017, \$ 27 million was transferred to the statutory reserve account (2016 - \$ 18 million, 2015 - \$ 26 million). BPPR was in compliance with the statutory reserve requirement in 2017, 2016 and 2015.

Note 24 - Regulatory capital requirements

The Corporation and its banking subsidiaries are subject to various regulatory capital requirements imposed by the federal banking agencies. Failure to meet minimum capital requirements can lead to certain mandatory and additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's consolidated financial statements. On January 1, 2015, the Corporation, BPPR and BPNA became subject to Basel III capital requirements, including also revised minimum and well capitalized regulatory capital ratios and compliance with the standardized approach for determining risk-weighted assets.

The Basel III Capital Rules introduced a new capital measure known as Common Equity Tier I ("CET1") and related regulatory capital ratio CET1 to risk-weighted assets.

The Basel III Capital Rules provide that a depository institution will be deemed to be well capitalized if it maintained a leverage ratio of at least 5%, a CET1 ratio of at least 6.5%, a Tier 1 risk-based capital ratio of at least 8% and a total risk-based ratio of at least 10%. Management has determined that at December 31, 2017 and 2016, the Corporation exceeded all capital adequacy requirements to which it is subject.

At December 31, 2017 and 2016, BPPR and BPNA were well-capitalized under the regulatory framework of Basel III.

The Corporation has been designated by the Federal Reserve Board as a Financial Holding Company ("FHC") and is eligible to engage in certain financial activities permitted under the Gramm-Leach-Bliley Act of 1999.

The following tables present the Corporation's risk-based capital and leverage ratios at December 31, 2017 and 2016 under the Basel III regulatory guidance.

(Dollars in thousands)	Actual		Capital adequacy minimum requirement (including conservation capital buffer)	
	Amount	Ratio	Amount	Ratio
2017				
Total Capital (to Risk-Weighted Assets):				
Corporation	\$4,985,265	19.22%	\$2,399,052	9.250%
BPPR	3,793,268	19.73	1,778,498	9.250
BPNA	1,083,171	17.05	587,809	9.250
Common Equity Tier I Capital (to Risk-Weighted Assets):				
Corporation	\$4,226,519	16.30%	\$1,491,303	5.750%
BPPR	3,546,121	18.44	1,105,553	5.750
BPNA	1,010,232	15.90	365,395	5.750
Tier I Capital (to Risk-Weighted Assets):				
Corporation	\$4,226,519	16.30%	\$1,880,338	7.250%
BPPR	3,546,121	18.44	1,393,958	7.250
BPNA	1,010,232	15.90	460,715	7.250
Tier I Capital (to Average Assets):				
Corporation	\$4,226,519	10.02%	\$1,687,432	4%
BPPR	3,546,121	10.67	1,328,818	4
BPNA	1,010,232	11.69	345,681	4

(Dollars in thousands)	Actual		Capital adequacy minimum requirement (including conservation capital buffer)	
	Amount	Ratio	Amount	Ratio
2016				
Total Capital (to Risk-Weighted Assets):				
Corporation	\$4,869,215	19.48%	\$2,156,365	8.625%
BPPR	3,678,619	19.53	1,624,727	8.625
BPNA	1,040,234	17.91	501,075	8.625
Common Equity Tier I Capital (to Risk-Weighted Assets):				
Corporation	\$4,121,208	16.48%	\$1,281,318	5.125%
BPPR	3,436,615	18.24	965,417	5.125
BPNA	997,094	17.16	297,740	5.125
Tier I Capital (to Risk-Weighted Assets):				
Corporation	\$4,121,208	16.48%	\$1,656,338	6.625%
BPPR	3,436,615	18.24	1,247,979	6.625
BPNA	997,094	17.16	384,883	6.625
Tier I Capital (to Average Assets):				
Corporation	\$4,121,208	10.91%	\$1,511,403	4%
BPPR	3,436,615	11.53	1,191,783	4
BPNA	997,094	13.02	306,375	4

The following table presents the minimum amounts and ratios for the Corporation's banks to be categorized as well-capitalized.

<i>(Dollars in thousands)</i>	2017		2016	
	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets):				
BPPR	\$1,922,700	10%	\$1,883,741	10%
BPNA	635,469	10	580,956	10
Common Equity Tier I Capital (to Risk-Weighted Assets):				
BPPR	\$1,249,755	6.5%	\$1,224,432	6.5%
BPNA	413,055	6.5	377,621	6.5
Tier I Capital (to Risk-Weighted Assets):				
BPPR	\$1,538,160	8%	\$1,506,993	8%
BPNA	508,375	8	464,765	8
Tier I Capital (to Average Assets):				
BPPR	\$1,661,023	5%	\$1,489,729	5%
BPNA	432,102	5	382,968	5

The final Basel III capital rules require the phase out of non-qualifying Tier 1 capital instruments such as trust preferred securities. At December 31, 2017 the Corporation had \$427 million in trust preferred securities outstanding which does not qualify for Tier 1 capital treatment, but instead qualified for Tier 2 capital treatment.

The Basel III final rules also introduced a phase-in capital conservation buffer of 2.5% of risk-weighted assets that is effectively layered on top of the minimum capital risk-based ratios, which places restrictions on the amount of retained earnings that may be used for distributions or discretionary bonus payments as risk-based capital ratios approach their respective "adequately capitalized minimums."

The following table presents the capital requirements for a standardized approach banking organization under Basel III final rules.

	Minimum Capital	Well-Capitalized	Minimum Capital Plus Capital Conservation Buffer			
			2017	2018	2019	2020
Common Equity Tier 1 to Risk-Weighted Assets	4.5%	6.5%	5.750%	6.375%	7.000%	7.000%
Tier 1 Capital to Risk-Weighted Assets	6.0	8.0	7.250	7.875	8.500	8.500
Total Capital to Risk-Weighted Assets	8.0	10.0	9.250	9.875	10.500	10.500
Leverage Ratio	4.0	5.0	N/A	N/A	N/A	N/A

Note 25 - Other comprehensive loss

The following table presents changes in accumulated other comprehensive loss by component for the years ended December 31, 2017, 2016 and 2015.

		Changes in Accumulated Other Comprehensive Loss by Component [1]		
		Years ended December 31,		
<i>(In thousands)</i>		2017	2016	2015
Foreign currency translation	Beginning Balance	\$ (39,956)	\$ (35,930)	\$ (32,832)
	Other comprehensive loss	(3,078)	(4,026)	(3,098)
	Net change	(3,078)	(4,026)	(3,098)
	Ending balance	\$ (43,034)	\$ (39,956)	\$ (35,930)
Adjustment of pension and postretirement benefit plans	Beginning Balance	\$(211,610)	\$(211,276)	\$(205,187)
	Other comprehensive loss before reclassifications	(5,164)	(11,402)	(16,032)
	Amounts reclassified from accumulated other comprehensive loss for amortization of net losses	13,684	13,386	12,261
	Amounts reclassified from accumulated other comprehensive loss for amortization of prior service credit	(2,318)	(2,318)	(2,318)
	Net change	6,202	(334)	(6,089)
	Ending balance	\$(205,408)	\$(211,610)	\$(211,276)
Unrealized net holding losses on investments	Beginning Balance	\$ (68,318)	\$ (9,560)	\$ 8,465
	Other comprehensive loss before reclassifications	(40,325)	(58,585)	(29,871)
	Other-than-temporary impairment amounts reclassified from accumulated other comprehensive (loss) income	6,740	167	11,959
	Amounts reclassified from accumulated other comprehensive (loss) income	(267)	(340)	(113)
	Net change	(33,852)	(58,758)	(18,025)
	Ending balance	\$(102,170)	\$ (68,318)	\$ (9,560)
Unrealized net losses on cash flow hedges	Beginning Balance	\$ (402)	\$ (120)	\$ (318)
	Other comprehensive loss before reclassifications	(790)	(2,203)	(2,669)
	Amounts reclassified from accumulated other comprehensive loss	1,152	1,921	2,867
	Net change	362	(282)	198
	Ending balance	\$ (40)	\$ (402)	\$ (120)
	Total	\$ (350,652)	\$ (320,286)	\$ (256,886)

[1] All amounts presented are net of tax.

The following table presents the amounts reclassified out of each component of accumulated other comprehensive loss for the years ended December 31, 2017, 2016, and 2015.

<i>(In thousands)</i>	Reclassifications Out of Accumulated Other Comprehensive Loss			
	Affected Line Item in the Consolidated Statements of Operations	Years ended December 31,		
		2017	2016	2015
Adjustment of pension and postretirement benefit plans				
Amortization of net losses	Personnel costs	\$(22,428)	\$(21,948)	\$(20,100)
Amortization of prior service credit	Personnel costs	3,800	3,800	3,800
	Total before tax	(18,628)	(18,148)	(16,300)
	Income tax benefit	7,262	7,080	6,357
	Total net of tax	\$(11,366)	\$(11,068)	\$ (9,943)
Unrealized holding losses on investments				
Realized gain on sale of securities	Net gain on sale and valuation adjustments of investment securities	\$ 334	\$ 379	\$ 141
	Other-than-temporary impairment losses on available-for-sale debt securities	(8,299)	(209)	(14,445)
	Total before tax	(7,965)	170	(14,304)
	Income tax benefit	1,492	3	2,458
	Total net of tax	\$ (6,473)	\$ 173	\$(11,846)
Unrealized net losses on cash flow hedges				
Forward contracts	Mortgage banking activities	\$ (1,888)	\$ (3,149)	\$ (4,702)
	Total before tax	(1,888)	(3,149)	(4,702)
	Income tax benefit	736	1,228	1,835
	Total net of tax	\$ (1,152)	\$ (1,921)	\$ (2,867)
	Total reclassification adjustments, net of tax	\$(18,991)	\$(12,816)	\$(24,656)

Note 26 - Guarantees

The Corporation has obligations upon the occurrence of certain events under financial guarantees provided in certain contractual agreements as summarized below.

The Corporation issues financial standby letters of credit and has risk participation in standby letters of credit issued by other financial institutions, in each case to guarantee the performance of various customers to third parties. If the customers failed to meet its financial or performance obligation to the third party under the terms of the contract, then, upon their request, the Corporation would be obligated to make the payment to the guaranteed party. At December 31, 2017, the Corporation recorded a liability of \$0.3 million (December 31, 2016 - \$0.3 million), which represents the unamortized balance of the obligations undertaken in issuing the guarantees under the standby letters of credit. In accordance with the provisions of ASC Topic 460, the Corporation recognizes at fair value the obligation at inception of the standby letters of credit. The fair value approximates the fee received from the customer for issuing such commitments. These fees are deferred and are recognized over the commitment period. The contracts amount in standby letters of credit outstanding at December 31, 2017 and 2016, shown in Note 27, represent the maximum potential amount of future payments that the Corporation could be

required to make under the guarantees in the event of nonperformance by the customers. These standby letters of credit are used by the customers as a credit enhancement and typically expire without being drawn upon. The Corporation's standby letters of credit are generally secured, and in the event of nonperformance by the customers, the Corporation has rights to the underlying collateral provided, which normally includes cash, marketable securities, real estate, receivables, and others. Management does not anticipate any material losses related to these instruments.

Also, from time to time, the Corporation securitized mortgage loans into guaranteed mortgage-backed securities subject in certain instances, to 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. Also, from time to time, the Corporation may sell, in bulk sale transactions, residential mortgage loans and Small Business Administration ("SBA") commercial loans subject to credit recourse or to certain representations and warranties from the Corporation to the purchaser. These representations and warranties may relate, for example, to borrower creditworthiness, loan documentation, collateral, prepayment and early payment defaults. The Corporation may be required to repurchase the loans under the credit recourse agreements or representation and warranties.

At December 31, 2017, the Corporation serviced \$1.5 billion (December 31, 2016 - \$1.7 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 2017, the Corporation repurchased approximately \$ 29 million of unpaid principal balance in mortgage loans subject to the credit recourse provisions (2016—\$ 44 million). In the event of nonperformance by the borrower, the Corporation has rights to the underlying collateral securing the mortgage loan. The Corporation suffers 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 December 31, 2017, the Corporation's liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to \$ 59 million (December 31, 2016—\$ 54 million). The following table shows the changes in the Corporation's liability of estimated losses from these credit recourses agreements, included in the consolidated statements of financial condition during the years ended December 31, 2017 and 2016.

<i>(In thousands)</i>	Years ended December 31,	
	2017	2016
Balance as of beginning of period	\$ 54,489	\$ 58,663
Provision for recourse liability	20,446	14,548
Net charge-offs	(16,115)	(18,722)
Balance as of end of period	\$ 58,820	\$ 54,489

The estimated losses to be absorbed under the credit recourse arrangements are recorded as a liability when the loans are sold and are updated by accruing or reversing expense (categorized in the line item "Adjustments (expense) to indemnity reserves on loans sold" in the consolidated statements of operations) throughout the life of the loan, as necessary, when additional relevant information becomes available. The methodology used to estimate the recourse liability is a function of the recourse arrangements given and considers a variety of factors, which include actual defaults and historical loss experience, foreclosure rate, estimated future defaults and the probability that a loan would be delinquent.

Statistical methods are used to estimate the recourse liability. Expected loss rates are applied to different loan segmentations. The expected loss, which represents the amount expected to be lost on a given loan, considers the probability of default and loss severity. The probability of default represents the probability that a loan in good standing would become 90 days delinquent within the following twelve-month period. Regression analysis quantifies the relationship between the default event and loan-specific characteristics, including credit scores, loan-to-value ratios, and loan aging, among others.

When the Corporation sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. The Corporation's mortgage operations in Puerto Rico group conforming mortgage loans into pools which are exchanged for FNMA and GNMA mortgage-backed securities, which are generally sold to private investors, or are sold directly to FNMA for cash. As required under the government agency programs, quality review procedures are performed by the Corporation to ensure that asset guideline qualifications are met. 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. There were \$0.1 million in repurchases under BPPR's representation and warranty arrangements during the year ended December 31, 2017 and no repurchases during the year ended December 31, 2016. 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.

The following table presents the changes in the Corporation's liability for estimated losses associated with the indemnifications and representations and warranties related to loans sold by BPPR during the years ended December 31, 2017 and 2016.

<i>(In thousands)</i>	2017	2016
Balance as of beginning of period	\$10,936	\$ 8,087
Provision for representation and warranties	874	3,140
Net charge-offs	(68)	(291)
Balance as of end of period	\$11,742	\$10,936

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 December 31, 2017, the Corporation serviced \$16.1 billion in mortgage loans for third-parties, including the loans serviced with credit recourse (December 31, 2016 - \$18.0 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 December 31, 2017, the outstanding balance of funds advanced by the Corporation under such mortgage loan servicing agreements was approximately \$107 million (December 31, 2016 - \$70 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 December 31, 2017 and December 31, 2016. In addition, at December 31, 2017 and December 31, 2016, PIHC fully and unconditionally guaranteed on a subordinated basis \$ 427 million, of capital securities (trust preferred securities) issued by wholly-owned issuing trust entities to the extent set forth in the applicable guarantee agreement. Refer to Note 22 to the consolidated financial statements for further information on the trust preferred securities.

Note 27 - Commitments and contingencies

Off-balance sheet risk

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

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

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

<i>(In thousands)</i>	December 31, 2017	December 31, 2016
Commitments to extend credit:		
Credit card lines	\$4,303,256	\$4,562,981
Commercial and construction lines of credit	3,011,673	2,966,656
Other consumer unused credit commitments	250,029	261,856
Commercial letters of credit	2,116	1,490
Standby letters of credit	33,633	34,644
Commitments to originate or fund mortgage loans	15,297	25,622

At December 31, 2017 and December 31, 2016, the Corporation maintained a reserve of approximately \$10 million and \$9 million, respectively, for potential losses associated with unfunded loan commitments related to commercial and consumer lines of credit.

Business concentration

Since the Corporation's business activities are concentrated primarily in Puerto Rico, its results of operations and financial condition are dependent upon the general trends of the Puerto Rico economy and, in particular, the residential and commercial real estate markets. The concentration of the Corporation's operations in Puerto Rico exposes it to greater risk than other banking companies with a wider geographic base. Its asset and revenue composition by geographical area is presented in Note 41 to the Consolidated Financial Statements.

Puerto Rico is in the midst of a profound fiscal and economic crisis, was recently significantly impacted by two major hurricanes, and has commenced several proceedings under the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA") to restructure its outstanding obligations and those of certain of its instrumentalities.

In September 2017, Puerto Rico was impacted by Hurricanes Irma and Maria. Most relevant, Hurricane Maria made landfall on September 20, 2017, causing severe wind and flood damage to infrastructure, homes and businesses throughout Puerto Rico. Following the passage of Hurricane Maria, all Puerto Rico was left without electrical power, other basic utility and infrastructure services were severely curtailed and the government imposed a mandatory curfew. As of the date of this report, a number of businesses and homes remained without power and some businesses are operating partially or remain

closed, while others have permanently closed. The damages caused by the hurricanes are substantial and have had a material adverse impact on economic activity in Puerto Rico. It is still, however, too early to fully assess and quantify the extent of the damage caused by the hurricanes, as well as their long-term impact on economic activity. For a discussion of the impact of the hurricanes on the Corporation's operations and financial results during 2017, refer to Note 2 - Hurricanes impact.

The U.S. Congress enacted PROMESA on June 30, 2016 in response to the Commonwealth's ongoing fiscal and economic crisis. PROMESA, among other things, (i) established a seven-member oversight board (the "Oversight Board") with broad powers over the finances of the Commonwealth and its instrumentalities, (ii) requires the Commonwealth (and any instrumentality thereof designated as a "covered entity" under PROMESA) to submit its budgets, and if the Oversight Board so requests, a fiscal plan for certification by the Oversight Board, and (iii) established two separate processes for the restructuring of the outstanding liabilities of the Commonwealth, its instrumentalities and municipalities: (a) Title VI, a largely out-of-court process through which a government entity and its financial creditors can agree on terms to restructure such entity's debts, and (b) Title III, a court-supervised process for a comprehensive restructuring similar to Chapter 9 of the U.S. Bankruptcy Code.

The Oversight Board has designated a number of entities as "covered entities" under PROMESA, including the Commonwealth and all of its instrumentalities. While the Oversight Board has the power to designate any of the Commonwealth's municipalities as covered entities under PROMESA, it has not done so as of the date hereof. The Oversight Board has approved fiscal plans for certain of these "covered entities," including the Commonwealth, Government Development Bank for Puerto Rico ("GDB") and several other public corporations. The Commonwealth's fiscal plan covers the central government and several of the Commonwealth's instrumentalities. The fiscal plans were prepared and certified prior to the impact of Hurricanes Irma and Maria and are thus based on pre-hurricane assumptions of government revenues, economic activity and outmigration. On October 31, 2017, the Oversight Board requested revised fiscal plans for the Commonwealth and various public corporations to take into account the impact of Hurricanes Irma and Maria. The Commonwealth, the Puerto Rico Electric Power Authority ("PREPA"), and the Puerto Rico Aqueduct and Sewer Authority ("PRASA") submitted revised fiscal plans to the Oversight Board on January 24, 2018. The Oversight Board requested revisions to such fiscal plans and, on February 12, 2018, the government submitted further revised fiscal plans to the Oversight Board. The Oversight Board is in the process of reviewing such fiscal plans and has stated that it expects to certify fiscal plans for the Commonwealth, PREPA and PRASA

by March 30, 2018. Both the certified fiscal plans and the most recent public versions of the proposed fiscal plans indicate that the applicable government entities are unable to pay their outstanding obligations as currently scheduled, thus recognizing a need for a significant debt restructuring and/or write downs.

On May 3, 2017, the Oversight Board, on behalf of the Commonwealth, filed a petition in the U.S. District Court for the District of Puerto Rico to restructure the Commonwealth's liabilities under Title III of PROMESA. The Oversight Board has subsequently filed analogous petitions with respect to COFINA, the Employees Retirement System, the Puerto Rico Highways and Transportation Authority and the Puerto Rico Electric Power Authority. The Oversight Board has also authorized GDB to pursue a restructuring of its financial indebtedness under Title VI of PROMESA. Although as of the date hereof, these entities are the only entities for which the Oversight Board has sought to use the restructuring authority provided by PROMESA, the Oversight Board may use the restructuring authority of Title III or Title VI of PROMESA for other Commonwealth instrumentalities, including its municipalities, in the future.

At December 31, 2017, the Corporation's direct exposure to the Puerto Rico government and its instrumentalities and municipalities amounted to \$ 484 million, which is fully outstanding at year-end (compared to a direct exposure of approximately \$584 million, of which \$ 529 million was outstanding at December 31, 2016). Of this amount, \$435 million consists of loans and \$ 49 million are securities (\$459 million and \$ 70 million at December 31, 2016). All of the amount outstanding at December 31, 2017 were obligations from various Puerto Rico municipalities. In most cases, these are "general obligations" of a municipality, to which the applicable municipality has pledged its good faith, credit and unlimited taxing power, or "special obligations" of a municipality, to which the applicable municipality has pledged other revenues. At December 31, 2017, 74% of the Corporation's exposure to municipal loans and securities was concentrated in the municipalities of San Juan, Guaynabo, Carolina and Bayamón.

During the third quarter of 2017, the Corporation sold all of its COFINA bonds at a gain of approximately \$0.1 million. The Corporation had recorded an other-than-temporary impairment charge of \$8.3 million in respect of those bonds during the second quarter of 2017 as a result of the filing of the Title III proceeding in respect of COFINA and the non-payment of interest on the COFINA bonds in June 2017, pursuant to a court order issued in such proceeding.

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

<i>(In thousands)</i>	Investment Portfolio	Loans	Total Outstanding	Total Exposure
Central Government				
After 1 to 5 years	\$ 2	\$ –	\$ 2	\$ 2
After 5 to 10 years	7	–	7	7
After 10 years	27	–	27	27
Total Central Government	36	–	36	36
Government Development Bank (GDB)				
After 1 to 5 years	2	–	2	2
Total Government Development Bank (GDB)	2	–	2	2
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	3,295	13,183	16,478	16,478
After 1 to 5 years	15,485	192,904	208,389	208,389
After 5 to 10 years	29,240	106,368	135,608	135,608
After 10 years	1,025	122,038	123,063	123,063
Total Municipalities	49,045	434,493	483,538	483,538
Total Direct Government Exposure	\$49,087	\$434,493	\$483,580	\$483,580

In addition, at December 31, 2017, the Corporation had \$386 million in indirect exposure to loans or securities issued or guaranteed by Puerto Rico governmental entities but whose principal source of repayment are non-governmental entities. In such obligations, the Puerto Rico government entity guarantees any shortfall in collateral in the event of borrower default (\$406 million at December 31, 2016). These included \$310 million in residential mortgage loans guaranteed by the Puerto Rico Housing Finance Authority (“HFA”), an entity that has been designated as a covered entity under PROMESA (December 31, 2016 - \$326 million). These mortgage loans are secured by the underlying properties and the HFA guarantee serve to cover shortfalls in collateral in the event of a borrower default. Although the Governor is currently authorized by local legislation to impose a temporary moratorium on the financial obligations of the HFA, he has not exercised this power as of the date hereof. Also, the Corporation had \$44 million in Puerto Rico housing bonds issued by HFA, which are secured by second mortgage loans on Puerto Rico residential properties, \$7 million in pass-through securities that have been economically defeased and refunded and for which collateral including U.S. agencies and Treasury obligations has been escrowed, and \$25 million of commercial real estate notes issued by government entities, but payable from rent paid by third parties (\$43 million, \$6 million and \$31 million at December 31, 2016, respectively).

BPPR's commercial loan portfolio also includes loans to private borrowers who are service providers, lessors, suppliers

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

The Corporation has operations in the United States Virgin Islands (the “USVI”) and has approximately \$82 million in direct exposure to USVI government entities. The USVI has been experiencing a number of fiscal and economic challenges that could adversely affect the ability of its public corporations and instrumentalities to service their outstanding debt obligations. In addition, in September 2017, the USVI was also severely impacted by Hurricanes Irma and Maria, which will pose additional challenges to the USVI government and could further materially adversely affect the USVI economy.

Other contingencies

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 \$ 165 million at December 31, 2017 (December 31, 2016 - \$ 153 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 ("Legal Proceedings"). When the Corporation determines that it has meritorious defenses to the claims asserted, it vigorously defends itself. The Corporation will consider the settlement of cases (including cases where it has meritorious defenses) when, in management's judgment, it is in the best interest of both the Corporation and its shareholders to do so.

On at least a quarterly basis, Popular assesses its liabilities and contingencies relating to outstanding Legal Proceedings utilizing the latest information available. For matters where it is probable that the Corporation will incur a material loss and the amount can be reasonably estimated, the Corporation establishes an accrual for the loss. Once established, the accrual is adjusted on at least a quarterly basis as appropriate to reflect any relevant developments. For matters where a material loss is not probable, or the amount of the loss cannot be 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 \$27.8 million as of December 31, 2017. For certain other cases, management cannot reasonably estimate the possible loss at this time. Any estimate involves significant judgment, given the varying stages of the Legal Proceedings (including the fact that many of them are currently in preliminary stages), the existence of multiple defendants in several of the current Legal Proceedings whose share of liability has yet to be determined, the numerous unresolved issues in many of the Legal Proceedings, and the inherent uncertainty of the various potential outcomes of such Legal Proceedings. Accordingly, management's estimate will change from time-to-time, and actual losses may be more or less than the current estimate.

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

material to the Corporation's consolidated financial position in a particular period.

Set forth below is a description of the Corporation's significant legal proceedings.

BANCO POPULAR DE PUERTO RICO

Hazard Insurance Commission-Related Litigation

Popular, Inc., BPPR and Popular Insurance, LLC (the "Popular Defendants") have been named defendants in a putative class action complaint captioned *Perez Díaz v. Popular, Inc., et al*, filed before the Court of First Instance, *Arecibo Part*. The complaint seeks damages and preliminary and permanent injunctive relief on behalf of the purported class against the Popular Defendants, as well as Antilles Insurance Company and MAPFRE-PRAICO Insurance Company (the "Defendant Insurance Companies"). Plaintiffs essentially allege that the Popular Defendants have been unjustly enriched by failing to reimburse them for commissions paid by the Defendant Insurance Companies to the insurance agent and/or mortgagee for policy years when no claims were filed against their hazard insurance policies. They demand the reimbursement to the purported "class" of an estimated \$400 million plus legal interest, for the "good experience" commissions allegedly paid by the Defendant Insurance Companies during the relevant time period, as well as injunctive relief seeking to enjoin the Defendant Insurance Companies from paying commissions to the insurance agent/mortgagee and ordering them to pay those fees directly to the insured. A hearing on the request for preliminary injunction and other matters was held on February 15, 2017, as a result of which plaintiffs withdrew their request for preliminary injunctive relief. A motion for dismissal on the merits, which the Defendant Insurance Companies filed shortly before hearing, was denied with a right to replead following limited targeted discovery. On March 24, 2017, the Popular Defendants filed a certiorari petition with the Puerto Rico Court of Appeals seeking a review of the lower court's denial of the motion to dismiss. The Court of Appeals denied the Popular Defendant's request, and the Popular Defendants appealed this determination to the Puerto Rico Supreme Court, which declined review. Separately, a class certification hearing was held in June and the Court requested post-hearing briefs on this issue. On October 26, 2017, the Court entered an order whereby it broadly certified the class. At a hearing held on November 2, 2017, the Court encouraged the parties to reach agreement on discovery and class notification procedures. The Court further allowed defendants until January 4, 2018 to answer the complaint. A follow-up hearing was set for March 6, 2018. On December 21, 2017, the Popular Defendants filed a certiorari petition before the Puerto Rico Court of Appeals, which plaintiffs opposed on January 9, 2018. The Court of Appeals has not yet ruled on whether it will entertain this petition. The proceedings at the Court of First Instance have not been stayed, and discovery is in progress.

BPPR has separately been named a defendant in a putative class action complaint captioned *Ramirez Torres, et al. v. Banco Popular de Puerto Rico, et al*, filed before the Puerto Rico Court of First Instance, San Juan Part. The complaint seeks damages and preliminary and permanent injunctive relief on behalf of the purported class against the same Popular Defendants, as well as other financial institutions with insurance brokerage subsidiaries in Puerto Rico. Plaintiffs essentially contend that in November 2015, Antilles Insurance Company obtained approval from the Puerto Rico Insurance Commissioner to market an endorsement that allowed its customers to obtain reimbursement on their insurance deductible for good experience, but that defendants failed to offer this product or disclose its existence to their customers, favoring other products instead, in violation of their duties as insurance brokers. Plaintiffs seek a determination that defendants unlawfully failed to comply with their duty to disclose the existence of this new insurance product, as well as double or treble damages (the latter subject to a determination that defendants engaged in anti-monopolistic practices in failing to offer this product). Between late March and early April, co-defendants filed motions to dismiss the complaint and opposed the request for preliminary injunctive relief. A co-defendant filed a third-party Complaint against Antilles Insurance Company. A preliminary injunction and class certification hearing originally scheduled for April 6th was subsequently postponed, pending resolution of the motions to dismiss. On July 31, 2017, the Court dismissed the complaint with prejudice. In August 2017, plaintiffs appealed this judgment. Because of the passing of Hurricane Maria, the Court temporarily stayed all legal proceedings, including any filing deadlines. In accordance with such directive, the Popular Defendants filed their opposition brief on November 29, 2017, ahead of the filing deadline. The appeal is now ripe for adjudication by the Court of Appeals.

A third putative class action also tangentially related to hazard insurance policies and captioned *Morales v. Banco Popular de Puerto Rico, et al.*, was filed in May 2017. Plaintiffs aver that BPPR forced-placed hazard insurance on their mortgaged properties in violation of Puerto Rico's implied covenant of good faith, BPPR's alleged fiduciary duties as the escrow account manager of their mortgage loans, the Truth in Lending Act ("TILA") and the Racketeer Influenced and Corrupt Organizations Act (RICO). Plaintiffs seek class certification, an order enjoining BPPR and other unnamed defendants from maintaining their allegedly fraudulent practices concerning forced-placed hazard insurance, unspecified compensatory damages, costs and attorneys' fees. On July 19, 2017, BPPR filed a motion for summary judgment, which the Court granted on December 29, 2017. Given that plaintiffs did not appeal this determination, such decision is now final and unappealable.

Mortgage-Related Litigation and Claims

BPPR has been named a defendant in a putative class action captioned *Lilliam González Camacho, et al. v. Banco Popular de Puerto Rico, et al.*, filed before the United States District Court for the District of Puerto Rico on behalf of mortgage-holders who have allegedly been subjected to illegal foreclosures and/or loan modifications through their mortgage servicers. Plaintiffs essentially contend that when they sought to reduce their loan payments, defendants failed to provide them with reduced loan payments, instead subjecting them to lengthy loss mitigation processes while filing foreclosure claims against them in parallel. Plaintiffs assert that such actions violate HAMP, HARP and other loan modification programs, as well as the Puerto Rico Mortgage Debtor Assistance Act and TILA. For the alleged violations stated above, Plaintiffs request that all Defendants (over 20 separate defendants have been named, including all local banks), jointly and severally, respond in an amount of no less than \$400 million. BPPR waived service of process in June and filed a motion to dismiss in August which is pending resolution. Plaintiffs unsuccessfully sought to amend the complaint without leave, and subsequently appealed the District Court's decision to strike the complaint from the record. Such appeal is also pending resolution.

BPPR has also been named a defendant in two separate putative class actions captioned *Costa Dorada Apartment Corp., et al. v. Banco Popular de Puerto Rico, et al.*, and *Yiries Josef Saad Maura v. Banco Popular, et al.*, filed by the same counsel who filed the *González Camacho* action referenced above, on behalf of commercial and residential customers of the defendant banks who have allegedly been subject to illegal foreclosures and/or loan modifications through their mortgage servicers. Plaintiffs essentially contend that when they sought to reduce their loan payments, defendants failed to provide them with reduced loan payments, instead subjecting them to lengthy loss mitigation processes while filing foreclosure claims against them in parallel (dual tracking), all in violation of TILA, the Real Estate Settlement Procedures Act ("RESPA"), the Equal Credit Opportunity Act ("ECOA"), the Fair Credit Reporting Act ("FCRA"), the Fair Debt Collection Practices Act ("FDCPA") and other consumer-protection laws and regulations. They demand approximately \$1 billion (in *Costa Dorada*) and unspecified damages (in *Saad Maura*). Banco Popular has not yet been served with summons in relation to the *Costa Dorada* Matter. On January 3, 2018, plaintiffs in the *Saad Maura* case requested that Banco Popular waive service of process, which it agreed to do on February 1, 2018. A response is not yet due.

BPPR has been named a defendant in a complaint for damages and breach of contract captioned *Héctor Robles Rodríguez et al. v. Municipio de Ceiba, et al.* Plaintiffs are residents of a development called Hacienda Las Lomas. Through the Doral Bank-FDIC assisted transaction, BPPR acquired a significant number of mortgage loans within in this development and is currently the primary creditor in the

project. Plaintiffs claim damages against the developer, contractor, the relevant insurance companies, and most recently, their mortgage lenders, because of a landslide that occurred in October 2015, affecting various streets and houses within the development. Plaintiffs specifically allege that the mortgage lenders, including BPPR, should be deemed liable for their alleged failure to properly inspect the subject properties. Plaintiffs demand in excess of \$30 million in damages and the annulment of their mortgage deeds. BPPR extended plaintiffs three consecutive six-month payment forbearances, the last of which is still in effect, and has recently engaged in preliminary settlement discussions with plaintiffs. In November 2017, the FDIC notified BPPR that it had agreed to indemnify the Bank in connection with its Doral-related exposure, pursuant to the terms of the relevant Purchase and Assumption Agreement.

Mortgage-Related Investigations

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

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

The Corporation has notified applicable regulators and is conducting a review of its mortgage files to assess the scope of potential customer impact. Based on currently available information, we believe that although the mailing error extended to approximately 20,000 residential mortgage loans (approximately 50% of which are serviced by the Corporation for third parties), the number of borrowers actually affected by the mailing error was substantially lower due to, among other

things, the fact that more than half of all borrowers potentially subject to such error closed on a permanent loss mitigation alternative and the fact that the Corporation regularly uses means other than the mail to communicate with borrowers, including email and hand delivery of written notices at our mortgage servicing centers or bank branches.

During the fourth quarter of 2017, the Corporation began outreach to potentially affected borrowers with outstanding loans that had not already closed on a permanent loss mitigation alternative to encourage them to continue or restart their loss mitigation process. While the Corporation has made a preliminary determination regarding the impact that the systems interface error may have had on borrowers who proceeded through the foreclosure process, such determination is still subject to further review. The Corporation expects to complete this assessment and reach out to applicable regulators before the end of the first quarter of 2018 to share the results thereof, as well as any related remediation plans. At this point, we are not able to estimate the financial impact of the failure to mail the loss mitigation notices.

Other Significant Proceedings

In June 2017, a syndicate comprised of BPPR and other local banks (the "Lenders") filed an involuntary Chapter 11 bankruptcy proceeding against Betterroads Asphalt and Betterrecycling Corporation (the "Involuntary Debtors"). This filing followed attempts by the Lenders to restructure and resolve the Involuntary Debtors' obligations and outstanding defaults under a certain credit agreement, first through good faith negotiations and subsequently, through the filing of a collection action against the Involuntary Debtors in local court. The involuntary debtors subsequently counterclaimed, asserting damages in excess of \$900 million. The Lenders ultimately joined in the commencement of these involuntary bankruptcy proceedings against the Debtors in order to preserve and recover the Involuntary Debtors' assets, having confirmed that the Involuntary Debtors were transferring assets out of their estate for little or no consideration. The Involuntary Debtors subsequently filed a motion to dismiss the proceedings and for damages against the syndicate, arguing both that this petition was filed in bad faith and that there was a bona fide dispute as to the petitioners' claims, as set forth in the counterclaim filed by the Involuntary Debtors in local court. The court allowed limited discovery to take place prior to an evidentiary hearing (still unscheduled and to be held after the discovery cut-off date) to determine the merits of debtors' motion to dismiss. At a hearing held in November 2017, the Court determined that it was inclined to rule against the dismissal of the complaint but requested that the parties submit supplemental briefs on the subject, which the parties did. Discovery is ongoing.

POPULAR SECURITIES

Puerto Rico Bonds and Closed-End Investment Funds

The volatility in prices and declines in value that Puerto Rico municipal bonds and closed-end investment companies that invest primarily in Puerto Rico municipal bonds have experienced since August 2013 have led to regulatory inquiries, customer complaints and arbitrations for most broker-dealers in Puerto Rico, including Popular Securities. Popular Securities has received customer complaints and is named as a respondent (among other broker-dealers) in 111 arbitration proceedings with aggregate claimed amounts of approximately \$228 million, including one arbitration with claimed damages of approximately \$78 million in which another Puerto Rico broker-dealer is a co-defendant. While Popular Securities believes it has meritorious defenses to the claims asserted in these proceedings, it has often determined that it is in its best interest to settle such claims rather than expend the money and resources required to see such cases to completion. The Government's defaults and non-payment of its various debt obligations, the Commonwealth government's and the Financial Oversight Management Board's decision to pursue restructurings under Title III and Title VI of PROMESA have increased and may continue to increase the number of customer complaints (and claimed damages) filed against Popular Securities concerning Puerto Rico bonds, including bonds issued by COFINA and GDB, and closed-end investment companies that invest primarily in Puerto Rico bonds. An adverse result in the matters described above or a significant increase in customer complaints could have a material adverse effect on Popular.

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

Popular Securities has, together with Popular, Inc. and BPPR (collectively, the "Popular Companies") filed an appearance in connection with the Commonwealth of Puerto Rico's pending Title III bankruptcy proceeding. Its appearance was prompted by a request by the Commonwealth's Unsecured Creditors' Committee ("UCC") to allow a broad discovery program under Rule 2004 to investigate, among other things, the causes of the Puerto Rico financial crisis. The Rule 2004 request sought broad discovery not only from the Popular Companies, but also from Banco Santander de Puerto Rico ("Santander") and others, spanning in excess of eleven (11) years. In their respective objections, both the Popular Companies and Santander argued that these requests go substantially beyond the permissible scope of Rule 2004 discovery programs and should either be denied outright or substantially modified. A hearing before Magistrate Judge Gail Dein was held on August 9, 2017. At the hearing, the Court requested that the UCC and the PROMESA Oversight Board, who opposed the UCC's request, submit further briefing on this subject. The parties argued their respective positions at the omnibus hearing held on

November 15, 2017. Upon listening to arguments on this matter, Magistrate Dein denied the UCC's request without prejudice, to allow the law firm of Kobre & Kim to carry out its own independent investigation on behalf of the PROMESA Oversight Board.

Since the August 2017 hearing, the Popular Companies have been served with additional requests for the preservation and voluntary production of certain COFINA-related documents and witnesses from the UCC and COFINA Agents in connection with the COFINA-Commonwealth adversary complaint, as well as from the Oversight Board's Independent Investigator, Kobre & Kim. The Popular Companies are cooperating with all such requests but have asked that such requests be submitted in the form of a subpoena to address privacy and confidentiality considerations pertaining to some of the documents involved in the production.

POPULAR COMMUNITY BANK

Josefina Valle v. Popular Community Bank

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 that the overdraft rates and fees assessed by PCB violate New York's usury laws. Plaintiffs seek unspecified damages, including punitive damages, interest, disbursements, and attorneys' fees and costs.

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 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, 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 on the partial denial of PCB's motion to dismiss. A mediation session held on September 21, 2016 proved unsuccessful. On January 3, 2017, PCB filed a brief with the Appellate Division in support of its appeal of the lower Court's prior order that granted in part and denied in part PCB's motion to dismiss plaintiffs' second amended complaint. Oral argument was held on April 4, 2017. On April 25, 2017, the Court issued an order denying PCB's appeal from the partial denial of our motion to dismiss. On November 13, 2017, the parties reached an agreement in principle. Under this agreement, subject to certain customary conditions including court approval of a final settlement agreement in consideration for the full settlement and release of defendant, an amount up to \$5.2 million will be paid to qualified plaintiffs.

Eugene Duncan v. Popular North America

Popular North America has been named a defendant in a putative class action complaint captioned *Duncan v. Popular North America*, filed on January 29, 2018 in the United States District Court for the Eastern District of New York. The complaint generally asserts that Popular North America ("PNA") failed to design, construct, maintain and operate its website to be fully accessible to and independently usable by plaintiff and other blind or visually-impaired people, and that PNA's denial of full and equal access to its website, and therefore to its products and services, violates the Americans with Disabilities Act. Plaintiff seeks a permanent injunction to cause a change in defendant's allegedly unlawful corporate policies, practices and procedures so that its website becomes and remains accessible to blind and visually impaired customers. On February 15, 2018, Popular North America requested an extension of time to answer the complaint or otherwise plead. A response is not yet due.

Note 28 - 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.

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 31 to the consolidated financial statements for additional information on the debt securities outstanding at December 31, 2017 and 2016, which are classified as available-for-sale and trading securities in the Corporation's consolidated statements of financial condition. In addition, the Corporation holds variable interests in the form of servicing fees, since it retains the right to service the transferred loans in those government-sponsored special purpose entities ("SPEs") and may also purchase the right to service loans in other government-sponsored SPEs that were transferred to those SPEs by a third-party.

The following table presents the carrying amount and classification of the assets related to the Corporation's variable interests in non-consolidated VIEs and the maximum exposure

to loss as a result of the Corporation's involvement as servicer of GNMA and FNMA loans at December 31, 2017 and 2016.

<i>(In thousands)</i>	2017	2016
Assets		
Servicing assets:		
Mortgage servicing rights	\$132,692	\$158,562
Total servicing assets	\$132,692	\$158,562
Other assets:		
Servicing advances	\$ 47,742	\$ 20,787
Total other assets	\$ 47,742	\$ 20,787
Total assets	\$180,434	\$179,349
Maximum exposure to loss	\$180,434	\$179,349

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 \$11.7 billion at December 31, 2017 (December 31, 2016 - \$12.3 billion).

The Corporation determined that the maximum exposure to loss includes the fair value of the MSRs and the assumption that the servicing advances at December 31, 2017 and 2016 will not be recovered. The agency debt securities are not included as part of the maximum exposure to loss since they are guaranteed by the related agencies.

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

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

BPPR provided financing to PRLP 2011 Holdings, LLC and PR Asset Portfolio 2013-1 International, LLC for the acquisition of the assets in an amount equal to the acquisition loan of \$86 million and \$182 million, respectively. The acquisition loans have a 5-year maturity and bear a variable interest at 30-day LIBOR plus 300 basis points and are secured by a pledge of all of the acquiring entity's assets. In addition, BPPR provided these joint ventures with a non-revolving advance facility (the "advance facility") of \$69 million and \$35 million, respectively, to cover unfunded commitments and costs-to-complete related to certain construction projects, and a revolving working capital line (the "working capital line") of \$20 million and \$30 million, respectively, to fund certain operating expenses of the joint venture. As part of these

transactions, BPPR received \$ 48 million and \$92 million, respectively, in cash and a 24.9% equity interest in each joint venture. The Corporation is not required to provide any other financial support to these joint ventures.

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

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

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

The following tables present the carrying amount and classification of the assets and liabilities related to the Corporation's variable interests in the non-consolidated VIEs, PRLP 2011 Holdings, LLC and PR Asset Portfolio 2013-1 International, LLC, and their maximum exposure to loss at December 31, 2017 and 2016.

<i>(In thousands)</i>	PRLP 2011 Holdings, LLC		PR Asset Portfolio 2013-1 International, LLC	
	2017	2016	2017	2016
Assets				
Loans held-in-portfolio:				
Advances under the working capital line	\$ -	\$ -	\$ -	\$ 1,391
Advances under the advance facility	-	-	-	2,475
Total loans held-in-portfolio	\$ -	\$ -	\$ -	\$ 3,866
Accrued interest receivable	\$ -	\$ -	\$ -	\$ 19
Other assets:				
Equity investment	\$7,199	\$ 9,167	\$ 12,874	\$22,378
Total assets	\$7,199	\$ 9,167	\$ 12,874	\$26,263
Liabilities				
Deposits	\$ (20)	\$(1,127)	\$(10,501)	\$(9,692)
Total liabilities	\$ (20)	\$(1,127)	\$(10,501)	\$(9,692)
Total net assets	\$7,179	\$ 8,040	\$ 2,373	\$16,571
Maximum exposure to loss	\$7,179	\$ 8,040	\$ 2,373	\$16,571

The Corporation determined that the maximum exposure to loss under a worst case scenario at December 31, 2017 would be not recovering the net assets held by the Corporation as of the reporting date.

ASU 2009-17 requires that an ongoing primary beneficiary assessment should be made to determine whether the Corporation is the primary beneficiary of any of the VIEs it is involved with. The conclusion on the assessment of these non-consolidated VIEs has not changed since their initial evaluation. The Corporation concluded that it is still not the primary beneficiary of these VIEs, and therefore, these VIEs are not required to be consolidated in the Corporation's financial statements at December 31, 2017.

Note 29 - Derivative instruments and hedging activities

The use of derivatives is incorporated as part of the Corporation's overall interest rate risk management strategy to minimize significant unplanned fluctuations in earnings and cash flows that are caused by interest rate volatility. The Corporation's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that the net interest income is not materially affected by movements in interest rates. The Corporation uses derivatives in its trading activities to facilitate customer transactions, and as a means of risk management. As a result of interest rate fluctuations, hedged fixed and variable interest rate assets and liabilities will appreciate or depreciate in fair value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by the Corporation's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. As a matter of policy, the Corporation does not use highly leveraged derivative instruments for interest rate risk management.

By using derivative instruments, the Corporation exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Corporation's credit risk will equal the fair value of the derivative asset. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the Corporation, thus creating a repayment risk for the Corporation. To manage the level of credit risk, the Corporation deals with counterparties of good credit standing, enters into master netting agreements whenever possible and, when appropriate, obtains collateral. On the other hand, when the fair value of a derivative contract is negative, the Corporation owes the counterparty and, therefore, the fair value of derivatives liabilities incorporates nonperformance risk or the risk that the obligation will not be fulfilled.

The credit risk attributed to the counterparty's nonperformance risk is incorporated in the fair value of the derivatives. Additionally, as required by the fair value measurements guidance, the fair value of the Corporation's own credit standing is considered in the fair value of the derivative liabilities. During the year ended December 31, 2017, inclusion of the credit risk in the fair value of the derivatives resulted in a gain of \$0.2 million (2016 –loss of \$ 0.9 million; 2015 –loss of \$ 0.8 million) from the Corporation's credit standing adjustment and a loss of \$0.1 million (2016 – gain of \$ 0.4 million; 2015 – gain of \$0.3 million) from the assessment of the counterparties' credit risk.

Market risk is the adverse effect that a change in interest rates, currency exchange rates, or implied volatility rates might have on the value of a financial instrument. The Corporation manages the market risk associated with interest rates and, to a limited extent, with fluctuations in foreign currency exchange rates by establishing and monitoring limits for the types and degree of risk that may be undertaken.

Pursuant to the Corporation's accounting policy, the fair value of derivatives is not offset with the amounts for the right to reclaim cash collateral or the obligation to return cash collateral. At December 31, 2017, the amount recognized for the right to reclaim cash collateral under master netting agreements was \$94 thousand and no amount was recognized for the obligation to return cash collateral (December 31, 2016 - \$ 4 million and no amount, respectively).

Certain of the Corporation's derivative instruments include financial covenants tied to the corresponding banking subsidiary's well-capitalized status and credit rating. These agreements could require exposure collateralization, early termination or both. The aggregate fair value of all derivative instruments with contingent features that were in a liability position at December 31, 2017 was \$10 thousand (December 31, 2016 - \$0.8 million). Based on the contractual obligations established on these derivative instruments, the Corporation has fully collateralized these positions by pledging collateral of \$94 thousand at December 31, 2017 (December 31, 2016 - \$ 4 million).

Financial instruments designated as cash flow hedges or non-hedging derivatives outstanding at December 31, 2017 and 2016 were as follows:

	Notional amount		Derivative assets				Derivative liabilities		
	At December 31,		Statement of condition classification	Fair value at December 31,		Statement of condition classification	Fair value at December 31,		
(In thousands)	2017	2016		2017	2016		2017	2016	
Derivatives designated as hedging instruments:									
Forward contracts	\$ 98,850	\$105,290	Other assets	\$ 76	\$ 34	Other liabilities	\$ 132	\$ 715	
Total derivatives designated as hedging instruments	\$ 98,850	\$105,290		\$ 76	\$ 34		\$ 132	\$ 715	
Derivatives not designated as hedging instruments:									
Forward contracts			Trading account securities	\$ 180	\$ 9	Other liabilities	\$ 19	\$ –	
Interest rate swaps	2,252	112,554	Other assets	10	759	Other liabilities	10	810	
Foreign currency forward contracts	–	2,637	Other assets	–	36	Other liabilities	–	22	
Interest rate caps	185,596	191,738	Other assets	97	388	Other liabilities	87	331	
Indexed options on deposits	70,306	73,470	Other assets	16,356	12,868	–	–	–	
Bifurcated embedded options						Interest bearing deposits			
	66,077	69,957	–	–	–	14,183	10,964		
Total derivatives not designated as hedging instruments	\$395,081	\$451,065		\$16,643	\$14,060		\$14,299	\$12,127	
Total derivative assets and liabilities	\$493,931	\$556,355		\$16,719	\$14,094		\$14,431	\$12,842	

Cash Flow Hedges

The Corporation utilizes forward contracts to hedge the sale of mortgage-backed securities with duration terms over one month. Interest rate forwards are contracts for the delayed delivery of securities, which the seller agrees to deliver on a specified future date at a specified price or yield. These forward contracts are hedging a forecasted transaction and thus qualify

for cash flow hedge accounting. Changes in the fair value of the derivatives are recorded in other comprehensive income (loss). The amount included in accumulated other comprehensive income (loss) corresponding to these forward contracts is expected to be reclassified to earnings in the next twelve months. These contracts have a maximum remaining maturity of 79 days at December 31, 2017.

For cash flow hedges, net gains (losses) on derivative contracts that are reclassified from accumulated other comprehensive income (loss) to current period earnings are included in the line item in which the hedged item is recorded and during the period in which the forecasted transaction impacts earnings, as presented in the tables below.

Year ended December 31, 2017				
<i>(In thousands)</i>	Amount of net gain (loss) recognized in OCI on derivatives (effective portion)	Classification in the statement of operations of the net gain (loss) reclassified from AOCI into income (effective portion and ineffective portion)	Amount of net gain (loss) reclassified from AOCI into income (effective portion)	Amount of net gain (loss) recognized in income on derivatives (ineffective portion)
Forward contracts	\$(1,295)	Mortgage banking activities	\$(1,920)	\$32
Total	\$(1,295)		\$(1,920)	\$32

Year ended December 31, 2016				
<i>(In thousands)</i>	Amount of net gain (loss) recognized in OCI on derivatives (effective portion)	Classification in the statement of operations of the net gain (loss) reclassified from AOCI into income (effective portion and ineffective portion)	Amount of net gain (loss) reclassified from AOCI into income (effective portion)	Amount of net gain (loss) recognized in income on derivatives (ineffective portion)
Forward contracts	\$(3,612)	Mortgage banking activities	\$(3,148)	\$(1)
Total	\$(3,612)		\$(3,148)	\$(1)

Year ended December 31, 2015				
<i>(In thousands)</i>	Amount of net gain (loss) recognized in OCI on derivatives (effective portion)	Classification in the statement of operations of the net gain (loss) reclassified from AOCI into income (effective portion and ineffective portion)	Amount of net gain (loss) reclassified from AOCI into income (effective portion)	Amount of net gain (loss) recognized in income on derivatives (ineffective portion)
Forward contracts	\$(4,376)	Mortgage banking activities	\$(4,719)	\$17
Total	\$(4,376)		\$(4,719)	\$17

Fair Value Hedges

At December 31, 2017 and 2016, there were no derivatives designated as fair value hedges.

Non-Hedging Activities

For the year ended December 31, 2017, the Corporation recognized a loss of \$ 0.9 million (2016 – loss of \$ 0.1 million; 2015 – loss of \$ 0.3 million) related to its non-hedging derivatives, as detailed in the table below.

<i>(In thousands)</i>	Classification of Net Gain (Loss) Recognized in Income on Derivatives	Amount of Net Gain (Loss) Recognized in Income on Derivatives		
		Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Forward contracts	Mortgage banking activities	\$(1,484)	\$ (160)	\$(389)
Interest rate swaps	Other operating income	51	333	300
Foreign currency forward contracts	Other operating income	67	27	49
Foreign currency forward contracts	Interest expense	(14)	12	(4)
Interest rate caps	Other operating income	(48)	57	–
Indexed options on deposits	Interest expense	5,934	1,981	(334)
Bifurcated embedded options	Interest expense	(5,429)	(2,374)	73
Total		\$ (923)	\$ (124)	\$(305)

Forward Contracts

The Corporation has forward contracts to sell mortgage-backed securities, which are accounted for as trading derivatives. Changes in their fair value are recognized in mortgage banking activities.

Interest Rates Swaps and Foreign Currency and Exchange Rate Commitments

In addition to using derivative instruments as part of its interest rate risk management strategy, the Corporation also utilizes derivatives, such as interest rate swaps and foreign exchange forward contracts, in its capacity as an intermediary on behalf of its customers. The Corporation minimizes its market risk and credit risk by taking offsetting positions under the same terms and conditions with credit limit approvals and monitoring procedures. Market value changes on these swaps and other derivatives are recognized in earnings in the period of change.

Interest Rate Caps

The Corporation enters into interest rate caps as an intermediary on behalf of its customers and simultaneously takes offsetting positions under the same terms and conditions, thus minimizing its market and credit risks.

Indexed and Embedded Options

The Corporation offers certain customers' deposits whose return are tied to the performance of the Standard and Poor's ("S&P 500") stock market indexes, and other deposits whose returns are tied to other stock market indexes or other equity securities performance. The Corporation bifurcated the related options embedded within these customers' deposits from the host contract in accordance with ASC Subtopic 815-15. In order to limit the Corporation's exposure to changes in these indexes, the Corporation purchases indexed options which returns are

tied to the same indexes from major broker dealer companies in the over the counter market. Accordingly, the embedded options and the related indexed options are marked-to-market through earnings.

Note 30 - Related party transactions

The Corporation grants loans to its directors, executive officers, including certain related individuals or organizations, and affiliates in the ordinary course of business. The activity and balance of these loans were as follows:

<i>(In thousands)</i>	
Balance at December 31, 2015	\$165,238
New loans	2,639
Payments	(30,639)
Other changes	(687)
Balance at December 31, 2016	\$136,551
New loans	17,608
Payments	(22,796)
Other changes, including existing loans to new related parties	51,626
Balance at December 31, 2017	\$182,989

New loans and payments include disbursements and collections from existing lines of credit.

In June 2006, family members of a director of the Corporation, obtained a \$0.8 million mortgage loan from Popular Mortgage, Inc., secured by a residential property. The director was not a director of the Corporation at the time the loan was made. In March, 2012 the loan was restructured under the Corporation's loss mitigation program. During 2017, the borrower defaulted on his payment obligations under the restructured loan and as of December 31, 2017 the loan was 306 days past due. The balance due on the loan at December 31, 2017 was approximately \$0.9 million.

In June 2017, one of our directors acquired new family relationships by way of marriage. The following loans were obtained prior to the director's marriage:

In November 2003, an entity owned by two brothers-in-law of a director of the Corporation obtained a commercial loan in the aggregate amount of \$0.7 million from Westernbank. The loan was acquired by BPPR as part of a FDIC assisted transaction in 2010. The loan is a fully amortizing 30-year loan with a variable interest rate and it is secured by real estate and guaranteed by the two brothers-in-law and their wives. The outstanding principal balance on the loan as of December 31, 2017 was \$0.4 million.

In May 2001, brother-in-law of a director of the Corporation obtained a \$0.3 million mortgage loan from Doral Bank, secured by a residential property. The loan was a fully amortizing 30-year loan with a fixed annual rate of 7.250%. The borrower became delinquent on his payments commencing in October 2011. After the FDIC placed Doral Bank in receivership in 2015, BPPR began to act as servicer of the loan for the benefit of a third-party investor. After exhausting various collection and loss mitigation efforts, BPPR, acting as servicer, and the borrower, negotiated and entered into a deed in lieu of foreclosure in June 2017. As a result of that transaction, the third-party investor acquired the residential property that secured the mortgage loan and recorded a loss of \$0.2 million. At the time of closing of the deed in lieu of foreclosure transactions, the outstanding principal balance of the loan was \$0.3 million and the loan payoff amount, including principal, interest and other accrued fees was \$0.4 million. The deed in lieu of foreclosure was approved and ratified by the Audit Committee under the Related Party Policy.

In 2010, as part of the Westernbank FDIC assisted transaction, BPPR acquired (i) four commercial loans made to entities that were wholly owned by one brother-in-law of a director of the Corporation and (ii) one commercial loan made to an entity that was owned by the same brother-in-law together with this director's father-in-law and another brother-in-law. The loans were secured by real estate and personally guaranteed by the owners of each entity. The loans were originated by Westernbank between 2001 and 2005 and had an aggregate outstanding principal balance of approximately \$33.5 million when they were acquired by BPPR in 2010. Between 2011 and 2014, the loans were restructured to consist of (i) five notes with an aggregate outstanding principal balance of \$19.8 million with a 6% annual interest rate ("Notes A") and (ii) five notes with an aggregate outstanding balance of \$13.5 million with a 1% annual interest rate, to be paid upon maturity ("Notes B"). The restructured notes had a maturity of September 30, 2016 and, thereafter, various interim renewals were approved, with the last two renewals occurring in June 2017 and October 2017, with the renewed loans maturing in January 31, 2018. The June renewals included a six-month principal moratorium for four of the Notes A commencing on

March 2017 and a change in the interest from 6% to 4.25% in one of the Notes A. The October renewals included a 60-day moratorium of principal and interest on all of the Notes A and a subsequent 60-day principal moratorium on four of the Notes A. The aggregate outstanding balance on the loans as of December 31, 2017 was approximately \$32.1 million. Although the loans were not paid by the borrowers upon their expiration on January 31, 2018, borrowers have continued to make payments of principal and interest for all Notes A, except one in which they are only making interest payments. The June and October renewals and moratoriums were ratified by the Audit Committee under the Related Party Policy.

In April 2010, in connection with the acquisition of the Westernbank assets from the FDIC, as receiver, BPPR acquired a term loan to a corporate borrower partially owned by an investment corporation in which the Corporation's Executive Chairman, at that time the Chief Executive Officer, as well as certain of his family members, are the owners. In addition, the officer's sister and brother-in-law are owners of an entity that holds an ownership interest in the borrower. At the time the loan was acquired by BPPR, it had an unpaid principal balance of \$40.2 million. In May 2017, this loan was sold by BPPR to Popular, Inc., holding company ("PIHC"). At the time of sale, the loan had an unpaid principal balance of \$37.9 million. PIHC paid \$37.9 million to BPPR for the loan, of which \$6.0 million was recognized by BPPR as a capital contribution representing the difference between the fair value and the book value of the loan at the time of transfer. Immediately upon being acquired by BHC, the loan's maturity was extended by 90 days (under the same terms as originally contracted) to provide the BHC additional time to evaluate a refinancing or long-term extension of the loan. In August 2017, the credit facility was refinanced with a stated maturity in February 2019. The facility was subject to the loan payment moratorium offered as part of the hurricane relief efforts. As such, interest payments amounting to approximately \$0.5 million were deferred and capitalized as part of the loan balance. As of December 31, 2017, the unpaid principal balance amounted to \$38.2 million. The renewal, acquisition and refinancing described above were approved by the Audit Committee under the Related Party Policy.

On February 2018, BPPR entered into a definitive asset purchase agreement for the acquisition of the Reliable Financial Services and Reliable Financial Holding Company auto finance business in Puerto Rico. Refer to Note 42 for additional information on this transaction. As part of the acquisition transaction, BPPR agreed to enter in an agreement with Reliable Financial Services to sublease the space necessary for BPPR to continue the acquired operations. Reliable Financial Services' lease agreement is with the entity in which the Corporation's Executive Chairman and his family members hold an ownership interest, described in the preceding paragraph as having a loan with the Corporation. The estimated total rental

amount to be paid during a 12-month period by BPPR to Reliable Financial Services under the sublease is approximately \$2 million. BPPR's agreement to enter into a sublease with Reliable Financial Services in connection with the acquisition transaction was ratified by the Audit Committee under the Related Party Policy.

The Corporation has had loan transactions with the Corporation's directors, executive officers, including certain related individuals or organizations, and affiliates, and proposes to continue such transactions in the ordinary course of its business, on substantially the same terms, including interest rates and collateral, as those prevailing for comparable loan transactions with third parties, except as disclosed above. Except as discussed above, the extensions of credit have not involved and do not currently involve more than normal risks of collection or present other unfavorable features.

At December 31, 2017, the Corporation's banking subsidiaries held deposits from related parties, excluding EVERTEC, Inc. ("EVERTEC") amounting to \$431 million (2016 - \$328 million).

From time to time, the Corporation, in the ordinary course of business, obtains services from related parties that have some association with the Corporation. Management believes the terms of such arrangements are consistent with arrangements entered into with independent third parties.

During 2017 the Corporation engaged, in the ordinary course of business, the legal services of a law firm of which the father-in-law of an officer of the Corporation, is a partner. The fees paid to this firm for the fiscal year 2017 amounted to approximately \$0.2 million. The engagement of the aforementioned law firm was approved and ratified by the Audit Committee under the Related Party Policy.

For the year ended December 31, 2017, the Corporation made contributions of approximately \$1.0 million to Banco Popular Foundations, which are not-for-profit corporations dedicated to philanthropic work (2016 - \$1.5 million). In addition, during 2017, the Corporation contributed

approximately \$1.2 million to the Embracing Puerto Rico campaign which supports Hurricane Maria relief initiatives, and \$0.3 million to the Employee Emergency Fund, both of which are sponsored by the BPPR Foundation. The Corporation also provided human and operational resources to support the activities of the Puerto Rico Foundation which in 2017 amounted to approximately \$1.2 million.

Related party transactions with EVERTEC, as an affiliate

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 December 31, 2017, the Corporation's stake in EVERTEC was 16.10%. 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 the EVERTEC 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 \$3.5 million in dividend distributions during the year ended December 31, 2017 from its investments in EVERTEC's holding company (December 31, 2016 - \$4.7 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 statement of financial condition.

<i>(In thousands)</i>	December 31, 2017	December 31, 2016
Equity investment in EVERTEC	\$47,532	\$38,904

The Corporation had the following financial condition balances outstanding with EVERTEC at December 31, 2017 and December 31, 2016. Items that represent liabilities to the Corporation are presented with parenthesis.

<i>(In thousands)</i>	December 31, 2017	December 31, 2016
Accounts receivable (Other assets)	\$ 6,830	\$ 6,394
Deposits	(22,284)	(14,899)
Accounts payable (Other liabilities)	(2,040)	(20,372)
Net total	\$(17,494)	\$(28,877)

The Corporation's proportionate share of income 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 and changes in stockholders' equity for the years ended December 31, 2017, 2016 and 2015.

<i>(In thousands)</i>	Years ended December 31,		
	2017	2016	2015
Share of income from investment in EVERTEC	\$ 8,924	\$11,796	\$11,593
Share of other changes in EVERTEC's stockholders' equity	2,659	(573)	1,636
Share of EVERTEC's changes in equity recognized in income	\$11,583	\$11,223	\$13,229

The following tables present the impact of transactions and service payments between the Corporation and EVERTEC (as an affiliate) and their impact on the results of operations for the years ended December 31, 2017, 2016 and 2015. Items that represent expenses to the Corporation are presented with parenthesis.

<i>(In thousands)</i>	Years ended December 31,			Category
	2017	2016	2015	
Interest expense on deposits	\$ (44)	\$ (64)	\$ (58)	Interest expense
ATH and credit cards interchange income from services to EVERTEC	28,136	29,739	27,816	Other service fees
Rental income charged to EVERTEC	6,855	6,995	6,898	Net occupancy
Processing fees on services provided by EVERTEC	(176,971)	(178,524)	(164,809)	Professional fees
Other services provided to EVERTEC	1,236	1,052	1,311	Other operating expenses
Total	\$(140,788)	\$(140,802)	\$(128,842)	

PRLP 2011 Holdings, LLC

As indicated in Note 28 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.

<i>(In thousands)</i>	December 31, 2017	December 31, 2016
Equity investment in PRLP 2011 Holdings, LLC	\$7,199	\$9,167

The Corporation had the following financial condition balances outstanding with PRLP 2011 Holdings, LLC at December 31, 2017 and December 31, 2016.

<i>(In thousands)</i>	December 31, 2017	December 31, 2016
Deposits (non-interest bearing)	\$(20)	\$(1,127)

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 loss from PRLP 2011 Holdings, LLC for the years ended December 31, 2017, 2016 and 2015.

<i>(In thousands)</i>	Years ended December 31,		
	2017	2016	2015
Share of loss from the equity investment in PRLP 2011 Holdings, LLC	\$(972)	\$(502)	\$(4,021)

During the years ended December 31, 2017, the Corporation received \$ 1.0 million in capital distributions from its investment in PRLP 2011 Holdings, LLC (December 31, 2016 - \$ 3.4 million). 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 years ended December 31, 2017, 2016 and 2015.

<i>(In thousands)</i>	For the years ended December 31,			
	2017	2016	2015	Category
Interest income on loan to PRLP 2011 Holdings, LLC	\$-	\$11	\$189	Interest income

PR Asset Portfolio 2013-1 International, LLC

As indicated in Note 28 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.

<i>(In thousands)</i>	December 31, 2017	December 31, 2016
Equity investment in PR Asset Portfolio 2013-1 International, LLC	\$12,874	\$22,378

The Corporation had the following financial condition balances outstanding with PR Asset Portfolio 2013-1 International, LLC, at December 31, 2017 and December 31, 2016.

<i>(In thousands)</i>	December 31, 2017	December 31, 2016
Loans	\$ -	\$ 3,866
Accrued interest receivable	-	19
Deposits	(10,501)	(9,692)
Net total	\$(10,501)	\$(5,807)

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 loss from PR Asset Portfolio 2013-1 International, LLC for years ended December 31, 2017, 2016 and 2015.

<i>(In thousands)</i>	Years ended December 31,		
	2017	2016	2015
Share of loss from the equity investment in PR Asset Portfolio 2013-1 International, LLC	\$(2,444)	\$(2,057)	\$(6,280)

During the year ended December 31, 2017, the Corporation received \$ 7.1 million in capital distribution from its investment in PR Asset Portfolio 2013-1 International, LLC. No capital distribution was received during the year ended December 31, 2016. The Corporation received \$0.7 million in dividend distributions during the year ended December 31, 2017, which were declared by PR Asset Portfolio 2013-1 International, LLC during the year ended December 31, 2016. 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 years ended December 31, 2017, 2016 and 2015.

<i>(In thousands)</i>	Years ended December 31,			Category
	2017	2016	2015	
Interest income on loan to PR Asset Portfolio 2013-1 International, LLC	\$ 9	\$1,011	\$2,805	Interest income
Interest expense on deposits	(31)	(4)	(4)	Interest expense
Total	\$(22)	\$1,007	2,801	

Centro Financiero BHD León

At December 31, 2017, 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 year ended December 31, 2017, the Corporation recorded \$ 24.8 million in earnings from its investment in BHD Leon (2016 - \$ 24.1 million), which had a carrying amount of \$ 135.0 million at December 31, 2017 (December 31, 2016 - \$ 125.5 million). As of December 31, 2016 BPPR had extended a credit facility of \$ 50 million to BHD León, with an outstanding balance of \$ 25 million. This credit facility expired during March 2017. On December 2017, BPPR extended a credit facility of \$ 40 million to BHD León, with an outstanding balance of \$ 40 million at year end. The Corporation received \$ 11.8 million in dividend distributions during the year ended December 31, 2017 from its investment in BHD Leon (December 31, 2016 - \$ 12.1 million).

On June 30, 2017, BPPR extended an \$8 million credit facility to Grupo Financiero Leon, S.A. Panamá ("GFL"), a shareholder of BHD Leon. The sources of repayment for this loan are the dividends to be received by GFL from its investment in BHD Leon. BPPR's credit facility ranks pari passu with another \$8 million credit facility extended to GFL by BHD International Panama, an affiliate of BHD Leon.

Puerto Rico Investment Companies

The Corporation provides advisory services to several Puerto Rico investment companies in exchange for a fee. The Corporation also provides administrative, custody and transfer agency services to these investment companies. These fees are calculated at an annual rate of the average net assets of the investment company, as defined in each agreement. Due to its advisory role, the Corporation considers these investment companies as related parties.

For the year ended December 31, 2017 administrative fees charged to these investment companies amounted to \$ 7.7 million (2016- \$ 8.6 million) and waived fees amounted to \$ 2.2 million (2016 - \$ 2.8 million), for a net fee of \$ 5.5 million (2016 - \$ 5.8 million).

The Corporation, through its subsidiary Banco Popular de Puerto Rico, has also entered into lines of credit facilities with these companies. As of December 31, 2017, the available lines of credit facilities amounted to \$356 million (December 31 2016 - \$357 million). The aggregate sum of all outstanding balances under all credit facilities that may be made available by BPPR, from time to time, to those Puerto Rico investment companies for which BPPR acts as investment advisor or co-investment advisor, shall never exceed the lesser of \$200 million or 10% of BPPR's capital.

Other Related Party Transactions

In April 2010, in connection with the acquisition of the Westernbank assets from the FDIC, as receiver, BPPR acquired a term loan to a corporate borrower partially owned by an investment corporation in which the Corporation's Executive Chairman, at that time the Chief Executive Officer, as well as certain of his family members, hold an ownership interest. At the time the loan was acquired by BPPR, it had an unpaid principal balance of \$40.2 million.

In May 2017, this loan was sold by BPPR to Popular, Inc., holding company ("PIHC"). At the time of sale, the loan had an unpaid principal balance of \$37.9 million. PIHC paid \$37.9 million to BPPR for the loan, of which \$6.0 million was recognized by BPPR as a capital contribution representing the difference between the fair value and the book value of the loan at the time of transfer. Immediately upon being acquired by BHC, the loan's maturity was extended by 90 days (under the same terms as originally contracted) to provide the BHC additional time to evaluate a refinancing or long-term extension of the loan. In August 2017, the credit facility was refinanced with a stated maturity in February 2019. As of December 31, 2017, the unpaid principal balance amounted to \$38.2 million.

Note 31 - 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.

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.

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 December 31, 2017 and 2016 and on a nonrecurring basis in periods subsequent to initial recognition for the years ended December 31, 2017, 2016, and 2015:

At December 31, 2017

(In thousands)	Level 1	Level 2	Level 3	Total
RECURRING FAIR VALUE MEASUREMENTS				
Assets				
Investment securities available-for-sale:				
U.S. Treasury securities	\$503,385	\$3,424,779	\$ –	\$ 3,928,164
Obligations of U.S. Government sponsored entities	–	608,933	–	608,933
Obligations of Puerto Rico, States and political subdivisions	–	6,609	–	6,609
Collateralized mortgage obligations - federal agencies	–	943,753	–	943,753
Mortgage-backed securities	–	4,687,374	1,288	4,688,662
Equity securities	–	1,815	–	1,815
Other	–	802	–	802
Total investment securities available-for-sale	\$503,385	\$9,674,065	\$ 1,288	\$10,178,738
Trading account securities, excluding derivatives:				
Obligations of Puerto Rico, States and political subdivisions	\$ –	\$ 159	\$ –	\$ 159
Collateralized mortgage obligations	–	–	529	529
Mortgage-backed securities - federal agencies	–	29,237	43	29,280
Other	261	12,249	529	13,039
Total trading account securities, excluding derivatives	\$ 261	\$ 41,645	\$ 1,101	\$ 43,007
Mortgage servicing rights	\$ –	\$ –	\$ 168,031	\$ 168,031
Derivatives	–	16,719	–	16,719
Total assets measured at fair value on a recurring basis	\$503,646	\$9,732,429	\$ 170,420	\$10,406,495
Liabilities				
Derivatives	\$ –	\$ (14,431)	\$ –	\$ (14,431)
Contingent consideration	–	–	(164,858)	(164,858)
Total liabilities measured at fair value on a recurring basis	\$ –	\$ (14,431)	\$(164,858)	\$ (179,289)

At December 31, 2016

(In thousands)	Level 1	Level 2	Level 3	Total
RECURRING FAIR VALUE MEASUREMENTS				
Assets				
Investment securities available-for-sale:				
U.S. Treasury securities	\$–	\$2,136,620	\$ –	\$2,136,620
Obligations of U.S. Government sponsored entities	–	711,850	–	711,850
Obligations of Puerto Rico, States and political subdivisions	–	22,771	–	22,771
Collateralized mortgage obligations - federal agencies	–	1,221,526	–	1,221,526
Mortgage-backed securities	–	4,103,940	1,392	4,105,332
Equity securities	–	2,122	–	2,122
Other	–	9,585	–	9,585
Total investment securities available-for-sale	\$–	\$8,208,414	\$ 1,392	\$8,209,806
Trading account securities, excluding derivatives:				
Obligations of Puerto Rico, States and political subdivisions	\$–	\$ 1,164	\$ –	\$ 1,164
Collateralized mortgage obligations	–	–	1,321	1,321
Mortgage-backed securities - federal agencies	–	37,991	4,755	42,746
Other	–	13,963	602	14,565
Total trading account securities, excluding derivatives	\$–	\$ 53,118	\$ 6,678	\$ 59,796
Mortgage servicing rights	\$–	\$ –	\$ 196,889	\$ 196,889
Derivatives	–	14,094	–	14,094
Total assets measured at fair value on a recurring basis	\$–	\$8,275,626	\$ 204,959	\$8,480,585
Liabilities				
Derivatives	\$–	\$ (12,842)	\$ –	\$ (12,842)
Contingent consideration	–	–	(153,158)	(153,158)
Total liabilities measured at fair value on a recurring basis	\$–	\$ (12,842)	\$(153,158)	\$ (166,000)

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 years ended December 31, 2017, 2016 and 2015 and excludes nonrecurring fair value measurements of assets no longer outstanding as of the reporting date.

Year ended December 31, 2017

<i>(In thousands)</i>	Level 1	Level 2	Level 3	Total	
NONRECURRING FAIR VALUE MEASUREMENTS					
Assets					Write-downs
Loans [1]	\$—	\$—	\$ 64,041	\$ 64,041	\$ (16,807)
Other real estate owned [2] [3]	—	—	89,743	89,743	(19,085)
Other foreclosed assets [2]	—	—	2,176	2,176	(890)
Total assets measured at fair value on a nonrecurring basis	\$—	\$—	\$155,960	\$155,960	\$ (36,782)

[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.

[3] Write-downs include \$2.7 million related to estimated damages caused by Hurricanes Irma and Maria based on the sample of properties examined.

Year ended December 31, 2016

<i>(In thousands)</i>	Level 1	Level 2	Level 3	Total	
NONRECURRING FAIR VALUE MEASUREMENTS					
Assets					Write-downs
Loans [1]	\$—	\$—	\$ 79,175	\$ 79,175	\$ (26,272)
Other real estate owned [2]	—	—	44,735	44,735	(10,260)
Other foreclosed assets [2]	—	—	25	25	(12)
Total assets measured at fair value on a nonrecurring basis	\$—	\$—	\$123,935	\$123,935	\$ (36,544)

[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.

Year ended December 31, 2015

<i>(In thousands)</i>	Level 1	Level 2	Level 3	Total	
NONRECURRING FAIR VALUE MEASUREMENTS					
Assets					Write-downs
Loans [1]	\$—	\$ —	\$ 67,915	\$ 67,915	\$ (63,002)
Loans held-for-sale [2]	—	—	44,923	44,923	(66)
Other real estate owned [3]	—	574	66,694	67,268	(46,164)
Other foreclosed assets [3]	—	—	75	75	(847)
Total assets measured at fair value on a nonrecurring basis	\$—	\$574	\$179,607	\$180,181	\$ (110,079)

[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 years ended December 31, 2017, 2016, and 2015.

Year ended December 31, 2017

<i>(In thousands)</i>	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, 2017	\$1,392	\$1,321	\$ 4,755	\$602	\$196,889	\$204,959	\$(153,158)	\$(153,158)
Gains (losses) included in earnings	—	—	(124)	(73)	(36,519)	(36,716)	(11,700)	(11,700)
Gains (losses) included in OCI	9	—	—	—	—	9	—	—
Additions	—	44	332	—	7,661	8,037	—	—
Sales	—	(365)	(156)	—	—	(521)	—	—
Settlements	(25)	(195)	(876)	—	—	(1,096)	—	—
Transfers out of Level 3	(88)	(276)	(3,888)	—	—	(4,252)	—	—
Balance at December 31, 2017	\$1,288	\$ 529	\$ 43	\$529	\$168,031	\$170,420	\$(164,858)	\$(164,858)
Changes in unrealized gains (losses) included in earnings relating to assets still held at December 31, 2017	\$ —	\$ —	\$ (3)	\$ 42	\$(18,986)	\$(18,947)	\$ (11,700)	\$ (11,700)

Year ended December 31, 2016

<i>(In thousands)</i>	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, 2016	\$1,434	\$1,831	\$ 6,454	\$687	\$211,405	\$221,811	\$(120,380)	\$(120,380)
Gains (losses) included in earnings	(3)	(4)	(86)	(85)	(25,336)	(25,514)	(32,778)	(32,778)
Gains (losses) included in OCI	11	—	—	—	—	11	—	—
Additions	—	233	1,128	—	10,835	12,196	—	—
Sales	—	(309)	(1,852)	—	—	(2,161)	—	—
Settlements	(50)	(430)	(889)	—	(15)	(1,384)	—	—
Balance at December 31, 2016	\$1,392	\$1,321	\$ 4,755	\$602	\$196,889	\$204,959	\$(153,158)	\$(153,158)
Changes in unrealized gains (losses) included in earnings relating to assets still held at December 31, 2016	\$ —	\$ 2	\$ (84)	\$ 39	\$ (4,745)	\$ (4,788)	\$ (32,778)	\$ (32,778)

Year ended December 31, 2015

<i>(In thousands)</i>	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	(2)	(2)	(42)	94	(13,349)	(13,301)	12,292	12,292
Gains (losses) included in OCI	(7)	—	—	—	—	(7)	—	—
Additions	118	808	1,126	—	76,060	78,112	—	—
Sales	—	(43)	(187)	—	—	(230)	—	—
Settlements	—	(307)	(672)	(970)	—	(1,949)	—	—
Adjustments	—	—	—	—	—	—	962	962
Balance at December 31, 2015	\$1,434	\$1,831	\$6,454	\$ 687	\$211,405	\$221,811	\$(120,380)	\$(120,380)
Changes in unrealized gains (losses) included in earnings relating to assets still held at December 31, 2015	\$ —	\$ 2	\$ (21)	\$ 38	\$ 6,087	\$ 6,106	\$ 12,292	\$ 12,292

During the year ended December 31, 2017, certain MBS and CMO's amounting to \$4.3 million, were transferred from Level 3 to Level 2 due to a change in valuation technique from an internally-prepared pricing matrix and discounted cash flow

models, respectively, to a bond's theoretical value. 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 years ended December 31, 2016 and 2015.

Gains and losses (realized and unrealized) included in earnings for the years ended December 31, 2017, 2016, and 2015 for Level 3 assets and liabilities included in the previous tables are reported in the consolidated statement of operations as follows:

<i>(In thousands)</i>	2017		2016		2015	
	Total gains (losses) included in earnings	Changes in unrealized gains (losses) relating to assets still held at reporting date	Total gains (losses) included in earnings	Changes in unrealized gains (losses) relating to assets still held at reporting date	Total gains (losses) included in earnings	Changes in unrealized gains (losses) relating to assets still held at reporting date
Interest income	\$ -	\$ -	\$ (3)	\$ -	\$ (2)	\$ -
FDIC loss share (expense) income	(11,700)	(11,700)	(33,413)	(33,413)	9,559	9,559
Mortgage banking activities	(36,519)	(18,986)	(25,336)	(4,745)	(13,349)	6,087
Trading account (loss) profit	(197)	39	(175)	(43)	50	19
Other operating income	-	-	635	635	2,733	2,733
Total	\$(48,416)	\$(30,647)	\$(58,292)	\$(37,566)	\$ (1,009)	\$18,398

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.

<i>(In thousands)</i>	Fair value at December 31, 2017	Valuation technique	Unobservable inputs	Weighted average (range)
CMO's - trading	\$ 529	Discounted cash flow model	Weighted average life	2.2 years (1.6 - 2.3 years)
			Yield	3.9% (3.7% - 4.2%)
			Prepayment speed	19.3% (17.8% - 21.5%)
Other - trading	\$ 529	Discounted cash flow model	Weighted average life	5.3 years
			Yield	12.6%
			Prepayment speed	10.8%
Mortgage servicing rights	\$ 168,031	Discounted cash flow model	Prepayment speed	5.4% (0.2% - 23.1%)
			Weighted average life	6.8 years (0.1 - 16.0 years)
			Discount rate	11.2% (9.5% - 15.0%)
Contingent consideration	\$(164,858)	Discounted cash flow model	Credit loss rate on covered loans	3.6% (0.0% - 100.0%)
			Risk premium component of discount rate	3.5%
Loans held-in-portfolio	\$ 63,765 [1]	External appraisal	Haircut applied on external appraisals	24.7% (19.0% - 35.0%)
Other real estate owned	\$ 77,839 [2]	External appraisal	Haircut applied on external appraisals	22.2% (20.0% - 30.0%)

[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 MSRs, which is based on discounted 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.

Following is a description of the Corporation's valuation methodologies used for assets and liabilities measured at fair value. The disclosure requirements exclude certain financial instruments and all non-financial instruments. Accordingly, the aggregate fair value amounts of the financial instruments disclosed do not represent management's estimate of the underlying value of the Corporation.

Trading Account Securities and Investment Securities Available-for-Sale

- U.S. Treasury securities: The fair value of U.S. Treasury notes is based on yields that are interpolated from the constant maturity treasury curve. These securities are classified as Level 2. U.S. Treasury bills are classified as Level 1 given the high volume of trades and pricing based on those trades.
- Obligations of U.S. Government sponsored entities: The Obligations of U.S. Government sponsored entities include U.S. agency securities, which fair value is based on an active exchange market and on quoted market prices for similar securities. The U.S. agency securities are classified as Level 2.
- Obligations of Puerto Rico, States and political subdivisions: Obligations of Puerto Rico, States and political subdivisions include municipal bonds. The bonds are segregated and the like characteristics divided into specific sectors. Market inputs used in the evaluation process include all or some of the following: trades, bid price or spread, two sided markets, quotes, benchmark curves including but not limited to Treasury benchmarks, LIBOR and swap curves, market data feeds such as those obtained from municipal market sources, discount and capital rates, and trustee reports. The municipal bonds are classified as Level 2.
- Mortgage-backed securities: Certain agency mortgage-backed securities ("MBS") are priced based on a bond's theoretical value derived from similar bonds defined by credit quality and market sector. Their fair value incorporates an option adjusted spread. The agency MBS are classified as Level 2. Other agency MBS such as GNMA Puerto Rico Serials are priced using an internally-prepared pricing matrix with quoted prices from local brokers dealers. These particular MBS are classified as Level 3.

- Collateralized mortgage obligations: Agency collateralized mortgage obligations (“CMOs”) are priced based on a bond’s theoretical value derived from similar bonds defined by credit quality and market sector and for which fair value incorporates an option adjusted spread. The option adjusted spread model includes prepayment and volatility assumptions, ratings (whole loans collateral) and spread adjustments. These CMOs are classified as Level 2. Other CMOs, due to their limited liquidity, are classified as Level 3 due to the insufficiency of inputs such as broker quotes, executed trades, credit information and cash flows.
- Equity securities: Equity securities that do not trade in highly liquid markets are classified as Level 2.
- Corporate securities (included as “other” in the “available-for-sale” category): Given that the quoted prices are for similar instruments, these securities are classified as Level 2.
- Mutual funds, other equity securities, corporate securities, U.S. Treasury bills, and interest-only strips (included as “other” in the “trading account securities” category): For corporate securities and mutual funds, quoted prices for these security types are obtained from broker dealers. Given that the quoted prices are for similar instruments or do not trade in highly liquid markets, these securities are classified as Level 2. The important variables in determining the prices of Puerto Rico tax-exempt mutual fund shares are net asset value, dividend yield and type of assets in the fund. All funds trade based on a relevant dividend yield taking into consideration the aforementioned variables. In addition, demand and supply also affect the price. Other equity securities that do not trade in highly liquid markets are classified as Level 2. U.S. Treasury bills are classified as Level 1 given the high volume of trades and pricing based on those trades. Given that the fair value was estimated based on a discounted cash flow model using unobservable inputs, interest-only strips are classified as Level 3.

Mortgage servicing rights

Mortgage servicing rights (“MSRs”) do not trade in an active market with readily observable prices. MSRs are priced internally using a discounted cash flow model. The discounted cash flow model incorporates assumptions that market participants would use in estimating future net servicing income, including portfolio characteristics, prepayments assumptions, discount rates, delinquency and foreclosure rates, late charges, other ancillary revenues, cost to service and other economic factors. Prepayment speeds are adjusted for the Corporation’s loan characteristics and portfolio behavior. Due to the unobservable nature of certain valuation inputs, the MSRs are classified as Level 3.

Derivatives

Interest rate swaps, interest rate caps and indexed options are traded in over-the-counter active markets. These derivatives are indexed to an observable interest rate benchmark, such as LIBOR or equity indexes, and are priced using an income approach based on present value and option pricing models using observable inputs. Other derivatives are liquid and have quoted prices, such as forward contracts or “to be announced securities” (“TBAs”). All of these derivatives are classified as Level 2. The non-performance risk is determined using internally-developed models that consider the collateral held, the remaining term, and the creditworthiness of the entity that bears the risk, and uses available public data or internally-developed data related to current spreads that denote their probability of default.

Contingent consideration liability

The fair value of the true-up payment obligation (contingent consideration) to the FDIC as it relates to the Westernbank FDIC-assisted transaction was estimated using projected cash flows related to the loss sharing agreements at the true-up measurement date. It took into consideration the intrinsic loss estimate, asset premium/discount, cumulative shared loss payments, and the cumulative servicing amount related to the loan portfolio. Refer to Note 11 to the consolidated financial statements for a description of the formula established in the loss share agreements for determining the true-up payment.

On a quarterly basis, management evaluates and revises the estimated credit loss rates that are used to determine expected cash flows on the covered loan pools. The expected credit losses on the loan pools are used to determine the loss share cash flows expected to be paid to the FDIC when the true-up payment is due.

The true-up payment obligation was discounted using a term rate consistent with the time remaining until the payment is due. The discount rate was an estimate of the sum of the risk-free benchmark rate for the term remaining before the true-up payment is due and a risk premium to account for the credit risk profile of BPPR. The risk premium was calculated based on a volume weighted average spread of the Corporation’s outstanding senior unsecured debt over the equivalent T Note. The true-up payment obligation is classified as Level 3.

Loans held-in-portfolio considered impaired under ASC Section 310-10-35 that are collateral dependent

The impairment is 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, and which could be subject to internal adjustments based on the age of the appraisal. Currently, the associated loans considered impaired are classified as Level 3.

Loans measured at fair value pursuant to lower of cost or fair value adjustments

Loans measured at fair value on a nonrecurring basis pursuant to lower of cost or fair value were priced based on secondary market prices and discounted cash flow models which incorporate internally-developed assumptions for prepayments and credit loss estimates. These loans are classified as Level 3.

Other real estate owned and other foreclosed assets

Other real estate owned includes real estate properties securing mortgage, consumer, and commercial loans. Other foreclosed assets include primarily automobiles securing auto loans. The fair value of foreclosed assets may be determined using an external appraisal, broker price opinion, or an internal valuation. These foreclosed assets are classified as Level 3 since they are subject to internal adjustments.

Note 32 - Fair value of financial instruments

The fair value of financial instruments is the amount at which an asset or obligation 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 December 31, 2017 and December 31, 2016, 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 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.

December 31, 2017					
<i>(In thousands)</i>	Carrying amount	Level 1	Level 2	Level 3	Fair value
Financial Assets:					
Cash and due from banks	\$ 402,857	\$ 402,857	\$ –	\$ –	\$ 402,857
Money market investments	5,255,119	5,245,346	9,773	–	5,255,119
Trading account securities, excluding derivatives [1]	43,007	261	41,645	1,101	43,007
Investment securities available-for-sale [1]	10,178,738	503,385	9,674,065	1,288	10,178,738
Investment securities held-to-maturity:					
Obligations of Puerto Rico, States and political subdivisions	\$ 92,754	\$ –	\$ –	\$ 83,239	\$ 83,239
Collateralized mortgage obligation-federal agency	67	–	–	71	71
Other	1,000	–	750	243	993
Total investment securities held-to-maturity	\$ 93,821	\$ –	\$ 750	\$ 83,553	\$ 84,303
Other investment securities:					
FHLB stock	\$ 57,819	\$ –	\$ 57,819	\$ –	\$ 57,819
FRB stock	94,308	–	94,308	–	94,308
Trust preferred securities	13,198	–	13,198	–	13,198
Other investments	1,900	–	6	5,208	5,214
Total other investment securities	\$ 167,225	\$ –	\$ 165,331	\$ 5,208	\$ 170,539
Loans held-for-sale	\$ 132,395	\$ –	\$ –	\$ 134,839	\$ 134,839
Loans not covered under loss sharing agreement with the FDIC	23,702,612	–	–	21,883,003	21,883,003
Loans covered under loss sharing agreements with the FDIC	484,030	–	–	465,893	465,893
FDIC loss share asset	45,192	–	–	33,323	33,323
Mortgage servicing rights	168,031	–	–	168,031	168,031
Derivatives	16,719	–	16,719	–	16,719

December 31, 2017					
<i>(In thousands)</i>	Carrying amount	Level 1	Level 2	Level 3	Fair value
Financial Liabilities:					
Deposits:					
Demand deposits	\$27,938,630	\$ –	\$27,938,630	\$ –	\$27,938,630
Time deposits	7,514,878	–	7,381,232	–	7,381,232
Total deposits	\$35,453,508	\$ –	\$35,319,862	\$ –	\$35,319,862
Assets sold under agreements to repurchase	\$ 390,921	\$ –	\$ 390,752	\$ –	\$ 390,752
Other short-term borrowings [2]	\$ 96,208	\$ –	\$ 96,208	\$ –	\$ 96,208
Notes payable:					
FHLB advances	\$ 631,490	\$ –	\$ 628,839	\$ –	\$ 628,839
Unsecured senior debt securities	446,873	–	463,554	–	463,554
Junior subordinated deferrable interest debentures (related to trust preferred securities)	439,351	–	406,883	–	406,883
Others	18,642	–	–	18,642	18,642
Total notes payable	\$ 1,536,356	\$ –	\$ 1,499,276	\$ 18,642	\$ 1,517,918
Derivatives	\$ 14,431	\$ –	\$ 14,431	\$ –	\$ 14,431
Contingent consideration	\$ 164,858	\$ –	\$ –	\$ 164,858	\$ 164,858

[1] Refer to Note 31 to the Consolidated Financial Statements for the fair value by class of financial asset and its hierarchy level.

[2] Refer to Note 20 to the Consolidated Financial Statements for the composition of other short-term borrowings.

December 31, 2016

<i>(In thousands)</i>	Carrying amount	Level 1	Level 2	Level 3	Fair value
Financial Assets:					
Cash and due from banks	\$ 362,394	\$ 362,394	\$ —	\$ —	\$362,394
Money market investments	2,890,217	2,854,777	35,440	—	2,890,217
Trading account securities, excluding derivatives [1]	59,796	—	53,118	6,678	59,796
Investment securities available-for-sale [1]	8,209,806	—	8,208,414	1,392	8,209,806
Investment securities held-to-maturity:					
Obligations of Puerto Rico, States and political subdivisions	\$ 96,027	\$ —	\$ —	\$ 73,540	\$ 73,540
Collateralized mortgage obligation-federal agency	74	—	—	78	78
Other	2,000	—	1,738	220	1,958
Total investment securities held-to-maturity	\$ 98,101	\$ —	\$ 1,738	\$ 73,838	\$ 75,576
Other investment securities:					
FHLB stock	\$ 58,033	\$ —	\$ 58,033	\$ —	\$ 58,033
FRB stock	94,672	—	94,672	—	94,672
Trust preferred securities	13,198	—	13,198	—	13,198
Other investments	1,915	—	—	4,987	4,987
Total other investment securities	\$ 167,818	\$ —	\$ 165,903	\$ 4,987	\$ 170,890
Loans held-for-sale	\$ 88,821	\$ —	\$ 504	\$ 89,509	\$ 90,013
Loans not covered under loss sharing agreement with the FDIC	22,263,446	—	—	20,578,904	20,578,904
Loans covered under loss sharing agreements with the FDIC	542,528	—	—	515,808	515,808
FDIC loss share asset	69,334	—	—	63,187	63,187
Mortgage servicing rights	196,889	—	—	196,889	196,889
Derivatives	14,094	—	14,094	—	14,094

December 31, 2016

<i>(In thousands)</i>	Carrying amount	Level 1	Level 2	Level 3	Fair value
Financial Liabilities:					
Deposits:					
Demand deposits	\$22,786,682	\$ —	\$22,786,682	\$ —	\$22,786,682
Time deposits	7,709,542	—	7,708,724	—	7,708,724
Total deposits	\$30,496,224	\$ —	\$30,495,406	\$ —	\$30,495,406
Assets sold under agreements to repurchase	\$ 479,425	\$ —	\$ 479,439	\$ —	\$ 479,439
Other short-term borrowings [2]	\$ 1,200	\$ —	\$ 1,200	\$ —	\$ 1,200
Notes payable:					
FHLB advances	\$ 672,670	\$ —	\$ 671,872	\$ —	\$ 671,872
Unsecured senior debt	444,788	—	466,263	—	466,263
Junior subordinated deferrable interest debentures (related to trust preferred securities)	439,323	—	399,370	—	399,370
Others	18,071	—	—	18,071	18,071
Total notes payable	\$ 1,574,852	\$ —	\$ 1,537,505	\$ 18,071	\$ 1,555,576
Derivatives	\$ 12,842	\$ —	\$ 12,842	\$ —	\$ 12,842
Contingent consideration	\$ 153,158	\$ —	\$ —	\$ 153,158	\$ 153,158

[1] Refer to Note 31 to the Consolidated Financial Statements for the fair value by class of financial asset and its hierarchy level.

[2] Refer to Note 20 to the Consolidated Financial Statements for the composition of other short-term borrowings.

The notional amount of commitments to extend credit at December 31, 2017 and December 31, 2016 is \$ 7.6 billion and \$ 7.8 billion, respectively, and represents the unused portion of credit facilities granted to customers. The notional amount of letters of credit at December 31, 2017 and December 31, 2016 is \$ 36 million and represents the contractual amount that is required to be paid in the event of nonperformance. The fair value of commitments to extend credit and letters of credit, which are based on the fees charged to enter into those agreements, are not material to Popular's financial statements.

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 municipalities debt was valued internally based on yield curve of US Virgin Islands Revenue Bonds. US Virgin Islands Revenue Bonds are rated speculative grade, currently in their payments and fall under PROMESA like Puerto Rico public municipalities debt. 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. Common stock traded only in a foreign market with a readily determinable fair value are classified as Level 2.

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. Loans held-in-portfolio are classified as Level 3.

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.

Note 33 - Employee benefits

Pension and benefit restoration plans

Certain employees of BPPR are covered by non-contributory defined benefit pension plans. Pension benefits are based on age, years of credited service, and final average compensation.

BPPR's non-contributory, defined benefit retirement plan is currently closed to new hires and the accrual of benefits are frozen to all participants. The retirement plan's benefit formula is based on a percentage of average final compensation and years of service as of the plan freeze date. Normal retirement age under the retirement plans is age 65 with 5 years of service. Pension costs are funded in accordance with minimum funding standards under the Employee Retirement Income Security Act of 1974 ("ERISA"). Benefits under the BPPR retirement plan are subject to the U.S. and Puerto Rico Internal Revenue Code limits on compensation and benefits. Benefits under restoration plans restore benefits to selected employees that are limited under the retirement plan due to U.S. and Puerto Rico Internal Revenue Code limits and a compensation definition that excludes amounts deferred pursuant to nonqualified arrangements. The freeze applied to the restoration plan as well.

The Corporation's funding policy is to make annual contributions to the plans, when necessary, in amounts which fully provide for all benefits as they become due under the plans.

The Corporation's pension fund investment strategy is to invest in a prudent manner for the exclusive purpose of

providing benefits to participants. A well defined internal structure has been established to develop and implement a risk-controlled investment strategy that is targeted to produce a total return that, when combined with the bank's contributions to the fund, will maintain the fund's ability to meet all required benefit obligations. Risk is controlled through diversification of asset types, such as investments in domestic and international equities and fixed income.

Equity investments include various types of stock and index funds. Also, this category includes Popular, Inc.'s common stock. Fixed income investments include U.S. Government securities and other U.S. agencies' obligations, corporate bonds, mortgage loans, mortgage-backed securities and index funds, among others. A designated committee periodically reviews the performance of the pension plans' investments and assets allocation. The Trustee and the money managers are allowed to exercise investment discretion, subject to limitations established by the pension plans' investment policies. The plans forbid money managers to enter into derivative transactions, unless approved by the Trustee.

The overall expected long-term rate-of-return-on-assets assumption reflects the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the plan assets, with consideration given to the distribution of the investments by asset class and historical rates of return for each individual asset class. This process is reevaluated at least on an annual basis and if market, actuarial and economic conditions change, adjustments to the rate of return may come into place.

The plans' target allocation based on market value for years 2017 and 2016, by asset category, is summarized in the table below.

	Minimum allotment	Maximum allotment
Equity	0%	70%
Debt securities	0%	100%
Popular related securities	0%	5%
Cash and cash equivalents	0%	100%

The following table sets forth by level, within the fair value hierarchy, the pension and benefit restoration plans' assets at fair value at December 31, 2017 and 2016. Investments measured at net asset value per share ("NAV") as a practical expedient have not been classified in the fair value hierarchy, but are presented in order to permit reconciliation of the plans' assets.

(In thousands)	2017					2016				
	Level 1	Level 2	Level 3	Measured at NAV	Total	Level 1	Level 2	Level 3	Measured at NAV	Total
Obligations of the U.S. Government and its agencies	\$ -	\$130,721	\$ -	\$ 7,566	\$138,287	\$ -	\$108,572	\$ -	\$ 6,731	\$115,303
Corporate bonds and debentures	-	283,947	-	7,858	291,805	-	171,632	-	6,856	178,488
Equity securities - Common Stocks	123,052	-	-	-	123,052	134,015	-	-	-	134,015
Equity securities - ETF's	54,110	49,779	-	-	103,889	62,524	75,801	-	-	138,325
Foreign commingled trust funds	-	-	-	74,013	74,013	-	-	-	70,589	70,589
Mutual fund	-	4,510	-	-	4,510	-	13,910	-	-	13,910
Mortgage-backed securities	-	4,539	-	-	4,539	-	4,786	-	-	4,786
Private equity investments	-	-	182	-	182	-	-	336	-	336
Cash and cash equivalents	22,686	-	-	-	22,686	38,158	-	-	-	38,158
Accrued investment income	-	-	4,576	-	4,576	-	-	3,219	-	3,219
Total assets	\$199,848	\$473,496	\$4,758	\$89,437	\$767,539	\$234,697	\$374,701	\$3,555	\$84,176	\$697,129

The closing prices reported in the active markets in which the securities are traded are used to value the investments.

Following is a description of the valuation methodologies used for investments measured at fair value:

- Obligations of U.S. Government and its agencies - The fair value of Obligations of U.S. Government and agencies obligations is based on an active exchange market and is based on quoted market prices for similar securities. These securities are classified as Level 2. U.S. agency structured notes are priced based on a bond's theoretical value from similar bonds defined by credit quality and market sector and for which the fair value incorporates an option adjusted spread in deriving their fair value. These securities are classified as Level 2, except for the governmental index funds that are measured at NAV.
- Corporate bonds and debentures - Corporate bonds and debentures are valued at fair value at the closing price reported in the active market in which the bond is traded. These securities are classified as Level 2, except for the corporate bond funds that are measured at NAV.
- Equity securities - common stocks - Equity securities with quoted market prices obtained from an active exchange market and high liquidity are classified as Level 1.
- Equity securities - ETF's - Exchange Traded Funds shares with quoted market prices obtained from an active exchange market. Highly liquid ETF's are classified as Level 1 while less liquid ETF's are classified as Level 2.
- Foreign commingled trust fund - Collective investment funds are valued at the NAV of shares held by the plan at year end.

- Mutual funds - Mutual funds are valued at the NAV of shares held by the plan at year end. Mutual funds are classified as Level 2.
- Mortgage-backed securities - The fair value is based on trade data from brokers and exchange platforms where these instruments regularly trade. Certain agency mortgage and other asset backed securities ("MBS") are priced based on a bond's theoretical value from similar bonds defined by credit quality and market sector. Their fair value incorporates an option adjusted spread and prepayment projections. The agency MBS are classified as Level 2.
- Private equity investments - Private equity investments include an investment in a private equity fund. The fund value is recorded at its net realizable value which is affected by the changes in the fair market value of the investments held in the fund. This fund is classified as Level 3.
- Cash and cash equivalents - The carrying amount of cash and cash equivalents is a reasonable estimate of the fair value since it is available on demand or due to their short-term maturity. Cash and cash equivalents are classified as Level 1.
- Accrued investment income - Given the short-term nature of these assets, their carrying amount approximates fair value. Since there is a lack of observable inputs related to instrument specific attributes, these are reported as Level 3.

The preceding valuation methods may produce a fair value calculation that may not be indicative of net realizable value or

reflective of future fair values. Furthermore, although the plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents the change in Level 3 assets measured at fair value.

<i>(In thousands)</i>	2017	2016
Balance at beginning of year	\$3,555	\$2,093
Actual return on plan assets:		
Change in unrealized (loss) gain relating to instruments still held at the reporting date	-	-
Purchases, sales, issuance, settlements, paydowns and maturities (net)	1,203	1,462
Balance at end of year	\$4,758	\$3,555

There were no transfers in and/or out of Level 3 for financial instruments measured at fair value on a recurring basis during the years ended December 31, 2017 and 2016. There were no transfers in and/or out of Level 1 and Level 2 during the years ended December 31, 2017 and 2016.

Information on the shares of common stock held by the pension and restoration plans is provided in the table that follows.

<i>(In thousands, except number of shares information)</i>	2017	2016
Shares of Popular, Inc. common stock	149,127	145,637
Fair value of shares of Popular, Inc. common stock	\$ 5,293	\$ 6,382
Dividends paid on shares of Popular, Inc. common stock held by the plan	\$ 132	\$ 22

The following table sets forth the aggregate status of the plans and the amounts recognized in the consolidated financial statements at December 31, 2017 and 2016.

<i>(In thousands)</i>	Pension plan		Benefit restoration plans	
	2017	2016	2017	2016
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 736,082	\$ 736,140	\$ 42,576	\$ 40,773
Interest cost	24,479	25,166	1,410	1,392
Actuarial (gain) loss	49,731	12,219	2,394	2,533
Benefits paid	(37,612)	(37,443)	(2,072)	(2,122)
Benefit obligation at end of year	\$ 772,680	\$ 736,082	\$ 44,308	\$ 42,576
Change in fair value of plan assets:				
Fair value of plan assets at beginning of year	\$ 665,235	\$ 612,283	\$ 31,894	\$ 32,131
Actual return on plan assets	89,008	30,395	4,849	1,480
Employer contributions	16,000	60,000	237	405
Benefits paid	(37,612)	(37,443)	(2,072)	(2,122)
Fair value of plan assets at end of year	\$ 732,631	\$ 665,235	\$ 34,908	\$ 31,894
Amounts recognized in accumulated other comprehensive loss:				
Net loss	\$ 276,839	\$ 295,589	\$ 13,488	\$ 15,577
Accumulated other comprehensive loss (AOCL)	\$ 276,839	\$ 295,589	\$ 13,488	\$ 15,577
Reconciliation of net (liabilities) assets:				
Net (liabilities) assets at beginning of year	\$ (70,847)	\$(123,857)	\$(10,682)	\$ (8,642)
Amount recognized in AOCL at beginning of year, pre-tax	295,589	294,792	15,577	13,699
Amount prepaid at beginning of year	224,742	170,935	4,895	5,057
Net periodic benefit income (cost)	(3,952)	(6,193)	(1,044)	(567)
Contributions	16,000	60,000	237	405
Amount prepaid at end of year	236,790	224,742	4,088	4,895
Amount recognized in AOCL	(276,839)	(295,589)	(13,488)	(15,577)
Net (liabilities) assets at end of year	\$ (40,049)	\$ (70,847)	\$ (9,400)	\$(10,682)

The table below presents a breakdown of the plans' assets and liabilities at December 31, 2017 and 2016.

<i>(In thousands)</i>	Pension plan		Benefit restoration plans	
	2017	2016	2017	2016
Current liabilities	\$ —	\$ —	\$ 232	\$ 234
Non-current liabilities	40,049	70,847	9,168	10,448

The following table presents the funded status of the plans at December 31, 2017 and 2016.

<i>(In thousands)</i>	Pension Plan		Benefit Restoration Plan	
	2017	2016	2017	2016
Benefit obligation at end of year	\$(772,680)	\$(736,082)	\$(44,308)	\$(42,576)
Fair value of plan assets at end of year	732,631	665,235	34,908	31,894
Funded status at year end	\$ (40,049)	\$ (70,847)	\$ (9,400)	\$(10,682)

The following table presents the change in accumulated other comprehensive loss ("AOCL"), pre-tax, for the years ended December 31, 2017 and 2016.

<i>(In thousands)</i>	Pension plan		Benefit restoration plans	
	2017	2016	2017	2016
Accumulated other comprehensive loss at beginning of year	\$295,589	\$294,792	\$15,577	\$13,699
Increase (decrease) in AOCL:				
Recognized during the year:				
Amortization of actuarial losses	(20,215)	(19,521)	(1,644)	(1,328)
Occurring during the year:				
Net actuarial (gains) losses	1,465	20,318	(445)	3,206
Total (decrease) increase in AOCL	(18,750)	797	(2,089)	1,878
Accumulated other comprehensive loss at end of year	\$276,839	\$295,589	\$13,488	\$15,577

The following table presents the amounts in accumulated other comprehensive loss that are expected to be recognized as components of net periodic benefit cost during 2018.

<i>(In thousands)</i>	Pension plan	Benefit restoration plans
Net actuarial loss	\$18,863	\$1,398

The following table presents information for plans with a projected benefit obligation in excess of plan assets for the years ended December 31, 2017 and 2016.

<i>(In thousands)</i>	Pension plan		Benefit restoration plans	
	2017	2016	2017	2016
Projected benefit obligation	\$772,680	\$736,082	\$44,308	\$42,576
Accumulated benefit obligation	772,680	736,082	44,308	42,576
Fair value of plan assets	732,631	665,235	34,908	31,894

Effective December 31, 2015 the Corporation changed its estimate of the service and interest cost components of net periodic benefit cost for its pension and postretirement benefits plans. Previously, the Corporation estimated the service and interest cost components utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation. The new estimate utilizes a full yield curve approach in the estimation of these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to their underlying

projected cash flows. The new estimate provides a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows and their corresponding spot rates. The change does not affect the measurement of the Corporation's pension and postretirement benefit obligations and it is accounted for as a change in accounting estimate, which is applied prospectively.

To determine benefit obligation at year end, the Corporation used a weighted average of annual spot rates applied to future expected cash flows for years ended December 31, 2017 and 2016.

The following table presents weighted - average actuarial assumptions used to determine the benefit obligations at December 31, 2017 and 2016:

	Pension plan		Tax qualified restoration plans		Benefit restoration plans	
	2017	2016	2017	2016	2017	2016
Discount rate	3.56%	4.02%	3.54%	3.98%	3.55%	3.99%

The following table presents the actuarial assumptions used to determine the components of net periodic benefit cost for the years ended December 31, 2017, 2016 and 2015.

	Pension plan			Benefit restoration plans		
	2017	2016	2015	2017	2016	2015
Discount rate for benefit obligation	4.02%	4.27%	3.90%	3.98% / 3.99%	4.23% / 4.20%	3.90%
Discount rate for interest cost	3.42%	3.52%	3.90%	3.40% / 3.35%	3.51% / 3.39%	3.90%
Expected return on plan assets	6.50%	6.88%	7.00%	6.50%	6.88%	7.00%

The following table presents the components of net periodic benefit cost for the years ended December 31, 2017 and 2016.

<i>(In thousands)</i>	Pension plan			Benefit restoration plans		
	2017	2016	2015	2017	2016	2015
Interest cost	\$ 24,479	\$ 25,166	\$ 29,613	\$ 1,410	\$ 1,392	\$ 1,630
Expected return on plan assets	(40,742)	(38,493)	(44,225)	(2,010)	(2,153)	(2,359)
Recognized net actuarial loss	20,215	19,521	17,860	1,644	1,328	1,244
Net periodic benefit (credit) cost	\$ 3,952	\$ 6,194	\$ 3,248	\$ 1,044	\$ 567	\$ 515

The Corporation expects to pay the following contributions to the benefit plans during the year ended December 31, 2018.

<i>(In thousands)</i>	2018
Pension plan	\$ –
Benefit restoration plans	\$235

Postretirement health care benefits

In addition to providing pension benefits, BPPR provides certain health care benefits for certain retired employees. Regular employees of BPPR, hired before February 1, 2000, may become eligible for health care benefits, provided they reach retirement age while working for BPPR.

Benefit payments projected to be made from the pension and benefit restoration plans during the next ten years are presented in the table below.

<i>(In thousands)</i>	Pension plan	Benefit restoration plans
2018	\$ 39,537	\$ 2,198
2019	40,130	2,283
2020	40,691	2,354
2021	41,198	2,417
2022	41,614	2,453
2023 - 2027	211,287	12,967

The following table presents the status of the Corporation's unfunded postretirement health care benefit plan and the related amounts recognized in the consolidated financial statements at December 31, 2017 and 2016.

<i>(In thousands)</i>	2017	2016
Change in benefit obligation:		
Benefit obligation at beginning of the year	\$ 162,365	\$ 165,999
Service cost	1,026	1,156
Interest cost	5,703	6,021
Benefits paid	(5,357)	(6,509)
Actuarial (gain) loss	6,983	\$ (4,302)
Benefit obligation end of year	\$ 170,720	162,365
Amounts recognized in accumulated other comprehensive loss:		
Net prior service cost	\$ (3,470)	\$ (7,270)
Net loss	27,549	21,135
Accumulated other comprehensive loss	\$ 24,079	\$ 13,865
Reconciliation of net liability:		
Net liability at beginning of year	\$(162,365)	\$(165,999)
Amount recognized in accumulated other comprehensive loss at beginning of year, pre-tax	13,865	15,466
Amount accrued at beginning of year	(148,500)	(150,533)
Net periodic benefit cost	(3,498)	(4,476)
Contributions	5,357	6,509
Amount accrued at end of year	(146,641)	(148,500)
Amount recognized in accumulated other comprehensive loss	(24,079)	(13,865)
Net liability at end of year	\$(170,720)	\$(162,365)

The table below presents a breakdown of the liability associated with the postretirement health care benefit plan.

<i>(In thousands)</i>	2017	2016
Current liabilities	\$ 6,202	\$ 6,328
Non-current liabilities	164,518	156,037

The following table presents the funded status of the postretirement health care benefit plan at year end December 31, 2017 and 2016.

<i>(In thousands)</i>	2017	2016
Benefit obligation at end of year	\$(170,720)	\$(162,365)
Fair value of plan assets at end of year	—	—
Funded status at year end	\$(170,720)	\$(162,365)

The following table presents the changes in accumulated other comprehensive loss (income), pre-tax, for the postretirement health care benefit plan.

<i>(In thousands)</i>	2017	2016
Accumulated other comprehensive (income) loss at beginning of year	\$13,865	\$15,466
Increase (decrease) in accumulated other comprehensive loss :		
Recognized during the year:		
Prior service credit	3,800	3,800
Amortization of actuarial losses	(569)	(1,099)
Occurring during the year:		
Net actuarial (gains) losses	6,983	(4,302)
Total increase (decrease) in accumulated other comprehensive loss	10,214	(1,601)
Accumulated other comprehensive (income) loss at end of year	\$24,079	\$13,865

The following table presents the amounts in accumulated other comprehensive loss that are expected to be recognized as components of net periodic benefit cost for the postretirement health care benefit plan during the year ended December 31, 2018.

<i>(In thousands)</i>	2018
Net prior service credit	\$(3,470)
Net actuarial loss	\$ 1,283

The following table presents the components of net periodic postretirement health care benefit cost.

<i>(In thousands)</i>	2017	2016	2015
Service cost	\$ 1,026	\$ 1,156	\$ 1,470
Interest cost	5,703	6,021	6,356
Amortization of prior service credit	(3,800)	(3,800)	(3,800)
Recognized net actuarial loss (gain)	569	1,099	996
Net periodic benefit cost	\$ 3,498	\$ 4,476	\$ 5,022

To determine benefit obligation at year end, the Corporation used a weighted average of annual spot rates applied to future expected cash flows for years ended December 31, 2017 and 2016.

The following tables present the discount rate and assumed health care cost trend rates used to determine the benefit obligation and the net periodic benefit cost for the postretirement health care benefit plan.

Weighted average assumptions used to determine benefit obligation at years ended December 31:

	2017	2016
Discount rate for benefit obligation	3.62%	4.10%
Initial health care cost trend rate	5.50%	6.00%
Ultimate health care cost trend rate	5.00%	5.00%
Year that the ultimate trend rate is reached	2019	2019

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

	2017	2016	2015
Discount rate for benefit obligation	4.10%	4.37%	4.00%
Discount rate for service cost	4.30%	4.63%	4.00%
Discount rate for interest cost	3.58%	3.70%	4.00%
Initial health care cost trend rate	6.00%	6.50%	7.00%
Ultimate health care cost trend rate	5.00%	5.00%	5.00%
Year that the ultimate trend rate is reached	2019	2019	2019

Assumed health care trend rates generally have a significant effect on the amounts reported for a health care plan. The following table presents the effects of changes in the assumed health care cost trend rates.

<i>(In thousands)</i>	December 31, 2017	
	1-percentage point increase	1-percentage point decrease
Effect on total service cost and interest cost components for the year ended	\$ 191	\$ (254)
Effect on accumulated postretirement benefit obligation at year end	\$5,328	\$(7,571)

The following table presents information for the postretirement health care benefit plan with an accumulated post retirement benefit obligation in excess of plan assets.

<i>(In thousands)</i>	2017	2016
Projected benefit obligation	\$170,720	\$162,365
Accumulated benefit obligation	170,720	162,365
Fair value of plan assets	—	—

The Corporation expects to contribute \$6.3 million to the postretirement benefit plan in 2018 to fund current benefit payment requirements.

Benefit payments projected to be made on the postretirement health care benefit plan during the next ten years are presented in the following table.

<i>(In thousands)</i>	
2018	\$ 6,259
2019	6,524
2020	6,763
2021	7,024
2022	7,263
2023 - 2027	39,915

Savings plans

The Corporation also provides defined contribution savings plans pursuant to Section 1081.01(d) of the Puerto Rico Internal Revenue Code and Section 401(k) of the U.S. Internal Revenue Code, as applicable, for substantially all the employees of the Corporation. Investments in the plans are participant-directed, and employer matching contributions are determined based on the specific provisions of each plan. Employees are fully vested in the employer's contribution after five years of service. The cost of providing these benefits in the year ended December 31, 2017 was \$10 million (2016 - \$8.8 million, 2015 - \$6.4 million).

The plans held 1,644,706 (2016 - 1,797,267) shares of common stock of the Corporation with a market value of approximately \$58.4 million at December 31, 2017 (2016 - \$78.8 million).

Note 34 - Net income per common share

The following table sets forth the computation of net income per common share (“EPS”), basic and diluted, for the years ended December 31, 2017, 2016 and 2015:

<i>(In thousands, except per share information)</i>	2017	2016	2015
Net income from continuing operations	\$ 107,681	\$ 215,556	\$ 893,997
Net income from discontinued operations	–	1,135	1,347
Preferred stock dividends	(3,723)	(3,723)	(3,723)
Net income applicable to common stock	\$ 103,958	\$ 212,968	\$ 891,621
Average common shares outstanding	101,966,429	103,275,264	102,967,186
Average potential dilutive common shares	78,907	102,019	157,123
Average common shares outstanding - assuming dilution	102,045,336	103,377,283	103,124,309
Basic EPS from continuing operations	\$ 1.02	\$ 2.05	\$ 8.65
Basic EPS from discontinued operations	–	0.01	0.01
Total Basic EPS	\$ 1.02	\$ 2.06	\$ 8.66
Diluted EPS from continuing operations	\$ 1.02	\$ 2.05	\$ 8.64
Diluted EPS from discontinued operations	–	0.01	0.01
Total Diluted EPS	\$ 1.02	\$ 2.06	\$ 8.65

As disclosed in Note 23, during the quarter ended March 31, 2017, the Corporation completed a \$75 million privately negotiated accelerated share repurchase transaction (“ASR”). As part of this transaction, the Corporation entered into a forward contract in which the final number of shares delivered at settlement was based on the average daily volume weighted average price (“VWAP”) of its common stock, net of a discount, during the term of the ASR. Based on the discounted VWAP of \$40.60, the Corporation received 1,847,372 shares of its outstanding common stock.

Potential common shares consist of common stock issuable under the assumed exercise of stock options, restricted stock and performance shares awards using the treasury stock method. This method assumes that the potential common shares are issued and the proceeds from exercise, in addition to the amount of compensation cost attributed to future services, are used to purchase common stock at the exercise date. The difference between the number of potential shares issued and the shares purchased is added as incremental shares to the actual number of shares outstanding to compute diluted earnings per share. Warrants, stock options, restricted stock and performance shares awards, if any, that result in lower

potential shares issued than shares purchased under the treasury stock method are not included in the computation of dilutive earnings per share since their inclusion would have an antidilutive effect in earnings per common share.

For the years ended December 31, 2017, 2016 and 2015, there were no stock options outstanding.

Note 35 - Rental expense and commitments

At December 31, 2017, the Corporation was obligated under a number of non-cancelable leases for land, buildings, and equipment which require rentals as follows:

<i>Year</i>	<i>Minimum payments [1]</i>
	(In thousands)
2018	\$ 31,886
2019	29,845
2020	28,160
2021	26,005
2022	23,077
Later years	107,986
	\$ 246,959

[1] Minimum payments have not been reduced by minimum non-cancelable sublease rentals due in the future of \$ 0.3 million at December 31, 2017.

Total rental expense for all operating leases, except those with terms of a month or less that were not renewed, for the year ended December 31, 2017 was \$ 32.1 million (2016 - \$ 32.4 million; 2015 - \$ 35.9 million), which is included in net occupancy, equipment and communication expenses, according to their nature.

Note 36 - Other service fees

The following table presents the major categories of other service fees for the years ended December 31, 2017, 2016 and 2015.

<i>(In thousands)</i>	2017	2016	2015
Debit card fees	\$ 42,721	\$ 46,241	\$ 46,176
Insurance fees	50,948	63,482	63,976
Credit card fees	67,584	70,526	68,166
Sale and administration of investment products	21,958	21,450	23,846
Trust fees	19,972	18,811	18,866
Other fees	14,084	14,260	15,060
Total other service fees	\$217,267	\$234,770	\$236,090

Note 37 - 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:

<i>(In thousands)</i>	Years ended December 31,		
	2017	2016	2015
Amortization of loss share indemnification asset	\$ (469)	\$ (10,201)	\$(66,238)
80% mirror accounting on credit impairment losses ^[1]	3,136	(239)	15,658
80% mirror accounting on reimbursable expenses	2,454	8,433	73,205
80% mirror accounting on recoveries on covered assets, including rental income on OREOs, subject to reimbursement to the FDIC	2,405	(31,338)	(13,836)
Change in true-up payment obligation	(11,700)	(33,413)	9,559
Arbitration decision charge	-	(136,197)	-
Other	(5,892)	(4,824)	1,714
Total FDIC loss share (expense) income	\$(10,066)	\$(207,779)	\$ 20,062

[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.

Note 38 - Stock-based compensation

Incentive Plan

In April 2004, the Corporation's shareholders adopted the Popular, Inc. 2004 Omnibus Incentive Plan (the 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 (the "graduated vesting portion") and the second part is vested at termination of employment after attaining 55 years of age and 10 years of service (the "retirement vesting portion"). The graduated vesting portion 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 or after 2014 was modified as follows: the first part is vested ratably over four years commencing at the date of the grant (the "graduated vesting portion") 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 "retirement vesting portion"). The graduated vesting portion 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 following table summarizes the restricted stock and performance shares activity under the Incentive Plan for members of management.

<i>(Not in thousands)</i>	Shares	Weighted-average grant date fair value
Non-vested at January 1, 2015	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
Performance Shares Quantity		
Adjustment	39,566	24.37
Vested	(487,784)	27.72
Forfeited	(8,019)	29.13
Non-vested at December 31, 2016	383,982	\$26.35
Granted	212,200	42.57
Performance Shares Quantity		
Adjustment	(232,989)	29.10
Vested	(67,853)	48.54
Non-vested at December 31, 2017	295,340	\$30.75

During the year ended December 31, 2017, 138,516 shares of restricted stock (2016 - 279,890; 2015 - 231,830) were awarded to management under the Incentive Plan.

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. During the year ended December 31, 2017, 73,684 performance shares (2016 - 64,598; 2015 - 91,984) were granted under this plan.

During the year ended December 31, 2017, the Corporation recognized \$ 5.6 million of restricted stock expense related to management incentive awards, with a tax benefit of \$1.1 million (2016 - \$7.3 million, with a tax benefit of \$1.4 million; 2015 - \$10.7 million, with a tax benefit of \$1.6 million). During the year ended December 31, 2017, the fair market value of the restricted stock vested was \$4.4 million at grant date and \$6.4 million at vesting date. This triggers a windfall of \$0.8 million that was recorded as a reduction on income tax expense. During the year ended December 31, 2017 the Corporation recognized \$1.2 million of performance shares expense, with a tax benefit of \$ 0.1 million (2016 - \$1.5 million, with a tax benefit of \$0.1 million; 2015 - \$2.2 million, with a tax benefit of \$0.2 million). The total unrecognized compensation cost related to non-vested restricted stock awards to members of management at December 31, 2017 was \$ 8.0 million and is expected to be recognized over a weighted-average period of 2.3 years.

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

<i>(Not in thousands)</i>	Restricted stock	Weighted-average grant date fair value
Nonvested at January 1, 2015	-	-
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 December 31, 2016	-	-
Granted	25,771	\$38.42
Vested	(25,771)	38.42
Forfeited	-	-
Non-vested at December 31, 2017	-	-

During the year ended December 31, 2017, the Corporation granted 25,771 shares of restricted stock to members of the Board of Directors of Popular, Inc., which became vested at grant date (2016 - 40,517; 2015 - 22,119). During this period, the Corporation recognized \$1.3 million of restricted stock expense related to these restricted stock grants, with a tax benefit of \$0.1 million (2016 - \$1.1 million, with a tax benefit of \$ 0.1 million; 2015 - \$0.5 million, with a tax benefit of \$0.1 million). The fair value at vesting date of the restricted stock vested during the year ended December 31, 2017 for directors was \$ 1.0 million.

Note 39 - Income taxes

The components of income tax expense (benefit) for the years ended December 31, are summarized in the following table.

<i>(In thousands)</i>	2017	2016	2015
Current income tax expense:			
Puerto Rico	\$ 17,356	\$11,031	\$ 16,675
Federal and States	6,046	7,059	7,281
Subtotal	23,402	18,090	23,956
Deferred income tax expense (benefit):			
Puerto Rico	31,132	36,423	63,808
Federal and States	7,938	24,271	(582,936)
Adjustment for enacted changes in income tax laws	168,358	—	—
Subtotal	207,428	60,694	(519,128)
Total income tax expense (benefit)	\$230,830	\$78,784	\$(495,172)

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

<i>(In thousands)</i>	2017		2016		2015	
	Amount	% of pre-tax income	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax at statutory rates	\$132,020	39%	\$114,792	39%	\$ 155,542	39%
Benefit of net tax exempt interest income	(76,815)	(23)	(63,053)	(22)	(60,049)	(15)
Effect of income subject to preferential tax rate	(13,104)	(4)	11,155	4	(10,010)	(3)
Deferred tax asset valuation allowance	20,882	6	16,585	6	(586,159)	(147)
Difference in tax rates due to multiple jurisdictions	(2,217)	(1)	(4,092)	(1)	(3,008)	(1)
Adjustment in net deferred tax due to change in tax law	168,358	50	—	—	—	—
Unrecognized tax benefits	(1,185)	—	(4,442)	(2)	—	—
State and local taxes	4,123	1	9,081	3	4,543	1
Others	(1,232)	—	(1,242)	—	3,969	1
Income tax expense (benefit)	\$230,830	68%	\$ 78,784	27%	\$(495,172)	(125)%

The results for the year ended December 31, 2015, reflect a tax benefit of \$589 million as a result of the partial reversal of the valuation allowance on the Corporation's deferred tax asset from the U.S. operation as further explained below.

During the third quarter of 2017, a reversal of \$1.2 million in the reserve for uncertain tax positions, including interest was recognized due to the expiration of the statute of limitation in the P.R. operations compared to \$4.4 million in the same quarter of 2016.

On December 22, 2017, the President of the United States signed into law the "Tax Cuts and Job Acts" (the "Act"), which resulted in a reduction in the U.S. operations net deferred tax asset with a corresponding charge to income tax expense of

\$168.4 million primarily for a reduction in the marginal corporate income tax rate. Among the most significant provisions of the 2017 Federal Tax Reform was the reduction of the U.S. federal income tax rate from a maximum rate of 35% to a single tax rate of 21%. The Act contains other provisions, effective on January 1, 2018, which may impact the Corporation's tax calculations and related income tax expense in future years. At December 31, 2017, the Corporation had a deferred tax asset amounting to \$1.0 billion, net of a valuation allowance of \$448 million. The DTA related to the U.S. operations was \$348 million, net of a valuation allowance of \$381 million.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Significant components of the Corporation's deferred tax assets and liabilities at December 31 were as follows:

	December 31, 2017		
<i>(In thousands)</i>	PR	US	Total
Deferred tax assets:			
Tax credits available for carryforward	\$ 16,069	\$ 7,979	\$ 24,048
Net operating loss and other carryforward available	115,512	708,158	823,670
Postretirement and pension benefits	85,488	—	85,488
Deferred loan origination fees	3,669	958	4,627
Allowance for loan losses	603,462	20,708	624,170
Deferred gains	—	2,670	2,670
Accelerated depreciation	1,300	7,083	8,383
Intercompany deferred (loss) gains	224	—	224
Difference in outside basis from pass-through entities	30,424	—	30,424
Other temporary differences	25,084	6,901	31,985
Total gross deferred tax assets	881,232	754,457	1,635,689
Deferred tax liabilities:			
FDIC-assisted transaction	60,402	—	60,402
Indefinite-lived intangibles	31,973	33,009	64,982
Unrealized net gain on trading and available-for-sale securities	26,364	(7,961)	18,403
Other temporary differences	9,876	386	10,262
Total gross deferred tax liabilities	128,615	25,434	154,049
Valuation allowance	67,263	380,561	447,824
Net deferred tax asset	\$685,354	\$348,462	\$1,033,816

	December 31, 2016		
<i>(In thousands)</i>	PR	US	Total
Deferred tax assets:			
Tax credits available for carryforward	\$ 16,552	\$ 1,958	\$ 18,510
Net operating loss and other carryforward available	112,929	1,125,293	1,238,222
Postretirement and pension benefits	94,741	—	94,741
Deferred loan origination fees	4,335	2,287	6,622
Allowance for loan losses	628,127	20,980	649,107
Deferred gains	—	4,884	4,884
Accelerated depreciation	605	9,223	9,828
Intercompany deferred (loss) gains	2,496	—	2,496
Difference between the assigned values and the tax basis of assets and liabilities recognized in purchase business combinations	13,160	—	13,160
Other temporary differences	16,417	14,710	31,127
Total gross deferred tax assets	889,362	1,179,335	2,068,697
Deferred tax liabilities:			
FDIC-assisted transaction	58,363	—	58,363
Indefinite-lived intangibles	28,412	45,562	73,974
Unrealized net gain on trading and available-for-sale securities	30,334	(8,999)	21,335
Other temporary differences	7,892	585	8,477
Total gross deferred tax liabilities	125,001	37,148	162,149
Valuation allowance	46,951	617,336	664,287
Net deferred tax asset	\$717,410	\$ 524,851	\$1,242,261

The net deferred tax asset shown in the table above at December 31, 2017 is reflected in the consolidated statements of financial condition as \$1.0 billion in net deferred tax assets (in the “other assets” caption) (2016 - \$1.2 billion in deferred tax asset in the “other assets” caption) and \$1.3 million in deferred tax liabilities (in the “other liabilities” caption) (2016 - \$1.4 million in deferred tax liabilities in the “other liabilities” caption), reflecting the aggregate deferred tax assets or liabilities of individual tax-paying subsidiaries of the Corporation.

Included as part of the other carryforwards available are \$44.2 million related to contributions to BPPR’s qualified pension plan and \$17.4 million of other net operating loss carryforwards (“NOLs”) primarily related to the loss on sale of non-performing assets that have no expiration date since they were realized through a single member limited liability company with partnership election. Additionally, the deferred tax asset related to the NOLs outstanding at December 31, 2017 expires as follows:

(In thousands)

2018	\$ 446
2019	648
2021	46
2022	1,166
2023	901
2024	10,736
2025	14,057
2026	11,608
2027	48,044
2028	291,773
2029	101,969
2030	105,219
2031	86,474
2032	16,053
2033	464
2034	66,268
2037	6,165
	<u>\$762,037</u>

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.

At December 31, 2017 the net deferred tax asset of the U.S. operations amounted to \$729 million with a valuation allowance of approximately \$381 million, for a net deferred tax asset after valuation allowance of approximately \$348 million. 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, 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 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 December 31, 2015, the U.S. operations were not in a three year loss cumulative position, taking into account taxable income exclusive of reversing temporary differences. All of these factors led 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. Accordingly, the Corporation recorded a partial reversal of the valuation allowance on the deferred tax asset from the U.S. operations amounting to approximately \$589 million, during the year ended December 31, 2015. As of December 31, 2017, management estimated that the U.S. operations would earn enough pre-tax Income during the carryover period to realize the total amount of net deferred tax asset after valuation allowance. After weighting all available positive and negative evidence, management concluded that it is more likely than not that a portion of the deferred tax asset from the U.S. operation, amounting to approximately \$348 million, will be realized. Management will continue to evaluate the realization of the deferred tax asset each quarter and adjust as any changes arise.

At December 31, 2017, the Corporation’s net deferred tax assets related to its Puerto Rico operations amounted to \$685 million.

The Corporation’s Puerto Rico Banking operation is not in a cumulative loss position and has sustained profitability for the three year period ended December 31, 2017. 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 in a cumulative loss position, taking into account taxable income exclusive of reversing temporary differences, for the three years period ending December 31, 2017. Management expect these losses will be a trend in future years. This objectively verifiable negative evidence 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, the Corporation has maintained a full valuation allowance on the deferred tax asset of \$67 million as of December 2017.

Under the Puerto Rico Internal Revenue Code, the Corporation and its subsidiaries are treated as separate taxable entities and are not entitled to file consolidated tax returns. However, certain subsidiaries that are organized as limited liability companies with a partnership election are treated as pass-through entities for Puerto Rico tax purposes. The Code provides a dividends-received deduction of 100% on dividends received from “controlled” subsidiaries subject to taxation in Puerto Rico and 85% on dividends received from other taxable domestic corporations.

The Corporation’s subsidiaries in the United States file a consolidated federal income tax return. The intercompany settlement of taxes paid is based on tax sharing agreements which generally allocate taxes to each entity based on a separate return basis.

The following table presents a reconciliation of unrecognized tax benefits.

<i>(In millions)</i>	
Balance at January 1, 2016	\$ 9.0
Additions for tax positions related to 2016	1.1
Additions for tax positions taken in prior years	0.3
Reduction as a result of lapse of statute of limitations	(3.0)
Balance at December 31, 2016	\$ 7.4
Additions for tax positions related to 2017	1.1
Reduction as a result of lapse of statute of limitations	(0.9)
Reduction as a result of settlements	(0.3)
Balance at December 31, 2017	\$ 7.3

At December 31, 2017, the total amount of interest recognized in the statement of financial condition approximated \$2.7 million (2016 - \$2.9 million). The total interest expense recognized during 2017 was \$598 thousand net of the reduction of \$505 thousand due to settlement and \$353 thousand due to the expiration of the statute of limitations (2016 - \$1.2 million). Management determined that, as of December 31, 2017 and 2016, 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 \$9.0 million at December 31, 2017 (2016 - \$9.0 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 statute of limitations, 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. As of December 31, 2017, the following years remain subject to examination in the U.S. Federal jurisdiction – 2014 and thereafter and in the Puerto Rico jurisdiction – 2013 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 \$4.6 million.

Note 40 - Supplemental disclosure on the consolidated statements of cash flows

Additional disclosures on cash flow information and non-cash activities for the years ended December 31, 2017, 2016 and 2015 are listed in the following table:

<i>(In thousands)</i>	2017	2016	2015
Income taxes paid	\$ 2,433	\$ 3,763	\$ 7,152
Interest paid	221,432	212,353	193,503
Non-cash activities:			
Loans transferred to other real estate	82,035	117,334	136,368
Loans transferred to other property	27,407	28,614	36,106
Total loans transferred to foreclosed assets	109,442	145,948	172,474
Financed sales of other real estate assets	11,237	15,452	24,104
Financed sales of other foreclosed assets	8,435	17,351	22,745
Total financed sales of foreclosed assets	19,672	32,803	46,849
Transfers from loans held-in-portfolio to loans held-for-sale	2,472	7,249	65,063
Transfers from loans held-for-sale to loans held-in-portfolio	1,705	5,947	17,065
Transfers from trading securities to available-for-sale securities	–	–	63,645
Loans securitized into investment securities [1]	462,033	775,612	1,088,121
Trades receivables from brokers and counterparties	7,514	46,630	78,759
Trades payable to brokers and counterparties	2	102	6,150
Receivables from investments securities	70,000	–	–
Recognition of mortgage servicing rights on securitizations or asset transfers	7,661	10,884	13,460
Interest capitalized on loans subject to the temporary payment moratorium	46,944	–	–
Loans booked under the GNMA buy-back option	790,942	91,255	58,568

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

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 net cash proceeds of approximately \$731 million for consideration of the assets and liabilities acquired.

Note 41 - 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.

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 December 31, 2017, 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, Inc., 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, Inc. supported BPNA's deposit gathering through its online platform until March 31, 2017, when said operations were transferred to Popular Direct, a division of BPNA. During the third quarter of 2015, BPNA and E-LOAN, Inc. completed an asset purchase and sale transaction in which E-LOAN, Inc. 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, Inc. After the close of the above mentioned asset purchase and sale transaction, additional disclosures with respect to E-LOAN, Inc. are no longer considered relevant to the financial statements and accordingly are not presented. During 2017, the E-LOAN brand was transferred to BPPR and is being used to offer personal loans through an online platform. 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 including: 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.

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

December 31, 2017			
(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	\$ 1,279,844	\$ 280,946	\$ (217)
Provision for loan losses	253,032	77,944	-
Non-interest income	364,164	20,430	(572)
Amortization of intangibles	8,713	665	-
Depreciation expense	39,162	8,553	-
Other operating expenses	957,924	170,042	(551)
Income tax expense	72,741	191,749	(93)
Net income	\$ 312,436	\$ (147,577)	\$ (145)
Segment assets	\$34,843,668	\$9,168,256	\$(16,992)

December 31, 2017				
(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	\$ 1,560,573	\$ (58,609)	\$ -	\$ 1,501,964
Provision for loan losses	330,976	403	(5,955)	325,424
Non-interest income	384,022	37,949	(2,804)	419,167
Amortization of intangibles	9,378	-	-	9,378
Depreciation expense	47,715	649	-	48,364
Other operating expenses	1,127,415	74,731	(2,692)	1,199,454
Income tax expense (benefit)	264,397	(35,835)	2,268	230,830
Net income (loss)	\$ 164,714	\$ (60,608)	\$ 3,575	\$ 107,681
Segment assets	\$43,994,932	\$5,046,153	\$(4,763,748)	\$44,277,337

December 31, 2016			
(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	\$ 1,224,771	\$ 258,416	\$ (474)
Provision for loan losses	154,785	15,266	-
Non-interest income	243,368	21,651	(119)
Amortization of intangibles	11,479	665	-
Goodwill impairment charge	3,801	-	-
Depreciation expense	39,505	6,715	-
Other operating expenses	952,894	174,585	(779)
Income tax expense	75,615	36,712	92
Net income	\$ 230,060	\$ 46,124	\$ 94
Segment assets	\$29,841,854	\$8,629,439	\$(31,397)

December 31, 2016				
(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	\$ 1,482,713	\$ (60,658)	\$ -	\$ 1,422,055
Provision (reversal) for loan losses	170,051	(35)	-	170,016
Non-interest income	264,900	35,705	(2,669)	297,936
Amortization of intangibles	12,144	-	-	12,144
Goodwill impairment charge	3,801	-	-	3,801
Depreciation expense	46,220	654	-	46,874
Other operating expenses	1,126,700	68,694	(2,578)	1,192,816
Income tax expense (benefit)	112,419	(33,617)	(18)	78,784
Net income (loss)	\$ 276,278	\$ (60,649)	\$ (73)	\$ 215,556
Segment assets	\$38,439,896	\$4,982,113	\$(4,760,400)	\$38,661,609

December 31, 2015			
(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	\$ 1,231,585	\$ 239,379	\$ -
Provision for loan losses	240,817	626	-
Non-interest income	464,786	22,667	125
Amortization of intangibles	10,465	554	-
Depreciation expense	40,440	6,272	-
Other operating expenses	970,201	188,102	-
Income tax expense (benefit)	116,058	(580,738)	-
Net income	\$ 318,390	\$ 647,230	\$ 125
Segment assets	\$27,907,350	\$7,780,002	\$(129,038)

December 31, 2015				
(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	\$ 1,470,964	\$ (61,981)	\$ –	\$ 1,408,983
Provision for loan losses	241,443	35	–	241,478
Non-interest income	487,578	34,486	(2,523)	519,541
Amortization of intangibles	11,019	–	–	11,019
Depreciation expense	46,712	762	–	47,474
Other operating expenses	1,158,303	74,212	(2,787)	1,229,728
Income tax benefit	(464,680)	(30,595)	103	(495,172)
Net income (loss)	\$ 965,745	\$ (71,909)	\$ 161	\$ 893,997
Segment assets	\$35,558,314	\$4,945,704	\$(4,742,285)	\$35,761,733

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

December 31, 2017					
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	\$ 518,404	\$ 753,922	\$ 7,499	\$ 19	\$ 1,279,844
Provision for loan losses	8,911	244,121	–	–	253,032
Non-interest income	79,630	194,741	90,222	(429)	364,164
Amortization of intangibles	211	4,274	4,228	–	8,713
Depreciation expense	17,338	21,120	704	–	39,162
Other operating expenses	239,369	656,998	62,030	(473)	957,924
Income tax expense	93,378	(31,404)	10,767	–	72,741
Net income	\$ 238,827	\$ 53,554	\$ 19,992	\$ 63	\$ 312,436
Segment assets	\$21,735,909	\$20,180,173	\$520,717	\$(7,593,131)	\$34,843,668

December 31, 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	\$ 472,948	\$ 742,854	\$ 6,172	\$ 2,797	\$ 1,224,771
Provision for loan losses	12,884	141,901	–	–	154,785
Non-interest income	(91,411)	232,113	103,005	(339)	243,368
Amortization of intangibles	145	7,042	4,292	–	11,479
Goodwill impairment charge	–	–	3,801	–	3,801
Depreciation expense	16,956	21,684	865	–	39,505
Other operating expenses	251,375	631,234	70,624	(339)	952,894
Income tax expense	41,639	24,068	9,908	–	75,615
Net income	\$ 58,538	\$ 149,038	\$ 19,687	\$ 2,797	\$ 230,060
Segment assets	\$15,263,278	\$17,592,743	\$406,429	\$(3,420,596)	\$29,841,854

December 31, 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	\$ 457,119	\$ 760,157	\$ 7,793	\$ 6,516	\$ 1,231,585
Provision for loan losses	101,840	138,977	–	–	240,817
Non-interest income	113,697	248,024	103,464	(399)	464,786
Amortization of intangibles	7	7,330	3,128	–	10,465
Depreciation expense	16,984	22,385	1,071	–	40,440
Other operating expenses	281,995	617,973	70,632	(399)	970,201
Income tax expense	48,793	55,429	11,836	–	116,058
Net income	\$ 121,197	\$ 166,087	\$ 24,590	\$ 6,516	\$ 318,390
Segment assets	\$12,169,349	\$15,662,115	\$392,658	\$(316,772)	\$27,907,350

Geographic Information

(In thousands)	2017	2016	2015
Revenues: [1]			
Puerto Rico	\$1,527,758	\$1,361,663	\$1,598,066
United States	318,093	283,349	255,714
Other	75,280	74,979	74,744
Total consolidated revenues	\$1,921,131	\$1,719,991	\$1,928,524

[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)	2017	2016	2015
Puerto Rico			
Total assets	\$33,705,624	\$28,813,289	\$26,764,689
Loans	17,591,078	16,880,868	17,477,070
Deposits	27,575,292	23,185,551	20,893,232
United States			
Total assets	\$9,648,865	\$8,928,475	\$7,858,712
Loans	6,608,056	5,799,562	4,873,504
Deposits	6,635,153	6,266,473	5,288,886
Other			
Total assets	\$922,848	\$919,845	\$1,138,332
Loans	743,329	755,017	778,656
Deposits [1]	1,243,063	1,044,200	1,027,605

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

Note 42 - Subsequent events

On February 14, 2018, Banco Popular de Puerto Rico, entered into an agreement to acquire and assume from Reliable Financial Services, Inc. and Reliable Finance Holding Company, subsidiaries of Wells Fargo & Company (“Wells Fargo”), certain assets and liabilities related to Wells Fargo’s auto finance business in Puerto Rico (“Reliable”).

As part of the transaction, Banco Popular will acquire approximately \$1.5 billion in retail auto loans and \$340 million in commercial loans. The acquired auto loan portfolio has credit characteristics that are similar to Banco Popular’s existing self-originated portfolio. Banco Popular will also acquire certain other assets and assume certain liabilities of Reliable.

The purchase price for the all-cash transaction is expected to be approximately \$1.7 billion, reflecting an aggregate discount of 4.5% on the assets to be acquired. Banco Popular will fund the purchase price with existing liquidity. The transaction is not subject to the receipt by the parties of any further regulatory approvals. Subject to satisfaction of customary

closing conditions, Popular anticipates the transaction to close during the second quarter of 2018.

On or after closing, Reliable employees will become employees of Banco Popular. Reliable will continue operating independently as a division of Banco Popular for a period of time after closing, before integrating Reliable’s operations with Popular Auto’s.

The Corporation will account for this transaction as a business combination under U.S. GAAP, in accordance with ASC 805.

Note 43 - Popular, Inc. (holding company only) financial information

The following condensed financial information presents the financial position of Popular, Inc. Holding Company only at December 31, 2017 and 2016, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2017.

Condensed Statements of Condition

	December 31,	
<i>(In thousands)</i>	2017	2016
ASSETS		
Cash and due from banks (includes \$47,663 due from bank subsidiary (2016 – \$47,614))	\$ 47,663	\$ 47,783
Money market investments	246,457	252,347
Trading account securities	3,985	2,640
Other investment securities, at lower of cost or realizable value (includes \$8,725 in common securities from statutory trusts (2016 – \$8,725)) ^[1]	9,850	9,850
Investment in BPPR and subsidiaries, at equity	3,727,383	3,658,451
Investment in Popular North America and subsidiaries, at equity	1,534,640	1,707,167
Investment in other non-bank subsidiaries, at equity	232,387	243,993
Other loans	33,221	1,142
Less – Allowance for loan losses	266	2
Premises and equipment	3,365	3,067
Investment in equity method investees	49,777	51,259
Other assets (includes \$1,096 due from subsidiaries and affiliate (2016 – \$936))	18,025	11,257
Total assets	\$5,906,487	\$5,988,954
LIABILITIES AND STOCKHOLDERS' EQUITY		
Notes payable	\$ 737,685	\$ 735,600
Other liabilities (includes \$2,033 due to subsidiaries and affiliate (2016 – \$2,574))	64,813	55,309
Stockholders' equity	5,103,989	5,198,045
Total liabilities and stockholders' equity	\$5,906,487	\$5,988,954
^[1] Refer to Note 22 to the consolidated financial statements for information on the statutory trusts.		

Condensed Statements of Operations

<i>(In thousands)</i>	Years ended December 31,		
	2017	2016	2015
Income:			
Dividends from subsidiaries	\$211,500	\$102,300	\$ 41,350
Interest income (includes \$3,183 due from subsidiaries and affiliates (2016 – \$1,965; 2015 – \$1,188))	4,238	2,141	1,332
Earnings from investments in equity method investees	11,761	12,352	13,710
Other operating income	86	–	–
Gain on sale and valuation adjustment of investment securities	–	1,767	–
Trading account profit (loss)	266	90	(187)
Total income	227,851	118,650	56,205
Expenses:			
Interest expense	52,470	52,470	52,470
Provision (reversal of provision) for loan losses	403	(35)	35
Operating expenses (includes expenses for services provided by subsidiaries and affiliate of \$8,225 (2016 – \$8,160 ; 2015 – \$7,309)), net of reimbursement by subsidiaries for services provided by parent of \$76,720 (2016 – \$74,573 ; 2015 – \$74,799)	(1,773)	(4,208)	(1,293)
Total expenses	51,100	48,227	51,212
Income before income taxes and equity in undistributed earnings of subsidiaries	176,751	70,423	4,993
Income tax expense (benefit)	–	19	(186)
Income before equity in undistributed earnings of subsidiaries	176,751	70,404	5,179
Equity in undistributed (losses) earnings of subsidiaries	(69,070)	145,152	888,818
Income from continuing operations	107,681	215,556	893,997
Equity in undistributed earnings of discontinued operations	–	1,135	1,347
Net income	\$107,681	\$216,691	\$895,344
Comprehensive income, net of tax	\$ 77,315	\$153,291	\$868,330

Condensed Statements of Cash Flows

<i>(In thousands)</i>	Years ended December 31,		
	2017	2016	2015
Cash flows from operating activities:			
Net income	\$ 107,681	\$ 216,691	\$ 895,344
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in undistributed earnings of subsidiaries, net of dividends or distributions	69,070	(146,287)	(890,165)
Provision (reversal) for loan losses	403	(35)	35
Net accretion of discounts and amortization of premiums and deferred fees	2,086	2,087	2
Earnings from investments under the equity method	(11,761)	(12,352)	(13,710)
Deferred income tax (benefit) expense	–	19	(186)
Gain on:			
Sale and valuation adjustments of investment securities	–	(1,767)	–
Net (increase) decrease in:			
Trading securities	(1,345)	(620)	(380)
Other assets	12,191	4,473	8,781
Net increase (decrease) in:			
Other liabilities	3,230	(3,854)	(5,622)
Total adjustments	73,874	(158,336)	(901,245)
Net cash provided by (used in) operating activities	181,555	58,355	(5,901)
Cash flows from investing activities:			
Net decrease (increase) in money market investments	5,890	9,857	(242,457)
Proceeds from sale of investment securities:			
Available-for-sale	–	278	–
Other	–	1,583	–
Capital contribution to subsidiaries	(5,955)	–	–
Net decrease in advances to subsidiaries and affiliates	–	–	53,769
Net repayments on other loans	181	35	24
Return of capital from equity method investments	500	433	11,500
Return of capital from wholly owned subsidiaries	22,400	14,000	203,000
Acquisition of loans portfolio	(31,909)	–	–
Acquisition of trademark	(5,560)	–	–
Acquisition of premises and equipment	(965)	(953)	(1,079)
Proceeds from sale of:			
Premises and equipment	23	56	9
Foreclosed assets	38	434	–
Net cash (used in) provided by investing activities	(15,357)	25,723	24,766
Cash flows from financing activities:			
Proceeds from issuance of common stock	7,016	7,437	6,226
Dividends paid	(95,910)	(65,932)	(19,257)
Net payments for repurchase of common stock	(75,668)	(475)	(1,021)
Payments related to tax withholding for share-based compensation	(1,756)	(1,623)	(963)
Net cash used in financing activities	(166,318)	(60,593)	(15,015)
Net (decrease) increase in cash and due from banks	(120)	23,485	3,850
Cash and due from banks at beginning of period	47,783	24,298	20,448
Cash and due from banks at end of period	\$ 47,663	\$ 47,783	\$ 24,298

Popular, Inc. (parent company only) received dividend distributions from its direct equity method investees amounting to \$3.5 million for the year ended December 31, 2017 (2016 - \$4.7 million).

Notes payable include junior subordinated debentures issued by the Corporation that are associated to capital securities issued by the Popular Capital Trust I, Popular Capital Trust II and Popular Capital Trust III and medium-term notes. Refer to Note 22 for a description of significant provisions related to these junior subordinated debentures. The following table presents the aggregate amounts by contractual maturities of notes payable at December 31, 2017:

<i>Year</i>	(In thousands)
2018	\$ —
2019	446,873
2020	—
2021	—
2022	—
Later years	290,812
No stated maturity	—
Total	\$737,685

Note 44 - 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 December 31, 2017 and 2016, and the results of their operations and cash flows for the periods ended December 31, 2017, 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.

Condensed Consolidating Statement of Financial Condition

At December 31, 2017

<i>(In thousands)</i>	Popular Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Assets:					
Cash and due from banks	\$ 47,663	\$ 462	\$ 402,910	\$ (48,178)	\$ 402,857
Money market investments	246,457	2,807	5,254,662	(248,807)	5,255,119
Trading account securities, at fair value	3,985	–	39,303	(101)	43,187
Investment securities available-for-sale, at fair value	–	–	10,178,738	–	10,178,738
Investment securities held-to-maturity, at amortized cost	–	–	93,821	–	93,821
Other investment securities, at lower of cost or realizable value	9,850	4,492	152,883	–	167,225
Investment in subsidiaries	5,494,410	1,646,287	–	(7,140,697)	–
Loans held-for-sale, at lower of cost or fair value	–	–	132,395	–	132,395
Loans held-in-portfolio:					
Loans not covered under loss-sharing agreements with the FDIC	33,221	–	24,384,251	5,955	24,423,427
Loans covered under loss-sharing agreements with the FDIC	–	–	517,274	–	517,274
Less - Unearned income	–	–	130,633	–	130,633
Allowance for loan losses	266	–	623,160	–	623,426
Total loans held-in-portfolio, net	32,955	–	24,147,732	5,955	24,186,642
FDIC loss-share asset	–	–	45,192	–	45,192
Premises and equipment, net	3,365	–	543,777	–	547,142
Other real estate not covered under loss-sharing agreements with the FDIC	–	–	169,260	–	169,260
Other real estate covered under loss-sharing agreements with the FDIC	–	–	19,595	–	19,595
Accrued income receivable	369	112	213,574	(211)	213,844
Mortgage servicing assets, at fair value	–	–	168,031	–	168,031
Other assets	61,319	34,312	1,912,727	(17,035)	1,991,323
Goodwill	–	–	627,294	–	627,294
Other intangible assets	6,114	–	29,558	–	35,672
Total assets	\$5,906,487	\$ 1,688,472	\$44,131,452	\$ (7,449,074)	\$44,277,337
Liabilities and Stockholders' Equity					
Liabilities:					
Deposits:					
Non-interest bearing	\$ –	\$ –	\$ 8,539,123	\$ (48,178)	\$ 8,490,945
Interest bearing	–	–	27,211,370	(248,807)	26,962,563
Total deposits	–	–	35,750,493	(296,985)	35,453,508
Assets sold under agreements to repurchase	–	–	390,921	–	390,921
Other short-term borrowings	–	–	96,208	–	96,208
Notes payable	737,685	148,539	650,132	–	1,536,356
Other liabilities	64,813	5,276	1,641,383	(15,033)	1,696,439
Total liabilities	802,498	153,815	38,529,137	(312,018)	39,173,432
Stockholders' equity:					
Preferred stock	50,160	–	–	–	50,160
Common stock	1,042	2	56,307	(56,309)	1,042
Surplus	4,289,976	4,100,848	5,728,978	(9,821,299)	4,298,503
Retained earnings (accumulated deficit)	1,203,521	(2,536,707)	165,878	2,362,302	1,194,994
Treasury stock, at cost	(90,058)	–	–	(84)	(90,142)
Accumulated other comprehensive loss, net of tax	(350,652)	(29,486)	(348,848)	378,334	(350,652)
Total stockholders' equity	5,103,989	1,534,657	5,602,315	(7,137,056)	5,103,905
Total liabilities and stockholders' equity	\$5,906,487	\$ 1,688,472	\$44,131,452	\$ (7,449,074)	\$44,277,337

Condensed Consolidating Statement of Financial Condition

At December 31, 2016

<i>(In thousands)</i>	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Assets:					
Cash and due from banks	\$ 47,783	\$ 591	\$ 362,101	\$ (48,081)	\$ 362,394
Money market investments	252,347	13,263	2,891,670	(267,063)	2,890,217
Trading account securities, at fair value	2,640	–	57,297	(132)	59,805
Investment securities available-for-sale, at fair value	–	–	8,209,806	–	8,209,806
Investment securities held-to-maturity, at amortized cost	–	–	98,101	–	98,101
Other investment securities, at lower of cost or realizable value	9,850	4,492	153,476	–	167,818
Investment in subsidiaries	5,609,611	1,818,127	–	(7,427,738)	–
Loans held-for-sale, at lower of cost or fair value	–	–	88,821	–	88,821
Loans held-in-portfolio:					
Loans not covered under loss-sharing agreements with the FDIC	1,142	–	22,894,030	–	22,895,172
Loans covered under loss-sharing agreements with the FDIC	–	–	572,878	–	572,878
Less - Unearned income	–	–	121,425	–	121,425
Allowance for loan losses	2	–	540,649	–	540,651
Total loans held-in-portfolio, net	1,140	–	22,804,834	–	22,805,974
FDIC loss-share asset	–	–	69,334	–	69,334
Premises and equipment, net	3,067	–	540,914	–	543,981
Other real estate not covered under loss-sharing agreements with the FDIC	81	–	180,364	–	180,445
Other real estate covered under loss-sharing agreements with the FDIC	–	–	32,128	–	32,128
Accrued income receivable	112	138	137,882	(90)	138,042
Mortgage servicing assets, at fair value	–	–	196,889	–	196,889
Other assets	61,770	25,146	2,073,562	(14,968)	2,145,510
Goodwill	–	–	627,294	–	627,294
Other intangible assets	553	–	44,497	–	45,050
Total assets	\$5,988,954	\$ 1,861,757	\$38,568,970	\$ (7,758,072)	\$38,661,609
Liabilities and Stockholders' Equity					
Liabilities:					
Deposits:					
Non-interest bearing	\$ –	\$ –	\$ 7,028,524	\$ (48,081)	\$ 6,980,443
Interest bearing	–	–	23,782,844	(267,063)	23,515,781
Total deposits	–	–	30,811,368	(315,144)	30,496,224
Assets sold under agreements to repurchase	–	–	479,425	–	479,425
Other short-term borrowings	–	–	1,200	–	1,200
Notes payable	735,600	148,512	690,740	–	1,574,852
Other liabilities	55,309	6,034	865,861	(15,253)	911,951
Total liabilities	790,909	154,546	32,848,594	(330,397)	33,463,652
Stockholders' equity:					
Preferred stock	50,160	–	–	–	50,160
Common stock	1,040	2	56,307	(56,309)	1,040
Surplus	4,246,495	4,111,207	5,717,066	(9,819,746)	4,255,022
Retained earnings (accumulated deficit)	1,228,834	(2,382,049)	264,944	2,108,578	1,220,307
Treasury stock, at cost	(8,198)	–	–	(88)	(8,286)
Accumulated other comprehensive loss, net of tax	(320,286)	(21,949)	(317,941)	339,890	(320,286)
Total stockholders' equity	5,198,045	1,707,211	5,720,376	(7,427,675)	5,197,957
Total liabilities and stockholders' equity	\$5,988,954	\$ 1,861,757	\$38,568,970	\$ (7,758,072)	\$38,661,609

Condensed Consolidating Statement of Operations

Year ended December 31, 2017

<i>(In thousands)</i>	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	\$211,500	\$ —	\$ —	\$(211,500)	\$ —
Loans	1,056	—	1,477,713	(4)	1,478,765
Money market investments	2,616	54	51,495	(2,670)	51,495
Investment securities	566	322	190,309	—	191,197
Trading account securities	—	—	4,487	—	4,487
Total interest and dividend income	215,738	376	1,724,004	(214,174)	1,725,944
Interest expense:					
Deposits	—	—	144,534	(2,670)	141,864
Short-term borrowings	—	—	5,728	(4)	5,724
Long-term debt	52,470	10,767	13,155	—	76,392
Total interest expense	52,470	10,767	163,417	(2,674)	223,980
Net interest income (expense)	163,268	(10,391)	1,560,587	(211,500)	1,501,964
Provision for loan losses- non-covered loans	403	—	325,234	(5,955)	319,682
Provision for loan losses- covered loans	—	—	5,742	—	5,742
Net interest income (expense) after provision for loan losses	162,865	(10,391)	1,229,611	(205,545)	1,176,540
Service charges on deposit accounts	—	—	153,709	—	153,709
Other service fees	—	—	220,073	(2,806)	217,267
Mortgage banking activities	—	—	25,496	—	25,496
Net gain on sale of investment securities	—	—	334	—	334
Other-than-temporary impairment losses on investment securities	—	—	(8,299)	—	(8,299)
Trading account profit (loss)	266	—	(1,110)	27	(817)
Net loss on sale of loans, including valuation adjustments on loans held-for-sale	—	—	(420)	—	(420)
Adjustments (expense) to indemnity reserves on loans sold	—	—	(22,377)	—	(22,377)
FDIC loss-share expense	—	—	(10,066)	—	(10,066)
Other operating income	11,847	921	51,598	(26)	64,340
Total non-interest income	12,113	921	408,938	(2,805)	419,167
Operating expenses:					
Personnel costs	47,561	—	436,669	—	484,230
Net occupancy expenses	3,876	—	85,318	—	89,194
Equipment expenses	2,925	2	62,215	—	65,142
Other taxes	217	—	43,165	—	43,382
Professional fees	11,766	(427)	281,585	(436)	292,488
Communications	549	—	21,917	—	22,466
Business promotion	2,014	—	56,431	—	58,445
FDIC deposit insurance	—	—	26,392	—	26,392
Other real estate owned (OREO) expenses	42	—	48,498	—	48,540
Other operating expenses	(70,723)	51	190,467	(2,256)	117,539
Amortization of intangibles	—	—	9,378	—	9,378
Total operating expenses	(1,773)	(374)	1,262,035	(2,692)	1,257,196
Income (loss) before income tax and equity in earnings of subsidiaries	176,751	(9,096)	376,514	(205,658)	338,511
Income tax (benefit) expense	—	(8,382)	236,944	2,268	230,830
Income (loss) before equity in earnings of subsidiaries	176,751	(714)	139,570	(207,926)	107,681
Equity in undistributed earnings of subsidiaries	(69,070)	(153,944)	—	223,014	—
Net income (loss)	\$107,681	\$(154,658)	\$ 139,570	\$ 15,088	\$ 107,681
Comprehensive income (loss), net of tax	\$ 77,315	\$(162,195)	\$ 108,663	\$ 53,532	\$ 77,315

Condensed Consolidating Statement of Operations

Year ended December 31, 2016

<i>(In thousands)</i>	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	\$102,300	\$ —	\$ —	\$(102,300)	\$ —
Loans	78	—	1,459,642	—	1,459,720
Money market investments	1,399	101	16,428	(1,500)	16,428
Investment securities	664	322	151,025	—	152,011
Trading account securities	—	—	6,414	—	6,414
Total interest and dividend income	104,441	423	1,633,509	(103,800)	1,634,573
Interest expense:					
Deposits	—	—	129,077	(1,500)	127,577
Short-term borrowings	—	—	7,812	—	7,812
Long-term debt	52,470	10,769	13,890	—	77,129
Total interest expense	52,470	10,769	150,779	(1,500)	212,518
Net interest income (expense)	51,971	(10,346)	1,482,730	(102,300)	1,422,055
Provision (reversal) for loan losses- non-covered loans	(35)	—	171,161	—	171,126
Provision (reversal) for loan losses- covered loans	—	—	(1,110)	—	(1,110)
Net interest income (expense) after provision for loan losses	52,006	(10,346)	1,312,679	(102,300)	1,252,039
Service charges on deposit accounts	—	—	160,836	—	160,836
Other service fees	—	—	237,342	(2,572)	234,770
Mortgage banking activities	—	—	56,538	—	56,538
Net gain on sale of investment securities	1,767	—	195	—	1,962
Other-than temporary impairment losses on investment securities	—	—	(209)	—	(209)
Trading account profit (loss)	90	—	(831)	(44)	(785)
Net gain on sale of loans, including valuation adjustments on loans held-for-sale	—	—	8,245	—	8,245
Adjustments (expense) to indemnity reserves on loans sold	—	—	(17,285)	—	(17,285)
FDIC loss-share expense	—	—	(207,779)	—	(207,779)
Other operating income (loss)	12,352	(2,559)	51,903	(53)	61,643
Total non-interest income (loss)	14,209	(2,559)	288,955	(2,669)	297,936
Operating expenses:					
Personnel costs	48,032	—	439,444	—	487,476
Net occupancy expenses	3,630	—	82,023	—	85,653
Equipment expenses	2,807	—	59,418	—	62,225
Other taxes	187	1	42,116	—	42,304
Professional fees	10,817	122	312,517	(413)	323,043
Communications	520	—	23,377	—	23,897
Business promotion	2,261	—	50,753	—	53,014
FDIC deposit insurance	—	—	24,512	—	24,512
Other real estate owned (OREO) expenses	52	—	47,067	—	47,119
Other operating expenses	(72,514)	60	165,066	(2,165)	90,447
Amortization of intangibles	—	—	12,144	—	12,144
Goodwill impairment charge	—	—	3,801	—	3,801
Total operating expenses	(4,208)	183	1,262,238	(2,578)	1,255,635
Income (loss) before income tax and equity in earnings of subsidiaries	70,423	(13,088)	339,396	(102,391)	294,340
Income tax expense (benefit)	19	(4,581)	83,364	(18)	78,784
Income (loss) before equity in earnings of subsidiaries	70,404	(8,507)	256,032	(102,373)	215,556
Equity in undistributed earnings of subsidiaries	145,152	41,574	—	(186,726)	—
Income from continuing operations	215,556	33,067	256,032	(289,099)	215,556
Income from discontinued operations, net of tax	—	—	1,135	—	1,135
Equity in undistributed earnings of discontinued operations	1,135	1,135	—	(2,270)	—
Net Income	\$216,691	\$ 34,202	\$ 257,167	\$(291,369)	\$ 216,691
Comprehensive income, net of tax	\$153,291	\$ 20,108	\$ 195,118	\$(215,226)	\$ 153,291

Condensed Consolidating Statement of Operations

Year ended December 31, 2015

<i>(In thousands)</i>	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	\$ 41,350	\$ —	\$ —	\$ (41,350)	\$ —
Loans	673	3	1,458,613	(583)	1,458,706
Money market investments	40	8	7,245	(50)	7,243
Investment securities	619	322	125,123	—	126,064
Trading account securities	—	—	11,001	—	11,001
Total interest and dividend income	42,682	333	1,601,982	(41,983)	1,603,014
Interest Expense:					
Deposits	—	—	107,583	(50)	107,533
Short-term borrowings	—	502	7,593	(583)	7,512
Long-term debt	52,470	10,779	15,737	—	78,986
Total interest expense	52,470	11,281	130,913	(633)	194,031
Net interest (expense) income	(9,788)	(10,948)	1,471,069	(41,350)	1,408,983
Provision for loan losses- non-covered loans	35	—	217,423	—	217,458
Provision for loan losses- covered loans	—	—	24,020	—	24,020
Net interest (expense) income after provision for loan losses	(9,823)	(10,948)	1,229,626	(41,350)	1,167,505
Service charges on deposit accounts	—	—	160,108	—	160,108
Other service fees	—	—	238,566	(2,476)	236,090
Mortgage banking activities	—	—	81,802	—	81,802
Net gain and valuation adjustments on investment securities	—	—	141	—	141
Other-than temporary impairment losses on investment securities	—	—	(14,445)	—	(14,445)
Trading account loss	(187)	—	(4,536)	—	(4,723)
Net gain on sale of loans, including valuation adjustments on loans held-for-sale	—	—	542	—	542
Adjustments (expense) to indemnity reserves on loans sold	—	—	(18,628)	—	(18,628)
FDIC loss-share income	—	—	20,062	—	20,062
Other operating income (loss)	13,710	(244)	45,173	(47)	58,592
Total non-interest income (loss)	13,523	(244)	508,785	(2,523)	519,541
Operating expenses:					
Personnel costs	49,112	—	428,407	—	477,519
Net occupancy expenses	3,591	—	83,297	—	86,888
Equipment expenses	2,240	—	57,870	—	60,110
Other taxes	(822)	—	40,619	—	39,797
Professional fees	11,384	504	297,392	(295)	308,985
Communications	519	—	24,627	—	25,146
Business promotion	1,868	—	50,208	—	52,076
FDIC deposit insurance	—	—	27,626	—	27,626
Other real estate owned (OREO) expenses	—	—	85,568	—	85,568
Other operating expenses	(69,185)	463	166,289	(2,492)	95,075
Amortization of intangibles	—	—	11,019	—	11,019
Restructuring costs	—	—	18,412	—	18,412
Total operating expenses	(1,293)	967	1,291,334	(2,787)	1,288,221
Income (loss) before income tax and equity in earnings of subsidiaries	4,993	(12,159)	447,077	(41,086)	398,825
Income tax (benefit) expense	(186)	305	(495,394)	103	(495,172)
Income (loss) before equity in earnings of subsidiaries	5,179	(12,464)	942,471	(41,189)	893,997
Equity in undistributed earnings of subsidiaries	888,818	638,341	—	(1,527,159)	—
Income from continuing operations	893,997	\$625,877	942,471	(1,568,348)	893,997
Income from discontinued operations, net of tax	—	—	1,347	—	1,347
Equity in undistributed earnings of discontinued operations	1,347	1,347	—	(2,694)	—
Net Income	\$895,344	\$627,224	\$ 943,818	\$(1,571,042)	\$ 895,344
Comprehensive income, net of tax	\$868,330	\$623,433	\$ 916,942	\$(1,540,375)	\$ 868,330

Condensed Consolidating Statement of Cash Flows

Year ended December 31, 2017

(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Cash flows from operating activities:					
Net income (loss)	\$ 107,681	\$(154,658)	\$ 139,570	\$ 15,088	\$ 107,681
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Equity in earnings of subsidiaries, net of dividends or distributions	69,070	153,944	—	(223,014)	—
Provision for loan losses	403	—	325,021	—	325,424
Amortization of intangibles	—	—	9,378	—	9,378
Depreciation and amortization of premises and equipment	649	—	47,715	—	48,364
Net accretion of discounts and amortization of premiums and deferred fees	2,086	27	(24,423)	—	(22,310)
Impairment losses on long-lived assets	—	—	4,784	—	4,784
Other-than-temporary impairment on investment securities	—	—	8,299	—	8,299
Fair value adjustments on mortgage servicing rights	—	—	36,519	—	36,519
FDIC loss-share expense	—	—	10,066	—	10,066
Adjustments to indemnity reserves on loans sold	—	—	22,377	—	22,377
Earnings from investments under the equity method	(11,761)	(921)	(21,401)	—	(34,083)
Deferred income tax (benefit) expense	—	(8,382)	215,864	(54)	207,428
(Gain) loss on:					
Disposition of premises and equipment and other productive assets	(8)	—	4,289	—	4,281
Sale and valuation adjustments of investment securities	—	—	(334)	—	(334)
Sale of loans, including valuation adjustments on loans held for sale and mortgage banking activities	—	—	(16,670)	—	(16,670)
Sale of foreclosed assets, including write-downs	42	—	21,673	—	21,715
Acquisitions of loans held-for-sale	—	—	(244,385)	—	(244,385)
Proceeds from sale of loans held-for-sale	—	—	69,464	—	69,464
Net originations on loans held-for-sale	—	—	(315,522)	—	(315,522)
Net (increase) decrease in:					
Trading securities	(1,345)	—	502,994	(31)	501,618
Accrued income receivable	(748)	26	(75,201)	121	(75,802)
Other assets	12,256	—	(64,886)	2,122	(50,508)
Net increase(decrease) in:					
Interest payable	—	—	2,670	(121)	2,549
Pension and other postretirement benefits obligations	—	—	(13,100)	—	(13,100)
Other liabilities	3,230	(758)	25,466	341	28,279
Total adjustments	73,874	143,936	530,657	(220,636)	527,831
Net cash provided by (used in) operating activities	181,555	(10,722)	670,227	(205,548)	635,512
Cash flows from investing activities:					
Net decrease (increase) in money market investments	5,890	10,455	(2,362,992)	(18,255)	(2,364,902)
Purchases of investment securities:					
Available-for-sale	—	—	(4,139,762)	—	(4,139,762)
Other	—	—	(29,672)	—	(29,672)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:					
Available-for-sale	—	—	2,023,295	—	2,023,295
Held-to-maturity	—	—	6,232	—	6,232
Proceeds from sale of investment securities:					
Available for sale	—	—	14,992	—	14,992
Other	—	—	30,265	—	30,265
Net repayments (disbursements) on loans	181	—	(398,857)	—	(398,676)
Proceeds from sale of loans	—	—	38,279	(37,864)	415
Acquisition of loan portfolios	(31,909)	—	(541,489)	37,864	(535,534)
Acquisition of trademark	(5,560)	—	5,560	—	—
Net payments from FDIC under loss-sharing agreements	—	—	(7,679)	—	(7,679)
Return of capital from equity method investments	500	138	8,056	—	8,694
Capital contribution to subsidiary	(5,955)	—	5,955	—	—
Return of capital from wholly-owned subsidiaries	22,400	10,400	—	(32,800)	—
Acquisition of premises and equipment	(965)	—	(61,732)	—	(62,697)
Proceeds from sale of:					
Premises and equipment and other productive assets	23	—	9,730	—	9,753
Foreclosed assets	38	—	96,502	—	96,540
Net cash (used in) provided by investing activities	(15,357)	20,993	(5,303,317)	(51,055)	(5,348,736)
Cash flows from financing activities:					
Net increase (decrease) in:					
Deposits	—	—	4,935,948	18,157	4,954,105
Assets sold under agreements to repurchase	—	—	(88,505)	—	(88,505)
Other short-term borrowings	—	—	95,008	—	95,008
Payments of notes payable	—	—	(95,607)	—	(95,607)
Proceeds from issuance of notes payable	—	—	55,000	—	55,000
Proceeds from issuance of common stock	7,016	—	—	—	7,016
Dividends paid to parent company	—	—	(211,500)	211,500	—
Dividends paid	(95,910)	—	—	—	(95,910)
Net payments for repurchase of common stock	(75,668)	—	—	4	(75,664)
Return of capital to parent company	—	(10,400)	(22,400)	32,800	—
Capital contribution from parent	—	—	5,955	(5,955)	—
Payments related to tax withholding for share-based compensation	(1,756)	—	—	—	(1,756)
Net cash (used in) provided by financing activities	(166,318)	(10,400)	4,673,899	256,506	4,753,687
Net (decrease) increase in cash and due from banks	(120)	(129)	40,809	(97)	40,463
Cash and due from banks at beginning of period	47,783	591	362,101	(48,081)	362,394
Cash and due from banks at end of period	\$ 47,663	\$ 462	\$ 402,910	\$ (48,178)	\$ 402,857

During the year ended December 31, 2017 there have not been any cash flows associated with discontinued operations.

Condensed Consolidating Statement of Cash Flows

Year ended December 31, 2016

<i>(In thousands)</i>	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Cash flows from operating activities:					
Net income	\$ 216,691	\$ 34,202	\$ 257,167	\$(291,369)	\$ 216,691
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Equity in earnings of subsidiaries, net of dividends or distributions	(146,287)	(42,709)	–	188,996	–
Provision (reversal) for loan losses	(35)	–	170,051	–	170,016
Goodwill impairment losses	–	–	3,801	–	3,801
Amortization of intangibles	–	–	12,144	–	12,144
Depreciation and amortization of premises and equipment	654	–	46,220	–	46,874
Net accretion of discounts and amortization of premiums and deferred fees	2,087	28	(42,901)	–	(40,786)
Other-than-temporary impairment on investment securities	–	–	209	–	209
Fair value adjustments on mortgage servicing rights	–	–	25,336	–	25,336
FDIC loss-share expense	–	–	207,779	–	207,779
Adjustments (expense) to indemnity reserves on loans sold	–	–	17,285	–	17,285
(Earnings) losses from investments under the equity method	(12,352)	2,559	(21,495)	–	(31,288)
Deferred income tax expense (benefit)	19	(4,581)	66,154	(18)	61,574
(Gain) loss on:					
Disposition of premises and equipment and other productive assets	(2)	–	4,096	–	4,094
Sale and valuation adjustments of investment securities	(1,767)	–	(195)	–	(1,962)
Sale of loans, including valuation adjustments on loans held for sale and mortgage banking activities	–	–	(35,517)	–	(35,517)
Sale of foreclosed assets, including write-downs	52	–	19,305	–	19,357
Acquisitions of loans held-for-sale	–	–	(310,217)	–	(310,217)
Proceeds from sale of loans held-for-sale	–	–	89,887	–	89,887
Net originations on loans held-for-sale	–	–	(510,783)	–	(510,783)
Net (increase) decrease in:					
Trading securities	(620)	–	754,326	133	753,839
Accrued income receivable	(27)	(23)	(13,812)	54	(13,808)
Other assets	3,796	(3)	(27,125)	(2,972)	(26,304)
Net increase (decrease) in:					
Interest payable	–	–	219	(54)	165
Pension and other postretirement benefits obligations	–	–	(55,678)	–	(55,678)
Other liabilities	(3,854)	(624)	(11,781)	3,018	(13,241)
Total adjustments	(158,336)	(45,353)	387,308	189,157	372,776
Net cash provided by (used in) operating activities	58,355	(11,151)	644,475	(102,212)	589,467
Cash flows from investing activities:					
Net decrease (increase) in money market investments	9,857	10,668	(711,782)	(18,868)	(710,125)
Purchases of investment securities:					
Available-for-sale	–	–	(3,407,779)	–	(3,407,779)
Other	–	–	(14,130)	–	(14,130)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:					
Available-for-sale	–	–	1,227,966	–	1,227,966
Held-to-maturity	–	–	4,588	–	4,588
Other	–	–	11,122	–	11,122
Proceeds from sale of investment securities:					
Available for sale	278	–	4,981	–	5,259
Other	1,583	–	7,438	–	9,021
Net repayments (disbursements) on loans	35	–	(267,240)	–	(267,205)
Proceeds from sale of loans	–	–	141,363	–	141,363
Acquisition of loan portfolios	–	–	(535,445)	–	(535,445)
Net payments from FDIC under loss-sharing agreements	–	–	98,518	–	98,518
Return of capital from equity method investments	433	474	–	–	907
Return of capital from wholly-owned subsidiaries	14,000	–	–	(14,000)	–
Acquisition of premises and equipment	(953)	–	(99,367)	–	(100,320)
Proceeds from sale of:					
Premises and equipment and other productive assets	56	–	8,841	–	8,897
Foreclosed assets	434	–	82,923	–	83,357
Net cash provided by (used in) investing activities	25,723	11,142	(3,448,003)	(32,868)	(3,444,006)
Cash flows from financing activities:					
Net increase (decrease) in:					
Deposits	–	–	3,290,797	(4,369)	3,286,428
Assets sold under agreements to repurchase	–	–	(282,719)	–	(282,719)
Payments of notes payable	–	–	(254,816)	–	(254,816)
Proceeds from issuance of notes payable	–	–	165,047	–	165,047
Proceeds from issuance of common stock	7,437	–	–	–	7,437
Dividends paid to parent company	–	–	(102,300)	102,300	–
Dividends paid	(65,932)	–	–	–	(65,932)
Net payments for repurchase of common stock	(475)	–	–	(88)	(563)
Return of capital to parent company	–	–	(14,000)	14,000	–
Payments related to tax withholding for share-based compensation	(1,623)	–	–	–	(1,623)
Net cash (used in) provided by financing activities	(60,593)	–	2,802,009	111,843	2,853,259
Net increase (decrease) in cash and due from banks	23,485	(9)	(1,519)	(23,237)	(1,280)
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	\$ 47,783	\$ 591	\$ 362,101	\$ (48,081)	\$ 362,394

The Condensed Consolidating Statement of Cash Flows for the year ended December 31, 2016 includes the cash flows from operating, investing and financing activities associated with discontinued operations.

Condensed Consolidating Statement of Cash Flows

Year ended December 31, 2015

(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Cash flows from operating activities:					
Net income	\$ 895,344	\$ 627,224	\$ 943,818	\$(1,571,042)	\$ 895,344
Adjustments to reconcile net income to net cash (used in) provided by operating activities:					
Equity in undistributed earnings losses of subsidiaries, net of dividends or distributions	(890,165)	(639,688)	—	1,529,853	—
Provision for loan losses	35	—	241,443	—	241,478
Amortization of intangibles	—	—	11,019	—	11,019
Depreciation and amortization of premises and equipment	761	—	46,713	—	47,474
Net accretion of discounts and amortization of premiums and deferred fees	2	—	(73,498)	—	(73,496)
Other-than-temporary impairment on investment securities	—	—	14,445	—	14,445
Fair value adjustments on mortgage servicing rights	—	—	7,904	—	7,904
FDIC loss share income	—	—	(20,062)	—	(20,062)
Adjustments (expense) to indemnity reserves on loans sold	—	—	18,628	—	18,628
(Earnings) losses from investments under the equity method	(13,710)	244	(10,907)	—	(24,373)
Deferred income tax benefit	(186)	—	(519,045)	103	(519,128)
(Gain) loss on:					
Disposition of premises and equipment and other productive assets	(2)	—	(3,627)	—	(3,629)
Sale and valuation adjustments of investment securities	—	—	(141)	—	(141)
Sale of loans, including valuation adjustments on loans held for sale and mortgage banking activities	—	—	(35,013)	—	(35,013)
Sale of foreclosed assets, including write-downs	—	—	60,378	—	60,378
Acquisitions of loans held-for-sale	—	—	(401,991)	—	(401,991)
Proceeds from sale of loans held-for-sale	—	—	124,111	—	124,111
Net originations on loans held-for-sale	—	—	(792,821)	—	(792,821)
Net (increase) decrease in:					
Trading securities	(380)	—	1,084,063	—	1,083,683
Accrued income receivable	(10)	(3)	5,395	10	5,392
Other assets	8,032	342	92,032	(273)	100,133
Net (decrease) increase in:					
Interest payable	—	(26)	564	(10)	528
Pension and other postretirement benefits obligations	—	—	3,252	—	3,252
Other liabilities	(5,622)	(187)	(67,180)	9	(72,980)
Total adjustments	(901,245)	(639,318)	(214,338)	1,529,692	(225,209)
Net cash (used in) provided by operating activities	(5,901)	(12,094)	729,480	(41,350)	670,135
Cash flows from investing activities:					
Net increase in money market investments	(242,457)	(23,574)	(376,248)	284,573	(357,706)
Purchases of investment securities:					
Available-for-sale	—	—	(2,014,315)	—	(2,014,315)
Held-to-maturity	—	—	(750)	—	(750)
Other	—	—	(40,847)	—	(40,847)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:					
Available-for-sale	—	—	1,362,712	—	1,362,712
Held-to-maturity	—	—	4,856	—	4,856
Other	—	—	46,341	—	46,341
Proceeds from sale of investment securities:					
Available for sale	—	—	96,760	—	96,760
Other	—	—	14,950	—	14,950
Net repayments on loans	53,793	350	431,302	(53,769)	431,676
Proceeds from sale of loans	—	—	30,160	—	30,160
Acquisition of loan portfolios	—	(350)	(338,097)	—	(338,447)
Acquisition of trademark	—	—	(50)	—	(50)
Net payments from FDIC under loss-sharing agreements	—	—	247,976	—	247,976
Net cash received and acquired from business combination	—	—	731,279	—	731,279
Acquisition of servicing assets	—	—	(61,304)	—	(61,304)
Cash paid related to business acquisitions	—	—	(17,250)	—	(17,250)
Return of capital from equity method investments	11,500	1,829	—	—	13,329
Return of capital from wholly-owned subsidiaries	203,000	200,000	—	(403,000)	—
Mortgage servicing rights purchased	—	—	(2,400)	—	(2,400)
Acquisition of premises and equipment	(1,079)	—	(61,577)	—	(62,656)
Proceeds from sale of:					
Premises and equipment and other productive assets	9	—	12,871	—	12,880
Foreclosed assets	—	—	141,145	—	141,145
Net cash provided by investing activities	24,766	178,255	207,514	(172,196)	238,339
Cash flows from financing activities:					
Net increase (decrease) in:					
Deposits	—	—	495,904	(288,566)	207,338
Assets sold under agreements to repurchase	—	—	(509,512)	—	(509,512)
Other short-term borrowings	—	—	(201,984)	53,769	(148,215)
Payments of notes payable	—	(8,169)	(729,720)	—	(737,889)
Proceeds from issuance of notes payable	—	—	277,398	—	277,398
Proceeds from issuance of common stock	6,226	—	—	—	6,226
Dividends paid to parent company	—	—	(41,350)	41,350	—
Dividends paid	(19,257)	—	—	—	(19,257)
Net payments for repurchase of common stock	(1,021)	—	—	—	(1,021)
Return of capital to parent company	—	(158,000)	(245,000)	403,000	—
Payments related to tax withholding for share-based compensation	(963)	—	—	—	(963)
Net cash used in financing activities	(15,015)	(166,169)	(954,264)	209,553	(925,895)
Net increase (decrease) in cash and due from banks	3,850	(8)	(17,270)	(3,993)	(17,421)
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	\$ 24,298	\$ 600	\$ 363,620	\$ (24,844)	\$ 363,674

The Condensed Consolidating Statement of Cash Flows for the year ended December 31, 2015 includes the cash flows from operating, investing and financing activities associated with discontinued operations.

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