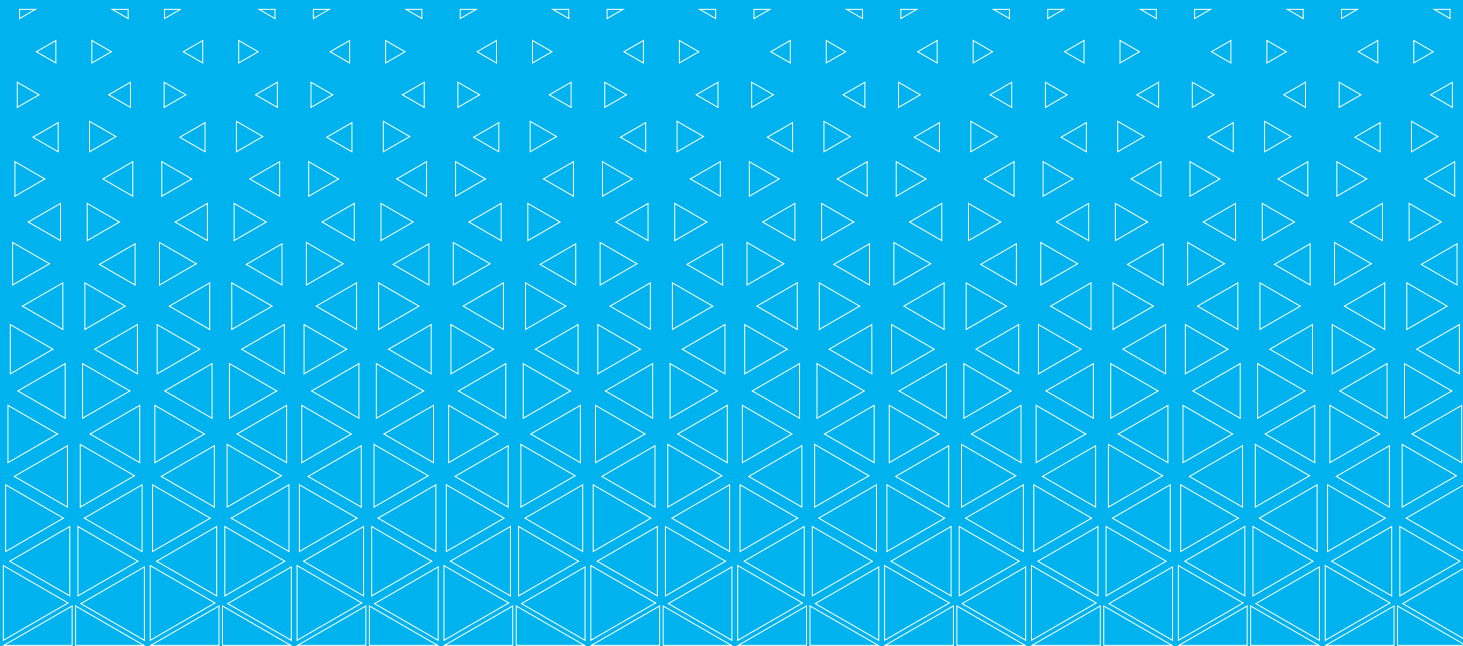


2019

ANNUAL

REPORT

INFORME ANUAL



2019 ANNUAL REPORT

INFORME ANUAL



CONTENTS

ÍNDICE

| | |
|--|----|
| Letter from the President & Chief Executive Officer..... | 3 |
| 25-Year Historical Financial Summary..... | 6 |
| Management & Board of Directors..... | 8 |
| Carta del Presidente y Principal Oficial Ejecutivo..... | 9 |
| Resumen Financiero Histórico (25 años)..... | 12 |
| Gerencia y Junta de Directores..... | 14 |

Popular, Inc. (NASDAQ: BPOP) is the leading financial institution by both assets and deposits in Puerto Rico and ranks among the top 50 U.S. bank holding companies by assets. Founded in 1893, Banco Popular de Puerto Rico, Popular's principal subsidiary, provides retail, mortgage and commercial banking services in Puerto Rico and the U.S. Virgin Islands. Popular also offers in Puerto Rico auto and equipment leasing and financing, investment banking, broker-dealer and insurance services through specialized subsidiaries. In the mainland United States, Popular provides retail, mortgage and commercial banking services through its New York-chartered banking subsidiary, Popular Bank, which has branches located in New York, New Jersey and Florida.

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 2020 Annual Stockholders' Meeting of Popular, Inc. will be held on Tuesday, May 12, at 9:00 a.m. at the penthouse of the Popular Center Building, San Juan, Puerto Rico.

Popular, Inc. (NASDAQ: BPOP) es la institución bancaria líder en depósitos y activos en Puerto Rico y se encuentra entre las primeras 50 entidades tenedoras de instituciones bancarias por número de activos. Fundado en 1893, Banco Popular de Puerto Rico, la principal subsidiaria de Popular, brinda servicios de banca individual, hipotecas y banca comercial en Puerto Rico e Islas Vírgenes estadounidenses. Popular también ofrece en Puerto Rico servicios de financiamiento de autos y equipo, inversiones y seguros a través de subsidiarias especializadas. En Estados Unidos, Popular provee servicios de banca individual, hipotecas y banca comercial a través de su filial bancaria en Nueva York, Popular Bank, la cual cuenta con sucursales localizadas en Nueva York, Nueva Jersey y Florida.

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 2020 de Popular, Inc., se llevará a cabo el martes, 12 de mayo, a las 9:00 a.m. en el piso PH de Popular Center, San Juan, Puerto Rico.

POPULAR, INC. YEAR IN REVIEW

DEAR SHAREHOLDERS:

2019 was an outstanding year for Popular. We achieved record core earnings, positive credit quality results, deposit and loan growth, in our Puerto Rico and United States operations, and maintained a robust capital position.

Net income for 2019 was \$671 million, compared to \$618 million in the previous year. Our 2018 results included the benefit of \$159 million, related to the early termination of the FDIC shared-loss agreements, and a \$28 million expense related to the impact of the Puerto Rico tax reform on our deferred tax asset. After excluding the effects of these items, adjusted net income in 2018 was \$487 million.

The adjusted increase of \$184 million in net income this year was driven primarily by higher net interest income and a lower provision for loan losses. During 2019 we benefitted from the full-year impact of the Reliable acquisition, loan growth in both markets and continued increases in deposit balances in Puerto Rico that, in turn, allowed us to increase the contribution from our investment portfolio. Additionally, during 2019 we recognized a \$26 million income tax benefit related to exempt interest income from loans earned in prior years.

We continued to experience stable credit quality metrics. Non-performing assets declined by 13%, when compared to the previous year, and the net charge-off ratio was 0.96%, compared to 1.13% in 2018. These results reflect positive performance both in Puerto Rico and the United States. While net-charge offs increased in the United States as we continued to work through the taxi medallion portfolio, this exposure was reduced to \$19 million.

Capital levels remained strong with year-end Tier 1 Capital and Tier 1 Common ratios of 17.8%. In 2019 we increased the quarterly common stock dividend, from \$0.25 to \$0.30 per share, and repurchased \$250 million in common stock. We also announced several capital actions we will execute in 2020, including an increase in the quarterly common stock dividend from \$0.30 to \$0.40 per share and a common stock repurchase program of up to \$500 million.

Popular's shares closed 2019 at \$58.75, 24% higher than in 2018. This performance compares favorably against our U.S. peers and the KBW Nasdaq Regional Banking Index, both of which increased 20% in the year.



2019 WAS AN OUTSTANDING YEAR FOR POPULAR. WE ACHIEVED RECORD CORE EARNINGS, POSITIVE CREDIT QUALITY RESULTS, DEPOSIT AND LOAN GROWTH, IN OUR PUERTO RICO AND UNITED STATES OPERATIONS, AND MAINTAINED A ROBUST CAPITAL POSITION.

WE CONTINUED TO EXECUTE OUR BUSINESS STRATEGY, STRUCTURED AROUND FOUR PILLARS.

SUSTAINABLE AND PROFITABLE GROWTH:



In Puerto Rico, we added 45,000 customers to reach 1.8 million, 915,000 of which actively used our digital channels. We grew loans and deposits by 1.5% and 10%, respectively. Our auto loan portfolio increased by 12%, evidencing the successful integration of the Reliable acquisition. At year-end, we acquired a \$74 million credit card portfolio in Puerto Rico and, in a separate transaction, acquired the rights to issue credit cards under the JetBlue co-branded loyalty program in Puerto Rico. In the United States, we grew loans and deposits each by 9%. We continued expanding our niche businesses, mainly condo association banking and health care lending.

SIMPLICITY:



We continued to leverage technology and process optimization to streamline our operations to achieve efficiencies, improve both the customer and employee experience and position the Corporation for future growth. Progress in 2019 included an acceleration in the deployment of robotic process automation technology and the expansion of our process efficiency program, which is based on the LEAN methodology.

CUSTOMER FOCUS:



We dedicated significant resources to reinforce our service culture, offering new tools and development opportunities to all our employees. We also continued the transformation of our branch network in Puerto Rico and the United States, increasingly integrating technology to enhance our customers' experience regardless of how they choose to interact with us. For example, in Puerto Rico we launched a new branch model focused on providing banking services via digital channels and self-service technology. We sought additional opportunities to serve the underserved. We opened a branch in Virgin Gorda in the British Virgin Islands, and we are proud to serve this community as the only bank branch on the island.

FIT FOR THE FUTURE:



We continued to invest in our talent and risk management infrastructures. Regarding our people, we implemented initiatives related to development, compensation, leadership and recognition. While ensuring we have the necessary talent today, we are anticipating and preparing for future needs. In the area of internal controls, we focused on our compliance program, particularly on strengthening the first line of defense, and on bolstering our cybersecurity program.

Popular's steadfast commitment to our customers, our people and our communities is an intrinsic part of how we conduct our business. That commitment inspired the founding of Popular 126 years ago, has manifested itself throughout our history and today is stronger than ever. We are proud of our tradition as a responsible corporate citizen, yet aware that local and global challenges facing our communities require more deliberate action from everyone, including the private sector. To this end, in 2019 we embarked on a process to formalize our priorities regarding environmental, social and governance (or ESG) practices. As part of this process, we will establish specific targets, track our progress and communicate our results regularly. We are convinced that continuous improvement in these areas provides the foundation for the long-term success of our company and our ability to deliver value to all our stakeholders.

I would like to acknowledge the hard work of over 8,000 colleagues in Puerto Rico, the United States and the Virgin Islands, which made possible our accomplishments in 2019. In recognition of our strong financial results and achievements during the year, our Board of Directors approved the maximum possible award under our Profit Sharing Plan for the second consecutive year.

Early in 2020, our team demonstrated once again its resiliency and solidarity after a series of seismic events, including a magnitude 6.4 earthquake, impacted the southwestern region of Puerto Rico. Our employees in affected areas responded admirably, going above and beyond the call of duty to assist our clients and communities, with overwhelming support of their colleagues in other parts of the island and beyond. We also swiftly responded through our foundation, Fundación Banco Popular, to deliver immediate aid as well as longer-term support to communities in need.

I take this opportunity to express, on behalf of everyone at Popular, our heartfelt appreciation to Richard L. Carrión, who in 2019 transitioned from his role of Executive Chairman to non-executive Chairman of the Board of Directors. Richard's exemplary service in Popular spanned over four decades, including 26 years as CEO. Richard has been a truly iconic leader and a great source of support in my transition as CEO. We are fortunate to have his continued guidance as Chairman of the Board.

I also wish to express my gratitude to William J. Teuber, Jr., who retired from the Board of Directors to devote greater time to other professional responsibilities. Bill was a valuable member of the Board for the past 15 years and played an important role as lead director for the last eight years. His significant contributions made Popular a better organization, and we wish him the best in his future endeavors.

Finally, I would like to thank you, our shareholders, for your confidence in us. We began this year energized and positive about our prospects. Our franchise in Puerto Rico is unrivaled, with an extensive branch network, innovative digital solutions and an unmatched array of retail and commercial products and services. Puerto Rico's economic recovery from the impact of the 2017 hurricanes and recent seismic events represent both a tremendous responsibility and opportunity. We are uniquely poised to foster the island's economic recovery. Our operation in the mainland United States, while more focused, provides geographic diversification and potential for growth, particularly in selected niches where we have proved we can compete effectively.

We look forward to 2020 with optimism, ready to face the challenges we will undoubtedly encounter and to take advantage of the opportunities that will also arise.



IGNACIO ALVAREZ
President and Chief Executive Officer
Popular, Inc.



Popular, Inc., Senior Management Team: (seated left to right) Beatriz Castellví Armas, Luis Cestero, Juan O. Guerrero, Camille Burckhart, Lidio V. Soriano, (standing left to right) Gilberto Monzón, Eduardo J. Negrón, Carlos J. Vázquez, Ignacio Alvarez, Manuel A. China, Javier D. Ferrer, Eli S. Sepúlveda.

25-YEAR HISTORICAL FINANCIAL SUMMARY

(Dollars in millions, except per share data)

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Selected Financial Information | | | | | | | | | | | |
| Net Income (Loss) | \$146.4 | \$185.2 | \$209.6 | \$232.3 | \$257.6 | \$276.1 | \$304.5 | \$351.9 | \$470.9 | \$489.9 | \$540.7 |
| Assets | 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 | 44,401.6 | 48,623.7 |
| Gross Loans | 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 | 28,742.3 | 31,710.2 |
| Deposits | 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 | 20,593.2 | 22,638.0 |
| Stockholders' Equity | 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 | 3,104.6 | 3,449.2 |
| Market Capitalization | \$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 | \$7,685.6 | \$5,836.5 |
| Return on Average Assets (ROAA) | 1.04% | 1.14% | 1.14% | 1.14% | 1.08% | 1.04% | 1.09% | 1.11% | 1.36% | 1.23% | 1.17% |
| Return on Average Common Equity (ROACE) | 14.22% | 16.17% | 15.83% | 15.41% | 15.45% | 15.00% | 14.84% | 16.29% | 19.30% | 17.60% | 17.12% |
| Per Common Share¹ | | | | | | | | | | | |
| Net Income (Loss) - Basic | \$5.24 | \$6.69 | \$7.51 | \$8.26 | \$9.19 | \$9.85 | \$10.87 | \$13.05 | \$17.36 | \$17.95 | \$19.78 |
| Net Income (Loss) - Diluted | 5.24 | 6.69 | 7.51 | 8.26 | 9.19 | 9.85 | 10.87 | 13.05 | 17.36 | 17.92 | 19.74 |
| Dividends (Declared) | 1.54 | 1.83 | 2.00 | 2.50 | 3.00 | 3.20 | 3.80 | 4.00 | 5.05 | 6.20 | 6.40 |
| Book Value | 39.52 | 43.98 | 51.83 | 59.32 | 57.54 | 69.62 | 79.67 | 91.02 | 96.60 | 109.45 | 118.22 |
| Market Price | 48.44 | 84.38 | 123.75 | 170.00 | 139.69 | 131.56 | 145.40 | 169.00 | 224.25 | 288.30 | 211.50 |
| Assets by Geographical Area | | | | | | | | | | | |
| Puerto Rico | 75% | 74% | 74% | 71% | 71% | 72% | 68% | 66% | 62% | 55% | 53% |
| United States | 21% | 22% | 23% | 25% | 25% | 26% | 30% | 32% | 36% | 43% | 45% |
| Caribbean and Latin America | 4% | 4% | 3% | 4% | 4% | 2% | 2% | 2% | 2% | 2% | 2% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Traditional Delivery System | | | | | | | | | | | |
| Banking Branches | | | | | | | | | | | |
| Puerto Rico | 166 | 178 | 201 | 198 | 199 | 199 | 196 | 195 | 193 | 192 | 194 |
| Virgin Islands | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| United States ² | 40 | 44 | 63 | 89 | 91 | 95 | 96 | 96 | 97 | 128 | 136 |
| Subtotal | 214 | 230 | 272 | 295 | 298 | 302 | 300 | 299 | 298 | 328 | 338 |
| Non-Banking Offices | | | | | | | | | | | |
| Popular Financial Holdings | 91 | 102 | 117 | 128 | 137 | 136 | 149 | 153 | 181 | 183 | 212 |
| Popular Cash Express | | | | 51 | 102 | 132 | 154 | 195 | 129 | 114 | 4 |
| Popular Finance | 31 | 39 | 44 | 48 | 47 | 61 | 55 | 36 | 43 | 43 | 49 |
| Popular Auto (including Reliable) | 9 | 8 | 10 | 10 | 12 | 12 | 20 | 18 | 18 | 18 | 17 |
| Popular Leasing, U.S.A. | | | 7 | 8 | 10 | 11 | 13 | 13 | 11 | 15 | 14 |
| Popular Mortgage | 3 | 3 | 3 | 11 | 13 | 21 | 25 | 29 | 32 | 30 | 33 |
| Popular Securities | | 1 | 2 | 2 | 2 | 3 | 4 | 7 | 8 | 9 | 12 |
| Popular One | | | | | | | | | | | |
| Popular Insurance and Popular Risk Services | | | | | | 2 | 2 | 2 | 2 | 2 | 2 |
| Popular Insurance Agency, U.S.A. | | | | | | | 1 | 1 | 1 | 1 | 1 |
| Popular Insurance V.I. | | | | | | | | 1 | 1 | 1 | 1 |
| E-LOAN | | | | | | | | | | | 1 |
| EVERTEC | | | | | 4 | 4 | 4 | 5 | 5 | 5 | 5 |
| Subtotal | 134 | 153 | 183 | 258 | 327 | 382 | 427 | 460 | 431 | 421 | 351 |
| Total | 348 | 383 | 455 | 553 | 625 | 684 | 727 | 759 | 729 | 749 | 689 |
| Electronic Delivery System | | | | | | | | | | | |
| ATMs Owned | | | | | | | | | | | |
| Puerto Rico | 281 | 327 | 391 | 421 | 442 | 478 | 524 | 539 | 557 | 568 | 583 |
| Virgin Islands | 8 | 9 | 17 | 59 | 68 | 37 | 39 | 53 | 57 | 59 | 61 |
| United States | 38 | 53 | 71 | 94 | 99 | 109 | 118 | 131 | 129 | 163 | 181 |
| Total | 327 | 389 | 479 | 574 | 609 | 624 | 681 | 723 | 743 | 790 | 825 |
| Employees (full-time equivalent) | 7,815 | 7,996 | 8,854 | 10,549 | 11,501 | 10,651 | 11,334 | 11,037 | 11,474 | 12,139 | 13,210 |

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | \$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 | \$618.2 | \$671.1 |
| | 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 | 47,604.6 | 52,115.3 |
| | 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 | 26,559.3 | 27,466.1 |
| | 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 | 39,710.0 | 43,758.6 |
| | 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 | 5,435.1 | 6,016.8 |
| | \$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 | \$4,719.3 | \$5,615.9 |
| | 0.74% | -0.14% | -3.04% | -1.57% | 0.36% | 0.40% | 0.68% | 1.65% | -0.89% | 2.54% | 0.58% | 0.26% | 1.33% | 1.33% |
| | 9.73% | -2.08% | -44.47% | -32.95% | 4.37% | 4.01% | 6.37% | 14.43% | -7.04% | 19.16% | 4.07% | 1.96% | 11.39% | 11.78% |
| | \$12.41 | \$(2.73) | \$(45.51) | \$2.39 | \$(0.62) | \$1.44 | \$2.36 | \$5.80 | \$(3.08) | \$8.66 | \$2.06 | \$1.02 | \$6.07 | \$6.89 |
| | 12.41 | (2.73) | (45.51) | 2.39 | (0.62) | 1.44 | 2.35 | 5.78 | (3.08) | 8.65 | 2.06 | 1.02 | 6.06 | 6.88 |
| | 6.40 | 6.40 | 4.80 | 0.20 | - | - | - | - | - | 0.30 | 0.60 | 1.00 | 1.00 | 1.20 |
| | 123.18 | 121.24 | 63.29 | 38.91 | 36.67 | 37.71 | 39.35 | 44.26 | 40.76 | 48.79 | 49.60 | 49.51 | 53.88 | 62.42 |
| | 179.50 | 106.00 | 51.60 | 22.60 | 31.40 | 13.90 | 20.79 | 28.73 | 34.05 | 28.34 | 43.82 | 35.49 | 47.22 | 58.75 |
| | 52% | 59% | 64% | 65% | 74% | 74% | 73% | 72% | 80% | 75% | 75% | 76% | 77% | 78% |
| | 45% | 38% | 33% | 32% | 23% | 23% | 24% | 25% | 17% | 22% | 23% | 22% | 21% | 20% |
| | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 2% | 2% | 2% | 2% |
| | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | 191 | 196 | 179 | 173 | 185 | 183 | 175 | 171 | 168 | 173 | 171 | 168 | 163 | 164 |
| | 8 | 8 | 8 | 8 | 8 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 10 |
| | 142 | 147 | 139 | 101 | 96 | 94 | 92 | 90 | 47 | 50 | 51 | 51 | 51 | 51 |
| | 341 | 351 | 326 | 282 | 289 | 286 | 276 | 270 | 224 | 232 | 231 | 228 | 223 | 225 |
| | 158 | 134 | 2 | | | | | | | | | | | |
| | 52 | 51 | 9 | | | | | | | | | | | |
| | 15 | 12 | 12 | 10 | 10 | 10 | 10 | 9 | 9 | 9 | 9 | 9 | 12 | 12 |
| | 11 | 24 | 22 | | | | | | | | | | | |
| | 32 | 32 | 32 | 33 | 36 | 37 | 37 | 38 | 25 | 24 | 17 | 14 | 14 | 14 |
| | 12 | 13 | 7 | 6 | 6 | 4 | 4 | 3 | 3 | 3 | 2 | 2 | 2 | 2 |
| | | | | | | 4 | 5 | 6 | 6 | 6 | 5 | 5 | 5 | 5 |
| | 2 | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 2 | 2 | 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 | 1 | | | | | | | | | | | |
| | 7 | 9 | 9 | 9 | | | | | | | | | | |
| | 292 | 280 | 97 | 61 | 55 | 58 | 59 | 59 | 46 | 46 | 37 | 34 | 36 | 36 |
| | 633 | 631 | 423 | 343 | 344 | 344 | 335 | 329 | 270 | 278 | 268 | 262 | 259 | 261 |
| | 605 | 615 | 605 | 571 | 624 | 613 | 597 | 599 | 602 | 622 | 635 | 633 | 619 | 622 |
| | 65 | 69 | 74 | 77 | 17 | 20 | 20 | 22 | 21 | 21 | 20 | 22 | 22 | 23 |
| | 192 | 187 | 176 | 136 | 138 | 135 | 134 | 132 | 83 | 87 | 101 | 110 | 115 | 119 |
| | 862 | 871 | 855 | 784 | 779 | 768 | 751 | 753 | 706 | 730 | 756 | 765 | 756 | 764 |
| | 12,508 | 12,303 | 10,587 | 9,407 | 8,277 | 8,329 | 8,072 | 8,059 | 7,752 | 7,810 | 7,828 | 7,784 | 8,474 | 8,560 |

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

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

POPULAR, INC. MANAGEMENT & BOARD OF DIRECTORS

SENIOR MANAGEMENT TEAM



IGNACIO ALVAREZ
President & Chief Executive Officer
Popular, Inc.



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



BEATRIZ CASTELLVÍ ARMAS
Executive Vice President &
Chief Security Officer
Corporate Security 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 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 & 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
Corporate Finance Group
Popular, Inc.

BOARD OF DIRECTORS



RICHARD L. CARRIÓN
Chairman
Popular, Inc.



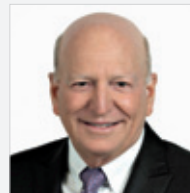
IGNACIO ALVAREZ
President and
Chief Executive Officer
Popular, Inc.



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



ALEJANDRO M. BALLESTER
President
Ballester Hermanos, Inc.



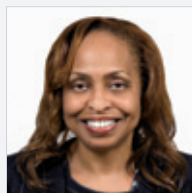
ROBERT CARRADY
President
Caribbean Cinemas



JOHN W. DIERCKSEN
Principal
Greycrest, LLC



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



C. KIM GOODWIN
Private Investor



MYRNA M. SOTO
Chief Operating Officer
Digital Hands, LLC



CARLOS A. UNANUE
President
Goya de Puerto Rico

POPULAR, INC. RESUMEN DEL AÑO

ESTIMADOS ACCIONISTAS:

El año 2019 fue excepcional para Popular. Logramos ganancias récord, resultados positivos de calidad de crédito, crecimiento de depósitos y préstamos, en nuestras operaciones en Puerto Rico y Estados Unidos, y mantuvimos una posición sólida de capital.

El ingreso neto para 2019 fue de \$671 millones, en comparación con \$618 millones en el año anterior. Nuestros resultados en el 2018 incluyeron el beneficio de \$159 millones, relacionados con la terminación anticipada de los acuerdos de participación en pérdidas con la FDIC, y un gasto de \$28 millones relacionado al impacto de la reforma contributiva en Puerto Rico en nuestro activo de contribuciones diferidas. Después de excluir los efectos de estas partidas, el ingreso neto ajustado en 2018 fue de \$487 millones.

El aumento ajustado de \$184 millones en ingreso neto este año fue impulsado principalmente por mayor ingreso neto por intereses y una menor provisión para pérdidas en préstamos. Durante 2019 nos beneficiamos del impacto anual completo de la adquisición de Reliable, crecimiento en préstamos en ambos mercados y el aumento en depósitos en Puerto Rico que, a su vez, nos permitió aumentar la contribución de nuestra cartera de inversiones. Además, durante 2019 reconocimos un beneficio contributivo de \$26 millones relacionado con ingreso exento de préstamos obtenido en años anteriores.

Las métricas de calidad de crédito se mantuvieron estables. Los activos no acumulativos disminuyeron un 13%, en comparación con el año anterior, y la tasa de pérdidas netas en préstamos fue de 0.96%, comparada con 1.13% en el 2018. Estos resultados reflejan un desempeño positivo tanto en Puerto Rico como en los Estados Unidos. Si bien las pérdidas en préstamos en los Estados Unidos aumentaron por la cartera de licencias de taxi, esta exposición se redujo a \$19 millones.

Los niveles de capital se mantuvieron sólidos con relaciones de capital "Tier 1" y "Tier 1 Common" de 17.8% a fin de año. En el 2019 aumentamos el dividendo trimestral, de \$0.25 a \$0.30 por acción común, y recomparamos \$250 millones en acciones comunes. También anunciamos varias acciones de capital que ejecutaremos en 2020, incluyendo un aumento en el dividendo trimestral de \$0.30 a \$0.40 por acción común y un programa de recompra de acciones comunes de hasta \$500 millones.

Las acciones de Popular cerraron el 2019 en \$58.75, 24% más alto que en el 2018. Este desempeño compara favorablemente con nuestros bancos pares en los Estados Unidos y el Índice Regional de Bancos de KBW Nasdaq, los cuales aumentaron 20% en el año.



EL AÑO 2019 FUE EXCEPCIONAL PARA POPULAR. LOGRAMOS GANANCIAS RÉCORD, RESULTADOS POSITIVOS DE CALIDAD DE CRÉDITO, CRECIMIENTO DE DEPÓSITOS Y PRÉSTAMOS, EN NUESTRAS OPERACIONES EN PUERTO RICO Y ESTADOS UNIDOS, Y MANTUVIMOS UNA POSICIÓN SÓLIDA DE CAPITAL.

CONTINUAMOS EJECUTANDO NUESTRA ESTRATEGIA DE NEGOCIO, ESTRUCTURADA ALREDEDOR DE CUATRO PILARES.

CRECIMIENTO SOSTENIBLE Y RENTABLE:



En Puerto Rico, añadimos 45,000 clientes para alcanzar 1.8 millones, de los cuales 915,000 utilizaron activamente nuestros canales digitales. Crecimos los préstamos y depósitos en un 1.5% y un 10%, respectivamente. Nuestra cartera de préstamos de autos aumentó un 12%, lo que demuestra la integración exitosa de la adquisición de Reliable. A finales del año, adquirimos una cartera de tarjetas de crédito de \$74 millones en Puerto Rico y, en una transacción separada, adquirimos los derechos para emitir tarjetas de crédito bajo el programa de lealtad de JetBlue en Puerto Rico. En los Estados Unidos, aumentamos los préstamos y depósitos, ambos en un 9%. Continuamos expandiendo nuestro negocio en nichos específicos, principalmente en servicios bancarios a asociaciones de condominios y préstamos en el área de salud.

SENCILLEZ:



Continuamos aprovechando la tecnología y la optimización de procesos para agilizar nuestras operaciones y lograr eficiencias, mejorar la experiencia de los clientes y empleados y posicionar a la corporación para crecimiento futuro. El progreso en 2019 incluyó una aceleración en el despliegue de la tecnología de automatización robótica de procesos y la expansión de nuestro programa de eficiencia de procesos, fundamentado en la metodología LEAN.

ENFOQUE EN EL CLIENTE:



Dedicamos recursos significativos para reforzar nuestra cultura de servicio, ofreciendo nuevas herramientas y oportunidades de desarrollo a todos nuestros empleados. También continuamos la transformación de nuestra red de sucursales en Puerto Rico y los Estados Unidos, integrando cada vez más la tecnología para mejorar la experiencia de los clientes, independientemente de cómo escojan interactuar con nosotros. Por ejemplo, en Puerto Rico lanzamos un nuevo modelo de sucursal enfocado en los servicios bancarios a través de canales digitales y tecnología de autoservicio. Buscamos oportunidades adicionales para servir a segmentos desatendidos. Abrimos una sucursal en Virgen Gorda en las Islas Vírgenes Británicas, y estamos orgullosos de servir a esta comunidad como la única sucursal bancaria en la isla.

PREPARADOS PARA EL FUTURO:



Continuamos invirtiendo en nuestras infraestructuras de manejo de talento y de riesgo. En cuanto a nuestra gente, implementamos iniciativas relacionadas al desarrollo, la compensación, el liderazgo y el reconocimiento. Al mismo tiempo que nos aseguramos de tener el talento necesario hoy en día, estamos anticipando y preparándonos para las necesidades futuras. En el área de los controles internos, nos enfocamos en nuestro programa de cumplimiento, particularmente en el fortalecimiento de la primera línea de defensa, y en reforzar nuestro programa de seguridad cibernética.

El compromiso firme de Popular con nuestros clientes, nuestra gente y nuestras comunidades es una parte intrínseca de cómo llevamos a cabo nuestro negocio. Ese compromiso inspiró la fundación de Popular hace 126 años, se ha manifestado a lo largo de nuestra historia y hoy es más fuerte que nunca. Estamos orgullosos de nuestra tradición como ciudadano corporativo responsable, pero conscientes de que los desafíos locales y globales a los que se enfrentan nuestras comunidades requieren una acción más deliberada de parte de todos, incluyendo el sector privado. Para ello, en el 2019 iniciamos un proceso para formalizar nuestras prioridades en temas de prácticas ambientales, sociales y de gobernanza (ESG). Como parte de este proceso, estableceremos objetivos específicos, daremos seguimiento a nuestro progreso y comunicaremos nuestros resultados regularmente. Estamos convencidos de que avances continuos en estas áreas apoyarán el éxito a largo plazo de nuestra organización y nuestra capacidad de añadir valor a todos los grupos con los cuales tenemos una responsabilidad.

Me gustaría reconocer el trabajo de más de 8,000 compañeros en Puerto Rico, los Estados Unidos y las Islas Vírgenes, que hicieron posible nuestros logros en el 2019. En reconocimiento a nuestros resultados financieros y logros durante el año, nuestra Junta de Directores aprobó el incentivo mayor posible bajo nuestro Plan de Participación en Ganancias por segundo año consecutivo.

A principios del 2020, nuestro equipo demostró una vez más su resiliencia y solidaridad después de que una serie de eventos sísmicos, incluyendo un terremoto de magnitud 6.4, impactaran la región suroeste de Puerto Rico. Nuestros empleados en las zonas afectadas respondieron admirablemente, dando el máximo para ayudar a nuestros clientes y comunidades, recibiendo apoyo de sus colegas en otras partes de la isla y en otras geografías. También respondimos rápidamente a través de Fundación Banco Popular para entregar ayuda inmediata, así como apoyo a más largo plazo a las comunidades necesitadas.

Aprovecho esta oportunidad para expresar, en nombre de todos en Popular, nuestro sincero agradecimiento a Richard L. Carrión, quien en 2019 pasó de su cargo de Presidente Ejecutivo de la Junta de Directores a Presidente de la Junta de Directores. El servicio ejemplar de Richard en Popular abarcó más de cuatro décadas, incluyendo 26 años como Principal Oficial Ejecutivo. Richard ha sido un líder verdaderamente icónico y una gran fuente de apoyo en mi transición como Principal Oficial Ejecutivo. Tenemos la suerte de continuar con su apoyo como Presidente de la Junta de Directores.

También deseo expresar mi gratitud a William J. Teuber, Jr., quien se retiró de la Junta de Directores para dedicar más tiempo a otras responsabilidades profesionales. Bill fue un miembro valioso de la Junta durante los últimos 15 años y desempeñó un papel importante como director principal durante los últimos ocho años. Sus contribuciones significativas hicieron de Popular una mejor organización, y le deseamos lo mejor en sus futuros proyectos.

Por último, me gustaría darles las gracias a ustedes, nuestros accionistas, por su confianza en nosotros. Comenzamos este año con energía y positivos sobre lo que podemos lograr. Nuestra franquicia en Puerto Rico es inigualable, con una extensa red de sucursales, soluciones digitales innovadoras y una gama incomparable de productos y servicios para comercios e individuos. La recuperación económica de Puerto Rico del impacto de los huracanes del 2017 y los recientes eventos sísmicos representan una enorme responsabilidad y oportunidad. Estamos preparados para fomentar la recuperación económica de la isla. Nuestra operación en los Estados Unidos continentales, aunque más enfocada, proporciona diversificación geográfica y potencial de crecimiento, particularmente en nichos específicos donde hemos demostrado que podemos competir efectivamente.

Nos sentimos optimistas sobre el 2020. Estamos listos para enfrentar los desafíos que sin duda encontraremos y aprovechar las oportunidades que también surgirán.

IGNACIO ÁLVAREZ
Presidente y Principal Oficial Ejecutivo
Popular, Inc.



Gerencia Popular, Inc.: (sentados de izquierda a derecha) Beatriz Castellví Armas, Luis Cestero, Juan O. Guerrero, Camille Burckhart, Lidio V. Soriano; (de pie de izquierda a derecha) Gilberto Monzón, Eduardo J. Negrón, Carlos J. Vázquez, Ignacio Álvarez, Manuel A. China, Javier D. Ferrer, Eli S. Sepúlveda.

25 AÑOS RESUMEN FINANCIERO HISTÓRICO

(Dólares en millones, excepto información por acción)

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|--|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Información Financiera Seleccionada | | | | | | | | | | | |
| Ingreso neto (Pérdida Neta) | \$146.4 | \$185.2 | \$209.6 | \$232.3 | \$257.6 | \$276.1 | \$304.5 | \$351.9 | \$470.9 | \$489.9 | \$540.7 |
| Activos | 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 | 44,401.6 | 48,623.7 |
| Préstamos Brutos | 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 | 28,742.3 | 31,710.2 |
| Depósitos | 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 | 20,593.2 | 22,638.0 |
| Capital de Accionistas | 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 | 3,104.6 | 3,449.2 |
| Valor agregado en el mercado | \$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 | \$7,685.6 | \$5,836.5 |
| Rendimiento de Activos Promedio (ROAA) | 1.04% | 1.14% | 1.14% | 1.14% | 1.08% | 1.04% | 1.09% | 1.11% | 1.36% | 1.23% | 1.17% |
| Rendimiento de Capital Común Promedio (ROACE) | 14.22% | 16.17% | 15.83% | 15.41% | 15.45% | 15.00% | 14.84% | 16.29% | 19.30% | 17.60% | 17.12% |
| Por Acción Común¹ | | | | | | | | | | | |
| Ingreso neto (Pérdida Neta) - Básico | \$5.24 | \$6.69 | \$7.51 | \$8.26 | \$9.19 | \$9.85 | \$10.87 | \$13.05 | \$17.36 | \$17.95 | \$19.78 |
| Ingreso neto (Pérdida Neta) - Diluido | 5.24 | 6.69 | 7.51 | 8.26 | 9.19 | 9.85 | 10.87 | 13.05 | 17.36 | 17.92 | 19.74 |
| Dividendos (Declarados) | 1.54 | 1.83 | 2.00 | 2.50 | 3.00 | 3.20 | 3.80 | 4.00 | 5.05 | 6.20 | 6.40 |
| Valor en los Libros | 39.52 | 43.98 | 51.83 | 59.32 | 57.54 | 69.62 | 79.67 | 91.02 | 96.60 | 109.45 | 118.22 |
| Precio en el Mercado | 48.44 | 84.38 | 123.75 | 170.00 | 139.69 | 131.56 | 145.40 | 169.00 | 224.25 | 288.30 | 211.50 |
| Activos por Área Geográfica | | | | | | | | | | | |
| Puerto Rico | 75% | 74% | 74% | 71% | 71% | 72% | 68% | 66% | 62% | 55% | 53% |
| Estados Unidos | 21% | 22% | 23% | 25% | 25% | 26% | 30% | 32% | 36% | 43% | 45% |
| Caribe y Latinoamérica | 4% | 4% | 3% | 4% | 4% | 2% | 2% | 2% | 2% | 2% | 2% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Sistema de Distribución Tradicional | | | | | | | | | | | |
| Sucursales Bancarias | | | | | | | | | | | |
| Puerto Rico | 166 | 178 | 201 | 198 | 199 | 199 | 196 | 195 | 193 | 192 | 194 |
| Islas Vírgenes | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| Estados Unidos ² | 40 | 44 | 63 | 89 | 91 | 95 | 96 | 96 | 97 | 128 | 136 |
| Subtotal | 214 | 230 | 272 | 295 | 298 | 302 | 300 | 299 | 298 | 328 | 338 |
| Oficinas No Bancarias | | | | | | | | | | | |
| Popular Financial Holdings | 91 | 102 | 117 | 128 | 137 | 136 | 149 | 153 | 181 | 183 | 212 |
| Popular Cash Express | | | | 51 | 102 | 132 | 154 | 195 | 129 | 114 | 4 |
| Popular Finance | 31 | 39 | 44 | 48 | 47 | 61 | 55 | 36 | 43 | 43 | 49 |
| Popular Auto (incluyendo Reliable) | 9 | 8 | 10 | 10 | 12 | 12 | 20 | 18 | 18 | 18 | 17 |
| Popular Leasing, U.S.A. | | | 7 | 8 | 10 | 11 | 13 | 13 | 11 | 15 | 14 |
| Popular Mortgage | 3 | 3 | 3 | 11 | 13 | 21 | 25 | 29 | 32 | 30 | 33 |
| Popular Securities | | 1 | 2 | 2 | 2 | 3 | 4 | 7 | 8 | 9 | 12 |
| Popular One | | | | | | | | | | | |
| Popular Insurance y Popular Risk Services | | | | | | 2 | 2 | 2 | 2 | 2 | 2 |
| Popular Insurance Agency, U.S.A. | | | | | | | 1 | 1 | 1 | 1 | 1 |
| Popular Insurance V.I. | | | | | | | | 1 | 1 | 1 | 1 |
| E-LOAN | | | | | | | | | | | 1 |
| EVERTEC | | | | | 4 | 4 | 4 | 5 | 5 | 5 | 5 |
| Subtotal | 134 | 153 | 183 | 258 | 327 | 382 | 427 | 460 | 431 | 421 | 351 |
| Total | 348 | 383 | 455 | 553 | 625 | 684 | 727 | 759 | 729 | 749 | 689 |
| Sistema Electrónico de Distribución | | | | | | | | | | | |
| Cajeros Automáticos Propios y Administrados | | | | | | | | | | | |
| Puerto Rico | 281 | 327 | 391 | 421 | 442 | 478 | 524 | 539 | 557 | 568 | 583 |
| Islas Vírgenes | 8 | 9 | 17 | 59 | 68 | 37 | 39 | 53 | 57 | 59 | 61 |
| Estados Unidos | 38 | 53 | 71 | 94 | 99 | 109 | 118 | 131 | 129 | 163 | 181 |
| Total | 327 | 389 | 479 | 574 | 609 | 624 | 681 | 723 | 743 | 790 | 825 |
| Empleados (equivalente a tiempo completo) | 7,815 | 7,996 | 8,854 | 10,549 | 11,501 | 10,651 | 11,334 | 11,037 | 11,474 | 12,139 | 13,210 |

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | \$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 | \$618.2 | \$671.1 |
| | 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 | 47,604.6 | 52,115.3 |
| | 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 | 26,559.3 | 27,466.1 |
| | 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 | 39,710.0 | 43,758.6 |
| | 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 | 5,435.1 | 6,016.8 |
| | \$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 | \$4,719.3 | \$5,615.9 |
| | 0.74% | -0.14% | -3.04% | -1.57% | 0.36% | 0.40% | 0.68% | 1.65% | -0.89% | 2.54% | 0.58% | 0.26% | 1.33% | 1.33% |
| | 9.73% | -2.08% | -44.47% | -32.95% | 4.37% | 4.01% | 6.37% | 14.43% | -7.04% | 19.16% | 4.07% | 1.96% | 11.39% | 11.78% |
| | \$12.41 | \$(2.73) | \$(45.51) | \$2.39 | \$(0.62) | \$1.44 | \$2.36 | \$5.80 | \$(3.08) | \$8.66 | \$2.06 | \$1.02 | \$6.07 | \$6.89 |
| | 12.41 | (2.73) | (45.51) | 2.39 | (0.62) | 1.44 | 2.35 | 5.78 | (3.08) | 8.65 | 2.06 | 1.02 | 6.06 | 6.88 |
| | 6.40 | 6.40 | 4.80 | 0.20 | - | - | - | - | - | 0.30 | 0.60 | 1.00 | 1.00 | 1.20 |
| | 123.18 | 121.24 | 63.29 | 38.91 | 36.67 | 37.71 | 39.35 | 44.26 | 40.76 | 48.79 | 49.60 | 49.51 | 53.88 | 62.42 |
| | 179.50 | 106.00 | 51.60 | 22.60 | 31.40 | 13.90 | 20.79 | 28.73 | 34.05 | 28.34 | 43.82 | 35.49 | 47.22 | 58.75 |
| | 52% | 59% | 64% | 65% | 74% | 74% | 73% | 72% | 80% | 75% | 75% | 76% | 77% | 78% |
| | 45% | 38% | 33% | 32% | 23% | 23% | 24% | 25% | 17% | 22% | 23% | 22% | 21% | 20% |
| | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 2% | 2% | 2% | 2% |
| | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | 191 | 196 | 179 | 173 | 185 | 183 | 175 | 171 | 168 | 173 | 171 | 168 | 163 | 164 |
| | 8 | 8 | 8 | 8 | 8 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 10 |
| | 142 | 147 | 139 | 101 | 96 | 94 | 92 | 90 | 47 | 50 | 51 | 51 | 51 | 51 |
| | 341 | 351 | 326 | 282 | 289 | 286 | 276 | 270 | 224 | 232 | 231 | 228 | 223 | 225 |
| | 158 | 134 | 2 | | | | | | | | | | | |
| | 52 | 51 | 9 | | | | | | | | | | | |
| | 15 | 12 | 12 | 10 | 10 | 10 | 10 | 9 | 9 | 9 | 9 | 9 | 12 | 12 |
| | 11 | 24 | 22 | | | | | | | | | | | |
| | 32 | 32 | 32 | 33 | 36 | 37 | 37 | 38 | 25 | 24 | 17 | 14 | 14 | 14 |
| | 12 | 13 | 7 | 6 | 6 | 4 | 4 | 3 | 3 | 3 | 2 | 2 | 2 | 2 |
| | | | | | | 4 | 5 | 6 | 6 | 6 | 5 | 5 | 5 | 5 |
| | 2 | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 2 | 2 | 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 | 1 | | | | | | | | | | | |
| | 7 | 9 | 9 | 9 | | | | | | | | | | |
| | 292 | 280 | 97 | 61 | 55 | 58 | 59 | 59 | 46 | 46 | 37 | 34 | 36 | 36 |
| | 633 | 631 | 423 | 343 | 344 | 344 | 335 | 329 | 270 | 278 | 268 | 262 | 259 | 261 |
| | 605 | 615 | 605 | 571 | 624 | 613 | 597 | 599 | 602 | 622 | 635 | 633 | 619 | 622 |
| | 65 | 69 | 74 | 77 | 17 | 20 | 20 | 22 | 21 | 21 | 20 | 22 | 22 | 23 |
| | 192 | 187 | 176 | 136 | 138 | 135 | 134 | 132 | 83 | 87 | 101 | 110 | 115 | 119 |
| | 862 | 871 | 855 | 784 | 779 | 768 | 751 | 753 | 706 | 730 | 756 | 765 | 756 | 764 |
| | 12,508 | 12,303 | 10,587 | 9,407 | 8,277 | 8,329 | 8,072 | 8,059 | 7,752 | 7,810 | 7,828 | 7,784 | 8,474 | 8,560 |

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



IGNACIO ÁLVAREZ
Presidente y Principal Oficial Ejecutivo Popular, Inc.



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



BEATRIZ CASTELLVÍ ARMAS
Vicepresidenta Ejecutiva y Principal Oficial de Seguridad Grupo de Seguridad Corporativa Popular, Inc.



LUIS CESTERO
Vicepresidente Ejecutivo Grupo de Banca Individual Banco Popular de Puerto Rico



MANUEL A. CHINEA
Vicepresidente Ejecutivo Popular, Inc. Principal Oficial de Operaciones Popular Bank



JAVIER D. FERRER
Vicepresidente Ejecutivo, Principal Oficial Legal y Secretario Corporativo Grupo de Consejería General y Asuntos Corporativos Popular, Inc.



JUAN O. GUERRERO
Vicepresidente Ejecutivo Grupo de Servicios Financieros y Seguros Banco Popular de Puerto Rico



GILBERTO MONZÓN
Vicepresidente Ejecutivo Grupo de Crédito a Individuo Banco Popular de Puerto Rico



EDUARDO J. NEGRÓN
Vicepresidente Ejecutivo Grupo de Administración Popular, Inc.



ELI S. SEPÚLVEDA
Vicepresidente Ejecutivo Grupo de Crédito Comercial Banco Popular de Puerto Rico



LIDIO V. SORIANO
Vicepresidente Ejecutivo y Principal Oficial de Riesgo Grupo Corporativo de Manejo de Riesgo Popular, Inc.



CARLOS J. VÁZQUEZ
Vicepresidente Ejecutivo y Principal Oficial Financiero Grupo de Finanzas Corporativas Popular, Inc.

JUNTA DE DIRECTORES



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



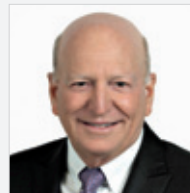
IGNACIO ÁLVAREZ
Presidente y Principal Oficial Ejecutivo Popular, Inc.



JOAQUÍN E. BACARDÍ, III
Presidente Edmundo B. Fernández, Inc.



ALEJANDRO M. BALLESTER
Presidente Ballester Hermanos, Inc.



ROBERT CARRADY
Presidente Caribbean Cinemas



JOHN W. DIERKSEN
Principal Greycrest, LLC



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



C. KIM GOODWIN
Inversionista Privada



MYRNA M. SOTO
Principal Oficial de Operaciones Digital Hands, LLC



CARLOS A. UNANUE
Presidente Goya de Puerto Rico

Financial Review and Supplementary Information

| | |
|---|-------|
| Management's Discussion and Analysis of Financial Condition and Results of Operations | 2 |
| Statistical Summaries | 47-51 |
| Report of Management on Internal Control Over Financial Reporting | 52 |
| Report of Independent Registered Public Accounting Firm | 53 |
| Consolidated Statements of Financial Condition as of December 31, 2019 and 2018 | 55 |
| Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017 | 56 |
| Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018 and 2017 | 57 |
| Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2019, 2018 and 2017 | 58 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017 | 59 |
| Notes to Consolidated Financial Statements | 60 |

Management's Discussion and Analysis of Financial Condition and Results of Operations

| | |
|--|----|
| Forward-Looking Statements | 3 |
| Overview | 4 |
| Critical Accounting Policies / Estimates | 7 |
| Statement of Operations Analysis | 13 |
| Net Interest Income | 13 |
| Provision for Loan Losses | 15 |
| Non-Interest Income | 15 |
| Operating Expenses | 16 |
| Income Taxes | 17 |
| Fourth Quarter Results | 17 |
| Reportable Segment Result | 18 |
| Statement of Financial Condition Analysis | 19 |
| Assets | 19 |
| Liabilities | 20 |
| Stockholders' Equity | 21 |
| Regulatory Capital | 21 |
| Off-Balance Sheet Arrangements and Other Commitments | 23 |
| Contractual Obligations and Commercial Commitments | 23 |
| Risk Management | 24 |
| Market / Interest Rate Risk | 24 |
| Liquidity | 30 |
| Enterprise Risk and Operational Risk Management | 45 |
| Adoption of New Accounting Standards and Issued but Not Yet Effective Accounting Standards | 46 |
| Adjusted net income – Non-GAAP Financial Measure | 46 |
| Statistical Summaries | |
| Statements of Financial Condition | 47 |
| Statements of Operations | 48 |
| Average Balance Sheet and Summary of Net Interest Income | 49 |
| Quarterly Financial Data | 51 |

FORWARD-LOOKING STATEMENTS

The information included in this report contains certain forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, including, without limitation, statements about Popular Inc.'s (the "Corporation," "Popular," "we," "us," "our") business, financial condition, results of operations, plans, objectives and future performance. These statements are not guarantees of future performance, are based on management's current expectations and, by their nature, involve risks, uncertainties, estimates and assumptions. Potential factors, some of which are beyond the Corporation's control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Risks and uncertainties include without limitation the effect of competitive and economic factors, and our reaction to those factors, the adequacy of the allowance for loan losses, delinquency trends, market risk and the impact of interest rate changes, capital markets conditions, capital adequacy and liquidity, and the effect of legal and regulatory proceedings and new accounting standards on the Corporation's financial condition and results of operations. All statements contained herein that are not clearly historical in nature are forward-looking, and the words "anticipate," "believe," "continues," "expect," "estimate," "intend," "project" and similar 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.

Various factors, some of which are beyond Popular's control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to, the rate of growth 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 the current fiscal and economic challenges of Puerto Rico and the measures taken and to be taken by the Puerto Rico Government and the Federally-appointed oversight board on the economy, our customers and our business; the impact of the pending debt restructuring proceedings under Title III of the Puerto Rico Oversight, Management and Economic Stability Act and of other actions taken or to be taken to address Puerto Rico's fiscal challenges on the value of our portfolio of Puerto Rico government securities and loans to governmental entities and of our commercial, mortgage and consumer loan portfolios where private borrowers could be directly affected by governmental action;; changes in interest rates and market liquidity, which may reduce interest margins, impact funding sources and affect our ability to originate and distribute financial products in the primary and secondary markets; the fiscal and monetary policies of the federal government and its agencies; changes in federal bank regulatory and supervisory policies, including required levels of capital and the impact of proposed capital

standards on our capital ratios; additional Federal Deposit Insurance Corporation assessments; regulatory approvals that may be necessary to undertake certain actions or consummate strategic transactions such as acquisitions and dispositions; unforeseen or catastrophic events, including extreme weather events, other natural disasters, man-made disasters or the emergence of pandemics, which could cause a disruption in our operations or other adverse consequences for our business; 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; possible legislative, tax or regulatory changes; and a failure in or breach of our operational or security systems or infrastructure or those of EVERTEC, Inc., our provider of core financial transaction processing and information technology services, or of other third parties providing services to us, including as a result of cyberattacks, e-fraud, denial-of-services and computer intrusion, that might result in loss or breach of customer data, disruption of services, reputational damage or additional costs to Popular. Other possible events or factors that could cause results or performance to differ materially from those expressed in these forward-looking statements include the following: negative economic conditions that adversely affect housing prices, the job market, consumer confidence and spending habits which may affect, among other things, the level of non-performing assets, charge-offs and provision expense; changes in market rates and prices which may adversely impact the value of financial assets and liabilities; liabilities resulting from litigation and regulatory investigations; changes in accounting standards, rules and interpretations; our ability to grow our core businesses; decisions to downsize, sell or close units or otherwise change our business mix; and management's ability to identify and manage these and other risks. Moreover, the outcome of legal and regulatory proceedings, as discussed in "Part I, Item 3. Legal Proceedings" of the Corporation's Form 10-K for the year ended December 31, 2019, is inherently uncertain and depends on judicial interpretations of law and the findings of regulators, judges and/or 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, we assume no obligation to update or revise any such forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

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, 2019 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. In the U.S. mainland, the Corporation provides retail, mortgage and commercial banking services through its New York-chartered banking subsidiary, Popular Bank (“PB”), which has branches located in New York, New Jersey and Florida. Note 40 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 16.19% interest in EVERTEC, a 15.84% interest in Centro Financiero BHD Leon, S.A. (“BHD Leon”), among other investments in limited partnerships which mainly hold loans and investment securities. EVERTEC provides transaction processing services throughout the Caribbean and Latin America, and also provides to the Corporation core banking and transaction processing and other services. BHD León is a diversified financial services institution operating in the Dominican Republic. For the year ended December 31, 2019, the Corporation recorded approximately \$42.9 million in earnings from these investments on an aggregate basis. The carrying amounts of these investments as of December 31, 2019 were \$237.1 million. Refer to Note 16 to the consolidated financial statements for additional information of the Corporation’s investments under the equity method.

SIGNIFICANT EVENTS

Accelerated share repurchase transaction

On December 12, 2019, the Corporation completed a \$250 million accelerated share repurchase transaction (“ASR”) with respect to its common stock, a component of its 2019 capital plan. In connection therewith, the Corporation received an initial delivery of 3,500,000 shares of common stock during the first quarter of 2019 and received 1,165,607 additional shares of common stock on December 12, 2019. The final number of shares delivered at settlement was based on the average daily volume weighted average price of its common

stock, net of a discount, during the term of the ASR, which amounted to \$53.58. The Corporation accounted for the ASR as a treasury stock transaction.

Increase in quarterly common stock dividend

As part of its capital plan for 2019, on January 23, 2019, the Corporation announced an increase in its quarterly common stock dividend from \$0.25 per share to \$0.30 per share, payable commencing in the second quarter of 2019. On February 15, 2019, the Corporation’s Board of Directors approved the first quarterly cash dividend of \$0.30 per share on its outstanding common stock, which was paid on April 1, 2019 to shareholders of record at the close of business on March 8, 2019.

Planned Capital Actions for 2020

On January 9, 2020, the Corporation announced the following actions as part of its capital plan for 2020: (i) an increase in the Corporation’s quarterly common stock dividend from \$0.30 per share to \$0.40 per share, commencing with the dividend payable in the second quarter of 2020, subject to the approval of the Corporation’s Board of Directors; and (ii) common stock repurchases of up to \$500 million.

On February 24, 2020, the Corporation redeemed all outstanding shares of its 8.25% Non-Cumulative Monthly Income Preferred Stock, Series B (“Series B Preferred Stock”). The redemption price of the Series B Preferred Stock was \$25.00 per share, plus \$0.1375 in accrued and unpaid dividends on each share, for a total payment per share in the amount of \$25.1375.

On January 30, 2020, the Corporation entered into a \$500 million ASR with respect to its common stock, which was accounted for as a treasury stock transaction. As a result of the receipt of the initial shares, the Corporation recognized in shareholders’ equity approximately \$400 million in treasury stock and \$100 million as a reduction in capital surplus. The Corporation expects to further adjust its treasury stock and capital surplus to reflect the delivery or receipt of cash or shares upon the termination of the ASR agreement, which will depend on the average price of the Corporation’s shares during the term of the ASR.

Refer to Table 1 for selected financial data for the past five years.

Table 1 - Selected Financial Data

| | Years ended December 31, | | | | |
|---|--------------------------|---------------|---------------|---------------|---------------|
| <i>(Dollars in thousands, except per common share data)</i> | 2019 | 2018 | 2017 | 2016 | 2015 |
| CONDENSED STATEMENTS OF OPERATIONS | | | | | |
| Interest income | \$ 2,260,793 | \$ 2,021,848 | \$ 1,725,944 | \$ 1,634,573 | \$ 1,603,014 |
| Interest expense | 369,099 | 286,971 | 223,980 | 212,518 | 194,031 |
| Net interest income | 1,891,694 | 1,734,877 | 1,501,964 | 1,422,055 | 1,408,983 |
| Provision (reversal) for loan losses: | | | | | |
| Non-covered loans | 165,779 | 226,342 | 319,682 | 171,126 | 217,458 |
| Covered loans | — | 1,730 | 5,742 | (1,110) | 24,020 |
| Non-interest income | 569,883 | 652,494 | 419,167 | 297,936 | 519,541 |
| Operating expenses | 1,477,482 | 1,421,562 | 1,257,196 | 1,255,635 | 1,288,221 |
| Income tax expense (benefit) | 147,181 | 119,579 | 230,830 | 78,784 | (495,172) |
| Income from continuing operations | 671,135 | 618,158 | 107,681 | 215,556 | 893,997 |
| Income from discontinued operations, net of tax | — | — | — | 1,135 | 1,347 |
| Net income | \$ 671,135 | \$ 618,158 | \$ 107,681 | \$ 216,691 | \$ 895,344 |
| Net income applicable to common stock | \$ 667,412 | \$ 614,435 | \$ 103,958 | \$ 212,968 | \$ 891,621 |
| PER COMMON SHARE DATA | | | | | |
| Net income: | | | | | |
| Basic: | | | | | |
| From continuing operations | \$ 6.89 | \$ 6.07 | \$ 1.02 | \$ 2.05 | \$ 8.65 |
| From discontinued operations | — | — | — | 0.01 | 0.01 |
| Total | \$ 6.89 | \$ 6.07 | \$ 1.02 | \$ 2.06 | \$ 8.66 |
| Diluted: | | | | | |
| From continuing operations | \$ 6.88 | \$ 6.06 | \$ 1.02 | \$ 2.05 | \$ 8.64 |
| From discontinued operations | — | — | — | 0.01 | 0.01 |
| Total | \$ 6.88 | \$ 6.06 | \$ 1.02 | \$ 2.06 | \$ 8.65 |
| Dividends declared | \$ 1.20 | \$ 1.00 | \$ 1.00 | \$ 0.60 | \$ 0.30 |
| Common equity per share | 62.42 | 53.88 | 49.51 | 49.60 | 48.79 |
| Market value per common share | 58.75 | 47.22 | 35.49 | 43.82 | 28.34 |
| Outstanding shares: | | | | | |
| Average - basic | 96,848,835 | 101,142,258 | 101,966,429 | 103,275,264 | 102,967,186 |
| Average - assuming dilution | 96,997,800 | 101,308,643 | 102,045,336 | 103,377,283 | 103,124,309 |
| End of period | 95,589,629 | 99,942,845 | 102,068,981 | 103,790,932 | 103,618,976 |
| AVERAGE BALANCES | | | | | |
| Net loans [1] | \$26,806,368 | \$ 25,062,730 | \$ 23,511,293 | \$ 23,062,242 | \$ 23,045,308 |
| Earning assets | 44,944,793 | 43,275,366 | 37,668,573 | 33,713,158 | 31,451,081 |
| Total assets | 50,341,827 | 46,639,858 | 41,404,139 | 37,613,742 | 35,186,305 |
| Deposits | 42,218,796 | 38,487,422 | 33,182,522 | 29,066,010 | 26,778,582 |
| Borrowings | 1,404,459 | 1,879,229 | 2,000,840 | 2,339,399 | 2,757,334 |
| Total stockholders' equity | 5,713,517 | 5,444,152 | 5,345,244 | 5,278,477 | 4,704,862 |
| PERIOD END BALANCE | | | | | |
| Net loans [1] | \$27,466,076 | \$ 26,559,311 | \$ 24,942,463 | \$ 23,435,446 | \$ 23,129,230 |
| Allowance for loan losses | 477,708 | 569,348 | 623,426 | 540,651 | 537,111 |
| Earning assets | 48,674,705 | 44,325,489 | 40,680,553 | 34,861,193 | 31,717,124 |
| Total assets | 52,115,324 | 47,604,577 | 44,277,337 | 38,661,609 | 35,761,733 |
| Deposits | 43,758,606 | 39,710,039 | 35,453,508 | 30,496,224 | 27,209,723 |
| Borrowings | 1,294,986 | 1,537,673 | 2,023,485 | 2,055,477 | 2,425,853 |
| Total stockholders' equity | 6,016,779 | 5,435,057 | 5,103,905 | 5,197,957 | 5,105,324 |
| SELECTED RATIOS | | | | | |
| Net interest margin (non-taxable equivalent basis) | 4.03% | 4.01% | 3.99% | 4.22% | 4.48% |
| Net interest margin (taxable equivalent basis) -Non-GAAP | 4.43 | 4.34 | 4.28 | 4.48 | 4.74 |
| Return on average total assets | 1.33 | 1.33 | 0.26 | 0.58 | 2.54 |
| Return on average common stockholders' equity | 11.78 | 11.39 | 1.96 | 4.07 | 19.16 |
| Tier I Capital to risk-adjusted assets | 17.76 | 16.90 | 16.30 | 16.48 | 16.21 |
| Total Capital to risk-adjusted assets | 20.31 | 19.54 | 19.22 | 19.48 | 18.78 |

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

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. Adjusted net income is a non-GAAP financial measure. Management believes that Adjusted net income provides meaningful information about the underlying performance of the Corporation’s ongoing operations. No adjustments to net income are reflected for the year ended December 31, 2019. Refer to Table 35 for a reconciliation of net income to Adjusted net income for the year ended December 31, 2018.

Net interest income on a taxable equivalent basis

Net interest income, on a taxable equivalent basis, is presented with its different components on Table 3 for the year ended December 31, 2019 as compared with the same period in 2018, 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 Puerto Rico tax 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, 2019

The Corporation’s net income for the year ended December 31, 2019 amounted to \$671.1 million, compared to a net income of \$618.2 million for 2018. The results for the year ended December 31, 2018 include a pre-tax gain of \$94.6 million resulting from the Termination Agreement with the FDIC previously disclosed; a net income tax benefit of \$63.9 million resulting from the impact of the Termination Agreement and the related Tax Closing Agreement and \$27.7 million non-cash income tax expense as a result of a reduction in the Corporation’s net deferred tax asset related to the Puerto Rico operations due to the reduction in tax rates as a result of an amendment to the Puerto Rico Internal Revenue Code. Excluding the impact of the above-mentioned transactions, detailed in Table 35 the Adjusted net income for the year ended December 31, 2018 was \$487.3 million.

The discussion that follows provides highlights of the Corporation’s results of operations for the year ended December 31, 2019 compared to the results of operations of 2018. It also provides some highlights with respect to the Corporation’s financial condition, credit quality, capital and liquidity. Table 2 presents a five-year summary of the components of net income (loss) as a percentage of average total assets.

Table 2 - Components of Net Income as a Percentage of Average Total Assets

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|--------|--------|--------|--------|--------|
| Net interest income | 3.76% | 3.72% | 3.63% | 3.78% | 4.00% |
| Provision for loan losses | (0.33) | (0.49) | (0.79) | (0.45) | (0.69) |
| Mortgage banking activities | 0.06 | 0.11 | 0.06 | 0.15 | 0.23 |
| Other-than-temporary impairment losses on debt securities | – | – | (0.02) | – | (0.04) |
| Net gain on sale of loans, including valuation adjustments on loans held-for-sale | – | – | – | 0.02 | – |
| Net (loss) trading account on debt securities | – | – | – | – | (0.01) |
| Indemnity reserve on loans sold expense | – | (0.03) | (0.05) | (0.05) | (0.05) |
| FDIC loss share income (expense) | – | 0.20 | (0.02) | (0.55) | 0.06 |
| Other non-interest income | 1.07 | 1.12 | 1.05 | 1.22 | 1.29 |
| Total net interest income and non-interest income, net of provision for loan losses | 4.56 | 4.63 | 3.86 | 4.12 | 4.79 |
| Operating expenses | (2.94) | (3.05) | (3.04) | (3.34) | (3.66) |
| Income before income tax | 1.62 | 1.58 | 0.82 | 0.78 | 1.13 |
| Income tax expense (benefit) | 0.29 | 0.26 | 0.56 | 0.20 | (1.41) |
| Net income | 1.33% | 1.32% | 0.26% | 0.58% | 2.54% |

Net interest income for the year ended December 31, 2019 was \$1.9 billion, an increase of \$156.8 million when compared to 2018. The increase in net interest income was mainly driven by higher interest income from loans and securities, partially offset by lower interest income from money market investments and higher interest expense on deposits. Refer to the Net Interest Income section of this MD&A for additional information.

The Corporation's total provision for loan losses totaled \$165.8 million for the year ended December 31, 2019, compared with \$228.1 million for 2018. The decrease was mainly related to revisions to certain loss estimates and to incremental reserves for two large commercial borrowers during 2018, coupled with credit quality improvements in the mortgage portfolio during 2019. Non-performing assets totaled \$650 million at December 31, 2019, reflecting a decrease of \$98 million when compared to December 31, 2018. 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, 2019 amounted to \$569.9 million, a decrease of \$82.6 million, when compared with 2018. Excluding the unfavorable variance in FDIC loss share income (expense) of \$94.7 million as a result of the Termination Agreement, non-interest income increased by \$12.1 million primarily driven by higher service charges on deposit accounts, higher other service fees and a favorable variance in adjustments to indemnity reserves, partially offset by lower income from mortgage banking activities and lower other operating income. 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 \$1.5 billion for the year 2019, compared with \$1.4 billion at December 31, 2018, an increase of \$55.9 million. Operating expenses for 2019 were impacted by higher personnel costs by \$27.6 million and higher professional fees of \$34.6 million. Refer to the Operating Expenses section of this MD&A for additional information.

Income tax expense amounted to \$147.2 million for the year ended December 31, 2019, compared with an income tax expense of \$119.6 million for the previous year. The income tax expense for the year 2019 includes an income tax benefit of approximately \$26 million related to a revision of the amount of exempt income earned in prior years and certain adjustments pertaining to tax periods for which the statute of limitations had expired. During 2018, the Corporation recorded a net income tax benefit of \$63.9 million related to the impact of the FDIC Termination Agreement, and a non-cash income tax expense of \$27.7 million due to a reduction in the Puerto Rico corporate tax rate from 39% to 37.5%. Refer to the Income Taxes section in this MD&A and Note 38 to the consolidated financial statements for additional information on income taxes.

At December 31, 2019, the Corporation's total assets were \$52.1 billion, compared with \$47.6 billion at December 31, 2018, an increase of \$4.5 billion, mainly driven by an increase in the Corporation's debt securities available-for-sale portfolio by \$4.3 billion and \$0.9 billion in the loans held-in-portfolio. Refer to the Statement of Condition Analysis section of this MD&A for additional information.

Deposits amounted to \$43.8 billion at December 31, 2019, compared with \$39.7 billion at December 31, 2018. Table 7 presents a breakdown of deposits by major categories. The increase in deposits was mainly due to higher Puerto Rico public sector deposits at BPPR by \$2.9 billion and an increase of \$0.9 billion at Popular Bank, mainly from retail deposits gathered through its online platform. The Corporation's borrowings totaled \$1.3 billion at December 31, 2019, compared to \$1.5 billion at December 31, 2018, reflecting a decrease of \$0.2 billion mostly due to the maturity of Federal Home Loan Bank advances and repurchase agreements. Refer to Note 19 to the Consolidated Financial Statements for detailed information on the Corporation's borrowings.

Refer to Table 6 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 \$6.0 billion at December 31, 2019, compared with \$5.4 billion at December 31, 2018. The increase was mainly due to net income of \$671.1 million for the year 2019 and higher unrealized gains on debt securities available-for-sale by \$266 million, partially offset by the impact of the \$250 million accelerated share repurchase transaction and declared dividends of \$116 million on common stock (quarterly dividends of \$0.30 per share) and \$3.7 million in dividends on preferred stock. The Corporation and its banking subsidiaries continue to be well-capitalized at December 31, 2019. The Common Equity Tier 1 Capital ratio at December 31, 2019 was 17.76%, compared to 16.90% at December 31, 2018.

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.

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 2 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 debt securities, debt securities available-for-sale, certain equity securities, derivatives and mortgage servicing rights. 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.

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 \$ 8 million at December 31, 2019, of which \$ 1 million were Level 3 assets and \$ 7 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.

Trading Debt Securities and Debt Securities Available-for-Sale

The majority of the values for trading debt securities and debt 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, 2019, 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, 2019, none of the Corporation's debt 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 30 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 9.

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 2. 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 2.

Loans Acquired with Deteriorated Credit Quality Accounted for Under ASC 310-30

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.

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, for acquisitions that include a significant amount of impaired loans, an election can be made for non-impaired loans included in such transactions to apply the accretable yield method (expected cash flow model of ASC Subtopic 310-30), by analogy, to those loans. Those loans are disclosed as a loan that was acquired with credit deterioration and impairment.

Under ASC Subtopic 310-30, impaired loans are aggregated into pools based on loans that have 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 include 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.

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.

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 38.

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 \$10.5 million at December 31, 2019 and \$9.0 million at December 31, 2018. Refer to Note 38 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 \$2.1 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. BPPR and PB passed Step 1 in the annual test as of July 31, 2019. For a detailed description of the annual goodwill impairment evaluation performed by the Corporation during the third quarter of 2019, refer to Note 17.

At December 31, 2019, goodwill amounted to \$671 million. Note 17 to the Consolidated Financial Statements provides the assignment of goodwill by reportable segment.

Refer to Note 3, New Accounting Pronouncements, for changes on the annual goodwill impairment test in accordance with ASU 2017-04.

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 Pension Plans”) are frozen with regards to all future benefit accruals.

The estimated benefit costs and obligations of the Pension Plans and Postretirement Health Care Benefit Plan (“OPEB Plan”) 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 Plans and OPEB Plan costs and obligations. Detailed information on the Plans and related valuation assumptions are included in Note 32 to the Consolidated Financial Statements.

The Corporation periodically reviews its assumption for the long-term expected return on Pension Plans assets. The Pension Plans’ assets fair value at December 31, 2019 was \$800 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 2020 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, 8.9% for international stocks, 3.2% for aggregate fixed-income securities and 3.6% for long government/credit at January 1, 2020. 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 2020 to 5.0% and 5.8% for the Pension Plans. Expected rates of return of 5.3% and 6.0% had been used for 2019 and 5.5% and 6.0% had been used for 2018 for the Pension 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.

Net Periodic Benefit Cost (“pension expense”) for the Pension Plans amounted to \$19.6 million in 2019. The total pension expense included a benefit of \$32.4 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 2019 from 5.00% to 4.75% would increase the projected 2020 pension expense for the Banco Popular de Puerto Rico Retirement Plan, the Corporation’s largest plan, by approximately \$1.9 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 Plans assets are reasonable given the valuation methodologies used to measure the investments at fair value as described in Note 30. 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 \$52.6 million at December 31, 2019.

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 which ranged from 3.22% to 3.27% for the Pension Plans and 3.38% for the OPEB Plan to determine the benefit obligations at December 31, 2019.

A 50 basis point decrease to each of the rates in the December 31, 2019 Willis Towers Watson RATE: Link (10/90) Model as of the beginning of 2020 would increase the projected 2020 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 Pension Plans.

The OPEB Plan was unfunded (no assets were held by the plan) at December 31, 2019. The Corporation had recorded a liability for the underfunded postretirement benefit obligation of \$168.7 million at December 31, 2019.

STATEMENT OF OPERATIONS ANALYSIS

Pursuant to the Fixing America's Surface Transportation ("FAST") Act Modernization and Simplification of Regulation S-K, discussions related to the changes in results of operations from fiscal year 2018 to 2017 have been omitted. Such omitted discussion can be found under Item 7 of our annual Form 10-K for the fiscal year ended December 31, 2018, filed with the SEC.

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, 2019 was \$1.9 billion compared to \$1.7 billion in 2018. Net interest income, on a taxable equivalent basis, for the year ended December 31, 2019 was \$2.1 billion compared to \$1.9 billion in 2018.

The average key index rates for the years 2019 and 2018 were as follows:

| | 2019 | 2018 |
|-----------------------|-------|-------|
| Prime rate | 5.28% | 4.91% |
| Fed funds rate | 2.15 | 1.82 |
| 3-month LIBOR | 2.33 | 2.31 |
| 3-month Treasury Bill | 2.09 | 1.96 |
| 10-year Treasury | 2.14 | 2.91 |
| FNMA 30-year | 2.85 | 3.60 |

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, 2019 included a favorable impact, excluding the discount accretion on covered loans accounted for under ASC Subtopic 310-30, of \$55.5 million, related to those items, compared to \$47.2 million for the same period in 2018. The increase of \$8.2 million is mainly due to a full year of amortization of the fair value discount related to the Reliable portfolio, acquired in the third quarter of 2018.

Table 3 presents the different components of the Corporation's net interest income, on a taxable equivalent basis, for the year ended December 31, 2019, as compared with the same period in 2018, segregated by major categories of interest earning assets and interest-bearing liabilities. Net interest margin increased by 2 basis points to 4.03% in 2019, compared to 4.01% in 2018. The increase in net interest margin is mainly driven by the loan portfolio acquired from Wells Fargo in 2018 (the "Reliable Transaction") and the increase in the investments and commercial portfolio. These positive drivers were partially offset by a decrease in market interest rates, lower money market investments and higher volume and cost of interest-bearing liabilities. On a taxable equivalent basis, net interest margin was 4.43% in 2019, compared to 4.34% in 2018. Net interest income increased by \$156.8 million year over year. On a taxable equivalent basis, net interest income increased by \$202.5 million. The increase of \$45.7 million in the taxable equivalent adjustment is directly related to a higher volume of tax-exempt investments in Puerto Rico. The main variances in net interest income on a taxable equivalent basis were:

Positive variances:

- Higher interest income from investment securities due to higher volume of U.S. Treasuries and mortgage-backed securities related to recent purchases to deploy liquidity and benefit from the Puerto Rico tax exemption of these assets and higher yield driven by the increase in market rates; and

- Higher interest income from loans:
 - Commercial loans, driven by higher volume in the U.S. and loans acquired in the Reliable transaction; and
 - Auto and lease portfolios in P.R. due to both the full year of the Reliable portfolio versus five-month in 2018 and the organic growth at Popular Auto.

Negative variances:

- Lower interest income from money market investments due to the use of excess liquidity to acquire the Reliable portfolio and investment securities; and

- Higher interest expense on deposits mainly due to higher volumes in most categories, predominantly the increase in deposits from the Puerto Rico government, retail and corporate deposits and higher deposit volumes in the U.S. to fund loan growth.

Due to the Corporation's current asset sensitive position, the recent reductions of 0.25% of the Fed Funds Rate by the Federal Open Market Committee ("FOMC") on July 31, 2019, September 18, 2019 and October 30, 2019, and further expectation of lower interest rates will negatively impact our future results. See the Risk Management: Market / Interest Rate Risk section of this MD&A for additional information related to the Corporation's interest rate risk.

Table 3 - 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 | | |
| 2019 | 2018 | Variance | 2019 | 2018 | Variance | 2019 | 2018 | Variance | Rate | Volume | |
| <i>(In millions)</i> | | | | | | <i>(In thousands)</i> | | | | | |
| \$ 4,166 | \$ 5,943 | \$(1,777) | 2.16% | 1.87% | 0.29% | \$ 89,824 | \$ 111,289 | \$(21,465) | \$ 15,157 | \$(36,622) | |
| 15,905 | 12,193 | 3,712 | 3.15 | 2.99 | 0.16 | 501,781 | 364,362 | 137,419 | 21,661 | 115,758 | |
| 68 | 76 | (8) | 7.55 | 7.55 | — | 5,103 | 5,772 | (669) | — | (669) | |
| 20,139 | 18,212 | 1,927 | 2.96 | 2.64 | 0.32 | 596,708 | 481,423 | 115,285 | 36,818 | 78,467 | |
| 12,171 | 11,698 | 473 | 6.11 | 6.03 | 0.08 | 743,682 | 705,190 | 38,492 | 9,649 | 28,843 | |
| 801 | 915 | (114) | 6.59 | 6.37 | 0.22 | 52,767 | 58,270 | (5,503) | 1,987 | (7,490) | |
| 989 | 867 | 122 | 6.06 | 5.98 | 0.08 | 59,935 | 51,868 | 8,067 | 664 | 7,403 | |
| 7,121 | 7,119 | 2 | 5.36 | 5.30 | 0.06 | 381,493 | 377,139 | 4,354 | 4,250 | 104 | |
| 2,885 | 2,847 | 38 | 11.81 | 11.53 | 0.29 | 340,848 | 328,165 | 12,683 | 7,298 | 5,385 | |
| 2,839 | 1,617 | 1,222 | 9.59 | 9.95 | (0.36) | 272,169 | 160,908 | 111,261 | (6,123) | 117,384 | |
| 26,806 | 25,063 | 1,743 | 6.90 | 6.71 | 0.19 | 1,850,894 | 1,681,540 | 169,354 | 17,725 | 151,629 | |
| \$46,945 | \$43,275 | \$ 3,670 | 5.21% | 5.00% | 0.21% | \$2,447,602 | \$2,162,963 | \$284,639 | \$ 54,543 | \$230,096 | |
| \$15,327 | \$12,688 | \$ 2,639 | 0.96% | 0.64% | 0.32% | \$ 146,684 | \$ 80,665 | \$ 66,019 | \$ 44,662 | \$ 21,357 | |
| 10,249 | 9,439 | 810 | 0.44 | 0.34 | 0.10 | 45,516 | 31,878 | 13,638 | 9,142 | 4,496 | |
| 7,770 | 7,570 | 200 | 1.45 | 1.21 | 0.24 | 112,658 | 91,722 | 20,936 | 18,990 | 1,946 | |
| 33,346 | 29,697 | 3,649 | 0.91 | 0.69 | 0.22 | 304,858 | 204,265 | 100,593 | 72,794 | 27,799 | |
| 231 | 358 | (127) | 2.64 | 2.01 | 0.63 | 6,099 | 7,210 | (1,111) | 1,864 | (2,975) | |
| 1,194 | 1,521 | (327) | 4.77 | 4.96 | (0.19) | 58,142 | 75,496 | (17,354) | (3,424) | (13,930) | |
| 34,771 | 31,576 | 3,195 | 1.06 | 0.91 | 0.15 | 369,099 | 286,971 | 82,128 | 71,234 | 10,894 | |
| 8,873 | 8,790 | 83 | | | | | | | | | |
| 3,301 | 2,909 | 392 | | | | | | | | | |
| \$46,945 | \$43,275 | \$ 3,670 | 0.78% | 0.66% | 0.12% | 369,099 | 286,971 | 82,128 | 71,234 | 10,894 | |
| | | | 4.43% | 4.34% | 0.09% | 2,078,503 | 1,875,992 | 202,511 | \$(16,691) | \$219,202 | |
| | | | 4.15% | 4.09% | 0.06% | | | | | | |
| | | | 4.03% | 4.01% | 0.02% | 186,809 | 141,116 | 45,693 | | | |
| | | | | | | \$1,891,694 | \$1,734,876 | \$156,818 | | | |

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 provision for loan losses was \$165.8 million for the year ended December 31, 2019, compared to \$228.1 million for the year ended December 31, 2018, a decrease of \$62.3 million.

The provision for loan losses for Puerto Rico segment was \$135.8 million, compared to \$196.5 million for the year ended December 31, 2018, a decrease of \$60.7 million. The decrease in the provision for the year ended December 31, 2019 was mainly related to revisions to certain loss estimates and to incremental reserves for two large impaired commercial borrowers during the same period in 2018, coupled with the continued credit quality improvements in the mortgage portfolio during 2019. These positive variances were in part offset by higher reserves for the auto loans portfolio.

The Popular U.S. segment continued to reflect strong growth and favorable credit quality metrics. The provision for loan losses for this segment amounted to \$30.0 million, flat when compared to \$29.9 million for the same period in 2018.

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, 2019, non-interest income decreased by \$82.6 million, when compared with the previous year. Excluding the unfavorable variance in FDIC loss share income (expense) of \$94.7 million as a result of the Termination Agreement, non-interest income increased by \$12.1 million primarily driven by:

- Higher service charges on deposit accounts by \$10.3 million, mainly at BPPR, due to higher fees on transactional cash management services;

- Higher other service fees by \$27.2 million mainly due to higher credit card fees by \$9.2 million as a result of higher interchange income resulting from higher transactional volumes, higher insurance fees by \$8.2 million in part due to higher contingent insurance commissions by \$6.0 million and higher other fees by \$6.9 million in part due to retail auto loan servicing fee income;
- Higher net unrealized gains on equity securities by \$4.6 million; and
- Favorable variance in adjustments to indemnity reserves of \$12.6 million mainly due to a lower provision related to loans previously sold with credit recourse and a release of a \$4.4 million reserve previously established in connection with a 2013 transaction at BPPR.

These favorable variances were partially offset by:

- Lower income from mortgage banking activities by \$20.7 million mainly due to higher unfavorable fair value adjustments on mortgage servicing rights by \$19.0 million, net of portfolio amortization, and higher realized losses on closed derivatives positions by \$8.8 million; partially offset by higher gains on securitization transactions by \$8.3 million; and
- Lower other operating income by \$23.0 million mainly resulting from \$19.0 million in insurance recoveries related to Hurricane Maria received during 2018 and lower modification fees received for the successful completion of loss mitigation alternatives by \$11.2 million, partially offset by higher aggregated net earnings from investments under the equity method by \$4.9 million.

Operating Expenses

Table 4 provides a breakdown of operating expenses by major categories.

Table 4 - Operating Expenses

| (In thousands) | Years ended December 31, | | | | |
|--|--------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| Personnel costs: | | | | | |
| Salaries | \$ 351,788 | \$ 326,509 | \$ 313,394 | \$ 308,135 | \$ 304,618 |
| Commissions, incentives and other bonuses | 97,764 | 90,000 | 70,099 | 73,684 | 79,305 |
| Pension, postretirement and medical insurance | 41,804 | 39,660 | 40,065 | 41,203 | 36,743 |
| Other personnel costs, including payroll taxes | 99,269 | 106,819 | 53,204 | 54,373 | 49,537 |
| Total personnel costs | 590,625 | 562,988 | 476,762 | 477,395 | 470,203 |
| Net occupancy expenses | 96,339 | 88,329 | 89,194 | 85,653 | 86,888 |
| Equipment expenses | 84,215 | 71,788 | 65,142 | 62,225 | 60,110 |
| Other taxes | 51,653 | 46,284 | 43,382 | 42,304 | 39,797 |
| Professional fees: | | | | | |
| Collections, appraisals and other credit related fees | 16,300 | 14,700 | 14,415 | 14,607 | 23,098 |
| Programming, processing and other technology services | 247,332 | 216,128 | 199,873 | 205,466 | 191,895 |
| Legal fees, excluding collections | 12,877 | 19,072 | 11,763 | 42,393 | 26,122 |
| Other professional fees | 107,902 | 99,944 | 66,437 | 60,577 | 67,870 |
| Total professional fees | 384,411 | 349,844 | 292,488 | 323,043 | 308,985 |
| Communications | 23,450 | 23,107 | 22,466 | 23,897 | 25,146 |
| Business promotion | 75,372 | 65,918 | 58,445 | 53,014 | 52,076 |
| FDIC deposit insurance | 18,179 | 27,757 | 26,392 | 24,512 | 27,626 |
| Loss on early extinguishment of debt | – | 12,522 | – | – | – |
| Other real estate owned (OREO) expenses | 4,298 | 23,338 | 48,540 | 47,119 | 85,568 |
| Other operating expenses: | | | | | |
| Credit and debit card processing, volume, interchange and other expenses | 38,059 | 27,979 | 26,201 | 20,796 | 22,854 |
| Operational losses | 21,414 | 35,798 | 39,612 | 35,995 | 20,663 |
| All other | 80,097 | 76,584 | 59,194 | 43,737 | 58,874 |
| Total other operating expenses | 139,570 | 140,361 | 125,007 | 100,528 | 102,391 |
| Amortization of intangibles | 9,370 | 9,326 | 9,378 | 12,144 | 11,019 |
| Goodwill and trademark impairment losses | – | – | – | 3,801 | – |
| Restructuring costs | – | – | – | – | 18,412 |
| Total operating expenses | \$1,477,482 | \$1,421,562 | \$1,257,196 | \$1,255,635 | \$1,288,221 |
| Personnel costs to average assets | 1.17% | 1.21% | 1.15% | 1.27% | 1.34% |
| Operating expenses to average assets | 2.93 | 3.05 | 3.04 | 3.34 | 3.66 |
| Employees (full-time equivalent) | 8,560 | 8,474 | 7,784 | 7,828 | 7,810 |
| Average assets per employee (in millions) | \$ 5.88 | \$ 5.50 | \$ 5.32 | \$ 4.81 | \$ 4.51 |

Operating expenses for the year ended December 31, 2019 increased by \$55.9 million, when compared with the previous year, mostly due to:

- Higher personnel cost by \$27.6 million, including higher salaries by \$25.3 million due to an increase in headcount, reflecting the integration of Reliable personnel during August 2018; higher commissions, incentives and other bonuses by \$7.8 million and an increase of \$3.2 million related to annual incentives tied to the Corporation's financial performance, partially offset by a decrease of \$7.6 million in other personnel cost mainly related with the implementation of the voluntary retirement program during prior year;
- Higher net occupancy expense by \$8.0 million due to insurance claim reimbursement received during 2018 and higher insurance cost and electricity expense;
- Higher equipment expense by \$12.4 million due to higher purchases of furniture and equipment and higher software and maintenance expenses;
- Higher professional fees by \$34.6 million mainly due to higher programming, processing and other technology expenses by \$31.2 million in part related to the Reliable system conversion; and higher advisory expense by \$5.0 million related to Corporate initiatives; and

- Higher business promotions by \$9.5 million mainly due to higher customer reward program expense and higher advertising cost.

These negative variances were partially offset by:

- Lower FDIC deposit insurance by \$9.6 million mainly driven by the termination of the surcharge period in 2018;
- A loss of \$12.5 million during the year 2018, resulting from the early extinguishment of its outstanding 7.00% Senior Notes due 2019 (the “2019 Notes”); and
- Lower OREO expenses by \$19.0 million due to higher gain on sales by \$9.6 million and lower write-downs on valuation of mortgage, commercial and construction properties by \$7.5 million.

INCOME TAXES

For the year ended December 31, 2019, the Corporation recorded income tax expense of \$147.2 million, compared to \$119.6 million for the previous year. The income tax expense for the year 2019 includes an income tax benefit of approximately \$26 million related to a revision of the amount of exempt income for prior years and certain adjustments pertaining to tax periods for which the statute of limitations had expired.

On December 10, 2018, the Governor of Puerto Rico signed into law Act No. 257 of 2018, which amended the Puerto Rico Internal Revenue Code to, among other things, reduce the Puerto Rico corporate income tax rate from 39% to 37.5%. The Corporation recognized a \$27.7 million non-cash income tax expense as a result of a reduction in the Corporation’s net deferred tax asset (“DTA”) related to its Puerto Rico operations, due to the aforementioned reduction in tax rates at which it expects to realize the benefit of the DTA. During 2018, the Corporation also recorded a tax benefit of \$108.9 million related to the Tax Closing Agreement entered into in connection with the FDIC Transaction, net of an income tax expense of \$45.0 million from the gain resulting from the Termination Agreement with the FDIC recognized during 2018.

At December 31, 2019, the Corporation had a deferred tax asset amounting to \$0.9 billion, net of a valuation allowance of \$0.5 billion. The deferred tax asset related to the U.S. operations was \$0.3 billion, net of a valuation allowance of \$0.4 billion.

Refer to Note 38 to the Consolidated Financial Statements for a reconciliation of the statutory income tax rate to the effective tax rate and additional information on deferred tax asset balances.

Fourth Quarter Results

The Corporation recognized net income of \$166.8 million for the quarter ended December 31, 2019, compared with a net income of \$106.4 million for the same quarter of 2018. The results for the fourth quarter of 2019 include an income tax

benefit of approximately \$18 million related to the revision of the amount of exempt income for prior years, while the results for the fourth quarter of 2018 include \$27.7 million of income tax expense due to a reduction in the Corporation’s DTA, as further discussed below.

Net interest income for the fourth quarter of 2019 amounted to \$467.4 million, compared with \$476.2 million for the fourth quarter of 2018. The decrease in net interest income was mainly due to higher interest expense on deposits driven by higher average balance; lower interest income from the commercial loan portfolio, resulting from lower market rates in the adjustable rate portfolio and originations in a declining interest rate environment; partially offset by higher income from money market, trading and investment securities as a result of higher volume of earning assets.

The provision for loan losses amounted to \$47.2 million for the quarter ended December 31, 2019, compared to \$42.6 million for the fourth quarter of 2018. The increase of \$4.6 million is reflected at PB by \$7.2 million, partially offset by a decrease in BPPR of \$2.6 million.

Non-interest income amounted to \$152.4 million for the quarter ended December 31, 2019, compared with \$153.2 million for the same quarter in 2018. The decrease was mainly due to lower other operating income by \$12.9 million which included \$9.5 million in recoveries from hurricane related claims during the fourth quarter of 2018, lower mortgage banking activities by \$5.9 million mainly due to unfavorable fair value adjustments on mortgage servicing rights; partially offset by a favorable variance in adjustments to indemnity reserves on loans sold by \$7.8 million, higher other service fees by \$5.3 million mainly due to higher insurance fees, higher service charges on deposits accounts by \$2.7 million and higher net gain on equity securities by \$2.4 million.

Operating expenses totaled \$390.6 million for the quarter ended December 31, 2019, compared with \$396.5 million for the same quarter in the previous year. The decrease is mainly related to lower personnel costs by \$14.7 million due to the impact of the voluntary retirement program which was effective for employees who confirmed their election to participate before the end of the year 2018 and lower incentive compensation; and the expense of \$12.5 million related to the early redemption of the 2019 Notes during the fourth quarter of 2018; partially offset by higher professional fees by \$14.0 million due to higher advisory expenses related to Corporate initiatives and higher credit and debit card processing, volume, interchange expenses by \$5.7 million.

Income tax expense amounted to \$15.3 million for the quarter ended December 31, 2019, compared with income tax expense of \$84.0 million for the same quarter of 2018. During the fourth quarter of 2019, the Corporation recorded a tax benefit of approximately \$18 million related to the revision of the amount of exempt income for prior years. During the fourth quarter of 2018 the Corporation recognized a \$27.7 million

non-cash income tax expense as a result of a reduction in the Corporation's DTA related to its Puerto Rico operations, due to the reduction in Corporate tax rate from 39% to 37.5%.

REPORTABLE SEGMENT RESULTS

The Corporation's reportable segments for managerial reporting purposes consist of Banco Popular de Puerto Rico and Popular U.S. A Corporate group has been defined to support 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 40 to the Consolidated Financial Statements.

As discussed in Note 40, effective on January 1, 2019, the Corporation's management changed the measurement basis for its reportable segments. Historically, for management reporting purposes, the Corporation had reversed the effect of the intercompany billings from itself, as holding company, to its subsidiaries for certain services or expenses incurred on their behalf. In addition, the Corporation used to reflect an income tax expense allocation for several of its subsidiaries which are Limited Liability Companies ("LLCs") and had made an election to be treated as pass through entities for income tax purposes. The Corporation's management has determined to discontinue making these adjustments, effective on January 1, 2019, for purposes of its management and reportable segment reporting. The Corporation reflected these changes in the measurement of the reportable segments' results prospectively beginning on January 1, 2019.

The Corporate group reported a net income of \$6.1 million for the year ended December 31, 2019, compared to a net loss of \$89.7 million for the previous year. The increase in the net income was attributed to lower operating expenses by \$107.0 million as a result of the change in the measurement basis of the intercompany billings from Popular Inc., holding company to its subsidiaries, as discussed above, and the early extinguishment of debt of \$12.5 million related to the redemption of the 2019 Notes during 2018.

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 \$609.9 million for the year ended December 31, 2019, compared with \$630.3 million for the year ended December 31, 2018. The principal factors that contributed to the variance in the financial results included the following:

- Higher net interest income by \$151.8 million due to higher interest income of loans by \$140.4 million, reflecting growth in the auto portfolio and higher interest income on debt securities by \$106.1 million; partially offset by higher interest expense from deposits by

\$71.8 million due to higher volumes predominantly the increase of deposits from the Puerto Rico government. The BPPR segment's net interest margin was 4.30% for 2019 compared with 4.27% for the same period in 2018;

- Lower provision for loans losses by \$62.9 million driven by revisions to certain loss estimates and to incremental reserves for two large impaired commercial borrowers in 2018, coupled with the continued credit quality improvements in the mortgage portfolio during 2019. These positive variances were in part offset by higher reserves for the auto loans portfolio;
- Lower non-interest income by \$86.2 million mainly due to:
 - Lower mortgage banking activities by \$20.7 million due to unfavorable fair value adjustments on mortgage servicing rights, and higher realized losses on closed derivatives position; and
 - Unfavorable variance in FDIC loss share (expense) income by \$94.7 million driven by the impact of the Termination Agreement with the FDIC discussed in Note 10 to the Consolidated Financial Statements; and
 - Lower other operating income by \$22.3 million mainly resulting from insurance recoveries related to Hurricane Maria of \$19.0 million received during 2018.

Partially offset by:

- Higher service charges on deposit accounts by \$9.3 million due to higher fees on transactional cash management services;
 - Higher other service fees by \$27.5 million due debit and credit card fees resulting from higher transactional volumes; higher retail auto loan servicing fee income; and
 - Favorable variance in adjustments to indemnity reserves of \$12.6 million related to loans previously sold with credit recourse and a release of \$4.4 million reserve established in connection with a 2013 transaction.
- Higher operating expenses by \$141.0 million, mainly due to:
 - Higher personnel costs by \$15.3 million, including higher salaries by \$9.9 million due to an increase in headcount, this increase includes the integration of Reliable personnel during August 2018 and an increase of \$2.5 million related to the incentive compensation tied to the Corporation's financial performance;

- Higher equipment expense by \$11.0 million due to higher purchases of furniture and equipment and higher software and maintenance expenses;
- Higher professional fees by \$28.1 million due to higher programming, processing and other technology expenses by \$29.7 million in part related to Reliable system conversion;
- Higher business promotions by \$9.7 million mainly due to higher customer reward program expense and higher advertising cost; and
- Higher other operating expenses by \$93.4 million mainly to the change in the measurement basis of the intercompany billings from Popular Inc., holding company to its subsidiaries, mentioned above.

Partially offset by:

- Lower OREO expense by \$18.7 million due higher gain on sales by \$11.1 million and lower write-downs on valuation of mortgage, commercial and construction properties by \$7.5 million.
- Higher income tax expense by \$7.9 million mainly due to a net tax benefit of \$27.7 million recorded in 2018 in connection with the FDIC Termination Agreement, refer to table 35 and higher tax rate; partially offset by a tax benefit of approximately \$26 million related to the revision of the amount of exempt income earned in prior years and certain adjustments pertaining to tax periods for which the statute of limitations had expired. Refer to Note 38, Income Taxes for additional information.

Popular U.S.

For the year ended December 31, 2019, the reportable segment of Popular U.S. reported net income of \$55.3 million, compared with a net income of \$77.5 million for the year ended December 31, 2018. The principal factors that contributed to the variance in the financial results included the following:

- Lower net interest income by \$9.1 million mainly due to higher interest expense from deposits by \$27.5 million driven by higher volumes to fund loan growth, partially offset by higher interest income of loans by \$16.6 million driven by higher volume. The Popular U.S. reportable segment's net interest margin was 3.32% for 2019 compared with 3.54% for the same period in 2018;
- Provision for loan losses remained flat at \$30 million for both years;

- Non-interest income of \$23.2 million was relatively flat when compared to \$20.0 million the previous year;
- Higher operating expenses by \$22.3 million driven by higher personnel costs by \$8.9 million mainly due to higher salaries and commissions and higher other operating expenses by \$9.3 million mainly due to the change in the measurement basis of the intercompany billings from Popular Inc., holding company to its subsidiaries, mentioned above.
- Income taxes favorable variance of \$6.1 million mainly due to the decrease in pretax income.

STATEMENT OF FINANCIAL CONDITION ANALYSIS

Assets

The Corporation's total assets were \$52.1 billion at December 31, 2019, compared to \$47.6 billion at December 31, 2018. Refer to the Corporation's Consolidated Statements of Financial Condition at December 31, 2019 and 2018 included in this 2019 Annual Report. Also, refer to the Statistical Summary 2015-2019 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 \$3.3 billion at December 31, 2019 compared to \$4.2 billion at December 31, 2018. The decrease was mainly due to purchases of debt securities available-for-sale.

Debt securities available-for-sale increased by \$4.3 billion to \$17.6 billion at December 31, 2019. The increase was mainly due to purchases of U.S. Treasury securities and mortgage-backed securities at BPPR, partially offset by maturities and paydowns. Refer to Note 6 to the Consolidated Financial Statements for additional information with respect to the Corporation's debt securities available-for-sale.

Loans

Refer to Table 5 for a breakdown of the Corporation's loan portfolio, the principal category of earning assets. Also, refer to Note 8 in the Consolidated Financial Statements for detailed information about the Corporation's loan portfolio composition and loan purchases and sales.

Loans held-in-portfolio increased by \$0.9 billion to \$27.4 billion at December 31, 2019 mainly driven by growth of auto loans and leases and credit cards at the BPPR segment, coupled with an increase at PB across its commercial and mortgage loan portfolios.

Table 5 - Loans Ending Balances

| <i>(in thousands)</i> | At December 31, | | | | |
|---|-----------------|--------------|--------------|--------------|--------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| Loans not covered under FDIC loss sharing agreements: | | | | | |
| Commercial | \$12,312,751 | \$12,043,019 | \$11,488,861 | \$10,798,507 | \$10,099,163 |
| Construction | 831,092 | 779,449 | 880,029 | 776,300 | 681,106 |
| Legacy [1] | 22,105 | 25,949 | 32,980 | 45,293 | 64,436 |
| Lease financing | 1,059,507 | 934,773 | 809,990 | 702,893 | 627,650 |
| Mortgage | 7,183,532 | 7,235,258 | 7,270,407 | 6,696,361 | 7,036,081 |
| Consumer | 5,997,886 | 5,489,441 | 3,810,527 | 3,754,393 | 3,837,679 |
| Total non-covered loans held-in-portfolio | 27,406,873 | 26,507,889 | 24,292,794 | 22,773,747 | 22,346,115 |
| Loans covered under FDIC loss sharing agreements: | | | | | |
| Mortgage | – | – | 502,930 | 556,570 | 627,102 |
| Consumer | – | – | 14,344 | 16,308 | 19,013 |
| Loans covered under FDIC loss sharing agreements | – | – | 517,274 | 572,878 | 646,115 |
| Total loans held-in-portfolio | 27,406,873 | 26,507,889 | 24,810,068 | 23,346,625 | 22,992,230 |
| Loans held-for-sale: | | | | | |
| Commercial | – | – | – | – | 45,074 |
| Construction | – | – | – | – | 95 |
| Mortgage | 59,203 | 51,422 | 132,395 | 88,821 | 91,831 |
| Total loans held-for-sale | 59,203 | 51,422 | 132,395 | 88,821 | 137,000 |
| Total loans | \$27,466,076 | \$26,559,311 | \$24,942,463 | \$23,435,446 | \$23,129,230 |

[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 Popular U.S. reportable segment.

Other assets

Other assets increased by \$0.1 billion mainly due to the recognition of right-of-use assets as a result of the implementation of the new lease accounting standard, as discussed in Note 35, which required balance sheet recognition of operating lease contracts, an increase in mortgage loan claims as a result of higher inflows impacted by the end of the foreclosure moratorium on FHA-insured mortgages and an increase in prepaid taxes, partially offset by a decrease in net deferred tax assets. Refer to Note 15 for a breakdown of the principal categories that comprise the caption of “Other Assets” in the Consolidated Statements of Financial Condition at December 31, 2019 and 2018.

Liabilities

The Corporation’s total liabilities were \$46.1 billion at December 31, 2019, an increase of \$3.9 billion compared to \$42.2 billion at December 31, 2018, mainly due to deposits as discussed below. 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, 2019 and 2018 is included in Table 6.

Table 6 - Financing to Total Assets

| <i>(In millions)</i> | December 31, 2019 | December 31, 2018 | % increase (decrease) from 2018 to 2019 | % of total assets 2019 | % of total assets 2018 |
|---------------------------------|----------------------|----------------------|--|---------------------------|---------------------------|
| Non-interest bearing deposits | \$ 9,160 | \$ 9,149 | 0.1% | 17.6% | 19.2% |
| Interest-bearing core deposits | 29,610 | 25,714 | 15.2 | 56.8 | 54.0 |
| Other interest-bearing deposits | 4,988 | 4,847 | 2.9 | 9.6 | 10.2 |
| Repurchase agreements | 193 | 282 | (31.6) | 0.4 | 0.6 |
| Notes payable | 1,102 | 1,256 | (12.3) | 2.1 | 2.7 |
| Other liabilities | 1,045 | 922 | 13.3 | 2.0 | 1.9 |
| Stockholders’ equity | 6,017 | 5,435 | 10.7 | 11.5 | 11.4 |

Deposits

The Corporation's deposits totaled \$43.8 billion at December 31, 2019, compared to \$39.7 billion at December 31, 2018. The deposits increase of \$4.1 billion was mainly due to an increase of \$2.9 billion in Puerto Rico public sector deposits

and an increase of \$0.9 billion in retail deposits at Popular Bank mainly from deposits gathered through its online platform. Refer to Table 7 for a breakdown of the Corporation's deposits at December 31, 2019 and 2018.

Table 7 - Deposits Ending Balances

| <i>(In thousands)</i> | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Demand deposits [1] | \$16,566,145 | \$16,077,023 | \$12,460,081 | \$ 9,053,897 | \$ 7,221,238 |
| Savings, NOW and money market deposits (non-brokered) | 19,169,899 | 15,616,247 | 15,054,242 | 13,327,298 | 11,440,693 |
| Savings, NOW and money market deposits (brokered) | 347,765 | 400,004 | 424,307 | 405,487 | 382,424 |
| Time deposits (non-brokered) | 7,546,621 | 7,500,544 | 7,411,140 | 7,486,717 | 7,274,157 |
| Time deposits (brokered CDs) | 128,176 | 116,221 | 103,738 | 222,825 | 891,211 |
| Total deposits | \$43,758,606 | \$39,710,039 | \$35,453,508 | \$30,496,224 | \$27,209,723 |

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

Borrowings

The Corporation's borrowings amounted to \$1.3 billion at December 31, 2019, a decrease of \$0.2 billion when compared to December 31, 2018, mainly due to maturities of Federal Home Loan Bank advances and repurchase agreements at PB. Refer to Note 19 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.

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 24 for a detail of accumulated other comprehensive loss, an integral component of stockholders' equity.

Other liabilities

The Corporation's other liabilities amounted to \$1.0 billion at December 31, 2019, an increase of \$0.1 billion when compared to December 31, 2018, mainly due to the recognition of operating lease liabilities, as discussed above, partially offset by a decrease in the liability for rebooked GNMA loans sold with an option to repurchase and credit recourse liability.

REGULATORY CAPITAL

The Corporation and its bank subsidiaries are subject to capital adequacy standards established by the Federal Reserve. The current risk-based capital standards applicable to Popular, Inc. and the Banks, BPPR and PB, are based on the final capital framework of Basel III. The capital rules of Basel III which became effective on January 1, 2015, established a "Common Equity Tier 1" ("CET1") capital measure and specified that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements. Table 8 presents the Corporation's capital adequacy information for the years 2015 through 2019 under the regulatory guidance applicable during those years. Note 23 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 PB. The Corporation continues to exceed the well-capitalized guidelines under the federal banking regulations.

Stockholders' Equity

Stockholders' equity totaled \$6.0 billion at December 31, 2019, compared to \$5.4 billion at December 31, 2018. The increase of \$0.6 billion was mainly due to net income of \$671.1 million for the year ended December 31, 2019 and higher unrealized gains on debt securities available-for-sale by \$266.0 million, partially offset by the impact of the \$250 million accelerated share repurchase transaction and declared dividends of \$116.0 million on common stock and \$3.7 million in dividends on preferred stock.

Table 8 - Capital Adequacy Data

| (Dollars in thousands) | At December 31, | | | | |
|-----------------------------------|-----------------|--------------|--------------|--------------|--------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| Risk-based capital: | | | | | |
| Common Equity Tier 1 capital | \$ 5,121,240 | \$ 4,631,511 | \$ 4,226,519 | \$ 4,121,208 | 4,049,576 |
| Tier 1 capital | \$ 5,121,240 | \$ 4,631,511 | \$ 4,226,519 | \$ 4,121,208 | \$ 4,049,576 |
| Supplementary (Tier 2) capital | 737,375 | 722,688 | 758,746 | 748,007 | 642,833 |
| Total capital | \$ 5,858,615 | \$ 5,354,199 | \$ 4,985,265 | \$ 4,869,215 | \$ 4,692,409 |
| Total risk-weighted assets | \$28,840,368 | \$27,403,718 | \$25,935,696 | \$25,001,334 | \$24,987,144 |
| Adjusted average quarterly assets | \$51,057,484 | \$46,876,424 | \$42,185,805 | \$37,785,070 | \$34,253,625 |
| Ratios: | | | | | |
| Common Equity Tier 1 capital | 17.76% | 16.90% | 16.30% | 16.48% | 16.21% |
| Tier 1 capital | 17.76 | 16.90 | 16.30 | 16.48 | 16.21 |
| Total capital | 20.31 | 19.54 | 19.22 | 19.48 | 18.78 |
| Leverage ratio | 10.03 | 9.88 | 10.02 | 10.91 | 11.82 |
| Average equity to assets | 11.35 | 11.67 | 12.91 | 14.03 | 13.37 |
| Average tangible equity to assets | 10.11 | 10.37 | 11.48 | 12.45 | 11.95 |
| Average equity to loans | 21.31 | 21.72 | 22.73 | 22.89 | 20.42 |

The increase in the CET1 capital ratio, Tier 1 capital ratio, total capital ratio and leverage ratio as of December 31, 2019 compared to December 31, 2018 was mostly due to the year's earnings, partially offset by the accelerated common stock repurchase of \$250 million, the increase in risk weighted assets driven by the growth in auto loans and leases, higher available-for-sale securities and the recognition of right-of-use assets.

An institution is considered "well-capitalized" if it maintains 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 8 show that the Corporation was "well capitalized" for regulatory purposes, the highest classification, under Basel III for years 2015 through 2019. BPPR and PB 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. As of January 1, 2019, Popular, BPPR and PB are required to maintain 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 9 reconciles the Corporation's total common stockholders' equity to common equity Tier 1 capital.

Table 9 - Reconciliation Common Equity Tier 1 Capital

| (In thousands) | At December 31, | |
|--|--------------------|--------------------|
| | 2019 | 2018 |
| Common stockholders' equity | \$5,966,619 | \$5,384,897 |
| AOCI related adjustments due to opt-out election | 113,155 | 378,038 |
| Goodwill, net of associated deferred tax liability (DTL) | (596,994) | (596,695) |
| Intangible assets, net of associated DTLs | (28,780) | (26,833) |
| Deferred tax assets and other deductions | (332,763) | (507,896) |
| Common equity tier 1 capital | \$5,121,237 | \$4,631,511 |
| Common equity tier 1 capital to risk-weighted assets | 17.76% | 16.90% |

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 10 provides a reconciliation of total stockholders’ equity to tangible common equity and total assets to tangible assets at December 31, 2019 and 2018.

Table 10 - Reconciliation Tangible Common Equity and Assets

| <i>(In thousands, except share or per share information)</i> | At December 31, | |
|--|---------------------|---------------------|
| | 2019 | 2018 |
| Total stockholders’ equity | \$ 6,016,779 | \$ 5,435,057 |
| Less: Preferred stock | (50,160) | (50,160) |
| Less: Goodwill | (671,122) | (671,122) |
| Less: Other intangibles | (28,780) | (26,833) |
| Total tangible common equity | \$ 5,266,717 | \$ 4,686,942 |
| Total assets | \$52,115,324 | \$47,604,577 |
| Less: Goodwill | (671,122) | (671,122) |
| Less: Other intangibles | (28,780) | (26,833) |
| Total tangible assets | \$51,415,422 | \$46,906,622 |
| Tangible common equity to tangible assets at end of period | 10.24% | 9.99% |
| Common shares outstanding at end of period | 95,589,629 | 99,942,845 |
| Tangible book value per common share | \$ 55.10 | \$ 46.90 |

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 25 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.

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, 2019, the aggregate contractual cash obligations, including purchase obligations and borrowings, by maturities, are presented in Table 11.

Table 11 - 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 | \$4,612,460 | \$1,883,329 | \$1,118,447 | \$ 60,561 | \$7,674,797 | |
| Assets sold under agreement to repurchase | 193,378 | – | – | – | 193,378 | |
| Long-term debt | 139,920 | 153,188 | 346,941 | 461,559 | 1,101,608 | |
| Operating leases | 29,872 | 50,985 | 41,433 | 70,842 | 193,132 | |
| Finance leases | 3,068 | 6,411 | 6,797 | 8,220 | 24,496 | |
| Total contractual cash obligations | \$4,978,698 | \$2,093,913 | \$1,513,618 | \$601,182 | \$9,187,411 | |

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, 2019, the Corporation's liability on its pension, restoration and postretirement benefit plans amounted to approximately \$221 million, compared with \$222 million at December 31, 2018. 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 \$6.5 million for 2020. 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 32 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, 2019, the liability for uncertain tax positions was \$16.3 million, compared with \$7.2 million as of the end of 2018. 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: 2020 - \$1.5 million, 2021 - \$11.3 million, 2022 - \$1.1 million and 2023 - \$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 \$2.1 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, 2019:

Table 12 - Off-Balance Sheet Lending and Other Activities

| <i>(In thousands)</i> | Amount of commitment - Expiration Period | | | | Total |
|---|--|-------------------|-------------------|-------------------------|--------------------|
| | 2020 | Years 2021 - 2022 | Years 2023 - 2024 | Years 2025 - thereafter | |
| Commitments to extend credit | \$7,406,856 | \$736,833 | \$119,180 | \$94,647 | \$8,357,516 |
| Commercial letters of credit | 2,629 | — | — | — | 2,629 |
| Standby letters of credit | 34,514 | 40,672 | — | — | 75,186 |
| Commitments to originate or fund mortgage loans | 95,321 | 1,332 | — | — | 96,653 |
| Total | \$7,539,320 | \$778,837 | \$119,180 | \$94,647 | \$8,531,984 |

Refer to Note 26 to the Consolidated Financial Statements for additional information on credit commitments and contingencies.

RISK MANAGEMENT

Market / Interest Rate Risk

The financial results and capital levels of the Corporation are constantly exposed to market, interest rate and liquidity risks.

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 debt securities classified as available-for-sale. Refer to Notes 6 and 7 for further information on the debt securities available-for-sale and held-to-maturity portfolios. Debt securities classified as

available-for-sale amounted to \$17.6 billion as of December 31, 2019. Other assets subject to market risk include loans held-for-sale, which amounted to \$59 million, mortgage servicing rights ("MSRs") which amounted to \$151 million and securities classified as "trading", which amounted to \$40 million, as of December 31, 2019.

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 Net Interest Income (“NII”) 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. NII 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 NII simulations under different interest rate scenarios that differ in direction of interest rate changes, the degree of change and the projected shape of the yield curve. For example, the types of rate scenarios processed during the quarter include flat

rates, implied forwards, parallel and non-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 simulation analyses 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 NII simulations under interest rate scenarios in which the yield curve is assumed to rise and decline by the same amount (parallel shifts). The rate scenarios considered in these market risk simulations reflect parallel changes of -100, -200, +100, +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, 2019 and December 31, 2018, assuming a static balance sheet and parallel changes over flat spot rates over a one-year time horizon:

Table 13 - Net Interest Income Sensitivity (One Year Projection)

| <i>(Dollars in thousands)</i> | December 31, 2019 | | December 31, 2018 | |
|--------------------------------|-------------------|----------------|-------------------|----------------|
| | Amount Change | Percent Change | Amount Change | Percent Change |
| Change in interest rate | | | | |
| +400 basis points | \$ 64,351 | 3.37% | \$ 151,871 | 8.12% |
| +200 basis points | 32,766 | 1.72 | 76,479 | 4.09 |
| +100 basis points | 16,379 | 0.86 | 39,234 | 2.10 |
| -100 basis points | (35,213) | (1.84) | (26,305) | (1.41) |
| -200 basis points | (131,874) | (6.91) | (145,819) | (7.80) |

At December 31, 2019, the simulations showed that the Corporation maintains an asset-sensitive position. This is primarily due to (i) a high level of money market and short-term investments that are highly sensitive to changes in interest rates, (ii) approximately 31% of the Corporation’s loan portfolio was comprised of variable rate loans, and (iii) low elasticity of the Corporation’s core deposit base. The asset sensitive position is more asymmetric in the more extreme -200 basis point scenario, as the Company does not expect it could lower deposit costs below zero. The Corporation’s current asset sensitive position as detailed above and further expectation of

lower interest rates will negatively impact our future results. However, other factors like balance sheet size, asset mix and the shape of the yield curve will also impact these results.

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 14 - Interest Rate Sensitivity

| At December 31, 2019 | | | | | | | | | |
|--|---------------------|------------------------|---|--|--|--|---------------------|----------------------------------|---------------------|
| 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 | \$ 3,262,286 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 3,262,286 |
| Investment and trading securities | 1,537,514 | 2,379,485 | 1,184,436 | 584,367 | 581,292 | 2,410,182 | 9,136,846 | 132,221 | 17,946,343 |
| Loans | 5,645,766 | 1,791,917 | 1,219,030 | 1,135,534 | 1,117,627 | 4,070,829 | 12,746,646 | (261,273) | 27,466,076 |
| Other assets | - | - | - | - | - | - | - | 3,440,619 | 3,440,619 |
| Total | 10,445,566 | 4,171,402 | 2,403,466 | 1,719,901 | 1,698,919 | 6,481,011 | 21,883,492 | 3,311,567 | 52,115,324 |
| Liabilities and stockholders' equity: | | | | | | | | | |
| Savings, NOW and money market and other interest bearing demand deposits | 12,425,665 | 650,725 | 908,212 | 833,417 | 765,596 | 2,498,080 | 8,841,941 | - | 26,923,636 |
| Certificates of deposit | 1,982,057 | 650,883 | 713,261 | 711,511 | 673,910 | 1,217,131 | 1,726,044 | - | 7,674,797 |
| Federal funds purchased and assets sold under agreements to repurchase | 90,780 | 78,061 | 19,537 | - | 5,000 | - | - | - | 193,378 |
| Notes payable | 31,000 | 12,771 | 23,218 | 61,000 | 11,930 | 50,040 | 911,649 | - | 1,101,608 |
| Non-interest bearing deposits | - | - | - | - | - | - | - | 9,160,173 | 9,160,173 |
| Other non-interest bearing liabilities | - | - | - | - | - | - | - | 1,044,953 | 1,044,953 |
| Stockholders' equity | - | - | - | - | - | - | - | 6,016,779 | 6,016,779 |
| Total | \$14,529,502 | \$ 1,392,440 | \$1,664,228 | \$1,605,928 | \$1,456,436 | \$3,765,251 | \$11,479,634 | \$ 16,221,905 | \$52,115,324 |
| Interest rate sensitive gap | (4,083,936) | 2,778,962 | 739,238 | 113,973 | 242,483 | 2,715,760 | 10,403,858 | (12,910,338) | - |
| Cumulative interest rate sensitive gap | (4,083,936) | (1,304,974) | (565,736) | (451,763) | (209,280) | 2,506,480 | 12,910,338 | - | - |
| Cumulative interest rate sensitive gap to earning assets | (8.37)% | (2.67)% | (1.16)% | (0.93)% | (0.43)% | 5.14% | 26.45% | - | - |

Table 15, which presents the maturity distribution of earning assets, takes into consideration prepayment assumptions.

Table 15 - Maturity Distribution of Earning Assets

| As of December 31, 2019 | | | | | | |
|-----------------------------------|---------------------|-----------------------------------|-------------------------|----------------------|-------------------------|---------------------|
| <i>(In thousands)</i> | 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 | \$ 3,262,286 | – | – | – | – | \$ 3,262,286 |
| Investment and trading securities | 6,240,531 | \$ 8,325,318 | \$ 23,726 | \$ 3,183,906 | \$ 12,975 | 17,786,456 |
| Loans: | | | | | | |
| Commercial | 3,122,399 | 3,342,064 | 2,899,260 | 1,485,724 | 1,485,409 | 12,334,856 |
| Construction | 646,413 | 10,007 | 170,131 | 3,337 | 1,204 | 831,092 |
| Lease financing | 328,530 | 726,511 | – | 4,466 | – | 1,059,507 |
| Consumer | 1,849,765 | 2,902,771 | 352,175 | 121,971 | 771,204 | 5,997,886 |
| Mortgage | 707,355 | 2,369,596 | 168,432 | 3,951,106 | 46,246 | 7,242,735 |
| Subtotal loans | 6,654,462 | 9,350,949 | 3,589,998 | 5,566,604 | 2,304,063 | 27,466,076 |
| Total earning assets | \$16,157,279 | \$17,676,267 | \$3,613,724 | \$8,750,510 | \$2,317,038 | \$48,514,818 |

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.

Trading

The Corporation engages in trading activities in the ordinary course of business at its subsidiaries, BPPR 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, 2019, the Corporation held trading securities with a fair value of \$40 million, representing approximately 0.1% of the Corporation's total assets, compared with \$38 million and 0.1%, respectively, at December 31, 2018. As shown in Table 16, the trading portfolio consists principally of mortgage-backed securities which at December 31, 2019 were investment grade securities. As of December 31, 2019, the trading portfolio also included \$7 million in U.S. Treasury securities and \$0.6 million in Puerto Rico government obligations (\$6 million and \$0.1 million as of December 31, 2018, respectively). 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 gain of \$ 994 thousand for the year ended December 31, 2019 and a net trading account loss of \$208 thousand for the year ended December 31, 2018.

Table 16 - Trading Portfolio

| <i>(Dollars in thousands)</i> | December 31, 2019 | | December 31, 2018 | |
|-------------------------------------|-------------------|----------------------------|-------------------|----------------------------|
| | Amount | Weighted Average Yield [1] | Amount | Weighted Average Yield [1] |
| Mortgage-backed securities | \$28,556 | 5.28% | \$27,257 | 5.49% |
| U.S. Treasury securities | 7,083 | 1.22 | 6,278 | 2.13 |
| Collateralized mortgage obligations | 606 | 5.72 | 659 | 5.62 |
| Puerto Rico government obligations | 633 | 2.60 | 134 | 0.26 |
| Interest-only strips | 440 | 12.05 | 484 | 12.05 |
| Other | 3,003 | 2.79 | 2,975 | 3.54 |
| Total | \$40,321 | 4.42% | \$37,787 | 4.85% |

[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, 2019. 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 28 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, 2019, 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. For information on the gain (loss) resulting from the inclusion of the credit risk in the fair value of the derivatives, refer to Note 28 to the consolidated financial statements.

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, 2019 amounted to \$ 98 million (2018 - \$ 90 million).

Refer to Note 28 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, 2019 and 2018.

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 28 to the consolidated financial statements for additional quantitative and qualitative information on these derivative instruments.

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, 2019, these deposits amounted to \$ 67 million (2018 - \$ 63 million), or less than 1% (2018 - 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. Indexed options are purchased from financial institutions with strong credit standings, whose return is designed to match the return payable on the certificates of deposit issued. 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, 2019, the notional amount of the indexed options on deposits approximated \$ 69 million (2018 - \$ 69 million) with a fair value of \$ 18 million (asset) (2018 - \$ 13 million) while the embedded options had a notional value of \$ 67 million (2018 - \$ 63 million) with a fair value of \$ 16 million (liability) (2018 - \$ 11 million).

Refer to Note 28 to the consolidated financial statements for a description of other non-hedging derivative activities utilized by the Corporation during 2019 and 2018.

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 \$151.6 million at December 31, 2019. 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, 2019, the Corporation had approximately \$ 57 million in an unfavorable foreign currency translation adjustment as part of accumulated other comprehensive loss, compared with an unfavorable adjustment of \$ 50 million at December 31, 2018 and \$ 43 million at December 31, 2017.

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 of Directors is responsible for establishing the Corporation's tolerance for liquidity risk, including approving relevant risk limits and policies. The Board of Directors has delegated the monitoring of these risks to the Risk Management Committee and the Asset/Liability Management Committee. 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 of Directors 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.

Deposits, including customer deposits, brokered deposits and public funds deposits, continue to be the most significant source of funds for the Corporation, funding 84% of the Corporation's total assets at December 31, 2019 and 83% at December 31, 2018. The ratio of total ending loans to deposits was 63% at December 31, 2019, compared to 67% at December 31, 2018. In addition to traditional deposits, the Corporation maintains borrowing arrangements, which amounted to approximately \$1.3 billion at December 31, 2019 (December 31, 2018 - \$1.5 billion). A detailed description of the Corporation's borrowings, including their terms, is included in Note 19 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.

As previously mentioned, during 2019 the Corporation executed actions corresponding to its capital and liquidity strategic plans. These included the \$250 million accelerated share repurchase transaction with respect to its common stock and an increase in quarterly common stock dividend from \$0.25 per share to \$0.30 per share. Refer to additional details of these transactions in the Overview section of this MD&A and Notes 22 - Stockholders Equity and Note 33 - Net Income Per Common Share.

The following sections provide further information on the Corporation's major funding activities and needs, as well as the risks involved in these activities. Note 42 to the Consolidated Financial Statements provides consolidating statements of condition, of operations and of cash flows which separately presents the Corporation's bank holding companies and its subsidiaries as part of the "All other subsidiaries and eliminations" column.

Banking Subsidiaries

Primary sources of funding for the Corporation's banking subsidiaries (BPPR and PB 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 Bank of New York (the "FRB"), and has a considerable amount of collateral pledged that can be used to raise funds under these facilities.

Refer to Note 19 to the Consolidated Financial Statements, for additional information of the Corporation's borrowing facilities available through its banking subsidiaries.

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), advances on certain serviced

portfolios, 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.

The banking subsidiaries maintain sufficient funding capacity to address large increases in funding requirements such as deposit outflows. 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 7 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 \$ 38.8 billion, or 89% of total deposits, at December 31, 2019, compared with \$34.9 billion, or 88% of total deposits, at December 31, 2018. Core deposits financed 80% of the Corporation's earning assets at December 31, 2019, compared with 79% at December 31, 2018.

The distribution by maturity of certificates of deposits with denominations of \$100,000 and over at December 31, 2019 is presented in the table that follows:

Table 17 - Distribution by Maturity of Certificate of Deposits of \$100,000 and Over

| <i>(In thousands)</i> | |
|-----------------------|--------------------|
| 3 months or less | \$2,113,896 |
| 3 to 6 months | 289,296 |
| 6 to 12 months | 783,862 |
| Over 12 months | 1,353,903 |
| Total | \$4,540,957 |

Average deposits, including brokered deposits, for the year ended December 31, 2019 represented 94% of average earning assets, compared with 89% for the year ended December 31, 2018. Table 18 summarizes average deposits for the past five years.

Table 18 - Average Total Deposits

| <i>(In thousands)</i> | For the years ended December 31, | | | | |
|--|----------------------------------|---------------------|---------------------|---------------------|---------------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| Non-interest bearing demand deposits | \$ 8,872,897 | \$ 8,790,314 | \$ 7,338,455 | \$ 6,607,639 | \$ 6,146,504 |
| Savings accounts | 10,425,345 | 9,621,162 | 8,268,969 | 7,528,057 | 7,027,238 |
| NOW, money market and other interest bearing demand accounts | 15,159,364 | 12,516,921 | 9,958,772 | 7,024,810 | 5,446,933 |
| Certificates of deposit: | | | | | |
| Under \$100,000 | 1,444,078 | 1,924,723 | 2,455,073 | 2,525,448 | 3,537,307 |
| \$100,000 and over | 4,563,811 | 4,371,151 | 4,127,668 | 4,240,008 | 3,755,412 |
| Certificates of deposit | 6,007,889 | 6,295,874 | 6,582,741 | 6,765,456 | 7,292,719 |
| Other time deposits | 1,753,301 | 1,263,150 | 1,033,585 | 1,140,048 | 865,189 |
| Total interest bearing deposits | 33,345,899 | 29,697,107 | 25,844,067 | 22,458,371 | 20,632,079 |
| Total average deposits | \$42,218,796 | \$38,487,421 | \$33,182,522 | \$29,066,010 | \$26,778,583 |

The Corporation had \$ 0.5 billion in brokered deposits at December 31, 2019 and 2018, which financed approximately 1% of its total assets. 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.

At December 31, 2019, 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 "BHCs"), which are Popular, Inc. (holding company only) and 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 includes 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.

The BHCs 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.

The outstanding balance of notes payable at the BHCs amounted to \$680 million at December 31, 2019 and \$679 million at December 31, 2018.

The contractual maturities of the BHCs notes payable at December 31, 2019 are presented in Table 19.

Table 19 - Distribution of BHC's Notes Payable by Contractual Maturity

| <u>Year</u> | <u>(In thousands)</u> |
|--------------|-----------------------|
| 2023 | 295,307 |
| Later years | 384,902 |
| Total | \$680,209 |

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 injections 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 or capital contributions from their holding companies. On July 1, 2019, Popular Securities received a capital contribution amounting to \$4 million from Popular, Inc.

Dividends

During the year ended December 31, 2019, the Corporation declared quarterly dividends on its outstanding common stock of \$0.30 per share, for a year-to-date total of \$ 116.0 million. The dividends for the Corporation's Series A and Series B preferred stock amounted to \$3.7 million. During the year ended December 31, 2019, the BHC's received dividends amounting to \$400 million from BPPR, \$8 million in dividends from its non-banking subsidiaries, \$2 million in dividends from EVERTEC's parent company and \$13 million in dividends from its investments in BHD Leon.

Other Funding Sources and Capital

The debt securities portfolio provides an additional source of liquidity, which may be realized through either securities sales or repurchase agreements. The Corporation's debt securities portfolio consists primarily of liquid U.S. government debt securities, U.S. government sponsored agency debt securities, U.S. government sponsored agency mortgage-backed securities, and U.S. government sponsored agency 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 debt securities amounted to \$5.4 billion at December 31, 2019 and \$4.3 billion at December 31, 2018. A substantial portion of these debt securities could be used to raise financing 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. 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.

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 \$9 million in deposits at December 31, 2019 that are subject to rating triggers.

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 25 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 \$66 million at December 31, 2019. 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

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 40 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 faces severe economic and fiscal challenges.

Economic Performance

The Commonwealth’s economy entered a recession in the fourth quarter of fiscal year 2006 and its gross national product (“GNP”) has contracted (in real terms) every fiscal year between 2007 and 2018, with the exception of fiscal year 2012. Pursuant to the latest Puerto Rico Planning Board (the “Planning Board”) estimates, published in July 2019, the Commonwealth’s real GNP for fiscal years 2017 and 2018 decreased by 3% and 4.7%, respectively. The Planning Board’s report also projected an increase in real GNP of approximately 2% and 3.6% in fiscal years 2019 and 2020, respectively, in part due to the influx of federal funds and private insurance payments to repair damage caused by Hurricanes Irma and Maria. The Planning Board’s projections do not account for the economic impact of the recent seismic activity, discussed below. For information regarding the economic projections of the 2019 Commonwealth Fiscal Plan, see Fiscal Plans, *Commonwealth Fiscal Plan*, below.

Fiscal Crisis

The Commonwealth remains in the midst of a profound fiscal crisis affecting the central government and many of its instrumentalities, public corporations and municipalities. This fiscal crisis has been primarily the result of 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. As a result of the crisis, the Commonwealth and certain of its instrumentalities have been unable to make debt service payments on their outstanding bonds and notes since 2016. The escalating fiscal and economic crisis and imminent widespread defaults prompted the U.S. Congress to enact the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”) in June 2016. The Commonwealth and several of its instrumentalities are currently in the process of restructuring their debts through the debt restructuring mechanisms provided by PROMESA.

Recent Seismic Activity

On January 7, 2020, Puerto Rico was struck by a magnitude 6.4 earthquake, which caused island-wide power outages and significant damage to infrastructure and property in the southwest region of the island. The 6.4 earthquake was preceded by foreshocks and followed by aftershocks. The extent of the damages caused by the recent seismic activity is still

unknown and loss estimates vary, but the United States Geological Survey has preliminarily estimated the losses at approximately \$100 million. It is still too early to fully assess the impact of the recent seismic activity on the Puerto Rico economy.

PROMESA

PROMESA, among other things, created a seven-member federally-appointed oversight board (the “Oversight Board”) with ample powers over the fiscal and economic affairs of the Commonwealth, its public corporations, instrumentalities and municipalities and established two mechanisms for the restructuring of the obligations of such entities. 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. In August 2016, President Obama appointed the seven voting members of the Oversight Board through the process established in PROMESA, which authorized the President to select the members from several lists required to be submitted by congressional leaders. The constitutionality of such appointments, however, is currently being challenged before the U.S. Supreme Court.

In October 2016, the Oversight Board designated the Commonwealth and all of its public corporations and instrumentalities as “covered entities” under PROMESA. The only Commonwealth government entities that were not subject to such initial designation were the Commonwealth’s municipalities. In May 2019, however, the Oversight Board designated all of the Commonwealth’s municipalities as covered entities. At the Oversight Board’s request, covered entities are required to submit fiscal plans and annual budgets to the Oversight Board for its review and approval. They are also required to seek Oversight Board approval to issue, guarantee or modify their debts and to enter into contracts with an aggregate value of \$10 million or more. Finally, covered entities are potentially eligible to avail themselves of the debt restructuring processes provided by PROMESA.

Fiscal Plans

Commonwealth Fiscal Plan. The Oversight Board has certified several versions of fiscal plans for the Commonwealth since 2017. The most recent fiscal plan for the Commonwealth certified by the Oversight Board is dated as of May 9, 2019 (the “2019 Commonwealth Fiscal Plan”). The 2019 Commonwealth Fiscal Plan estimates a 4.7% contraction in real GNP in fiscal year 2018, after accounting for the impact of disaster relief funding and the measures and structural reforms contemplated by the plan. It also projects that disaster relief spending will have a short-term stimulative effect on the economy, which, combined with the estimated effects of the proposed fiscal measures and structural reforms, will result in real GNP growth of approximately 4% and 1.5% in fiscal years 2019 and 2020,

respectively. Pursuant to the 2019 Commonwealth Fiscal Plan, the Commonwealth's population is estimated to steadily decline at rates of approximately 1% to 2% annually through fiscal year 2024. The 2019 Commonwealth Fiscal Plan's projections do not account for the impact of the recent seismic activity, discussed below.

Before accounting for the impact of the measures and structural reforms contemplated therein, the 2019 Commonwealth Fiscal Plan projects a pre-contractual debt service surplus in fiscal years 2018 through 2020. This surplus is not projected to continue after fiscal year 2020, as federal disaster relief funding slows down. The 2019 Commonwealth Fiscal Plan projects that, without major Government action, the Commonwealth would suffer an annual primary deficit starting in fiscal year 2021. The Oversight Board estimates that the fiscal measures contemplated by the 2019 Commonwealth Fiscal Plan will drive approximately \$13.6 billion in savings and extra revenue through fiscal year 2024. However, even after accounting for the impact of the fiscal measures and structural reforms and before contractual debt service, the projections reflect an annual deficit starting in fiscal year 2038. After contractual debt service, the surplus projected in fiscal years 2019 to 2024 drops significantly and annual deficits begin in fiscal year 2027. Based on such long-term projections, the 2019 Commonwealth Fiscal Plan concludes that the Commonwealth cannot afford to meet all of its contractual debt obligations, even with aggressive implementation of the structural reforms and measures contemplated by the plan.

The 2019 Commonwealth Fiscal Plan does not contemplate the restructuring of the debt of the Commonwealth's municipalities. It does, however, contemplate the gradual reduction and the ultimate elimination of budgetary subsidies provided by the Commonwealth to municipalities, which constitute a material portion of the operating revenues of certain municipalities. Since fiscal year 2017, Commonwealth appropriations to municipalities have been reduced by approximately 64% (from approximately \$370 million in fiscal year 2017 to approximately \$132 million in fiscal year 2020). The 2019 Commonwealth Fiscal Plan provides for additional reductions in appropriations to municipalities every fiscal year, holding appropriations constant at \$112 million starting in fiscal year 2022, before ultimately phasing out all appropriations in fiscal year 2024.

Other Fiscal Plans. Pursuant to PROMESA, the Oversight Board has also requested and certified fiscal plans for several public corporations and instrumentalities. Such plans conclude that such entities cannot afford to meet all of their contractual obligations as currently scheduled. The certified fiscal plan for the Puerto Rico Electric Power Authority ("PREPA"), Puerto Rico's electric power utility, contemplates the transformation of Puerto Rico's electric system through, among other things, the establishment of a public-private partnership with respect to PREPA's transmission and distribution system, and calls for

significant structural reforms at PREPA. The plan also contemplates changes to the treatment of the municipal contribution in lieu of taxes, which could result in increased electricity expenses for municipalities.

Pending Title III Proceedings

On May 3, 2017, the Oversight Board, on behalf of the Commonwealth, filed a petition in the U.S. District Court to restructure the Commonwealth's liabilities under Title III of PROMESA. The Oversight Board has subsequently filed analogous petitions with respect to the Puerto Rico Sales Tax Financing Corporation ("COFINA"), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico ("ERS"), the Puerto Rico Highways and Transportation Authority, PREPA and the Puerto Rico Public Buildings Authority ("PBA"). On February 12, 2019, the government completed a restructuring of COFINA's debts pursuant to a plan of adjustment confirmed by the U.S. District Court. On September 27, 2019, the Oversight Board filed a plan of adjustment for the Commonwealth, ERS and PBA in the pending debt restructuring proceedings under Title III of PROMESA. On February 9, 2020, the Oversight Board announced that it had reached a new agreement with certain bondholders on a new framework for a plan of adjustment. The Oversight Board stated that it intends to file an amended plan of adjustment on or before February 28, 2020. The agreement, which has not yet been confirmed by the court, is not supported by the Governor of Puerto Rico in its current form, and may suffer significant changes before confirmation, provides a preliminary framework for the Commonwealth to exit bankruptcy.

Exposure of the Corporation

The credit quality of BPPR's loan portfolio 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 have been 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 and the adjustment measures required by the fiscal plans present significant economic risks. 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, could result 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 fiscal and economic challenges, 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.

At December 31, 2019 and December 31, 2018, the Corporation's direct exposure to the Puerto Rico government and its instrumentalities and municipalities totaled \$432 million and \$458 million, respectively, which amounts were fully outstanding on such dates. Further deterioration of the Commonwealth's fiscal and economic situation could adversely affect the value of our Puerto Rico government obligations, resulting in losses to us. Of the amount outstanding, \$391 million consists of loans and \$41 million are securities (\$413 million and \$45 million, respectively, at December 31, 2018). Substantially all of the amount outstanding at December 31, 2019 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. On July 1, 2019, the Corporation received principal payments amounting to \$22 million from various obligations from Puerto Rico municipalities. At December 31, 2019, 75% of the Corporation's exposure to municipal loans and securities was concentrated in the municipalities of San Juan, Guaynabo, Carolina and Bayamón. For additional discussion of the Corporation's direct exposure to the Puerto Rico government and its instrumentalities and municipalities, refer to Note 26 – Commitments and Contingencies.

In addition, at December 31, 2019, the Corporation had \$350 million in loans insured or securities issued by Puerto Rico governmental entities, but for which the principal source of repayment is non-governmental (\$368 million at December 31, 2018). These included \$276 million in residential mortgage loans insured by the Puerto Rico Housing Finance Authority ("HFA"), a governmental instrumentality that has been designated as a covered entity under PROMESA (December 31, 2018 - \$293 million). These mortgage loans are secured by first mortgages on Puerto Rico residential properties and the HFA insurance covers losses in the event of a borrower default and upon the satisfaction of certain other conditions. The Corporation also had, at December 31, 2019, \$46 million in bonds issued by HFA which are secured by second mortgage loans on Puerto Rico residential properties, and for which HFA also provides insurance to cover losses in the event of a borrower default, and upon the satisfaction of certain other conditions (December 31, 2018 - \$45 million). In the event that the mortgage loans insured by HFA and held by the Corporation directly or those serving as collateral for the HFA bonds default and the collateral is insufficient to satisfy the outstanding balance of this loans, HFA's ability to honor its insurance will

depend, among other factors, on the financial condition of HFA at the time such obligations become due and payable. Although the Governor is currently authorized by local legislation to impose a temporary moratorium on the financial obligations of the HFA, she has not exercised this power as of the date hereof. In addition, at December 31, 2019, the Corporation had \$7 million in securities issued by HFA that have been economically defeased and refunded and for which securities consisting of U.S. agencies and Treasury obligations have been escrowed (December 31, 2018 - \$7 million), and \$21 million of commercial real estate notes issued by government entities, but that are payable from rent paid by non-governmental parties (December 31, 2018 - \$23 million).

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

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.

The Corporation may also have direct exposure with regards to avoidance and other causes of action initiated by the Oversight Board on behalf of the Commonwealth or other Title III debtors. For additional information regarding such exposure, refer to Note 26 of the Consolidated Financial Statements.

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. 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, 2019, the Corporation's direct exposure to USVI instrumentalities and public corporations amounted to approximately \$71 million, of which \$67 million is outstanding (compared to \$76 million and \$68 million, respectively, at December 31, 2018). Of the amount outstanding, approximately (i) \$42 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) \$17 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) \$8 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 (compared to \$42 million, \$14 million and \$12 million, respectively, at December 31, 2018).

U.S. Government

As further detailed in Notes 6 and 7 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, \$1.1 billion of residential mortgages and \$66 million commercial loans were insured or guaranteed by the U.S. Government or its agencies at December 31, 2019 (compared to \$1.2 billion and \$74 million, respectively, at December 31, 2018).

Non-Performing Assets

Non-performing assets ("NPAs") 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 20.

At December 31, 2019, the Corporation's credit quality metrics continued to show favorable trends. The credit metrics of our BPPR operations reflected lower non-performing loans ("NPLs"), lower NPL inflows, and lower net charge-offs ("NCO's"). The U.S. operations continued to reflect solid growth and strong credit quality results. Net charge-offs increase was related to the taxi medallion portfolio, which carrying value was reduced to \$19 million at December 31, 2019. The Corporation continues to be attentive to the

performance of its portfolios and related credit metrics. The following presents credit quality results for the year ended December 31, 2019.

Total NPAs decreased by \$98 million when compared with December 31, 2018. This decrease was primarily driven by lower NPLs in the BPPR segment by \$69 million, combined with lower other real estate owned loans ("OREOs") by \$14 million. The decrease in the BPPR's NPLs was mostly due to lower mortgage and commercial NPLs by \$40 million and \$36 million, respectively.

At December 31, 2019, NPLs secured by real estate amounted to \$406 million in the Puerto Rico operations and \$26 million in Popular U.S. These figures were \$459 million and \$49 million, respectively, at December 31, 2018.

The Corporation's commercial loan portfolio secured by real estate ("CRE") amounted to \$7.7 billion at December 31, 2019, of which \$1.9 billion was secured with owner occupied properties, compared with \$7.8 billion and \$2.0 billion, respectively, at December 31, 2018. CRE NPLs amounted to \$113 million at December 31, 2019, compared with \$129 million at December 31, 2018. The CRE NPL ratios for the BPPR and Popular U.S. segments were 2.88% and 0.07%, respectively, at December 31, 2019, compared with 3.05% and 0.02%, respectively, at December 31, 2018.

In addition to the NPLs included in Table 20, at December 31, 2019, there were \$207 million of performing loans, mostly commercial loans, which in management's opinion, are currently subject to potential future classification as non-performing and are considered impaired (December 31, 2018 - \$153 million).

For the year ended December 31, 2019, total inflows of NPLs held-in-portfolio, excluding consumer loans, decreased by \$169 million, or 36%, when compared to the inflows for the same period in 2018. Inflows of NPLs held-in-portfolio at the BPPR segment decreased by \$152 million, or 36%, compared to the year ended 2018, mostly driven by lower mortgage and commercial inflows by \$99 million and \$48 million, respectively.

Inflows of NPLs held-in-portfolio at the Popular U.S. segment decreased by \$17 million, or 46%, from the same period in 2018.

Table 20 - Non-Performing Assets

| (Dollars in thousands) | December 31, 2019 | | | December 31, 2018 | | | December 31, 2017 | | |
|--|-------------------|--------------|---------------|-------------------|--------------|---------------|-------------------|--------------|---------------|
| | BPPR | Popular U.S. | Popular, Inc. | BPPR | Popular U.S. | Popular, Inc. | BPPR | Popular U.S. | Popular, Inc. |
| Non-accrual loans: | | | | | | | | | |
| Commercial | \$147,255 | \$ 3,505 | \$150,760 | \$182,950 | \$ 1,076 | \$184,026 | \$ 161,226 | \$ 3,839 | \$ 165,065 |
| Construction | 119 | 26 | 145 | 1,788 | 12,060 | 13,848 | – | – | – |
| Legacy [1] | – | 1,999 | 1,999 | – | 2,627 | 2,627 | – | 3,039 | 3,039 |
| Leasing | 3,657 | – | 3,657 | 3,313 | – | 3,313 | 2,974 | – | 2,974 |
| Mortgage | 283,708 | 11,091 | 294,799 | 323,565 | 11,033 | 334,598 | 306,697 | 14,852 | 321,549 |
| Consumer | 64,461 | 12,020 | 76,481 | 56,482 | 16,193 | 72,675 | 40,543 | 17,787 | 58,330 |
| Total non-performing loans held-in-portfolio, excluding covered loans | | | | | | | | | |
| | 499,200 | 28,641 | 527,841 | 568,098 | 42,989 | 611,087 | 511,440 | 39,517 | 550,957 |
| Other real estate owned (“OREO”), excluding covered OREO | | | | | | | | | |
| | 120,011 | 2,061 | 122,072 | 134,063 | 2,642 | 136,705 | 167,253 | 2,007 | 169,260 |
| Total non-performing assets, excluding covered assets | | | | | | | | | |
| | \$619,211 | \$30,702 | \$649,913 | \$702,161 | \$45,631 | \$747,792 | \$ 678,693 | \$41,524 | \$ 720,217 |
| Covered loans and OREO [3] | | | | | | | | | |
| | – | – | – | – | – | – | 22,948 | – | 22,948 |
| Total non-performing assets [2] | | | | | | | | | |
| | \$619,211 | \$30,702 | \$649,913 | \$702,161 | \$45,631 | \$747,792 | \$ 701,641 | \$41,524 | \$ 743,165 |
| Accruing loans past-due 90 days or more [4] [5] | | | | | | | | | |
| | \$460,133 | \$ – | \$460,133 | \$612,543 | \$ – | \$612,543 | \$1,225,149 | \$ – | \$1,225,149 |
| Excluding covered loans: [6] | | | | | | | | | |
| Non-performing loans to loans held-in-portfolio | | | | | | | | | |
| | | | 1.93% | | | 2.31% | | | 2.27% |
| Including covered loans: | | | | | | | | | |
| Non-performing loans to loans held-in-portfolio | | | | | | | | | |
| | | | 1.93% | | | 2.31% | | | 2.23% |
| Interest lost | | | | | | | | | |
| | | | \$ 29,469 | | | \$ 35,170 | | | \$ 29,920 |

[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 Popular U.S. reportable segment.

[2] There were no non-performing loans held-for-sale as of December 31, 2019, 2018 and 2017.

[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. 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 \$153 million at December 31, 2019 (December 31, 2018 - \$216 million; December 31, 2017 - \$272 million). This amount is excluded from the above table as the loans' accretible 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 \$103 million at December 31, 2019 related to the rebooking of loans previously pooled into GNMA securities, in which the Corporation had a buy-back option as further described below (December 31, 2018 - \$134 million; December 31, 2017 - \$840 million). These balances include \$213 million of residential mortgage loans insured by FHA or guaranteed by the VA that are no longer accruing interest as of December 31, 2019 (December 31, 2018 - \$283 million; December 31, 2017 - \$178 million). Furthermore, the Corporation has approximately \$65 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 31, 2018 - \$69 million; December 31, 2017 - \$58 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 20 (continued) - Non-Performing Assets

| <i>(Dollars in thousands)</i> | December 31, 2016 | | | December 31, 2015 | | |
|---|-------------------|-----------------|------------------|-------------------|-----------------|------------------|
| | BPPR | Popular U.S. | Popular, Inc. | BPPR | Popular U.S. | Popular, Inc. |
| Non-accrual loans: | | | | | | |
| Commercial | \$159,655 | \$ 3,693 | \$163,348 | \$177,902 | \$ 3,914 | \$181,816 |
| Construction | — | — | — | 3,550 | — | 3,550 |
| Legacy [1] | — | 3,337 | 3,337 | — | 3,649 | 3,649 |
| Leasing | 3,062 | — | 3,062 | 3,009 | — | 3,009 |
| Mortgage | 318,194 | 11,713 | 329,907 | 337,933 | 13,538 | 351,471 |
| Consumer | 51,597 | 6,664 | 58,261 | 52,440 | 5,864 | 58,304 |
| Total non-performing loans held-in-portfolio, excluding covered loans | 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 | 177,412 | 3,033 | 180,445 | 151,439 | 3,792 | 155,231 |
| Total non-performing assets, excluding covered assets | \$709,920 | \$28,440 | \$738,360 | \$770,969 | \$31,230 | \$802,199 |
| Covered loans and OREO [3] | 36,044 | — | 36,044 | 40,571 | — | 40,571 |
| Total non-performing assets | \$745,964 | \$28,440 | \$774,404 | \$811,540 | \$31,230 | \$842,770 |
| Accruing loans past-due 90 days or more [4] [5] | \$426,652 | \$ — | \$426,652 | \$446,725 | \$ — | \$446,725 |
| Excluding covered loans: [6] | | | | | | |
| Non-performing loans to loans held-in-portfolio | | | 2.45% | | | 2.69% |
| Including covered loans: | | | | | | |
| Non-performing loans to loans held-in-portfolio | | | 2.41% | | | 2.63% |
| Interest lost | | | \$ 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 Popular U.S. reportable segment.

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

[3] The amount consists of \$4 million in non-performing loans accounted for under ASC Subtopic 310-20 and \$32 million in covered OREO at December 31, 2016 (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 \$282 million at December 31, 2016 (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. These balances include \$181 million of residential mortgage loans insured by FHA or guaranteed by the VA that are no longer accruing interest as of December 31, 2016 (December 31, 2015 - \$164 million). Furthermore, the Corporation has approximately \$68 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 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 21 - Activity in Non-Performing Loans Held-in-Portfolio (Excluding Consumer Loans)

| | For the year ended December 31, 2019 | | |
|---|---|--------------|---------------|
| <i>(In thousands)</i> | BPPR | Popular U.S. | Popular, Inc. |
| Beginning balance | \$ 508,303 | \$ 26,796 | \$ 535,099 |
| Plus: | | | |
| New non-performing loans | 274,135 | 19,651 | 293,786 |
| Advances on existing non-performing loans | – | 501 | 501 |
| Less: | | | |
| Non-performing loans transferred to OREO | (32,481) | (601) | (33,082) |
| Non-performing loans charged-off | (59,191) | (4,825) | (64,016) |
| Loans returned to accrual status / loan collections | (254,847) | (14,867) | (269,714) |
| Non-performing loans sold | (4,837) | (10,034) | (14,871) |
| Ending balance NPLs [1] | \$ 431,082 | \$ 16,621 | \$ 447,703 |

[1] Includes \$2.0 million of NPLs related to the legacy portfolio.

Table 22 - Activity in Non-Performing Loans Held-in-Portfolio (Excluding Consumer Loans)

| | For the year ended December 31, 2018 | | |
|--|---|--------------|---------------|
| <i>(In thousands)</i> | BPPR | Popular U.S. | Popular, Inc. |
| Beginning balance | \$ 467,923 | \$ 21,730 | \$ 489,653 |
| Plus: | | | |
| New non-performing loans | 424,969 | 37,197 | 462,166 |
| Advances on existing non-performing loans | 763 | 178 | 941 |
| Reclassification from construction loans to commercial loans | 3,413 | – | 3,413 |
| Less: | | | |
| Non-performing loans transferred to OREO | (30,613) | (686) | (31,299) |
| Non-performing loans charged-off | (71,283) | (6,211) | (77,494) |
| Loans returned to accrual status / loan collections | (286,869) | (25,412) | (312,281) |
| Ending balance NPLs [1] | \$ 508,303 | \$ 26,796 | \$ 535,099 |

[1] Includes \$2.6 million of NPLs related to the legacy portfolio.

Table 23 - Activity in Non-Performing Commercial Loans Held-In-Portfolio

| | For the year ended December 31, 2019 | | |
|---|---|--------------|---------------|
| <i>(In thousands)</i> | BPPR | Popular U.S. | Popular, Inc. |
| Beginning balance - NPLs | \$182,950 | \$ 1,076 | \$184,026 |
| Plus: | | | |
| New non-performing loans | 71,063 | 7,564 | 78,627 |
| Advances on existing non-performing loans | – | 80 | 80 |
| Less: | | | |
| Non-performing loans transferred to OREO | (7,692) | – | (7,692) |
| Non-performing loans charged-off | (33,562) | (2,074) | (35,636) |
| Loans returned to accrual status / loan collections | (60,667) | (3,141) | (63,808) |
| Non-performing loans sold | (4,837) | – | (4,837) |
| Ending balance - NPLs | \$147,255 | \$ 3,505 | \$150,760 |

Table 24 - Activity in Non-Performing Commercial Loans Held-in-Portfolio

| | For the year ended December 31, 2018 | | |
|---|---|--------------|---------------|
| <i>(In thousands)</i> | BPPR | Popular U.S. | Popular, Inc. |
| Beginning balance - NPLs | \$161,226 | \$ 3,839 | \$165,065 |
| Plus: | | | |
| New non-performing loans | 118,233 | 4,795 | 123,028 |
| Advances on existing non-performing loans | 647 | – | 647 |
| Less: | | | |
| Non-performing loans transferred to OREO | (7,060) | – | (7,060) |
| Non-performing loans charged-off | (23,208) | (266) | (23,474) |
| Loans returned to accrual status / loan collections | (66,888) | (7,292) | (74,180) |
| Ending balance - NPLs | \$182,950 | \$ 1,076 | \$184,026 |

Table 25 - Activity in Non-Performing Construction Loans Held-In-Portfolio

| | For the year ended December 31, 2019 | | |
|---|---|--------------|---------------|
| <i>(In thousands)</i> | BPPR | Popular U.S. | Popular, Inc. |
| Beginning balance - NPLs | \$ 1,788 | \$ 12,060 | \$ 13,848 |
| Plus: | | | |
| Advances on existing non-performing loans | – | 215 | 215 |
| Less: | | | |
| Non-performing loans charged-off | – | (2,215) | (2,215) |
| Loans returned to accrual status / loan collections | (1,669) | – | (1,669) |
| Non-performing loans sold | – | (10,034) | (10,034) |
| Ending balance - NPLs | \$ 119 | \$ 26 | \$ 145 |

Table 26 - Activity in Non-Performing Construction Loans Held-in-Portfolio

| | For the year ended December 31, 2018 | | |
|---|---|--------------|---------------|
| <i>(In thousands)</i> | BPPR | Popular U.S. | Popular, Inc. |
| Beginning balance - NPLs | \$ – | \$ – | \$ – |
| Plus: | | | |
| New non-performing loans | 4,177 | 17,901 | 22,078 |
| Advances on existing non-performing loans | 116 | – | 116 |
| Less: | | | |
| Non-performing loans charged-off | – | (5,806) | (5,806) |
| Loans returned to accrual status / loan collections | (2,505) | (35) | (2,540) |
| Ending balance - NPLs | \$ 1,788 | \$12,060 | \$13,848 |

Table 27 - Activity in Non-Performing Mortgage Loans Held-in-Portfolio

| | For the year ended December 31, 2019 | | |
|---|---|--------------|---------------|
| <i>(In thousands)</i> | BPPR | Popular U.S. | Popular, Inc. |
| Beginning balance - NPLs | \$ 323,565 | \$ 11,033 | \$ 334,598 |
| Plus: | | | |
| New non-performing loans | 203,072 | 11,877 | 214,949 |
| Advances on existing non-performing loans | – | 158 | 158 |
| Less: | | | |
| Non-performing loans transferred to OREO | (24,789) | (601) | (25,390) |
| Non-performing loans charged-off | (25,629) | (539) | (26,168) |
| Loans returned to accrual status / loan collections | (192,511) | (10,837) | (203,348) |
| Ending balance - NPLs | \$ 283,708 | \$ 11,091 | \$ 294,799 |

Table 28 - Activity in Non-Performing Mortgage Loans Held-in-Portfolio

| | For the year ended December 31, 2018 | | |
|---|---|------------------|-------------------|
| <i>(In thousands)</i> | BPPR | Popular U.S. | Popular, Inc. |
| Beginning balance - NPLs | \$ 306,697 | \$ 14,852 | \$ 321,549 |
| Plus: | | | |
| New non-performing loans | 302,559 | 13,371 | 315,930 |
| Advances on existing non-performing loans | – | 150 | 150 |
| Reclassification from covered loans | 3,413 | – | 3,413 |
| Less: | | | |
| Non-performing loans transferred to OREO | (23,553) | (686) | (24,239) |
| Non-performing loans charged-off | (48,075) | (152) | (48,227) |
| Loans returned to accrual status / loan collections | (217,476) | (16,502) | (233,978) |
| Ending balance - NPLs | \$ 323,565 | \$ 11,033 | \$ 334,598 |

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, 2019 and 2018, are presented below.

Table 29 - Loan Delinquencies

| <i>(Dollars in thousands)</i> | 2019 | | | 2018 | | |
|-------------------------------|-------------------------------------|---------------------|---|-------------------------------------|---------------------|---|
| | 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 | \$ 231,692 | \$12,312,751 | 1.88% | \$ 406,442 | \$12,043,019 | 3.37% |
| Construction | 1,700 | 831,092 | 0.20 | 13,848 | 779,449 | 1.78 |
| Legacy | 2,056 | 22,105 | 9.30 | 3,267 | 25,949 | 12.59 |
| Leasing | 18,724 | 1,059,507 | 1.77 | 12,803 | 934,773 | 1.37 |
| Mortgage | 1,299,443 | 7,183,532 | 18.09 | 1,474,923 | 7,235,258 | 20.39 |
| Consumer | 249,987 | 5,997,886 | 4.17 | 196,325 | 5,489,441 | 3.58 |
| Loans held-for-sale | – | 59,203 | – | 173 | 51,422 | 0.34 |
| Total | \$1,803,602 | \$27,466,076 | 6.57% | \$2,107,781 | \$26,559,311 | 7.94% |

Allowance for Loan and Lease Losses ("ALLL")

The allowance for loan and lease losses ("ALLL"), 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 ALLL 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 also 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 Note 2 to the Consolidated Financial Statements included in this Form 10-K for a description of the Corporation's allowance for loans losses methodology.

At December 31, 2019, the ALLL amounted to \$478 million, a decrease of \$92 million, when compared with December 31, 2018. The BPPR ALLL decreased by \$75 million, mostly due to commercial charge-offs taken during the year on previously

reserved loans, continued improvements in the credit loss trends of the mortgage portfolio, and a \$8.2 million reserve release from a \$40 million loan relationship, in the ASC 310-30 portfolio, sold during the third quarter of 2019. These positive variances were partially offset by higher reserves for the auto loans portfolio. The Popular U.S. segment decreased by \$17 million to \$45 million, when compared to December 31, 2018, mostly related to charge-offs from the taxi medallion portfolio, which carrying value amounted to \$19 million at December 31, 2019. The provision for loan losses for the year ended December 31, 2019 amounted to \$165.8 million, decreasing by \$62.3 million from the same period in the prior year. Refer to the Provision for Loan Losses section of this MD&A for additional information.

Preliminary impact estimate of the adoption of FASB Accounting Standards Updates (“ASUs”), Financial Instruments – Credit Losses (Topic 326)

Refer to Note 3 to the Consolidated Financial Statements included in this Form 10-K for an update on the Corporation’s implementation efforts for the current expected credit loss model (“CECL”), pursuant to FASB ASU Financial Instruments – Credit Losses (Topic 326).

The following table presents net charge-offs to average loans held-in-portfolio (“HIP”) ratios by loan category for the years ended December 31, 2019, 2018 and 2017:

Table 30 - Net Charge-Offs (Recoveries) to Average Loans HIP (Non-covered loans)

| | December 31, 2019 | | | December 31, 2018 | | | December 31, 2017 | | |
|--------------|-------------------|--------------|--------------|-------------------|--------------|--------------|-------------------|--------------|--------------|
| | BPPR | Popular U.S. | Popular Inc. | BPPR | Popular U.S. | Popular Inc. | BPPR | Popular U.S. | Popular Inc. |
| Commercial | 0.48% | 0.65% | 0.54% | 0.91% | 0.44% | 0.73% | 0.31% | 0.88% | 0.51% |
| Construction | (2.82) | 0.32 | (0.11) | (1.54) | 0.71 | 0.49 | (2.88) | – | (0.32) |
| Leasing | 0.94 | – | 0.94 | 0.70 | – | 0.70 | 0.91 | – | 0.91 |
| Legacy | – | (5.85) | (5.85) | – | (6.89) | (6.89) | – | (4.30) | (4.30) |
| Mortgage | 0.67 | 0.05 | 0.59 | 1.05 | (0.05) | 0.93 | 1.30 | 0.03 | 1.15 |
| Consumer | 2.42 | 3.27 | 2.49 | 2.64 | 3.68 | 2.74 | 2.77 | 3.17 | 2.82 |
| Total | 1.06% | 0.68% | 0.96% | 1.31% | 0.61% | 1.13% | 1.13% | 0.82% | 1.05% |

NCOs for the year ended December 31, 2019 amounted to \$257.4 million, decreasing by \$24.7 million when compared to the same period in 2018. The BPPR segment decreased by \$32.1 million mainly driven by lower commercial and mortgage NCOs by \$31.2 million and \$24.8 million, respectively. This

decrease was offset by higher consumer NCOs by \$22.4 million, mostly related to auto loans mainly due the seasoning of the Reliable acquired portfolio and revisions to the auto loans charge-off policy.

Table 31 - Composition of ALLL

| <i>(Dollars in thousands)</i> | December 31, 2019 | | | | | | |
|---|-------------------|--------------|------------|-------------|-------------|-------------|--------------|
| | Commercial | Construction | Legacy [1] | Leasing | Mortgage | Consumer | Total |
| Specific ALLL | \$ 20,533 | \$ 6 | \$ – | \$ 61 | \$ 42,804 | \$ 21,822 | \$ 85,226 |
| Impaired loans | \$ 399,549 | \$ 119 | \$ – | \$ 507 | \$ 531,855 | \$ 100,791 | \$ 1,032,821 |
| Specific ALLL to impaired loans | 5.14% | 5.04% | –% | 12.03% | 8.05% | 21.65% | 8.25% |
| General ALLL | \$ 126,519 | \$ 4,772 | \$ 630 | \$ 10,707 | \$ 78,304 | \$ 171,550 | \$ 392,482 |
| Loans held-in-portfolio, excluding impaired loans | \$11,913,202 | \$830,973 | \$22,105 | \$1,059,000 | \$6,651,677 | \$5,897,095 | \$26,374,052 |
| General ALLL to loans held-in-portfolio, excluding impaired loans | 1.06% | 0.57% | 2.85% | 1.01% | 1.18% | 2.91% | 1.49% |
| Total ALLL | \$ 147,052 | \$ 4,778 | \$ 630 | \$ 10,768 | \$ 121,108 | \$ 193,372 | \$ 477,708 |
| Total non-covered loans held-in-portfolio | \$12,312,751 | \$831,092 | \$22,105 | \$1,059,507 | \$7,183,532 | \$5,997,886 | \$27,406,873 |
| ALLL to loans held-in-portfolio | 1.19% | 0.57% | 2.85% | 1.02% | 1.69% | 3.22% | 1.74% |

[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 Popular U.S. reportable segment.

Table 32 - Composition of ALLL

| December 31, 2018 | | | | | | | |
|---|--------------|--------------|------------|-----------|-------------|-------------|--------------|
| <i>(Dollars in thousands)</i> | Commercial | Construction | Legacy [1] | Leasing | Mortgage | Consumer | Total |
| Specific ALLL | \$ 52,190 | \$ 56 | \$ – | \$ 320 | \$ 41,211 | \$ 25,893 | \$ 119,670 |
| Impaired loans | \$ 398,518 | \$ 13,848 | \$ – | \$ 1,099 | \$ 518,888 | \$ 112,742 | \$ 1,045,095 |
| Specific ALLL to impaired loans | 13.10% | 0.40% | –% | 29.12% | 7.94% | 22.97% | 11.45% |
| General ALLL | \$ 186,925 | \$ 7,368 | \$ 969 | \$ 11,166 | \$ 106,201 | \$ 137,049 | \$ 449,678 |
| Loans held-in-portfolio, excluding impaired loans | \$11,644,501 | \$765,601 | \$25,949 | \$933,674 | \$6,716,370 | \$5,376,699 | \$25,462,794 |
| General ALLL to loans held-in-portfolio, excluding impaired loans | 1.61% | 0.96% | 3.73% | 1.20% | 1.58% | 2.55% | 1.77% |
| Total ALLL | \$ 239,115 | \$ 7,424 | \$ 969 | \$ 11,486 | \$ 147,412 | \$ 162,942 | \$ 569,348 |
| Total non-covered loans held-in-portfolio | \$12,043,019 | \$779,449 | \$25,949 | \$934,773 | \$7,235,258 | \$5,489,441 | \$26,507,889 |
| ALLL to loans held-in-portfolio | 1.99% | 0.95% | 3.73% | 1.23% | 2.04% | 2.97% | 2.15% |

[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 Popular U.S. reportable segment.

Table 33 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 33 - Allocation of the Allowance for Loan Losses

| At December 31, | | | | | | | | | | |
|------------------------------|---------|--|---------|--|---------|--|---------|--|---------|--|
| <i>(Dollars in millions)</i> | 2019 | | 2018 | | 2017 | | 2016 | | 2015 | |
| | 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 | \$147.0 | 44.9% | \$239.1 | 45.5% | \$215.7 | 47.3% | \$202.7 | 47.4% | \$196.8 | 45.2% |
| Construction | 4.8 | 3.0 | 7.4 | 2.9 | 8.4 | 3.6 | 9.5 | 3.4 | 8.9 | 3.0 |
| Legacy | 0.6 | 0.1 | 1.0 | 0.1 | 0.8 | 0.2 | 1.3 | 0.2 | 2.7 | 0.3 |
| Leasing | 10.8 | 3.9 | 11.5 | 3.5 | 12.0 | 3.3 | 7.7 | 3.1 | 11.0 | 2.8 |
| Mortgage | 121.1 | 26.2 | 147.4 | 27.3 | 163.6 | 29.9 | 147.9 | 29.4 | 133.3 | 31.5 |
| Consumer | 193.4 | 21.9 | 162.9 | 20.7 | 189.7 | 15.7 | 141.2 | 16.5 | 150.2 | 17.2 |
| Total[1] | \$477.7 | 100.0% | \$569.3 | 100.0% | \$590.2 | 100.0% | \$510.3 | 100.0% | \$502.9 | 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.

Troubled debt restructurings

The Corporation's troubled debt restructurings ("TDRs") loans amounted to \$1.6 billion at December 31, 2019, increasing by \$72 million, or approximately 4.74%, from December 31, 2018, mainly driven by higher TDRs in the BPPR segment by \$70 million. The increase in BPPR was mostly related to higher mortgage TDRs by \$97 million, of which \$82 million were government guaranteed loans, partially offset by decreases of \$13 million and \$11 million in the BPPR consumer and commercial TDRs, respectively. TDRs in accruing status increased by \$103 million from December 31, 2018, mostly related to BPPR mortgage TDRs, while non-accruing TDRs decreased by \$31 million.

Refer to Note 9 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 following tables present the approximate amount and percentage of commercial impaired loans for which the Corporation relied on appraisals dated more than one year old for purposes of impairment requirements at December 31, 2019 and December 31, 2018.

Appraisals may be adjusted due to their age and the type, location and condition of the property, area or general market conditions to reflect the expected change in value between the effective date of the appraisal and the impairment measurement date. Refer to the Allowance for Loan Losses section of Note 2, "Summary of significant accounting policies" for additional information.

Table 34 - Impaired Loans With Appraisals Dated 1 Year Or Older

| December 31, 2019 | | | |
|--|-------|-------------------------------|--|
| Total Impaired Loans – Held-in-portfolio (HIP) | | | |
| (In thousands) | Count | Outstanding Principal Balance | Impaired Loans with Appraisals Over One-Year Old [1] |
| Commercial | 131 | \$340,762 | 15% |

[1] Based on outstanding balance of total impaired loans.

| December 31, 2018 | | | |
|--|-------|-------------------------------|--|
| Total Impaired Loans – Held-in-portfolio (HIP) | | | |
| (In thousands) | Count | Outstanding Principal Balance | Impaired Loans with Appraisals Over One-Year Old [1] |
| Commercial | 110 | \$335,044 | 3% |
| Construction | 1 | 1,788 | – |

[1] Based on outstanding balance of total impaired loans.

Enterprise Risk and Operational Risk Management

The ERM & Market Risk Unit within the Financial and Operational Risk Management Division (the “FORM Division”) is responsible, in coordination with the Chief Risk Officer, 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 ERM & Market Risk Unit also leads the ongoing development of a strong risk management culture and the framework that support effective risk governance. For new products and services, the unit 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, and by the Mergers and Acquisitions Division for acquisition transactions.

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) and the Cyber Security Committee which are composed of senior level representatives from the business lines and corporate functions, provide 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.

Effective May 2018, the Corporation created the Corporate Security Group (“CSG”), under the direction of the Chief Security Officer (“CSO”). The CSG now leads all efforts pertaining to cybersecurity, enterprise fraud, and data privacy; including developing strategies and oversight processes with policies and programs that mitigate compliance, operational, strategic, financial and reputational risks associated with the safeguarding of the Corporation’s and our customers’ data and assets. The CSG also leads the Cyber Security Committee.

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, Cyber Security, Business Continuity, Outsourcing Risk Management, 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 cyber and 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 regulatory 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 3, "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 from such calculation the impact of certain transactions on the results of its operations. Management believes that the "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.

No adjustments are reflected for the year ended December 31, 2019. The following table describes adjustments to net income for the year ended 2018.

Table 35 - Adjusted Net Income for the Year Ended December 31, 2018 (Non-GAAP)

| <i>(In thousands)</i> | Pre-tax | Income tax effect | Impact on net income |
|--|------------|-------------------|----------------------|
| U.S. GAAP Net income | | | \$ 618,158 |
| Non-GAAP Adjustments: | | | |
| Termination of FDIC Shared-Loss Agreements [1] | \$(94,633) | \$ 45,059 | (49,574) |
| Tax Closing Agreement [2] | – | (108,946) | (108,946) |
| Impact of Law Act No.257 [3] | – | 27,686 | 27,686 |
| Adjusted net income (Non-GAAP) | | | \$ 487,324 |

[1] On May 22, 2018, BPPR entered into a Termination Agreement with the FDIC to terminate all Shared-Loss Agreements in connection with the acquisition of certain assets and assumption of certain liabilities of Westernbank Puerto Rico in 2010. As a result, BPPR recognized a pre-tax gain of \$94.6 million, net of the related professional and advisory fees of \$8.1 million associated with the Termination Agreement. Refer to Note 10 - FDIC Loss-Share Asset and True Up Payment Obligation for additional information.

[2] Represents the impact of the Termination Agreement on income taxes. In June 2012, the Corporation entered into a Tax Closing Agreement with the Puerto Rico Department of the Treasury to clarify the tax treatment related to the loans acquired in the FDIC Transaction in accordance with the provisions of the Puerto Rico Tax Code. Based on the provisions of this Tax Closing Agreement, the Corporation recognized a net income tax benefit of \$108.9 million during the second quarter of 2018. Refer to Note 38- Income Taxes for additional information.

[3] On December 10, 2018, the Governor of Puerto Rico signed into law Act No.257 of 2018, which amended the Puerto Rico Internal Revenue Code, to among other things, reduce the Puerto Rico corporate tax rate from 39% to 37.5%. The resulting adjustments reduced the DTA related to the Corporation's P.R. operations as a result of a lower realizable benefit at the lower tax rate. Refer to Note 38- Income Taxes for additional information.

Statistical Summary 2015-2019

Statements of Financial Condition

| (In thousands) | At December 31, | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| Assets: | | | | | |
| Cash and due from banks | \$ 388,311 | \$ 394,035 | \$ 402,857 | \$ 362,394 | \$ 363,674 |
| Money market investments: | | | | | |
| Securities purchased under agreements to resell | – | – | – | 23,637 | 96,338 |
| Time deposits with other banks | 3,262,286 | 4,171,048 | 5,255,119 | 2,866,580 | 2,083,754 |
| Total money market investments | 3,262,286 | 4,171,048 | 5,255,119 | 2,890,217 | 2,180,092 |
| Trading account debt securities, at fair value | 40,321 | 37,787 | 33,926 | 52,034 | 64,527 |
| Debt securities available-for-sale, at fair value | 17,648,473 | 13,300,184 | 10,176,923 | 8,207,684 | 6,060,594 |
| Debt securities held-to-maturity, at amortized cost | 97,662 | 101,575 | 107,019 | 111,299 | 114,101 |
| Equity securities | 159,887 | 155,584 | 165,103 | 164,513 | 168,580 |
| Loans held-for-sale, at lower of cost or fair value | 59,203 | 51,422 | 132,395 | 88,821 | 137,000 |
| Loans held-in-portfolio: | | | | | |
| Loans not covered under loss-sharing agreements with the FDIC | 27,587,856 | 26,663,713 | 24,423,427 | 22,895,172 | 22,453,813 |
| Loans covered under loss-sharing agreements with the FDIC | – | – | 517,274 | 572,878 | 646,115 |
| Less – Unearned income | 180,983 | 155,824 | 130,633 | 121,425 | 107,698 |
| Allowance for loan losses | 477,708 | 569,348 | 623,426 | 540,651 | 537,111 |
| Total loans held-in-portfolio, net | 26,929,165 | 25,938,541 | 24,186,642 | 22,805,974 | 22,455,119 |
| FDIC loss-share asset | – | – | 45,192 | 69,334 | 310,221 |
| Premises and equipment, net | 556,650 | 569,808 | 547,142 | 543,981 | 502,611 |
| Other real estate not covered under loss-sharing agreements with the FDIC | 122,072 | 136,705 | 169,260 | 180,445 | 155,231 |
| Other real estate covered under loss-sharing agreements with the FDIC | – | – | 19,595 | 32,128 | 36,685 |
| Accrued income receivable | 180,871 | 166,022 | 213,844 | 138,042 | 124,234 |
| Mortgage servicing assets, at fair value | 150,906 | 169,777 | 168,031 | 196,889 | 211,405 |
| Other assets | 1,819,615 | 1,714,134 | 1,991,323 | 2,145,510 | 2,193,162 |
| Goodwill | 671,122 | 671,122 | 627,294 | 627,294 | 626,388 |
| Other intangible assets | 28,780 | 26,833 | 35,672 | 45,050 | 58,109 |
| Total assets | \$52,115,324 | \$47,604,577 | \$44,277,337 | \$38,661,609 | \$35,761,733 |
| Liabilities and Stockholders' Equity | | | | | |
| Liabilities: | | | | | |
| Deposits: | | | | | |
| Non-interest bearing | \$ 9,160,173 | \$ 9,149,036 | \$ 8,490,945 | \$ 6,980,443 | \$ 6,401,515 |
| Interest bearing | 34,598,433 | 30,561,003 | 26,962,563 | 23,515,781 | 20,808,208 |
| Total deposits | 43,758,606 | 39,710,039 | 35,453,508 | 30,496,224 | 27,209,723 |
| Federal funds purchased and assets sold under agreements to repurchase | 193,378 | 281,529 | 390,921 | 479,425 | 762,145 |
| Other short-term borrowings | – | 42 | 96,208 | 1,200 | 1,200 |
| Notes payable | 1,101,608 | 1,256,102 | 1,536,356 | 1,574,852 | 1,662,508 |
| Other liabilities | 1,044,953 | 921,808 | 1,696,439 | 911,951 | 1,019,018 |
| Liabilities from discontinued operations | – | – | – | – | 1,815 |
| Total liabilities | 46,098,545 | 42,169,520 | 39,173,432 | 33,463,652 | 30,656,409 |
| Stockholders' equity: | | | | | |
| Preferred stock | 50,160 | 50,160 | 50,160 | 50,160 | 50,160 |
| Common stock | 1,044 | 1,043 | 1,042 | 1,040 | 1,038 |
| Surplus | 4,447,412 | 4,365,606 | 4,298,503 | 4,255,022 | 4,229,156 |
| Retained earnings | 2,147,915 | 1,651,731 | 1,194,994 | 1,220,307 | 1,087,957 |
| Treasury stock – at cost | (459,814) | (205,509) | (90,142) | (8,286) | (6,101) |
| Accumulated other comprehensive loss, net of tax | (169,938) | (427,974) | (350,652) | (320,286) | (256,886) |
| Total stockholders' equity | 6,016,779 | 5,435,057 | 5,103,905 | 5,197,957 | 5,105,324 |
| Total liabilities and stockholders' equity | \$52,115,324 | \$47,604,577 | \$44,277,337 | \$38,661,609 | \$35,761,733 |

Statistical Summary 2015-2019

Statements of Operations

| <i>(In thousands)</i> | For the years ended December 31, | | | | |
|--|----------------------------------|-------------|-------------|-------------|-------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| Interest income: | | | | | |
| Loans | \$1,802,968 | \$1,645,736 | \$1,478,765 | \$1,459,720 | \$1,458,706 |
| Money market investments | 89,823 | 111,288 | 51,495 | 16,428 | 7,243 |
| Investment securities | 368,002 | 264,824 | 195,684 | 158,425 | 137,065 |
| Total interest income | 2,260,793 | 2,021,848 | 1,725,944 | 1,634,573 | 1,603,014 |
| Less - Interest expense | 369,099 | 286,971 | 223,980 | 212,518 | 194,031 |
| Net interest income | 1,891,694 | 1,734,877 | 1,501,964 | 1,422,055 | 1,408,983 |
| Provision for loan losses - non-covered loans | 165,779 | 226,342 | 319,682 | 171,126 | 217,458 |
| Provision (reversal) for loan losses - covered loans | – | 1,730 | 5,742 | (1,110) | 24,020 |
| Net interest income after provision for loan losses | 1,725,915 | 1,506,805 | 1,176,540 | 1,252,039 | 1,167,505 |
| Mortgage banking activities | 32,093 | 52,802 | 25,496 | 56,538 | 81,802 |
| Net (loss) gain on sale of debt securities | (20) | – | 83 | 38 | 141 |
| Other-than-temporary impairment losses on debt securities | – | – | (8,299) | (209) | (14,445) |
| Net gain (loss), including impairment on equity securities | 2,506 | (2,081) | 251 | 1,924 | – |
| Trading profit (loss) on trading account debt securities | 994 | (208) | (817) | (785) | (4,723) |
| Net gain (loss) on sale of loans, including valuation adjustments on loans held-for-sale | – | 33 | (420) | 8,245 | 542 |
| Indemnity reserves on loans sold expense | (343) | (12,959) | (22,377) | (17,285) | (18,628) |
| FDIC loss-share income (expense) | – | 94,725 | (10,066) | (207,779) | 20,062 |
| Other non-interest income | 534,653 | 520,182 | 435,316 | 457,249 | 454,790 |
| Total non-interest income | 569,883 | 652,494 | 419,167 | 297,936 | 519,541 |
| Operating expenses: | | | | | |
| Personnel costs | 590,625 | 562,988 | 476,762 | 477,395 | 470,203 |
| All other operating expenses | 886,857 | 858,574 | 780,434 | 778,240 | 818,018 |
| Total operating expenses | 1,477,482 | 1,421,562 | 1,257,196 | 1,255,635 | 1,288,221 |
| Income from continuing operations, before income tax | 818,316 | 737,737 | 338,511 | 294,340 | 398,825 |
| Income tax expense (benefit) | 147,181 | 119,579 | 230,830 | 78,784 | (495,172) |
| Income from continuing operations | \$ 671,135 | \$ 618,158 | \$ 107,681 | \$ 215,556 | \$ 893,997 |
| Income from discontinued operations, net of income tax | – | – | – | 1,135 | 1,347 |
| Net Income | \$ 671,135 | \$ 618,158 | \$ 107,681 | \$ 216,691 | \$ 895,344 |
| Net Income Applicable to Common Stock | \$ 667,412 | \$ 614,435 | \$ 103,958 | \$ 212,968 | \$ 891,621 |

Statistical Summary 2015-2019

Average Balance Sheet and Summary of Net Interest Income

On a Taxable Equivalent Basis*

| (Dollars in thousands) | 2019 | | | 2018 | | | 2017 | | |
|---|-----------------|-------------|--------------|-----------------|-------------|--------------|-----------------|-------------|--------------|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| Assets | | | | | | | | | |
| Interest earning assets: | | | | | | | | | |
| Money market investments | \$ 4,166,293 | \$ 89,824 | 2.16% | \$ 5,943,442 | \$ 111,289 | 1.87% | \$ 4,480,651 | \$ 51,496 | 1.15% |
| U.S. Treasury securities | 9,823,518 | 302,025 | 3.07 | 6,189,239 | 168,885 | 2.73 | 2,969,635 | 49,916 | 1.68 |
| Obligations of U.S. Government sponsored entities | 234,553 | 5,911 | 2.52 | 515,870 | 10,664 | 2.07 | 667,140 | 13,593 | 2.04 |
| Obligations of Puerto Rico, States and political subdivisions | 93,313 | 6,394 | 6.85 | 96,801 | 6,816 | 7.04 | 111,455 | 7,409 | 6.65 |
| Collateralized mortgage obligations and mortgage-backed securities | 5,582,051 | 178,964 | 3.21 | 5,216,728 | 168,565 | 3.23 | 5,667,586 | 182,485 | 3.22 |
| Other | 171,223 | 8,487 | 4.96 | 174,095 | 9,432 | 5.42 | 185,672 | 9,290 | 5.00 |
| Total investment securities | 15,904,658 | 501,781 | 3.15 | 12,192,733 | 364,362 | 2.99 | 9,601,488 | 262,693 | 2.74 |
| Trading account securities | 67,596 | 5,103 | 7.55 | 76,461 | 5,772 | 7.55 | 75,111 | 5,728 | 7.63 |
| Loans (net of unearned income) | 26,806,368 | 1,850,894 | 6.90 | 25,062,730 | 1,681,540 | 6.71 | 23,511,293 | 1,515,092 | 6.44 |
| Total interest earning assets/ Interest income | \$46,944,915 | \$2,447,602 | 5.21% | \$43,275,366 | \$2,162,963 | 5.00% | \$37,668,543 | \$1,835,009 | 4.87% |
| Total non-interest earning assets | 3,396,912 | | | 3,364,492 | | | 3,735,596 | | |
| Total assets from continuing operations | \$50,341,827 | | | \$46,639,858 | | | \$41,404,139 | | |
| Total assets from discontinued operations | — | — | — | — | — | — | — | — | — |
| Total assets | \$50,341,827 | | | \$46,639,858 | | | \$41,404,139 | | |
| Liabilities and Stockholders' Equity | | | | | | | | | |
| Interest bearing liabilities: | | | | | | | | | |
| Savings, NOW, money market and other interest bearing demand accounts | \$25,575,455 | \$ 192,200 | 0.75% | \$22,127,223 | \$ 112,543 | 0.51% | \$18,218,583 | \$ 57,714 | 0.32% |
| Time deposits | 7,770,430 | 112,658 | 1.45 | 7,569,884 | 91,722 | 1.21 | 7,625,484 | 84,150 | 1.10 |
| Short-term borrowings | 231,268 | 6,099 | 2.64 | 358,418 | 7,210 | 2.01 | 452,205 | 5,725 | 1.27 |
| Notes payable | 1,194,119 | 58,142 | 4.77 | 1,520,812 | 75,496 | 4.96 | 1,548,635 | 76,392 | 4.93 |
| Total interest bearing liabilities/ Interest expense | 34,771,272 | 369,099 | 1.06 | 31,576,337 | 286,971 | 0.91 | 27,844,907 | 223,981 | 0.80 |
| Total non-interest bearing liabilities | 9,857,038 | | | 9,621,378 | | | 8,214,703 | | |
| Total liabilities from continuing operations | 44,628,310 | | | 41,197,715 | | | 36,059,610 | | |
| Total liabilities from discontinued operations | — | — | — | — | — | — | — | — | — |
| Total liabilities | 44,628,310 | | | 41,197,715 | | | 36,059,610 | | |
| Stockholders' equity | 5,713,517 | | | 5,442,143 | | | 5,344,529 | | |
| Total liabilities and stockholders' equity | \$50,341,827 | | | \$46,639,858 | | | \$41,404,139 | | |
| Net interest income on a taxable equivalent basis | | | | | | | | | |
| | | \$2,078,503 | | | \$1,875,992 | | | \$1,611,028 | |
| Cost of funding earning assets | | | 0.78% | | | 0.66% | | | 0.59% |
| Net interest margin | | | 4.43% | | | 4.34% | | | 4.28% |
| Effect of the taxable equivalent adjustment | | | | | | | | | |
| | | 186,809 | | | 141,116 | | | 109,065 | |
| Net interest income per books | | \$1,891,694 | | | \$1,734,876 | | | \$1,501,963 | |

* 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 2015-2019

Average Balance Sheet and Summary of Net Interest Income

On a Taxable Equivalent Basis

| (Dollars in thousands) | 2016 | | | 2015 | | |
|---|-----------------|--------------|--------------|-----------------|--------------|--------------|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| Assets | | | | | | |
| Interest earning assets: | | | | | | |
| Money market investments | \$ 3,103,390 | \$ 16,428 | 0.53% | \$ 2,382,045 | \$ 7,243 | 0.30% |
| U.S. Treasury securities | 1,567,364 | 21,835 | 1.39 | 921,249 | 13,559 | 1.47 |
| Obligations of U.S. Government sponsored entities | 810,568 | 15,743 | 1.94 | 1,278,469 | 21,962 | 1.72 |
| Obligations of Puerto Rico, States and political subdivisions | 127,694 | 8,496 | 6.65 | 159,110 | 11,776 | 7.40 |
| Collateralized mortgage obligations and mortgage-backed securities | 4,735,418 | 147,097 | 3.11 | 3,275,702 | 105,562 | 3.22 |
| Other | 188,145 | 8,944 | 4.75 | 188,849 | 9,758 | 5.17 |
| Total investment securities | 7,429,189 | 202,115 | 2.72 | 5,823,379 | 162,617 | 2.79 |
| Trading account securities | 118,341 | 8,083 | 6.83 | 200,349 | 13,067 | 6.52 |
| Loans (net of unearned income) | 23,062,242 | 1,495,639 | 6.49 | 23,045,308 | 1,503,493 | 6.52 |
| Total interest earning assets/Interest income | \$ 33,713,162 | \$ 1,722,265 | 5.11% | \$ 31,451,081 | \$ 1,686,420 | 5.36% |
| Total non-interest earning assets | 3,900,580 | | | 3,735,224 | | |
| Total assets from continuing operations | \$ 37,613,742 | | | \$ 35,186,305 | | |
| Total assets | \$ 37,613,742 | | | \$ 35,186,305 | | |
| Liabilities and Stockholders' Equity | | | | | | |
| Interest bearing liabilities: | | | | | | |
| Savings, NOW, money market and other interest bearing demand accounts | \$ 14,548,307 | \$ 45,550 | 0.31% | \$ 12,474,170 | \$ 36,290 | 0.29% |
| Time deposits | 7,910,063 | 82,027 | 1.04 | 8,157,908 | 71,243 | 0.87 |
| Short-term borrowings | 763,496 | 7,812 | 1.02 | 1,028,406 | 7,512 | 0.73 |
| Notes payable | 1,575,903 | 77,129 | 4.89 | 1,728,928 | 78,986 | 4.57 |
| Total interest bearing liabilities/Interest expense | 24,797,769 | 212,518 | 0.86 | 23,389,412 | 194,031 | 0.83 |
| Total non-interest bearing liabilities | 7,535,742 | | | 7,089,940 | | |
| Total liabilities from continuing operations | 32,333,511 | | | 30,479,352 | | |
| Total liabilities from discontinued operations | 1,754 | – | – | 2,091 | – | – |
| Total liabilities | 32,335,265 | | | 30,481,443 | | |
| Stockholders' equity | 5,278,477 | | | 4,704,862 | | |
| Total liabilities and stockholders' equity | \$ 37,613,742 | | | \$ 35,186,305 | | |
| Net interest income on a taxable equivalent basis | | \$ 1,509,747 | | \$ 1,492,389 | | |
| Cost of funding earning assets | | | 0.63% | | | 0.62% |
| Net interest margin | | | 4.48% | | | 4.74% |
| Effect of the taxable equivalent adjustment | | 87,692 | | 83,406 | | |
| Net interest income per books | | \$ 1,422,055 | | \$ 1,408,983 | | |

* 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 2018-2019

Quarterly Financial Data

| | 2019 | | | | 2018 | | | |
|---|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|
| | 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 | \$559,869 | \$571,976 | \$570,979 | \$557,969 | \$559,555 | \$528,365 | \$480,850 | \$453,078 |
| Interest expense | 92,445 | 94,985 | 94,663 | 87,006 | 83,330 | 76,896 | 66,714 | 60,031 |
| Net interest income | 467,424 | 476,991 | 476,316 | 470,963 | 476,225 | 451,469 | 414,136 | 393,047 |
| Provision for loan losses - non-covered loans | 47,224 | 36,539 | 40,191 | 41,825 | 42,568 | 54,387 | 60,054 | 69,333 |
| Provision for loan losses - covered loans | — | — | — | — | — | — | — | 1,730 |
| Mortgage banking activities | 13,448 | 10,492 | (1,773) | 9,926 | 19,394 | 11,269 | 10,071 | 12,068 |
| Net loss on sale of debt securities | — | (20) | — | — | — | — | — | — |
| Net gain (loss), including impairment on equity securities | 332 | 213 | 528 | 1,433 | (2,039) | 370 | 234 | (646) |
| Net profit (loss) on trading account debt securities | 17 | 295 | 422 | 260 | 91 | (122) | 21 | (198) |
| Net gain on sale of loans, including valuation adjustments on loans held-for-sale | — | — | — | — | 33 | — | — | — |
| Adjustments (expense) to indemnity reserves on loans sold | 1,321 | (3,411) | 1,840 | (93) | (6,477) | (3,029) | (527) | (2,926) |
| FDIC loss-share income (expense) | — | — | — | — | — | — | 102,752 | (8,027) |
| Other non-interest income | 137,297 | 135,143 | 137,309 | 124,904 | 142,165 | 142,533 | 122,258 | 113,226 |
| Operating expenses | 390,572 | 376,475 | 363,015 | 347,420 | 396,455 | 365,437 | 337,668 | 322,002 |
| Income before income tax | 182,043 | 206,689 | 211,436 | 218,148 | 190,369 | 182,666 | 251,223 | 113,479 |
| Income tax expense (benefit) | 15,258 | 41,370 | 40,330 | 50,223 | 83,966 | 42,018 | (28,560) | 22,155 |
| Net income | \$166,785 | \$165,319 | \$171,106 | \$167,925 | \$106,403 | \$140,648 | \$279,783 | \$ 91,324 |
| Net income applicable to common stock | \$165,854 | \$164,389 | \$170,175 | \$166,994 | \$105,472 | \$139,718 | \$278,852 | \$ 90,393 |
| Net income per common share - basic | \$ 1.72 | \$ 1.71 | \$ 1.77 | \$ 1.69 | \$ 1.06 | \$ 1.38 | \$ 2.74 | \$ 0.89 |
| Net income per common share - diluted | \$ 1.72 | \$ 1.70 | \$ 1.76 | \$ 1.69 | \$ 1.05 | \$ 1.38 | \$ 2.73 | \$ 0.89 |
| Dividends declared per common share | \$ 0.30 | \$ 0.30 | \$ 0.30 | \$ 0.30 | \$ 0.25 | \$ 0.25 | \$ 0.25 | \$ 0.25 |
| Selected Average Balances | | | | | | | | |
| <i>(In millions)</i> | | | | | | | | |
| Total assets | \$ 51,974 | \$ 50,941 | \$ 49,775 | \$ 48,627 | \$ 47,920 | \$ 47,490 | \$ 46,851 | \$ 44,250 |
| Loans | 27,081 | 26,892 | 26,733 | 26,492 | 26,337 | 25,591 | 24,219 | 24,073 |
| Interest earning assets | 48,546 | 47,506 | 46,397 | 45,265 | 44,615 | 44,138 | 43,477 | 40,821 |
| Deposits | 43,785 | 42,822 | 41,715 | 40,527 | 39,890 | 39,277 | 38,663 | 36,068 |
| Interest bearing liabilities | 36,236 | 35,438 | 34,295 | 33,043 | 32,642 | 32,267 | 31,650 | 29,663 |
| Selected Ratios | | | | | | | | |
| Return on average assets | 1.27% | 1.29% | 1.38% | 1.40% | 0.88% | 1.17% | 2.40% | 0.84% |
| Return on average common equity | 11.27 | 11.44 | 12.31 | 12.17 | 7.57 | 10.10 | 20.84 | 7.06 |
| <i>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.</i> | | | | | | | | |



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, 2019. 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, 2019 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, 2019, as stated in their report dated March 2, 2020 which appears herein.

A handwritten signature in cursive script, appearing to read 'Ignacio Alvarez'.

Ignacio Alvarez
President and
Chief Executive Officer

A handwritten signature in cursive script, 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, 2019 and 2018, and the related consolidated statements of operations, comprehensive income, changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2019, 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, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 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, 2019, 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.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates. *Allowance for Loan and Lease Losses ("ALLL") – Qualitative Judgmental Reserves Related to the Puerto Rico Loan Portfolio*

As described in Notes 9 and 26 to the consolidated financial statements, the Corporation's ALLL related to the Puerto Rico loan portfolio was \$433 million as of December 31, 2019. Management follows a systematic methodology to establish and evaluate the adequacy of the ALLL to provide for inherent losses in the loan portfolio. As disclosed by management, 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, which remains in the midst of a fiscal and economic crisis. Management's ALLL methodology includes qualitative judgmental reserves based on stressed credit quality assumptions to provide for probable losses in the loan portfolios, including the Puerto Rico loan portfolio, not embedded in the historical loss rates.

The principal considerations for our determination that performing procedures relating to the qualitative judgmental reserves related to the Puerto Rico loan portfolio is a critical audit matter are (i) there was a high degree of auditor judgment and subjectivity involved in applying procedures relating to the qualitative judgmental reserves due to the significant amount of judgment and estimation necessary by management when determining the ALLL, including the qualitative judgmental reserves; (ii) significant audit effort and significant auditor judgment were necessary to evaluate the audit evidence obtained relating to the reasonableness of the stressed credit quality assumptions used to determine the qualitative judgmental reserves; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge to assist in evaluating the audit evidence obtained from these procedures.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's ALLL estimation process, which included controls over management's determination of the qualitative judgmental reserves related to the Puerto Rico loan portfolio. These procedures also included, among others, testing management's process for estimating the qualitative judgmental reserves, including testing the completeness and accuracy of data used in the estimate and involvement of professionals with specialized skill and knowledge to assist in evaluating the appropriateness of the methodology and the reasonableness of the stressed credit quality assumptions used to determine the qualitative judgmental reserves.

Ricewaterhouse LLP

San Juan, Puerto Rico
March 2, 2020

We have served as the Corporation's auditor since 1971, which includes periods before the Corporation became subject to SEC reporting requirements.

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)

License No. LLP-216 Expires Dec. 1, 2022
Stamp E392792 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

POPULAR, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

| <i>(In thousands, except share information)</i> | December 31, 2019 | December 31, 2018 |
|---|----------------------|----------------------|
| Assets: | | |
| Cash and due from banks | \$ 388,311 | \$ 394,035 |
| Money market investments: | | |
| Time deposits with other banks | 3,262,286 | 4,171,048 |
| Total money market investments | 3,262,286 | 4,171,048 |
| Trading account debt securities, at fair value: | | |
| Pledged securities with creditors' right to repledge | 598 | 598 |
| Other trading account debt securities | 39,723 | 37,189 |
| Debt securities available-for-sale, at fair value: | | |
| Pledged securities with creditors' right to repledge | 202,585 | 280,502 |
| Other debt securities available-for-sale | 17,445,888 | 13,019,682 |
| Debt securities held-to-maturity, at amortized cost (fair value 2019 - \$105,110; 2018 - \$102,653) | 97,662 | 101,575 |
| Equity securities (realizable value 2019 -\$165,952); (2018 - \$159,821) | 159,887 | 155,584 |
| Loans held-for-sale, at lower of cost or fair value | 59,203 | 51,422 |
| Loans held-in-portfolio | | |
| Less – Unearned income | 27,587,856 | 26,663,713 |
| Allowance for loan losses | 180,983 | 155,824 |
| Total loans held-in-portfolio, net | 477,708 | 569,348 |
| Premises and equipment, net | 556,650 | 569,808 |
| Other real estate | 122,072 | 136,705 |
| Accrued income receivable | 180,871 | 166,022 |
| Mortgage servicing assets, at fair value | 150,906 | 169,777 |
| Other assets | 1,819,615 | 1,714,134 |
| Goodwill | 671,122 | 671,122 |
| Other intangible assets | 28,780 | 26,833 |
| Total assets | \$52,115,324 | \$47,604,577 |
| Liabilities and Stockholders' Equity | | |
| Liabilities: | | |
| Deposits: | | |
| Non-interest bearing | \$ 9,160,173 | \$ 9,149,036 |
| Interest bearing | 34,598,433 | 30,561,003 |
| Total deposits | 43,758,606 | 39,710,039 |
| Assets sold under agreements to repurchase | 193,378 | 281,529 |
| Other short-term borrowings | – | 42 |
| Notes payable | 1,101,608 | 1,256,102 |
| Other liabilities | 1,044,953 | 921,808 |
| Total liabilities | 46,098,545 | 42,169,520 |
| Commitments and contingencies (Refer to Note 26) | | |
| 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; 104,392,222 shares issued (2018 - 104,320,303) and 95,589,629 shares outstanding (2018 - 99,942,845) | 1,044 | 1,043 |
| Surplus | 4,447,412 | 4,365,606 |
| Retained earnings | 2,147,915 | 1,651,731 |
| Treasury stock - at cost, 8,802,593 shares (2018 - 4,377,458) | (459,814) | (205,509) |
| Accumulated other comprehensive loss, net of tax | (169,938) | (427,974) |
| Total stockholders' equity | 6,016,779 | 5,435,057 |
| Total liabilities and stockholders' equity | \$52,115,324 | \$47,604,577 |

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

POPULAR, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

| | Years ended December 31, | | |
|--|--------------------------|-------------------|-------------------|
| <i>(In thousands, except per share information)</i> | 2019 | 2018 | 2017 |
| Interest income: | | | |
| Loans | \$1,802,968 | \$1,645,736 | \$1,478,765 |
| Money market investments | 89,823 | 111,288 | 51,495 |
| Investment securities | 368,002 | 264,824 | 195,684 |
| Total interest income | 2,260,793 | 2,021,848 | 1,725,944 |
| Interest expense: | | | |
| Deposits | 304,858 | 204,265 | 141,864 |
| Short-term borrowings | 6,100 | 7,210 | 5,724 |
| Long-term debt | 58,141 | 75,496 | 76,392 |
| Total interest expense | 369,099 | 286,971 | 223,980 |
| Net interest income | 1,891,694 | 1,734,877 | 1,501,964 |
| Provision for loan losses - non-covered loans | 165,779 | 226,342 | 319,682 |
| Provision for loan losses - covered loans | - | 1,730 | 5,742 |
| Net interest income after provision for loan losses | 1,725,915 | 1,506,805 | 1,176,540 |
| Service charges on deposit accounts | 160,933 | 150,677 | 153,709 |
| Other service fees | 285,206 | 258,020 | 217,267 |
| Mortgage banking activities (Refer to Note 11) | 32,093 | 52,802 | 25,496 |
| Net (loss) gain on sale of debt securities | (20) | - | 83 |
| Other-than-temporary impairment losses on debt securities | - | - | (8,299) |
| Net gain (loss), including impairment on equity securities | 2,506 | (2,081) | 251 |
| Net profit (loss) on trading account debt securities | 994 | (208) | (817) |
| Net gain (loss) on sale of loans, including valuation adjustments on loans held-for-sale | - | 33 | (420) |
| Indemnity reserves on loans sold expense | (343) | (12,959) | (22,377) |
| FDIC loss-share income (expense) (Refer to Note 36) | - | 94,725 | (10,066) |
| Other operating income | 88,514 | 111,485 | 64,340 |
| Total non-interest income | 569,883 | 652,494 | 419,167 |
| Operating expenses: | | | |
| Personnel costs | 590,625 | 562,988 | 476,762 |
| Net occupancy expenses | 96,339 | 88,329 | 89,194 |
| Equipment expenses | 84,215 | 71,788 | 65,142 |
| Other taxes | 51,653 | 46,284 | 43,382 |
| Professional fees | 384,411 | 349,844 | 292,488 |
| Communications | 23,450 | 23,107 | 22,466 |
| Business promotion | 75,372 | 65,918 | 58,445 |
| FDIC deposit insurance | 18,179 | 27,757 | 26,392 |
| Loss on early extinguishment of debt | - | 12,522 | - |
| Other real estate owned (OREO) expenses | 4,298 | 23,338 | 48,540 |
| Other operating expenses | 139,570 | 140,361 | 125,007 |
| Amortization of intangibles | 9,370 | 9,326 | 9,378 |
| Total operating expenses | 1,477,482 | 1,421,562 | 1,257,196 |
| Income before income tax | 818,316 | 737,737 | 338,511 |
| Income tax expense | 147,181 | 119,579 | 230,830 |
| Net Income | \$ 671,135 | \$ 618,158 | \$ 107,681 |
| Net Income Applicable to Common Stock | \$ 667,412 | \$ 614,435 | \$ 103,958 |
| Net Income per Common Share – Basic | \$ 6.89 | \$ 6.07 | \$ 1.02 |
| Net Income per Common Share – Diluted | \$ 6.88 | \$ 6.06 | \$ 1.02 |

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, | | |
|---|--------------------------|-----------|-----------|
| | 2019 | 2018 | 2017 |
| Net income | \$671,135 | \$618,158 | \$107,681 |
| Reclassification to retained earnings due to cumulative effect of accounting change | (50) | (605) | – |
| Other comprehensive income (loss) before tax: | | | |
| Foreign currency translation adjustment | (6,847) | (6,902) | (3,078) |
| Adjustment of pension and postretirement benefit plans | (21,874) | (15,497) | (8,465) |
| Amortization of net losses | 23,508 | 21,542 | 22,428 |
| Amortization of prior service credit | – | (3,470) | (3,800) |
| Unrealized holding gains (losses) on debt securities arising during the period | 286,063 | (71,255) | (45,307) |
| Other-than-temporary impairment included in net income | – | – | 8,299 |
| Reclassification adjustment for losses (gains) included in net income | 20 | – | (83) |
| Unrealized holding gains on equity securities arising during the period | – | – | 151 |
| Reclassification adjustment for gains included in net income | – | – | (251) |
| Unrealized net (losses) gains on cash flow hedges | (5,741) | 536 | (1,295) |
| Reclassification adjustment for net losses (gains) included in net income | 3,882 | (1,110) | 1,888 |
| Other comprehensive income (loss) before tax | 278,961 | (76,761) | (29,513) |
| Income tax expense | (20,925) | (561) | (853) |
| Total other comprehensive income (loss), net of tax | 258,036 | (77,322) | (30,366) |
| Comprehensive income, net of tax | \$929,171 | \$540,836 | \$ 77,315 |

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

| <i>(In thousands)</i> | Years ended December 31, | | |
|--|--------------------------|----------|----------|
| | 2019 | 2018 | 2017 |
| Adjustment of pension and postretirement benefit plans | \$ 8,203 | \$ 6,044 | \$ 3,301 |
| Amortization of net losses | (8,817) | (8,401) | (8,744) |
| Amortization of prior service credit | – | 1,354 | 1,482 |
| Unrealized holding gains (losses) on debt securities arising during the period | (20,113) | 219 | 4,861 |
| Other-than-temporary impairment included in net income | – | – | (1,559) |
| Reclassification adjustment for losses (gains) included in net income | (4) | – | 17 |
| Unrealized holding gains on equity securities arising during the period | – | – | (30) |
| Reclassification adjustment for gains included in net income | – | – | 50 |
| Unrealized net (losses) gains on cash flow hedges | 1,302 | (210) | 505 |
| Reclassification adjustment for net losses (gains) included in net income | (1,496) | 433 | (736) |
| Income tax expense | \$(20,925) | \$ (561) | \$ (853) |

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 |
|--|--------------|----------|-----------------|-------------|-------------------|----------------|--------------------------------------|-----------|
| | stock | stock | stock | | | | | |
| 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 ^[1] | | | | | (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 |
| Cumulative effect of accounting change | | | | | 1,935 | | | 1,935 |
| Net income | | | | | 618,158 | | | 618,158 |
| Issuance of stock | 1 | | | 3,340 | | | | 3,341 |
| Dividends declared: | | | | | | | | |
| Common stock ^[1] | | | | | (101,293) | | | (101,293) |
| Preferred stock | | | | | (3,723) | | | (3,723) |
| Common stock purchases ^[2] | | | | (86) | | (127,379) | | (127,465) |
| Common stock reissuance | | | | 351 | | 3,576 | | 3,927 |
| Stock based compensation | | | | 5,158 | | 8,436 | | 13,594 |
| Other comprehensive loss, net of tax | | | | | | | (77,322) | (77,322) |
| Transfer to statutory reserve | | | | 58,340 | (58,340) | | | - |
| Balance at December 31, 2018 | \$1,043 | \$50,160 | | \$4,365,606 | \$1,651,731 | \$(205,509) | \$(427,974) | 5,435,057 |
| Cumulative effect of accounting change | | | | | 4,905 | | | 4,905 |
| Net income | | | | | 671,135 | | | 671,135 |
| Issuance of stock | 1 | | | 3,496 | | | | 3,497 |
| Dividends declared: | | | | | | | | |
| Common stock ^[1] | | | | | (116,022) | | | (116,022) |
| Preferred stock | | | | | (3,723) | | | (3,723) |
| Common stock purchases ^[3] | | | | 15,740 | | (271,752) | | (256,012) |
| Common stock reissuance | | | | 374 | | 4,848 | | 5,222 |
| Stock based compensation | | | | 2,085 | | 12,599 | | 14,684 |
| Other comprehensive income, net of tax | | | | | | | 258,036 | 258,036 |
| Transfer to statutory reserve | | | | 60,111 | (60,111) | | | - |
| Balance at December 31, 2019 | \$1,044 | \$50,160 | | \$4,447,412 | \$2,147,915 | \$(459,814) | \$(169,938) | 6,016,779 |

[1] Dividends declared per common share during the year ended December 31, 2019 - \$1.20 (2018 - \$1.00; 2017 - \$1.00).

[2] During the quarter ended December 31, 2018, the Corporation completed a \$125 million accelerated share repurchase transaction with respect to its common stock, which was accounted for as a treasury stock transaction. Refer to Note 22 for additional information.

[3] During the quarter ended December 31, 2019, the Corporation completed a \$250 million accelerated share repurchase transaction with respect to its common stock, which was accounted for as a treasury stock transaction. Refer to Note 22 for additional information.

| | Years ended December 31, | | |
|---|--------------------------|-------------|-------------|
| | 2019 | 2018 | 2017 |
| 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 | 104,320,303 | 104,238,159 | 104,058,684 |
| Issuance of stock | 71,919 | 82,144 | 179,475 |
| Balance at end of year | 104,392,222 | 104,320,303 | 104,238,159 |
| Treasury stock | (8,802,593) | (4,377,458) | (2,169,178) |
| Common Stock – Outstanding | 95,589,629 | 99,942,845 | 102,068,981 |

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, | | |
|---|--------------------------|--------------|-------------|
| | 2019 | 2018 | 2017 |
| Cash flows from operating activities: | | | |
| Net income | \$ 671,135 | \$ 618,158 | \$ 107,681 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for loan losses | 165,779 | 228,072 | 325,424 |
| Amortization of intangibles | 9,370 | 9,326 | 9,378 |
| Depreciation and amortization of premises and equipment | 58,067 | 53,300 | 48,364 |
| Net accretion of discounts and amortization of premiums and deferred fees | (158,070) | (87,154) | (22,310) |
| Share-based compensation | 12,303 | 10,521 | — |
| Impairment losses on long-lived assets | 2,591 | 272 | 4,784 |
| Other-than-temporary impairment on debt securities | — | — | 8,299 |
| Fair value adjustments on mortgage servicing rights | 27,771 | 8,477 | 36,519 |
| FDIC loss-share (income) expense | — | (94,725) | 10,066 |
| Adjustments to indemnity reserves on loans sold | 343 | 12,959 | 22,377 |
| Earnings from investments under the equity method, net of dividends or distributions | (28,011) | (24,217) | (18,247) |
| Deferred income tax expense (benefit) | 141,332 | (12,320) | 207,428 |
| (Gain) loss on: | | | |
| Disposition of premises and equipment and other productive assets | (6,666) | 15,984 | 4,281 |
| Proceeds from insurance claims | (1,205) | (20,147) | — |
| Early extinguishment of debt | — | 12,522 | — |
| Sale and valuation adjustments of debt securities | 20 | — | (83) |
| Sale of loans, including valuation adjustments on loans held-for-sale and mortgage banking activities | (15,888) | (9,681) | (16,670) |
| Sale of foreclosed assets, including write-downs | (21,982) | 6,833 | 21,715 |
| Acquisitions of loans held-for-sale | (223,939) | (232,264) | (244,385) |
| Proceeds from sale of loans held-for-sale | 71,075 | 66,687 | 69,464 |
| Net originations on loans held-for-sale | (289,430) | (254,582) | (315,522) |
| Net decrease (increase) in: | | | |
| Trading debt securities | 460,969 | 458,447 | 503,108 |
| Equity securities | (8,032) | (1,622) | (1,269) |
| Accrued income receivable | (8,369) | 49,288 | (75,802) |
| Other assets | (37,847) | 264,841 | (65,844) |
| Net (decrease) increase in: | | | |
| Interest payable | (284) | (9,786) | 2,549 |
| Pension and other postretirement benefits obligation | 778 | 4,558 | (13,100) |
| Other liabilities | (116,443) | (226,244) | 28,279 |
| Total adjustments | 34,232 | 229,345 | 528,803 |
| Net cash provided by operating activities | 705,367 | 847,503 | 636,484 |
| Cash flows from investing activities: | | | |
| Net decrease (increase) in money market investments | 905,558 | 1,083,515 | (2,366,932) |
| Purchases of investment securities: | | | |
| Available-for-sale | (18,733,295) | (10,050,165) | (4,139,650) |
| Equity | (16,300) | (13,068) | (29,672) |
| Proceeds from calls, paydowns, maturities and redemptions of investment securities: | | | |
| Available-for-sale | 14,650,440 | 6,946,209 | 2,023,295 |
| Held-to-maturity | 5,913 | 7,280 | 6,232 |
| Proceeds from sale of investment securities: | | | |
| Available-for-sale | 99,445 | — | 14,423 |
| Equity | 20,030 | 24,209 | 30,250 |
| Net disbursements on loans | (641,029) | (6,665) | (398,676) |
| Proceeds from sale of loans | 110,534 | 29,669 | 415 |
| Acquisition of loan portfolios | (619,737) | (601,550) | (535,534) |
| Payments to acquire other intangibles | (10,382) | — | — |
| Net payments (to) from FDIC under loss sharing agreements | — | (25,012) | (7,679) |
| Payments to acquire businesses, net of cash acquired | — | (1,843,333) | — |
| Return of capital from equity method investments | 6,942 | 4,090 | 8,194 |
| Acquisition of premises and equipment | (75,665) | (80,549) | (62,697) |
| Proceeds from insurance claims | 1,205 | 20,147 | — |
| Proceeds from sale of: | | | |
| Premises and equipment and other productive assets | 18,608 | 9,185 | 9,753 |
| Foreclosed assets | 107,881 | 105,371 | 96,540 |
| Net cash used in investing activities | (4,169,852) | (4,390,667) | (5,351,738) |
| Cash flows from financing activities: | | | |
| Net increase (decrease) in: | | | |
| Deposits | 4,043,955 | 4,259,651 | 4,954,105 |
| Assets sold under agreements to repurchase | (88,151) | (109,391) | (88,505) |
| Other short-term borrowings | (41) | (96,167) | 95,008 |
| Payments of notes payable | (210,377) | (755,966) | (95,607) |
| Principal payments of finance leases | (1,726) | — | — |
| Payments for debt extinguishment | — | (12,522) | — |
| Proceeds from issuance of notes payable | 75,000 | 473,819 | 55,000 |
| Proceeds from issuance of common stock | 8,719 | 7,268 | 7,016 |
| Dividends paid | (115,810) | (105,441) | (95,910) |
| Net payments for repurchase of common stock | (250,581) | (125,264) | (75,664) |
| Payments related to tax withholding for share-based compensation | (5,431) | (2,201) | (1,756) |
| Net cash provided by financing activities | 3,455,557 | 3,533,786 | 4,753,687 |
| Net decrease in cash and due from banks, and restricted cash | (9,288) | (9,378) | 38,433 |
| Cash and due from banks, and restricted cash at beginning of period | 403,251 | 412,629 | 374,196 |
| Cash and due from banks, and restricted cash at end of period | \$ 394,323 | \$ 403,251 | \$ 412,629 |

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

Notes to Consolidated Financial Statements

| | |
|---|-----|
| Note 1 - Nature of Operations | 61 |
| Note 2 - Summary of Significant Accounting Policies | 61 |
| Note 3 - New Accounting Pronouncements | 70 |
| Note 4 - Business Combination | 74 |
| Note 5 - Restrictions on Cash and Due from Banks and Certain Securities | 76 |
| Note 6 - Debt Securities Available-For-Sale | 77 |
| Note 7 - Debt Securities Held-to-Maturity | 80 |
| Note 8 - Loans | 82 |
| Note 9 - Allowance for Loan Losses | 87 |
| Note 10 - FDIC Loss Share Asset and True-Up Payment Obligation | 102 |
| Note 11 - Mortgage Banking Activities | 103 |
| Note 12 - Transfers of Financial Assets and Mortgage Servicing Assets | 103 |
| Note 13 - Premises and Equipment | 106 |
| Note 14 - Other Real Estate Owned | 107 |
| Note 15 - Other Assets | 108 |
| Note 16 - Investment in Equity Investees | 108 |
| Note 17 - Goodwill and Other Intangible Assets | 108 |
| Note 18 - Deposits | 111 |
| Note 19 - Borrowings | 111 |
| Note 20 - Trust Preferred Securities | 114 |
| Note 21 - Other Liabilities | 115 |
| Note 22 - Stockholders' Equity | 115 |
| Note 23 - Regulatory Capital Requirements | 116 |
| Note 24 - Other comprehensive Loss | 118 |
| Note 25 - Guarantees | 119 |
| Note 26 - Commitments and Contingencies | 121 |
| Note 27 - Non-consolidated Variable Interest Entities | 127 |
| Note 28 - Derivative Instruments and Hedging Activities | 128 |
| Note 29 - Related Party Transactions | 131 |
| Note 30 - Fair value Measurement | 135 |
| Note 31 - Fair Value of Financial Instruments | 142 |
| Note 32 - Employee Benefits | 145 |
| Note 33 - Net Income per Common Share | 150 |
| Note 34 - Revenue from Contracts with Customers | 151 |
| Note 35 - Leases | 152 |
| Note 36 - FDIC Loss Share Income (Expense) | 153 |
| Note 37 - Stock-Based Compensation | 153 |
| Note 38 - Income Taxes | 155 |
| Note 39 - Supplemental Disclosure on the Consolidated Statements of Cash Flows | 159 |
| Note 40 - Segment Reporting | 160 |
| Note 41 - Popular, Inc. (Holding company only) Financial Information | 163 |
| Note 42 - Condensed Consolidating Financial Information of Guarantor and Issuers of Registered Guaranteed Securities | 167 |
| Note 43 - Subsequent Events | 176 |

Note 1 - Nature of operations

Popular, Inc. (the “Corporation or “Popular”) is a diversified, publicly-owned financial holding company subject to the supervision and regulation of the Board of Governors of the Federal Reserve System. The Corporation has operations in Puerto Rico, the mainland United States (“U.S.”) 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. In the mainland U.S., the Corporation provides retail, mortgage and commercial banking services through its New York-chartered banking subsidiary, Popular Bank (“PB”), which has branches located in New York, New Jersey and Florida.

Note 2 - 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 and the Corporation exercises significant influence, are generally accounted for by the equity method 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.

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

There were no significant business combinations during 2019.

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.

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 debt 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 accumulated 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 securities classified as trading securities are reported at fair value, with unrealized gains and losses included in non-interest income.
- Debt securities not classified as either held-to-maturity or trading, and which have a readily available fair value, are classified as debt 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 debt securities available-for-sale, which are included in net (loss) gain on sale of debt securities in the Consolidated Statements of Operations. Declines in the value of debt 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 Consolidated Statements 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 debt securities are performed on a quarterly basis.
- Equity securities that have readily available fair values are reported at fair value. Equity securities that do not have readily available fair values are measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. 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. Unrealized gains and losses of equity securities are included in net gain (loss), including impairment on equity securities in the Consolidated Statements of Operations.

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. 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/(loss) 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.

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 842. 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 with deteriorated credit quality accounted for under ASC 310-30

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, for acquisitions that include a significant amount of impaired loans, an election can be made for non-impaired loans included in such transactions to apply the accretable yield method (expected cash flow model of ASC Subtopic 310-30), by analogy, to those loans. Those loans are disclosed as a loan that was acquired with credit deterioration and impairment.

Under ASC Subtopic 310-30, impaired loans are aggregated into pools based on loans that have 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 include 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. Therefore, these loans are not considered non-performing. 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. 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.

Refer to Note 8 to the Consolidated Financial Statements for additional information with respect to loans acquired with deteriorated credit quality under ASC 310-30.

Allowance for loan losses

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

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

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 9 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 9 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.

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, 2019, 2018 and 2017 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.

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. Refer to Note 3, New Accounting Pronouncements, for changes on the annual goodwill impairment test in accordance with ASU 2017-04.

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 25 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.

Revenues from contract with customers

Refer to Note 34 for a detailed description of the Corporation's policies on the recognition and presentation of revenues from contract with customers.

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 24.

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

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.

Net income per common share

Basic income per common share is computed by dividing net income 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, including restricted cash.

Note 3 - New accounting pronouncements

Recently Adopted Accounting Standards Updates

| <i>Standard</i> | <i>Description</i> | <i>Date of adoption</i> | <i>Effect on the financial statements</i> |
|--|--|-------------------------|---|
| <i>FASB Accounting Standards Update (“ASU”) 2018-14, Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans</i> | The FASB issued ASU 2018-14 in August 2018, which modifies the disclosure requirements for employers that sponsor defined benefit pension or postretirement plans. The most significant changes include the removal of the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year and the effects of a one-percentage point change in assumed health care cost trend rates on the aggregate of the service and interest cost components of net periodic benefit costs and benefit obligation for postretirement health care benefits. In addition, certain disclosure requirements were added which include, but are not limited to, an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. | December 31, 2019 | The Corporation early adopted ASU 2018-14 during the fiscal year ended December 31, 2019 and was mainly impacted by the simplified disclosures of this ASU. Refer to amended disclosures on Note 32, Employee benefits. |
| <i>FASB ASU 2019-01, Leases (Topic 842): Codification Improvements</i> | The FASB issued ASU 2019-01 in March 2019 which, among other things, reinstates the specific fair value guidance in ASC Topic 840 for lessors that are not manufacturers or dealers to continue to measure the fair value of an underlying asset at its cost and clarifies that lessors that are depository or lending institutions in the scope of ASC Topic 942 are required to present the principal portion of lessee payments received from sales-type or direct financing leases as cash flows from investing activities. | January 1, 2019 | The Corporation early adopted ASU 2019-01 during the first quarter of 2019, but was not impacted by the adoption of this ASU. |

| <i>Standard</i> | <i>Description</i> | <i>Date of adoption</i> | <i>Effect on the financial statements</i> |
|---|---|-------------------------|---|
| <i>FASB ASUs, Leases (Topic 842)</i> | The FASB has issued a series of ASUs which supersede ASC Topic 840 and set out the principles for the recognition, measurement, presentation and disclosure of leases for both lessors and lessees. The new guidance requires lessees to apply a dual approach, classifying leases as either finance or operating leases. A lessee is also required to record a right-of-use asset (“ROU asset”) and a lease liability for all leases with a term greater than 12 months regardless of their classification. The new standard requires lessors to account for leases using an approach that is substantially equivalent to previous guidance for sales-type leases, direct financing leases and operating leases. In addition, the new leases standard requires lessors, among other things, to present lessor costs paid by the lessee to the lessor on a gross basis. | January 1, 2019 | <p>The Corporation adopted the new leases standard during the first quarter of 2019 using the modified retrospective approach. The Corporation made the following elections: to not reassess at the date of adoption whether any existing contracts were or contained leases, their lease classification, and initial direct costs; applied the transition provisions of the new leases standard at the adoption date; used hindsight in evaluating lessee options to extend or terminate a lease; and to not apply ASC Topic 842 to short-term leases.</p> <p>As of January 1, 2019, the Corporation recognized ROU assets of \$139 million, net of deferred rent liability of \$15 million, and lease liabilities of \$154 million on its operating leases. In addition, the Corporation recorded a positive cumulative effect adjustment of \$4.8 million to retained earnings as a result of the reclassification of previously deferred gains on sale and operating lease back transactions.</p> |
| <i>FASB ASU 2018-16, Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes</i> | The FASB issued ASU 2018-16 in October 2018 which permits use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815 in addition to other permissible U.S. benchmark rates. | January 1, 2019 | The Corporation adopted ASU 2018-16 during the first quarter of 2019. As such, the Corporation will consider this guidance for qualifying new hedging relationships entered into on or after the effective date. |
| <i>FASB ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income</i> | The FASB issued ASU 2018-02 in February 2018, which allows 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. | January 1, 2019 | The Corporation adopted ASU 2018-02 during the first quarter of 2019. As of December 31, 2018, the Corporation maintained a full valuation allowance on the deferred tax assets that were recognized in accumulated other comprehensive income related to its U.S. operations. As such, the Corporation was not impacted by the adoption of this accounting pronouncement. |

| <i>Standard</i> | <i>Description</i> | <i>Date of adoption</i> | <i>Effect on the financial statements</i> |
|--|--|-------------------------|---|
| <i>FASB ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities</i> | 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. | January 1, 2019 | The Corporation adopted ASU 2017-12 during the first quarter of 2019. The cumulative effect adjustment recorded to retained earnings to reverse the hedge ineffectiveness as of December 31, 2018 was not significant. There were no changes in presentation since the earnings effect of the hedges and the hedged items are already presented in the same income statement line item. In addition, the Corporation elected to continue to perform subsequent assessments of hedge effectiveness quantitatively. |

Additionally, adoption of the following standards during 2019 did not have a significant impact on the Corporation's Consolidated Financial Statements:

- *FASB ASUs 2019-07, Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification and 33-10442, Investment Company Reporting Modernization, and Miscellaneous Updates*
- *FASB ASU 2018-09, Codification Improvements*
- *FASB ASU 2018-07, Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*
- *FASB 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*
- *FASB ASU 2017-08, Receivables– Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*

Accounting Standards Updates Not Yet Adopted

| <i>Standard</i> | <i>Description</i> | <i>Date of adoption</i> | <i>Effect on the financial statements</i> |
|---|---|-------------------------|---|
| <i>FASB ASU 2020-01, Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323 and Topic 815</i> | The FASB issued ASU 2020-01 in January 2020, which clarifies that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321 and includes scope considerations for entities that hold certain non-derivative forward contracts and purchased options to acquire equity securities that, upon settlement of the forward contract or exercise of the purchase option, would be accounted for under the equity method of accounting. | January 1, 2021 | The Corporation does not expect to be materially impacted by these amendments. |
| <i>FASB ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes</i> | The FASB issued ASU 2019-12 in December 2019, which simplifies the accounting for income taxes by removing certain exceptions such as the incremental approach for intra-period tax allocation and interim period income tax accounting for year-to-date losses that exceed anticipated losses. In addition, the ASU simplifies GAAP in a number of areas such as when separate financial statements of legal entities are not subject to tax and enacted changes in tax laws in interim periods. | January 1, 2021 | 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. |

| <i>Standard</i> | <i>Description</i> | <i>Date of adoption</i> | <i>Effect on the financial statements</i> |
|--|---|-------------------------|--|
| <i>FASB ASU 2019-08, Compensation – Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements – Share-Based Consideration Payable to a Customer</i> | The FASB issued ASU 2019-08 in November 2019, which requires that an entity measure and classify share-based payment awards granted to a customer in accordance with Topic 718. Therefore, the grant-date fair value of the share-based payment awards will be the basis for the reduction of the transaction price. | January 1, 2020 | The Corporation does not expect to be impacted by these amendments since it does not grant share-based payment awards to its customers. |
| <i>FASB ASU 2018-18, Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606</i> | The FASB issued ASU 2018-18 in November 2018 which, among other things, provides guidance on how to assess whether certain collaborative arrangement transactions should be accounted for under Topic 606. | January 1, 2020 | The Corporation does not expect to be impacted by these amendments since it does not have collaborative arrangements. |
| <i>FASB ASU 2018-17, Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities</i> | The FASB issued ASU 2018-17 in October 2018, which requires entities to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety when determining whether a decision-making fee is a variable interest. | January 1, 2020 | The Corporation does not expect to be materially impacted by these amendments. |
| <i>FASB ASU 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract</i> | The FASB issued ASU 2018-15 in August 2018 which, among other things, aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software, and clarifies the term over which such capitalized implementation costs should be amortized. | January 1, 2020 | The Corporation does not expect to be significantly impacted by these amendments. |
| <i>FASB ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment</i> | 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. | January 1, 2020 | 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. |

| <i>Standard</i> | <i>Description</i> | <i>Date of adoption</i> | <i>Effect on the financial statements</i> |
|---|--|-------------------------|--|
| <i>FASB 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)</i> | 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. | January 1, 2020 | The Corporation has considered the guidance in this Update in its disclosures on the effect in its consolidated financial statements of adoption on the new Credit Loss Standard, discussed below. |

FASB ASUs Financial Instruments - Credit Losses (Topic 326)

Since June 2016, the FASB has issued a series of ASUs mainly related to credit losses (Topic 326), which replace the incurred loss model with a current expected credit loss (“CECL”) model. The CECL model applies to financial assets measured at amortized cost that are subject to credit losses and certain off-balance sheet exposures. CECL establishes 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. CECL 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, CECL provides that the initial allowance for credit losses on purchased credit deteriorated (“PCD”) financial assets will be recorded as an increase to the purchase price, with subsequent changes to the allowance recorded as a credit loss expense. The amendments to Topic 326 include the areas of accrued interest receivable, transfers of loans and debt securities between classifications and the inclusion of expected recoveries in the allowance for credit losses including PCD assets. The standards also expand credit quality disclosures. These accounting standards updates were effective on January 1, 2020.

The Corporation expects that its allowance for loan and lease losses would increase by a range from \$298 million to \$326 million, or 62% to 68%. This increase is driven mainly by the Puerto Rico retail loan portfolios, including mortgage, auto and credit cards loans. In addition, the Corporation expects to recognize an allowance for credit losses of approximately \$12 million related to its held-to-maturity debt securities portfolio. The increase in the allowance for the loans and

securities portfolios will be reflected as a decrease to the opening balance of retained earnings, net of income taxes, except for approximately \$10 million related to loans currently accounted under ASC Subtopic 310-30, which would result in a reclassification between certain contra loan balance accounts to the allowance for credit losses.

As part of the adoption of CECL, the Corporation has made the election to break the existing pools of purchased credit impaired (“PCI”) loans previously accounted for under the ASC Subtopic 310-30 guidance. These loans will be accounted for on an individual loan basis under the PCD accounting methodology under CECL. Following existing accounting guidance, PCI loans have been excluded from non-performing status. Upon transition to the individual loan measurement, these loans will no longer be excluded from non-performing status, resulting in an increase of \$283 million in reported NPLs during the first quarter of 2020. This increase includes \$156 million in loans currently over 90 days past due and \$127 million in loans that are not delinquent in their payment terms but would be reported as non-performing due to other credit quality considerations.

The Corporation expects to continue to be well capitalized under the Basel III regulatory framework after the adoption of this standard. The Corporation will avail itself of the option to phase in over a period of three years the day-one effects on regulatory capital arising from the adoption of CECL. Considering the phase-in period provided by the regulatory framework, the estimated decrease of the Common Equity Tier One and Total Capital ratios would be of approximately 23 bps.

Note 4 - Business combination

On August 1, 2018, Popular, Inc., through its subsidiary Popular Auto, LLC (“Popular Auto”), acquired and assumed from Reliable Financial Services, Inc. and Reliable Finance Holding Co. (“Reliable”), subsidiaries of Wells Fargo & Company, certain assets and liabilities related to their auto

finance business in Puerto Rico (the “Reliable Transaction” or “Transaction”). Popular Auto acquired approximately \$1.6 billion in retail auto loans and \$341 million in primarily auto-related commercial loans. The Corporation completed the integration of these operations during the third quarter of 2019 and continues to operate this business under the name of Popular Auto.

Wells Fargo retained approximately \$398 million in retail auto loans as part of the Transaction and subsequently sold the same to a third party. Popular Auto has entered into a separate servicing agreement with respect to such loans.

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

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

| <i>(In thousands)</i> | Book value prior to purchase accounting adjustments | Fair value adjustments | Measurement period adjustments | As recorded by Popular, Inc. |
|--------------------------------|---|---------------------------|-----------------------------------|---------------------------------|
| Cash consideration | \$1,843,256 | \$ – | \$ – | \$1,843,256 |
| Assets: | | | | |
| Loans | \$1,912,866 | \$(126,908)[1] | \$16,505 [1] | \$1,802,463 |
| Premises and equipment | 1,246 | – | – | 1,246 |
| Accrued income receivable | 1,466 | – | – | 1,466 |
| Other assets | 5,020 | – | (91) | 4,929 |
| Trademark | – | 488 | – | 488 |
| Total assets | \$1,920,598 | \$(126,420) | \$16,414 | \$1,810,592 |
| Liabilities: | | | | |
| Other liabilities | \$ 11,164 | \$ – | \$ – | \$ 11,164 |
| Total liabilities | \$ 11,164 | \$ – | \$ – | \$ 11,164 |
| Net assets acquired | \$1,909,434 | \$(126,420) | \$16,414 | \$1,799,428 |
| Goodwill on acquisition | | | | \$ 43,828 |

[1] The fair value discount is comprised of \$106 million related to the retail auto loans portfolio and \$4 million related to the commercial loans portfolio.

During the fourth quarter of 2018, measurement period adjustments amounting to \$16.5 million, were made to the estimated fair values of the loans acquired as part of the Transaction to reflect new information obtained about facts and circumstances that existed as of the acquisition date. The increase in the fair value of retail auto loans and commercial loans by \$12.2 million and \$4.3 million, respectively, was mainly attributed to decreases in credit loss expectations. The related cumulative adjustment to the amortization of the fair value discounts for the retail and commercial portfolios offset each other, resulting in an immaterial impact to the Corporation’s results.

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

Loans

Retail Auto Loans

Fair values for retail auto loans were based on a discounted cash flow methodology. Aggregation into pools considered characteristics such as payment terms, remaining terms, and credit quality. Principal and interest projections considered

prepayment rates and credit loss expectations. The discount rates were developed based on the relative risk of the cash flows as of the valuation date, taking into account the expected life of the loans. Retail auto loans were accounted for under ASC Subtopic 310-20. As of August 1, 2018, contractual cash flows amounted to \$1.8 billion, from which \$105 million are not expected to be collected.

Commercial Loans

Fair values for commercial loans were based on a probability of default/loss given default (“PD/LGD”) methodology. The PD was determined based on characteristics such as payment terms, remaining terms, and credit quality. Commercial loans were accounted for under ASC Subtopic 310-20. As of August 1, 2018, contractual cash flows amounted to \$348 million, from which \$3 million are not expected to be collected.

Goodwill

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

Trademark

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

The operating results of the Corporation for the year ended December 31, 2018 include the operating results produced by the acquired assets and liabilities assumed for the period of August 1, 2018 to December 31, 2018. This includes approximately \$84.5 million in gross revenues, including \$28.1 million in accretion of the fair value discount, and approximately \$20.3 million in operating expenses, including \$3.8 million of transaction-related expenses. The Corporation believes that given the amount of assets and liabilities assumed and the size of the operations acquired in relation to Popular's operations, the historical results of Reliable are not significant to Popular's results, and thus no pro forma information is presented.

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

The Corporation's banking subsidiaries, BPPR and PB, are required by federal and state regulatory agencies to maintain average reserve balances with the Federal Reserve Bank of New York (the "Fed") or other banks. Those required average reserve balances amounted to \$ 1.6 billion at December 31, 2019 (December 31, 2018 - \$ 1.6 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, 2019, the Corporation held \$52 million in restricted assets in the form of funds deposited in money market accounts, debt securities available for sale and equity securities (December 31, 2018 - \$ 62 million). The restricted assets held in debt securities available for sale and equity securities consist primarily of assets held for the Corporation's non-qualified retirement plans and fund deposits guaranteeing possible liens or encumbrances over the title of insured properties.

Note 6 - Debt securities available-for-sale

The following tables present the amortized cost, gross unrealized gains and losses, approximate fair value, weighted average yield and contractual maturities of debt securities available-for-sale at December 31, 2019 and December 31, 2018.

| | At December 31, 2019 | | | | |
|---|----------------------|------------------------|-------------------------|---------------------|------------------------|
| <i>(In thousands)</i> | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value | Weighted average yield |
| U.S. Treasury securities | | | | | |
| Within 1 year | \$ 5,071,201 | \$ 3,262 | \$ 567 | \$ 5,073,896 | 1.58% |
| After 1 to 5 years | 5,137,804 | 75,597 | 3,435 | 5,209,966 | 2.19 |
| After 5 to 10 years | 1,778,568 | 429 | 6,604 | 1,772,393 | 1.70 |
| Total U.S. Treasury securities | 11,987,573 | 79,288 | 10,606 | 12,056,255 | 1.86 |
| Obligations of U.S. Government sponsored entities | | | | | |
| Within 1 year | 62,492 | 2 | 21 | 62,473 | 1.45 |
| After 1 to 5 years | 60,021 | — | 90 | 59,931 | 1.48 |
| Total obligations of U.S. Government sponsored entities | 122,513 | 2 | 111 | 122,404 | 1.47 |
| Obligations of Puerto Rico, States and political subdivisions | | | | | |
| Within 1 year | 6,975 | — | — | 6,975 | — |
| Total obligations of Puerto Rico, States and political subdivisions | 6,975 | — | — | 6,975 | — |
| Collateralized mortgage obligations - federal agencies | | | | | |
| Within 1 year | 236 | — | — | 236 | 1.83 |
| After 1 to 5 years | 350 | 1 | — | 351 | 2.16 |
| After 5 to 10 years | 85,079 | 31 | 1,180 | 83,930 | 1.63 |
| After 10 years | 504,391 | 3,640 | 6,373 | 501,658 | 2.08 |
| Total collateralized mortgage obligations - federal agencies | 590,056 | 3,672 | 7,553 | 586,175 | 2.02 |
| Mortgage-backed securities | | | | | |
| Within 1 year | 16 | — | — | 16 | 2.13 |
| After 1 to 5 years | 36,717 | 852 | 1 | 37,568 | 3.38 |
| After 5 to 10 years | 350,373 | 1,958 | 1,303 | 351,028 | 2.02 |
| After 10 years | 4,447,561 | 60,384 | 20,243 | 4,487,702 | 2.60 |
| Total mortgage-backed securities | 4,834,667 | 63,194 | 21,547 | 4,876,314 | 2.57 |
| Other | | | | | |
| After 1 to 5 years | 341 | 9 | — | 350 | 3.62 |
| Total other | 341 | 9 | — | 350 | 3.62 |
| Total debt securities available-for-sale [1] | \$17,542,125 | \$146,165 | \$39,817 | \$17,648,473 | 2.05% |

[1] Includes \$12.2 billion pledged to secure public and trust deposits, assets sold under agreements to repurchase, credit facilities and loan servicing agreements that the secured parties are not permitted to sell or repledge the collateral, of which \$10.9 billion serve as collateral for public funds.

At December 31, 2018

| <i>(In thousands)</i> | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value | Weighted average yield |
|---|---------------------|------------------------------|-------------------------------|---------------------|------------------------------|
| U.S. Treasury securities | | | | | |
| Within 1 year | \$ 3,565,571 | \$ 108 | \$ 5,319 | \$ 3,560,360 | 2.10% |
| After 1 to 5 years | 4,483,741 | 13,647 | 35,213 | 4,462,175 | 2.25 |
| After 5 to 10 years | 245,891 | 3,770 | – | 249,661 | 2.84 |
| Total U.S. Treasury securities | 8,295,203 | 17,525 | 40,532 | 8,272,196 | 2.21 |
| Obligations of U.S. Government sponsored entities | | | | | |
| Within 1 year | 212,951 | – | 1,406 | 211,545 | 1.44 |
| After 1 to 5 years | 123,857 | 1 | 2,094 | 121,764 | 1.51 |
| Total obligations of U.S. Government sponsored entities | 336,808 | 1 | 3,500 | 333,309 | 1.47 |
| Obligations of Puerto Rico, States and political subdivisions | | | | | |
| After 1 to 5 years | 6,926 | – | 184 | 6,742 | 0.70 |
| Total obligations of Puerto Rico, States and political subdivisions | 6,926 | – | 184 | 6,742 | 0.70 |
| Collateralized mortgage obligations - federal agencies | | | | | |
| After 1 to 5 years | 749 | – | 7 | 742 | 1.92 |
| After 5 to 10 years | 115,744 | 1 | 4,715 | 111,030 | 1.71 |
| After 10 years | 638,995 | 1,584 | 23,680 | 616,899 | 2.10 |
| Total collateralized mortgage obligations - federal agencies | 755,488 | 1,585 | 28,402 | 728,671 | 2.04 |
| Mortgage-backed securities | | | | | |
| Within 1 year | 431 | 4 | – | 435 | 4.30 |
| After 1 to 5 years | 6,762 | 43 | 1 | 6,804 | 2.74 |
| After 5 to 10 years | 365,727 | 1,090 | 8,499 | 358,318 | 2.19 |
| After 10 years | 3,710,731 | 10,679 | 128,189 | 3,593,221 | 2.45 |
| Total mortgage-backed securities | 4,083,651 | 11,816 | 136,689 | 3,958,778 | 2.43 |
| Other | | | | | |
| After 5 to 10 years | 486 | 2 | – | 488 | 3.62 |
| Total other | 486 | 2 | – | 488 | 3.62 |
| Total debt securities available-for-sale [1] | \$13,478,562 | \$30,929 | \$209,307 | \$13,300,184 | 2.25% |

[1] Includes \$8.9 billion pledged to secure public and trust deposits, assets sold under agreements to repurchase, credit facilities and loan servicing agreements that the secured parties are not permitted to sell or repledge the collateral, of which \$7.9 billion serve as collateral for public funds.

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

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 debt securities available-for-sale at December 31, 2019 by contractual maturity.

| <i>(In thousands)</i> | Amortized cost | Fair value |
|---|---------------------|---------------------|
| Within 1 year | \$ 5,140,920 | \$ 5,143,596 |
| After 1 to 5 years | 5,235,233 | 5,308,166 |
| After 5 to 10 years | 2,214,020 | 2,207,351 |
| After 10 years | 4,951,952 | 4,989,360 |
| Total debt securities available-for-sale | \$17,542,125 | \$17,648,473 |

During the year ended December 31, 2019, the Corporation sold U.S. Treasury Bills. The proceeds from these sales were \$99 million. There were no debt securities available-for-sale sold during year ended December 31, 2018. Gross realized gains and losses on the sale of debt securities available-for-sale for the years ended December 31, 2019, 2018 and 2017 were as follows:

| <i>(In thousands)</i> | 2019 | 2018 | 2017 |
|---|--------|------|-------|
| Gross realized gains | \$ – | \$– | \$ 95 |
| Gross realized losses | (20) | – | (12) |
| Net realized gains (losses) on sale of debt securities available-for-sale | \$(20) | \$– | \$ 83 |

The following tables present the Corporation's fair value and gross unrealized losses of debt securities available-for-sale, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2019 and 2018.

| <i>(In thousands)</i> | At December 31, 2019 | | | | | |
|---|----------------------|-------------------------|-------------------|-------------------------|-------------|-------------------------|
| | 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 | \$2,439,114 | \$ 9,798 | \$ 452,784 | \$ 808 | \$2,891,898 | \$10,606 |
| Obligations of U.S. Government sponsored entities | 9,973 | 4 | 99,846 | 107 | 109,819 | 111 |
| Collateralized mortgage obligations - federal agencies | 114,603 | 537 | 310,315 | 7,016 | 424,918 | 7,553 |
| Mortgage-backed securities | 179,312 | 693 | 1,784,414 | 20,854 | 1,963,726 | 21,547 |
| Total debt securities available-for-sale in an unrealized loss position | \$2,743,002 | \$11,032 | \$2,647,359 | \$28,785 | \$5,390,361 | \$39,817 |

| <i>(In thousands)</i> | At December 31, 2018 | | | | | |
|---|----------------------|-------------------------|-------------------|-------------------------|--------------|-------------------------|
| | 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 | \$3,189,007 | \$4,188 | \$2,607,276 | \$ 36,343 | \$ 5,796,283 | \$ 40,531 |
| Obligations of U.S. Government sponsored entities | 14,847 | 46 | 318,271 | 3,454 | 333,118 | 3,500 |
| Obligations of Puerto Rico, States and political subdivisions | – | – | 6,742 | 184 | 6,742 | 184 |
| Collateralized mortgage obligations - federal agencies | 66,652 | 489 | 587,869 | 27,913 | 654,521 | 28,402 |
| Mortgage-backed securities | 125,872 | 2,280 | 3,478,635 | 134,410 | 3,604,507 | 136,690 |
| Total debt securities available-for-sale in an unrealized loss position | \$3,396,378 | \$7,003 | \$6,998,793 | \$202,304 | \$10,395,171 | \$209,307 |

As of December 31, 2019, the portfolio of available-for-sale debt securities reflects gross unrealized losses of approximately \$40 million, driven mainly by mortgage-backed securities, U.S. Treasury securities and collateralized mortgage obligations.

Management evaluates debt securities for other-than-temporary ("OTTI") declines in fair value on a quarterly basis. Once a decline in value is determined to be other-than-temporary, the value of a debt security is reduced and a corresponding charge to earnings is recognized for anticipated credit losses. The OTTI analysis requires management to consider various factors, which include, but are not limited to: (1) the length of time and the extent to which fair value has been less than the amortized cost basis, (2) the financial condition of the issuer or issuers, (3) actual collateral

attributes, (4) the payment structure of the debt security and the likelihood of the issuer being able to make payments, (5) any rating changes by a rating agency, (6) adverse conditions specifically related to the security, industry, or a geographic area, and (7) management's intent to sell the debt security or whether it is more likely than not that the Corporation would be required to sell the debt security before a forecasted recovery occurs.

At December 31, 2019, management performed its quarterly analysis of all debt securities in an unrealized loss position. Based on the analysis performed, management concluded that no individual debt security was other-than-temporarily impaired as of such date. At December 31, 2019, the Corporation did not have the intent to sell debt securities in an

unrealized loss position and it was not more likely than not that the Corporation would have to sell the debt securities prior to recovery of their amortized cost basis.

The following table states the name of issuers, and the aggregate amortized cost and fair value of the debt securities of such issuer (includes available-for-sale and held-to-maturity debt securities), in which the aggregate amortized cost of such securities exceeds 10% of stockholders' equity. This information excludes debt securities backed by the full faith and credit of the U.S. Government. Investments in obligations

issued by a state of the U.S. and its political subdivisions and agencies, which are payable and secured by the same source of revenue or taxing authority, other than the U.S. Government, are considered securities of a single issuer.

| <i>(In thousands)</i> | 2019 | | 2018 | |
|-----------------------|----------------|-------------|----------------|-------------|
| | Amortized cost | Fair value | Amortized cost | Fair value |
| FNMA | \$3,113,373 | \$3,129,538 | \$2,999,110 | \$2,901,904 |
| Freddie Mac | 1,623,116 | 1,638,796 | 1,095,855 | 1,058,013 |

Note 7 - Debt securities held-to-maturity

The following tables present the amortized cost, gross unrealized gains and losses, approximate fair value, weighted average yield and contractual maturities of debt securities held-to-maturity at December 31, 2019 and 2018.

| <i>(In thousands)</i> | At December 31, 2019 | | | | |
|---|----------------------|------------------------|-------------------------|------------|------------------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value | Weighted average yield |
| Obligations of Puerto Rico, States and political subdivisions | | | | | |
| Within 1 year | \$ 3,745 | \$ - | \$ 11 | \$ 3,734 | 6.01% |
| After 1 to 5 years | 17,580 | - | 320 | 17,260 | 6.11 |
| After 5 to 10 years | 18,195 | - | 1,607 | 16,588 | 3.11 |
| After 10 years | 46,036 | 9,384 | - | 55,420 | 1.67 |
| Total obligations of Puerto Rico, States and political subdivisions | 85,556 | 9,384 | 1,938 | 93,002 | 3.08 |
| Collateralized mortgage obligations - federal agencies | | | | | |
| After 1 to 5 years | 45 | 2 | - | 47 | 6.44 |
| Total collateralized mortgage obligations - federal agencies | 45 | 2 | - | 47 | 6.44 |
| Securities in wholly owned statutory business trusts | | | | | |
| After 10 years | 11,561 | - | - | 11,561 | 6.51 |
| Total securities in wholly owned statutory business trusts | 11,561 | - | - | 11,561 | 6.51 |
| Other | | | | | |
| Within 1 year | 500 | - | - | 500 | 2.97 |
| Total other | 500 | - | - | 500 | 2.97 |
| Total debt securities held-to-maturity | \$97,662 | \$9,386 | \$1,938 | \$105,110 | 3.49% |

At December 31, 2018

| <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 | \$ 3,510 | \$ – | \$ 36 | \$ 3,474 | 5.99% |
| After 1 to 5 years | 16,505 | – | 1,081 | 15,424 | 6.07 |
| After 5 to 10 years | 23,885 | – | 1,704 | 22,181 | 3.61 |
| After 10 years | 45,559 | 3,943 | 47 | 49,455 | 1.79 |
| Total obligations of Puerto Rico, States and political subdivisions | 89,459 | 3,943 | 2,868 | 90,534 | 3.23 |
| Collateralized mortgage obligations - federal agencies | | | | | |
| After 5 to 10 years | 55 | 3 | – | 58 | 5.45 |
| Total collateralized mortgage obligations - federal agencies | 55 | 3 | – | 58 | 5.45 |
| Securities in wholly owned statutory business trusts | | | | | |
| After 10 years | 11,561 | – | – | 11,561 | 6.51 |
| Total securities in wholly owned statutory business trusts | 11,561 | – | – | 11,561 | 6.51 |
| Other | | | | | |
| After 1 to 5 years | 500 | – | – | 500 | 2.97 |
| Total other | 500 | – | – | 500 | 2.97 |
| Total debt securities held-to-maturity | \$101,575 | \$3,946 | \$2,868 | \$102,653 | 3.60% |

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 debt securities held-to-maturity at December 31, 2019 by contractual maturity.

| <i>(In thousands)</i> | Amortized cost | Fair value |
|---|-----------------|------------------|
| Within 1 year | \$ 4,245 | \$ 4,234 |
| After 1 to 5 years | 17,625 | 17,307 |
| After 5 to 10 years | 18,195 | 16,588 |
| After 10 years | 57,597 | 66,981 |
| Total debt securities held-to-maturity | \$97,662 | \$105,110 |

The following tables present the Corporation's fair value and gross unrealized losses of debt securities held-to-maturity, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2019 and 2018.

At December 31, 2019

| <i>(In thousands)</i> | 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 | \$17,544 | \$291 | \$12,673 | \$1,647 | \$30,217 | \$1,938 |
| Total debt securities held-to-maturity in an unrealized loss position | \$17,544 | \$291 | \$12,673 | \$1,647 | \$30,217 | \$1,938 |

At December 31, 2018

| <i>(In thousands)</i> | 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 | \$27,471 | \$1,165 | \$13,307 | \$1,703 | \$40,778 | \$2,868 |
| Total debt securities held-to-maturity in an unrealized loss position | \$27,471 | \$1,165 | \$13,307 | \$1,703 | \$40,778 | \$2,868 |

As indicated in Note 6 to these Consolidated Financial Statements, management evaluates debt securities for OTTI declines in fair value on a quarterly basis.

The “Obligations of Puerto Rico, States and political subdivisions” classified as held-to-maturity at December 31, 2019 includes securities issued by municipalities of Puerto Rico that are generally not rated by a credit rating agency. This includes \$40 million of general and special obligation bonds issued by three municipalities of Puerto Rico, which are payable primarily from 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, which is required by law to levy property taxes in an amount sufficient for the payment of debt service on such general obligation bonds.

The portfolio also includes \$46 million in securities for which the underlying source of payment is second mortgage loans in Puerto Rico residential properties (not the government), but in which a government instrumentality provides a guarantee in the event of default and upon the satisfaction of certain other conditions. 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, 2019. A deterioration of the Puerto Rico economy or of the fiscal health of the Government of Puerto Rico and/or its instrumentalities (including if any of the issuing municipalities become subject to a debt restructuring proceeding under PROMESA) could further affect the value of these securities, resulting in losses to the Corporation.

The Corporation does not have the intent to sell debt securities held-to-maturity and it is more likely than not that the Corporation will not have to sell these debt securities prior to recovery of their amortized cost basis.

Refer to Note 26 for additional information on the Corporation’s exposure to the Puerto Rico Government.

Note 8 - Loans

For a summary of the accounting policies related to loans, interest recognition and allowance for loan losses refer to Note 2 – Summary of Significant Accounting Policies of this Form 10-K.

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

During the year ended December 31, 2019, the Corporation recorded purchases (including repurchases) of mortgage loans amounting to \$423 million, consumer loans of \$359 million including the acquisition of a credit card portfolio with an unpaid principal balance of \$74 million, and commercial loans

of \$141 million, compared to purchases (including repurchases) of mortgage loans of \$624 million and consumer loans of \$205 million, during the year ended December 31, 2018.

The Corporation performed whole-loan sales involving approximately \$64 million of residential mortgage loans and \$114 million of commercial and construction loans during the year ended December 31, 2019 (December 31, 2018 - \$59 million of residential mortgage and \$30 million of commercial loans). Also, during the year ended December 31, 2019, the Corporation securitized approximately \$347 million of mortgage loans into Government National Mortgage Association (“GNMA”) mortgage-backed securities and \$111 million of mortgage loans into Federal National Mortgage Association (“FNMA”) mortgage-backed securities, compared to \$413 million and \$94 million, respectively, during the year ended December 31, 2018.

Delinquency status

The following table presents the composition of loans held-in-portfolio (“HIP”), net of unearned income, by past due status, and by loan class including those that are in non-performing status or that are accruing interest but are past due 90 days or more at December 31, 2019 and December 31, 2018.

December 31, 2019

| Puerto Rico | | | | | | | | | |
|-----------------------------|------------------|------------------|--------------------|--------------------|---------------------|---------------------|--------------------------|----|--------------------|
| (In thousands) | Past due | | | | Current | Loans HIP | Past due 90 days or more | | Accruing loans [1] |
| | 30-59 days | 60-89 days | 90 days or more | Total past due | | | Non-accrual loans | | |
| Commercial multi-family | \$ 2,941 | \$ 129 | \$ 1,512 | \$ 4,582 | \$ 143,267 | \$ 147,849 | \$ 1,473 | \$ | – |
| Commercial real estate: | | | | | | | | | |
| Non-owner occupied | 10,439 | 5,244 | 43,664 | 59,347 | 2,048,871 | 2,108,218 | 39,968 | | – |
| Owner occupied | 5,704 | 3,978 | 84,537 | 94,219 | 1,492,110 | 1,586,329 | 69,276 | | – |
| Commercial and industrial | 8,780 | 1,646 | 37,156 | 47,582 | 3,371,152 | 3,418,734 | 36,538 | | 544 |
| Construction | 1,555 | – | 119 | 1,674 | 135,796 | 137,470 | 119 | | – |
| Mortgage | 285,006 | 146,197 | 837,651 | 1,268,854 | 4,897,894 | 6,166,748 | 283,708 | | 439,662 |
| Leasing | 12,014 | 3,053 | 3,657 | 18,724 | 1,040,783 | 1,059,507 | 3,657 | | – |
| Consumer: | | | | | | | | | |
| Credit cards | 11,358 | 7,928 | 19,461 | 38,747 | 1,085,053 | 1,123,800 | – | | 19,461 |
| Home equity lines of credit | – | 85 | – | 85 | 4,953 | 5,038 | – | | – |
| Personal | 13,481 | 9,352 | 20,296 | 43,129 | 1,325,021 | 1,368,150 | 19,529 | | 61 |
| Auto | 81,169 | 23,182 | 31,148 | 135,499 | 2,782,023 | 2,917,522 | 31,148 | | – |
| Other | 358 | 1,418 | 14,189 | 15,965 | 124,902 | 140,867 | 13,784 | | 405 |
| Total | \$432,805 | \$202,212 | \$1,093,390 | \$1,728,407 | \$18,451,825 | \$20,180,232 | \$499,200 | | \$460,133 |

[1] Loans HIP of \$134 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. Refer to Note 3, New Accounting Pronouncements, for a description of the impact of CECL on the classification of non-performing loans.

December 31, 2019

| Popular U.S. | | | | | | | | | |
|-----------------------------|-----------------|----------------|-----------------|-----------------|--------------------|--------------------|--------------------------|--|--------------------|
| (In thousands) | Past due | | | | Current | Loans HIP | Past due 90 days or more | | Accruing loans [1] |
| | 30-59 days | 60-89 days | 90 days or more | Total past due | | | Non-accrual loans | | |
| Commercial multi-family | \$ 9 | \$ – | \$ 2,097 | \$ 2,106 | \$1,645,204 | \$1,647,310 | \$ 2,097 | | \$– |
| Commercial real estate: | | | | | | | | | |
| Non-owner occupied | 1,047 | – | 281 | 1,328 | 1,868,968 | 1,870,296 | 281 | | – |
| Owner occupied | 1,750 | – | 251 | 2,001 | 337,134 | 339,135 | 251 | | – |
| Commercial and industrial | 454 | 128 | 19,945 | 20,527 | 1,174,353 | 1,194,880 | 876 | | – |
| Construction | – | – | 26 | 26 | 693,596 | 693,622 | 26 | | – |
| Mortgage | 15,474 | 4,024 | 11,091 | 30,589 | 986,195 | 1,016,784 | 11,091 | | – |
| Legacy | 49 | 8 | 1,999 | 2,056 | 20,049 | 22,105 | 1,999 | | – |
| Consumer: | | | | | | | | | |
| Credit cards | – | – | – | – | 36 | 36 | – | | – |
| Home equity lines of credit | 404 | 267 | 9,954 | 10,625 | 106,718 | 117,343 | 9,954 | | – |
| Personal | 2,286 | 1,582 | 2,066 | 5,934 | 318,506 | 324,440 | 2,066 | | – |
| Other | 3 | – | – | 3 | 687 | 690 | – | | – |
| Total | \$21,476 | \$6,009 | \$47,710 | \$75,195 | \$7,151,446 | \$7,226,641 | \$28,641 | | \$– |

[1] Loans HIP of \$19 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. Refer to Note 3, New Accounting Pronouncements, for a description of the impact of CECL on the classification of non-performing loans.

December 31, 2019

Popular, Inc.

| (In thousands) | Past due | | | | Current | Loans HIP [3] [4] | Past due 90 days or more | |
|-----------------------------|------------------|------------------|--------------------|--------------------|---------------------|----------------------|--------------------------|-----------------------|
| | 30-59 days | 60-89 days | 90 days or more | Total past due | | | Non-accrual loans | Accruing loans [5] |
| Commercial multi-family | \$ 2,950 | \$ 129 | \$ 3,609 | \$ 6,688 | \$ 1,788,471 | \$ 1,795,159 | \$ 3,570 | \$ – |
| Commercial real estate: | | | | | | | | |
| Non-owner occupied | 11,486 | 5,244 | 43,945 | 60,675 | 3,917,839 | 3,978,514 | 40,249 | – |
| Owner occupied | 7,454 | 3,978 | 84,788 | 96,220 | 1,829,244 | 1,925,464 | 69,527 | – |
| Commercial and industrial | 9,234 | 1,774 | 57,101 | 68,109 | 4,545,505 | 4,613,614 | 37,414 | 544 |
| Construction | 1,555 | – | 145 | 1,700 | 829,392 | 831,092 | 145 | – |
| Mortgage [1] | 300,480 | 150,221 | 848,742 | 1,299,443 | 5,884,089 | 7,183,532 | 294,799 | 439,662 |
| Leasing | 12,014 | 3,053 | 3,657 | 18,724 | 1,040,783 | 1,059,507 | 3,657 | – |
| Legacy [2] | 49 | 8 | 1,999 | 2,056 | 20,049 | 22,105 | 1,999 | – |
| Consumer: | | | | | | | | |
| Credit cards | 11,358 | 7,928 | 19,461 | 38,747 | 1,085,089 | 1,123,836 | – | 19,461 |
| Home equity lines of credit | 404 | 352 | 9,954 | 10,710 | 111,671 | 122,381 | 9,954 | – |
| Personal | 15,767 | 10,934 | 22,362 | 49,063 | 1,643,527 | 1,692,590 | 21,595 | 61 |
| Auto | 81,169 | 23,182 | 31,148 | 135,499 | 2,782,023 | 2,917,522 | 31,148 | – |
| Other | 361 | 1,418 | 14,189 | 15,968 | 125,589 | 141,557 | 13,784 | 405 |
| Total | \$454,281 | \$208,221 | \$1,141,100 | \$1,803,602 | \$25,603,271 | \$27,406,873 | \$527,841 | \$460,133 |

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

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

[3] Loans held-in-portfolio are net of \$181 million in unearned income and exclude \$59 million in loans held-for-sale.

[4] Includes \$6.7 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 and \$2.1 billion at the Federal Reserve Bank ("FRB") for discount window borrowings.

[5] Loans HIP of \$153 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. Refer to Note 3, New Accounting Pronouncements, for a description of the impact of CECL on the classification of non-performing loans.

December 31, 2018

Puerto Rico

| (In thousands) | Past due | | | | Current | Loans HIP | Past due 90 days or more | |
|-----------------------------|------------------|------------------|--------------------|--------------------|---------------------|---------------------|--------------------------|-----------------------|
| | 30-59 days | 60-89 days | 90 days or more | Total past due | | | Non-accrual loans | Accruing loans [1] |
| Commercial multi-family | \$ 1,441 | \$ 112 | \$ 598 | \$ 2,151 | \$ 143,477 | \$ 145,628 | \$ 546 | \$ – |
| Commercial real estate: | | | | | | | | |
| Non-owner occupied | 92,075 | 839 | 45,691 | 138,605 | 2,183,996 | 2,322,601 | 39,257 | – |
| Owner occupied | 6,681 | 10,839 | 99,235 | 116,755 | 1,605,498 | 1,722,253 | 88,069 | – |
| Commercial and industrial | 4,137 | 641 | 55,321 | 60,099 | 3,122,062 | 3,182,161 | 55,078 | 243 |
| Construction | – | – | 1,788 | 1,788 | 84,167 | 85,955 | 1,788 | – |
| Mortgage | 275,367 | 128,104 | 1,043,607 | 1,447,078 | 4,986,245 | 6,433,323 | 323,565 | 595,525 |
| Leasing | 7,663 | 1,827 | 3,313 | 12,803 | 921,970 | 934,773 | 3,313 | – |
| Consumer: | | | | | | | | |
| Credit cards | 9,504 | 7,391 | 16,035 | 32,930 | 1,014,343 | 1,047,273 | – | 16,035 |
| Home equity lines of credit | – | 97 | 165 | 262 | 5,089 | 5,351 | 11 | 154 |
| Personal | 13,069 | 7,907 | 18,515 | 39,491 | 1,211,134 | 1,250,625 | 17,887 | 35 |
| Auto | 52,204 | 9,862 | 24,177 | 86,243 | 2,522,542 | 2,608,785 | 24,050 | 127 |
| Other | 566 | 288 | 14,958 | 15,812 | 128,932 | 144,744 | 14,534 | 424 |
| Total | \$462,707 | \$167,907 | \$1,323,403 | \$1,954,017 | \$17,929,455 | \$19,883,472 | \$568,098 | \$612,543 |

[1] Non-covered loans HIP of \$143 million accounted for under ASC Subtopic 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.

December 31, 2018

| Popular U.S. | | | | | | | | | |
|-----------------------------|-----------------|----------------|--------------------|-------------------|--------------------|--------------------|--------------------------|-----------------------|--|
| (In thousands) | Past due | | | | Current | Loans HIP | Past due 90 days or more | | |
| | 30-59 days | 60-89 days | 90 days or more | Total past due | | | Non-accrual loans | Accruing loans [1] | |
| Commercial multi-family | \$ 3,163 | \$ – | \$ – | \$ 3,163 | \$1,398,377 | \$1,401,540 | \$ – | \$– | |
| Commercial real estate: | | | | | | | | | |
| Non-owner occupied | 707 | 288 | 365 | 1,360 | 1,880,384 | 1,881,744 | 365 | – | |
| Owner occupied | 5,125 | 1,728 | 381 | 7,234 | 291,705 | 298,939 | 381 | – | |
| Commercial and industrial | 2,354 | 995 | 73,726 | 77,075 | 1,011,078 | 1,088,153 | 330 | – | |
| Construction | – | – | 12,060 | 12,060 | 681,434 | 693,494 | 12,060 | – | |
| Mortgage | 13,615 | 3,197 | 11,033 | 27,845 | 774,090 | 801,935 | 11,033 | – | |
| Legacy | 195 | 445 | 2,627 | 3,267 | 22,682 | 25,949 | 2,627 | – | |
| Consumer: | | | | | | | | | |
| Credit cards | 2 | – | – | 2 | 36 | 38 | – | – | |
| Home equity lines of credit | 886 | 464 | 13,579 | 14,929 | 128,123 | 143,052 | 13,579 | – | |
| Personal | 2,319 | 1,723 | 2,610 | 6,652 | 282,697 | 289,349 | 2,610 | – | |
| Other | – | – | 4 | 4 | 220 | 224 | 4 | – | |
| Total | \$28,366 | \$8,840 | \$116,385 | \$153,591 | \$6,470,826 | \$6,624,417 | \$42,989 | \$– | |

[1] Non-covered loans HIP of \$73 million accounted for under ASC Subtopic 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.

December 31, 2018

| Popular, Inc. | | | | | | | | | |
|-----------------------------|------------------|------------------|--------------------|--------------------|---------------------|----------------------|--------------------------|-----------------------|--|
| (In thousands) | Past due | | | | Current | Loans HIP [3] [4] | Past due 90 days or more | | |
| | 30-59 days | 60-89 days | 90 days or more | Total past due | | | Non-accrual loans | Accruing loans [5] | |
| Commercial multi-family | \$ 4,604 | \$ 112 | \$ 598 | \$ 5,314 | \$ 1,541,854 | \$ 1,547,168 | \$ 546 | \$ – | |
| Commercial real estate: | | | | | | | | | |
| Non-owner occupied | 92,782 | 1,127 | 46,056 | 139,965 | 4,064,380 | 4,204,345 | 39,622 | – | |
| Owner occupied | 11,806 | 12,567 | 99,616 | 123,989 | 1,897,203 | 2,021,192 | 88,450 | – | |
| Commercial and industrial | 6,491 | 1,636 | 129,047 | 137,174 | 4,133,140 | 4,270,314 | 55,408 | 243 | |
| Construction | – | – | 13,848 | 13,848 | 765,601 | 779,449 | 13,848 | – | |
| Mortgage [1] | 288,982 | 131,301 | 1,054,640 | 1,474,923 | 5,760,335 | 7,235,258 | 334,598 | 595,525 | |
| Leasing | 7,663 | 1,827 | 3,313 | 12,803 | 921,970 | 934,773 | 3,313 | – | |
| Legacy [2] | 195 | 445 | 2,627 | 3,267 | 22,682 | 25,949 | 2,627 | – | |
| Consumer: | | | | | | | | | |
| Credit cards | 9,506 | 7,391 | 16,035 | 32,932 | 1,014,379 | 1,047,311 | – | 16,035 | |
| Home equity lines of credit | 886 | 561 | 13,744 | 15,191 | 133,212 | 148,403 | 13,590 | 154 | |
| Personal | 15,388 | 9,630 | 21,125 | 46,143 | 1,493,831 | 1,539,974 | 20,497 | 35 | |
| Auto | 52,204 | 9,862 | 24,177 | 86,243 | 2,522,542 | 2,608,785 | 24,050 | 127 | |
| Other | 566 | 288 | 14,962 | 15,816 | 129,152 | 144,968 | 14,538 | 424 | |
| Total | \$491,073 | \$176,747 | \$1,439,788 | \$2,107,608 | \$24,400,281 | \$26,507,889 | \$611,087 | \$612,543 | |

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

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

[3] Loans held-in-portfolio are net of \$156 million in unearned income and exclude \$51 million in loans held-for-sale.

[4] Includes \$6.9 billion pledged to secure credit facilities and public funds that the secured parties are not permitted to sell or repledge the collateral, of which \$4.8 billion were pledged at the FHLB as collateral for borrowings and \$2.1 billion at the FRB for discount window borrowings.

[5] Non-covered loans HIP of \$216 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.

At December 31, 2019, mortgage loans held-in-portfolio include \$1.4 billion of loans insured by the Federal Housing Administration (“FHA”), or guaranteed by the U.S. Department of Veterans Affairs (“VA”) of which \$441 million are 90 days or more past due, including \$103 million of loans rebooked under the GNMA buyback option, discussed below (December 31, 2018 - \$1.4 billion, \$598 million and \$134 million, respectively). Within this portfolio, loans in a delinquency status of 90 days or more are reported as accruing loans as opposed to non-performing since the principal repayment is insured. These balances include \$213 million of residential mortgage loans in Puerto Rico that are no longer accruing interest as of December 31, 2019 (December 31, 2018 - \$283 million). Additionally, the Corporation has approximately \$65 million in reverse mortgage loans in Puerto Rico which are guaranteed by FHA, but which are currently not accruing interest at December 31, 2019 (December 31, 2018 - \$69 million).

Loans with a delinquency status of 90 days past due as of December 31, 2019 include \$103 million in loans previously pooled into GNMA securities (December 31, 2018 - \$134 million). Under the GNMA program, issuers such as BPPR have the option but not the obligation to repurchase loans that are 90 days or more past due. For accounting purposes, these loans subject to the repurchase option are required to be reflected on the financial statements of BPPR with an offsetting liability.

The components of the net financing leases receivable at December 31, 2019 and 2018 were as follows:

| <i>(In thousands)</i> | 2019 | 2018 |
|--|-------------|-----------|
| Total minimum lease payments | \$ 863,755 | \$781,060 |
| Estimated residual value of leased property (unguaranteed) | 356,560 | 293,495 |
| Deferred origination costs, net of fees | 15,422 | 12,261 |
| Less - Unearned financing income | 176,121 | 151,881 |
| Net minimum lease payments | 1,059,616 | 934,935 |
| Less - Allowance for loan losses | 10,768 | 11,487 |
| Net minimum lease payments, net of allowance for loan losses | \$1,048,848 | \$923,448 |

At December 31, 2019, future minimum lease payments are expected to be received as follows:

| <i>(In thousands)</i> | |
|-----------------------|-----------|
| 2020 | \$ 48,511 |
| 2021 | 90,049 |
| 2022 | 147,742 |
| 2023 | 205,834 |
| 2024 and thereafter | 371,619 |
| Total | \$863,755 |

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

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

The outstanding principal balance of acquired loans accounted pursuant to ASC Subtopic 310-30, amounted to \$1.9 billion at December 31, 2019 (December 31, 2018 - \$2.2 billion). The carrying amount of these loans consisted of loans determined to be impaired at the time of acquisition, which are accounted for in accordance with ASC Subtopic 310-30 (“credit impaired loans”), and loans that were considered to be performing at the acquisition date, accounted for by analogy to ASC Subtopic 310-30 (“non-credit impaired loans”).

The following table provides the carrying amount of acquired loans accounted for under ASC 310-30 by portfolio at December 31, 2019 and 2018.

| <i>(In thousands)</i> | Carrying amount | |
|-----------------------------------|-------------------|-------------------|
| | December 31, 2019 | December 31, 2018 |
| Commercial real estate | \$ 670,566 | \$ 801,774 |
| Commercial and industrial | 104,756 | 84,465 |
| Mortgage | 856,618 | 982,821 |
| Consumer | 11,778 | 14,496 |
| Carrying amount | 1,643,718 | 1,883,556 |
| Allowance for loan losses | (74,039) | (122,135) |
| Carrying amount, net of allowance | \$1,569,679 | \$1,761,421 |

At December 31, 2019, none of the acquired loans accounted for under ASC Subtopic 310-30 were considered non-performing loans. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, was recognized on all acquired loans.

Changes in the carrying amount and the accretable yield for the loans accounted pursuant to the ASC Subtopic 310-30, for the years ended December 31, 2019 and 2018, were as follows:

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

| <i>(In thousands)</i> | For the years ended | |
|--|---------------------|--------------------|
| | December 31, 2019 | December 31, 2018 |
| Beginning balance | \$1,883,556 | \$2,108,993 |
| Additions | 39,492 | 16,645 |
| Accretion | 144,976 | 166,272 |
| Collections / loan sales / charge-offs | (424,306) | (408,354) |
| Ending balance [1] | \$1,643,718 | \$1,883,556 |
| Allowance for loan losses | (74,039) | (122,135) |
| Ending balance, net of ALLL | \$1,569,679 | \$1,761,421 |

[1] At December 31, 2019, includes \$1.2 billion of loans considered non-credit impaired at the acquisition date (December 31, 2018 - \$1.4 billion).

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

| <i>(In thousands)</i> | For the years ended | |
|-------------------------------|---------------------|--------------------|
| | December 31, 2019 | December 31, 2018 |
| Beginning balance | \$1,092,504 | \$1,214,488 |
| Additions | 23,556 | 6,535 |
| Accretion | (144,976) | (166,272) |
| Change in expected cash flows | 30,258 | 37,753 |
| Ending balance [1] | \$1,001,342 | \$1,092,504 |

[1] At December 31, 2019, includes \$0.7 billion for loans considered non-credit impaired at the acquisition date (December 31, 2018 - \$0.8 billion).

Note 9 - Allowance for loan losses

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

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

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

- Base net loss rates, which are based on the moving average of annualized net loss rates computed over a

5-year historical loss period for the commercial and construction loan portfolios, and an 18-month period for the consumer and mortgage loan portfolios. The base net loss rates are applied by loan type and by legal entity.

- Recent loss trend adjustment, which replaces the base loss rate with a 12-month average loss rate, when these trends are higher than the respective base loss rates. The objective of this adjustment is to allow for a more recent loss trend to be captured and reflected in the ALLL estimation process.
- For the period ended December 31, 2019, 25% (December 31, 2018 - 26%) of the ALLL for the 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, auto and commercial real estate non-owner occupied portfolios for 2019 and in the commercial, mortgage, and overall consumer portfolios for 2018.
- For the period ended December 31, 2019, 21% (December 31, 2018 - 28 %) of the Popular U.S. segment loan portfolios utilized the recent loss trend adjustment

instead of the base loss. The effect of replacing the base loss with the recent loss trend adjustment was concentrated in the commercial multi-family, legacy, commercial real estate owner occupied and construction portfolios for 2019 and in the consumer portfolio for 2018.

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

assumptions to provide for probable losses in the loan portfolios not embedded in the historical loss rates.

During the third quarter of 2019, management completed the recalibration analysis of the environmental factors adjustments. The environmental factors adjustments are developed by performing regression analyses on selected credit and economic indicators for each applicable loan segment. 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 resulted in an increase of \$4.6 million to the environmental factors adjustments reserve at the Popular U.S. segment.

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, 2019 and 2018.

For the year ended December 31, 2019

| | Puerto Rico | | | | | |
|--|-------------|--------------|-------------|-------------|-------------|--------------|
| <i>(In thousands)</i> | Commercial | Construction | Mortgage | Leasing | Consumer | Total |
| Allowance for credit losses: | | | | | | |
| Beginning balance | \$ 207,214 | \$ 886 | \$ 142,978 | \$ 11,486 | \$ 144,594 | \$ 507,158 |
| Provision (reversal of provision) | (41,440) | (3,417) | 14,658 | 8,619 | 157,331 | 135,751 |
| Charge-offs | (53,852) | (109) | (47,577) | (11,834) | (167,983) | (281,355) |
| Recoveries | 19,141 | 3,214 | 6,222 | 2,497 | 40,023 | 71,097 |
| Ending balance | \$ 131,063 | \$ 574 | \$ 116,281 | \$ 10,768 | \$ 173,965 | \$ 432,651 |
| Specific ALLL | \$ 20,533 | \$ 6 | \$ 40,596 | \$ 61 | \$ 20,259 | \$ 81,455 |
| General ALLL | \$ 110,530 | \$ 568 | \$ 75,685 | \$ 10,707 | \$ 153,706 | \$ 351,196 |
| Loans held-in-portfolio: | | | | | | |
| Impaired loans | \$ 397,452 | \$ 119 | \$ 522,469 | \$ 507 | \$ 91,157 | \$ 1,011,704 |
| Loans held-in-portfolio excluding impaired loans | 6,863,678 | 137,351 | 5,644,279 | 1,059,000 | 5,464,220 | 19,168,528 |
| Total loans held-in-portfolio | \$7,261,130 | \$137,470 | \$6,166,748 | \$1,059,507 | \$5,555,377 | \$20,180,232 |

For the year ended December 31, 2019

| | Popular U.S. | | | | | |
|--|--------------|--------------|-------------|-----------|------------|--------------|
| <i>(In thousands)</i> | Commercial | Construction | Mortgage | Legacy | Consumer | Total |
| Allowance for credit losses: | | | | | | |
| Beginning balance | \$ 31,901 | \$ 6,538 | \$ 4,434 | \$ 969 | \$ 18,348 | \$ 62,190 |
| Provision (reversal of provision) | 15,496 | (127) | 828 | (1,738) | 15,569 | 30,028 |
| Charge-offs | (40,329) | (2,215) | (605) | 105 | (21,280) | (64,324) |
| Recoveries | 8,921 | 8 | 170 | 1,294 | 6,770 | 17,163 |
| Ending balance | \$ 15,989 | \$ 4,204 | \$ 4,827 | \$ 630 | \$ 19,407 | \$ 45,057 |
| Specific ALLL | \$ — | \$ — | \$ 2,208 | \$ — | \$ 1,563 | \$ 3,771 |
| General ALLL | \$ 15,989 | \$ 4,204 | \$ 2,619 | \$ 630 | \$ 17,844 | \$ 41,286 |
| Loans held-in-portfolio: | | | | | | |
| Impaired loans | \$ 2,097 | \$ — | \$ 9,386 | \$ — | \$ 9,634 | \$ 21,117 |
| Loans held-in-portfolio excluding impaired loans | 5,049,524 | 693,622 | 1,007,398 | 22,105 | 432,875 | 7,205,524 |
| Total loans held-in-portfolio | \$5,051,621 | \$693,622 | \$1,016,784 | \$ 22,105 | \$ 442,509 | \$ 7,226,641 |

For the year ended December 31, 2019

| Popular, Inc. | | | | | | | |
|--|--------------|--------------|-------------|----------|-------------|-------------|--------------|
| (In thousands) | Commercial | Construction | Mortgage | Legacy | Leasing | Consumer | Total |
| Allowance for credit losses: | | | | | | | |
| Beginning balance | \$ 239,115 | \$ 7,424 | \$ 147,412 | \$ 969 | \$ 11,486 | \$ 162,942 | \$ 569,348 |
| Provision (reversal of provision) | (25,944) | (3,544) | 15,486 | (1,738) | 8,619 | 172,900 | 165,779 |
| Charge-offs | (94,181) | (2,324) | (48,182) | 105 | (11,834) | (189,263) | (345,679) |
| Recoveries | 28,062 | 3,222 | 6,392 | 1,294 | 2,497 | 46,793 | 88,260 |
| Ending balance | \$ 147,052 | \$ 4,778 | \$ 121,108 | \$ 630 | \$ 10,768 | \$ 193,372 | \$ 477,708 |
| Specific ALLL | \$ 20,533 | \$ 6 | \$ 42,804 | \$ – | \$ 61 | \$ 21,822 | \$ 85,226 |
| General ALLL | \$ 126,519 | \$ 4,772 | \$ 78,304 | \$ 630 | \$ 10,707 | \$ 171,550 | \$ 392,482 |
| Loans held-in-portfolio: | | | | | | | |
| Impaired loans | \$ 399,549 | \$ 119 | \$ 531,855 | \$ – | \$ 507 | \$ 100,791 | \$ 1,032,821 |
| Loans held-in-portfolio excluding impaired loans | 11,913,202 | 830,973 | 6,651,677 | 22,105 | 1,059,000 | 5,897,095 | 26,374,052 |
| Total loans held-in-portfolio | \$12,312,751 | \$831,092 | \$7,183,532 | \$22,105 | \$1,059,507 | \$5,997,886 | \$27,406,873 |

For the year ended December 31, 2018

| Puerto Rico - Non-covered loans | | | | | | | |
|--|-------------|--------------|-------------|-----------|-------------|--------------|--|
| (In thousands) | Commercial | Construction | Mortgage | Leasing | Consumer | Total | |
| Allowance for credit losses: | | | | | | | |
| Beginning balance | \$ 171,531 | \$ 1,286 | \$ 159,081 | \$ 11,991 | \$ 174,215 | \$ 518,104 | |
| Provision (reversal of provision) | 101,614 | (1,754) | 15,297 | 5,525 | 75,779 | 196,461 | |
| Charge-offs | (82,352) | (9) | (69,393) | (8,297) | (138,161) | (298,212) | |
| Recoveries | 16,421 | 1,363 | 4,571 | 2,267 | 32,573 | 57,195 | |
| Allowance transferred from covered loans | – | – | 33,422 | – | 188 | 33,610 | |
| Ending balance | \$ 207,214 | \$ 886 | \$ 142,978 | \$ 11,486 | \$ 144,594 | \$ 507,158 | |
| Specific ALLL | \$ 52,190 | \$ 56 | \$ 38,760 | \$ 320 | \$ 24,083 | \$ 115,409 | |
| General ALLL | \$ 155,024 | \$ 830 | \$ 104,218 | \$ 11,166 | \$ 120,511 | \$ 391,749 | |
| Loans held-in-portfolio: | | | | | | | |
| Impaired non-covered loans | \$ 398,518 | \$ 1,788 | \$ 509,468 | \$ 1,099 | \$ 104,235 | \$ 1,015,108 | |
| Non-covered loans held-in-portfolio excluding impaired loans | 6,974,125 | 84,167 | 5,923,855 | 933,674 | 4,952,543 | 18,868,364 | |
| Total non-covered loans held-in-portfolio | \$7,372,643 | \$85,955 | \$6,433,323 | \$934,773 | \$5,056,778 | \$19,883,472 | |

For the year ended December 31, 2018

| Puerto Rico - Covered Loans | | | | | | | |
|--|------------|--------------|-----------|---------|----------|-----------|--|
| (In thousands) | Commercial | Construction | Mortgage | Leasing | Consumer | Total | |
| Allowance for credit losses: | | | | | | | |
| Beginning balance | \$– | \$– | \$ 32,521 | \$– | \$ 723 | \$ 33,244 | |
| Provision (reversal of provision) | – | – | 2,265 | – | (535) | 1,730 | |
| Charge-offs | – | – | (1,446) | – | (2) | (1,448) | |
| Recoveries | – | – | 82 | – | 2 | 84 | |
| Allowance transferred to non-covered loans | – | – | (33,422) | – | (188) | (33,610) | |
| Ending balance | \$– | \$– | \$ – | \$– | \$ – | \$ – | |
| Specific ALLL | \$– | \$– | \$ – | \$– | \$ – | \$ – | |
| General ALLL | \$– | \$– | \$ – | \$– | \$ – | \$ – | |
| Loans held-in-portfolio: | | | | | | | |
| Impaired covered loans | \$– | \$– | \$ – | \$– | \$ – | \$ – | |
| Covered loans held-in-portfolio excluding impaired loans | – | – | – | – | – | – | |
| Total covered loans held-in-portfolio | \$– | \$– | \$ – | \$– | \$ – | \$ – | |

For the year ended December 31, 2018

| Popular U.S. | | | | | | |
|--|-------------|--------------|-----------|----------|-----------|-------------|
| (In thousands) | Commercial | Construction | Mortgage | Legacy | Consumer | Total |
| Allowance for credit losses: | | | | | | |
| Beginning balance | \$ 44,134 | \$ 7,076 | \$ 4,541 | \$ 798 | \$ 15,529 | \$ 72,078 |
| Provision (reversal of provision) | 7,551 | 5,268 | (478) | (1,861) | 19,401 | 29,881 |
| Charge-offs | (24,920) | (5,806) | (232) | 114 | (22,118) | (52,962) |
| Recoveries | 5,136 | — | 603 | 1,918 | 5,536 | 13,193 |
| Ending balance | \$ 31,901 | \$ 6,538 | \$ 4,434 | \$ 969 | \$ 18,348 | \$ 62,190 |
| Specific ALLL | \$ — | \$ — | \$ 2,451 | \$ — | \$ 1,810 | \$ 4,261 |
| General ALLL | \$ 31,901 | \$ 6,538 | \$ 1,983 | \$ 969 | \$ 16,538 | \$ 57,929 |
| Loans held-in-portfolio: | | | | | | |
| Impaired loans | \$ — | \$ 12,060 | \$ 9,420 | \$ — | \$ 8,507 | \$ 29,987 |
| Loans held-in-portfolio excluding impaired loans | 4,670,376 | 681,434 | 792,515 | 25,949 | 424,156 | 6,594,430 |
| Total loans held-in-portfolio | \$4,670,376 | \$693,494 | \$801,935 | \$25,949 | \$432,663 | \$6,624,417 |

For the year ended December 31, 2018

| Popular, Inc. | | | | | | | |
|--|--------------|--------------|-------------|----------|-----------|-------------|--------------|
| (In thousands) | Commercial | Construction | Mortgage | Legacy | Leasing | Consumer | Total |
| Allowance for credit losses: | | | | | | | |
| Beginning balance | \$ 215,665 | \$ 8,362 | \$ 196,143 | \$ 798 | \$ 11,991 | \$ 190,467 | \$ 623,426 |
| Provision (reversal of provision) | 109,165 | 3,514 | 17,084 | (1,861) | 5,525 | 94,645 | 228,072 |
| Charge-offs | (107,272) | (5,815) | (71,071) | 114 | (8,297) | (160,281) | (352,622) |
| Recoveries | 21,557 | 1,363 | 5,256 | 1,918 | 2,267 | 38,111 | 70,472 |
| Ending balance | \$ 239,115 | \$ 7,424 | \$ 147,412 | \$ 969 | \$ 11,486 | \$ 162,942 | \$ 569,348 |
| Specific ALLL | \$ 52,190 | \$ 56 | \$ 41,211 | \$ — | \$ 320 | \$ 25,893 | \$ 119,670 |
| General ALLL | \$ 186,925 | \$ 7,368 | \$ 106,201 | \$ 969 | \$ 11,166 | \$ 137,049 | \$ 449,678 |
| Loans held-in-portfolio: | | | | | | | |
| Impaired loans | \$ 398,518 | \$ 13,848 | \$ 518,888 | \$ — | \$ 1,099 | \$ 112,742 | \$ 1,045,095 |
| Loans held-in-portfolio excluding impaired loans | 11,644,501 | 765,601 | 6,716,370 | 25,949 | 933,674 | 5,376,699 | 25,462,794 |
| Total loans held-in-portfolio | \$12,043,019 | \$779,449 | \$7,235,258 | \$25,949 | \$934,773 | \$5,489,441 | \$26,507,889 |

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

| (In thousands) | ASC 310-30 | |
|--------------------------------|---------------------|-------------------|
| | For the years ended | |
| | December 31, 2019 | December 31, 2018 |
| Balance at beginning of period | \$122,135 | \$119,505 |
| Provision | 1,119 | 61,270 |
| Net charge-offs | (49,215) | (58,640) |
| Balance at end of period | \$ 74,039 | \$122,135 |

Impaired loans

The following tables present loans individually evaluated for impairment at December 31, 2019 and 2018.

| December 31, 2019 | | | | | | | | |
|---|------------------------------------|--------------------------|-------------------|----------------------------------|--------------------------|------------------------|--------------------------|-------------------|
| Puerto Rico | | | | | | | | |
| (In thousands) | Impaired Loans - With an Allowance | | | Impaired Loans With No Allowance | | Impaired Loans - Total | | |
| | Recorded investment | Unpaid principal balance | Related allowance | Recorded investment | Unpaid principal balance | Recorded investment | Unpaid principal balance | Related allowance |
| Commercial multi-family | \$ 1,196 | \$ 1,229 | \$ 4 | \$ 1,017 | \$ 1,247 | \$ 2,213 | \$ 2,476 | \$ 4 |
| Commercial real estate non-owner occupied | 44,975 | 45,803 | 12,281 | 149,587 | 173,124 | 194,562 | 218,927 | 12,281 |
| Commercial real estate owner occupied | 105,841 | 122,814 | 5,077 | 26,365 | 58,540 | 132,206 | 181,354 | 5,077 |
| Commercial and industrial | 43,640 | 47,611 | 3,171 | 24,831 | 44,255 | 68,471 | 91,866 | 3,171 |
| Construction | 119 | 119 | 6 | — | — | 119 | 119 | 6 |
| Mortgage | 420,949 | 479,936 | 40,596 | 101,520 | 134,331 | 522,469 | 614,267 | 40,596 |
| Leasing | 507 | 507 | 61 | — | — | 507 | 507 | 61 |
| Consumer: | | | | | | | | |
| Credit cards | 24,475 | 24,475 | 2,957 | — | — | 24,475 | 24,475 | 2,957 |
| Personal | 65,521 | 65,521 | 17,142 | — | — | 65,521 | 65,521 | 17,142 |
| Auto | 310 | 310 | 51 | — | — | 310 | 310 | 51 |
| Other | 851 | 851 | 109 | — | — | 851 | 851 | 109 |
| Total Puerto Rico | \$708,384 | \$789,176 | \$81,455 | \$303,320 | \$411,497 | \$1,011,704 | \$1,200,673 | \$81,455 |

| December 31, 2019 | | | | | | | | |
|---------------------------|------------------------------------|--------------------------|-------------------|----------------------------------|--------------------------|------------------------|--------------------------|-------------------|
| Popular U.S. | | | | | | | | |
| (In thousands) | Impaired Loans - With an Allowance | | | Impaired Loans With No Allowance | | Impaired Loans - Total | | |
| | Recorded investment | Unpaid principal balance | Related allowance | Recorded investment | Unpaid principal balance | Recorded investment | Unpaid principal balance | Related allowance |
| Commercial multi-family | \$ — | \$ — | \$ — | \$2,097 | \$2,539 | \$ 2,097 | \$ 2,539 | \$ — |
| Mortgage | 6,906 | 7,257 | 2,208 | 2,480 | 2,844 | 9,386 | 10,101 | 2,208 |
| Consumer: | | | | | | | | |
| HELOCs | 6,691 | 6,691 | 1,560 | 2,829 | 3,087 | 9,520 | 9,778 | 1,560 |
| Personal | 26 | 26 | 3 | 88 | 88 | 114 | 114 | 3 |
| Total Popular U.S. | \$13,623 | \$13,974 | \$3,771 | \$7,494 | \$8,558 | \$21,117 | \$22,532 | \$3,771 |

December 31, 2019

| Popular, Inc. | | | | | | | | |
|---|------------------------------------|--------------------------|-------------------|----------------------------------|--------------------------|------------------------|--------------------------|-------------------|
| (In thousands) | Impaired Loans - With an Allowance | | | Impaired Loans With No Allowance | | Impaired Loans - Total | | |
| | Recorded investment | Unpaid principal balance | Related allowance | Recorded investment | Unpaid principal balance | Recorded investment | Unpaid principal balance | Related allowance |
| Commercial multi-family | \$ 1,196 | \$ 1,229 | \$ 4 | \$ 3,114 | \$ 3,786 | \$ 4,310 | \$ 5,015 | \$ 4 |
| Commercial real estate non-owner occupied | 44,975 | 45,803 | 12,281 | 149,587 | 173,124 | 194,562 | 218,927 | 12,281 |
| Commercial real estate owner occupied | 105,841 | 122,814 | 5,077 | 26,365 | 58,540 | 132,206 | 181,354 | 5,077 |
| Commercial and industrial | 43,640 | 47,611 | 3,171 | 24,831 | 44,255 | 68,471 | 91,866 | 3,171 |
| Construction | 119 | 119 | 6 | — | — | 119 | 119 | 6 |
| Mortgage | 427,855 | 487,193 | 42,804 | 104,000 | 137,175 | 531,855 | 624,368 | 42,804 |
| Leasing | 507 | 507 | 61 | — | — | 507 | 507 | 61 |
| Consumer: | | | | | | | | |
| Credit cards | 24,475 | 24,475 | 2,957 | — | — | 24,475 | 24,475 | 2,957 |
| HELOCs | 6,691 | 6,691 | 1,560 | 2,829 | 3,087 | 9,520 | 9,778 | 1,560 |
| Personal | 65,547 | 65,547 | 17,145 | 88 | 88 | 65,635 | 65,635 | 17,145 |
| Auto | 310 | 310 | 51 | — | — | 310 | 310 | 51 |
| Other | 851 | 851 | 109 | — | — | 851 | 851 | 109 |
| Total Popular, Inc. | \$722,007 | \$803,150 | \$85,226 | \$310,814 | \$420,055 | \$1,032,821 | \$1,223,205 | \$85,226 |

December 31, 2018

| Puerto Rico | | | | | | | | |
|---|------------------------------------|--------------------------|-------------------|----------------------------------|--------------------------|------------------------|--------------------------|-------------------|
| (In thousands) | Impaired Loans - With an Allowance | | | Impaired Loans With No Allowance | | Impaired Loans - Total | | |
| | Recorded investment | Unpaid principal balance | Related allowance | Recorded investment | Unpaid principal balance | Recorded investment | Unpaid principal balance | Related allowance |
| Commercial multi-family | \$ 932 | \$ 932 | \$ 4 | \$ — | \$ — | \$ 932 | \$ 932 | \$ 4 |
| Commercial real estate non-owner occupied | 85,583 | 86,282 | 27,494 | 96,005 | 138,378 | 181,588 | 224,660 | 27,494 |
| Commercial real estate owner occupied | 113,592 | 132,677 | 7,857 | 26,474 | 60,485 | 140,066 | 193,162 | 7,857 |
| Commercial and industrial | 65,208 | 67,094 | 16,835 | 10,724 | 20,968 | 75,932 | 88,062 | 16,835 |
| Construction | 1,788 | 1,788 | 56 | — | — | 1,788 | 1,788 | 56 |
| Mortgage | 408,767 | 458,010 | 38,760 | 100,701 | 135,084 | 509,468 | 593,094 | 38,760 |
| Leasing | 1,099 | 1,099 | 320 | — | — | 1,099 | 1,099 | 320 |
| Consumer: | | | | | | | | |
| Credit cards | 28,829 | 28,829 | 4,571 | — | — | 28,829 | 28,829 | 4,571 |
| Personal | 72,989 | 72,989 | 19,098 | — | — | 72,989 | 72,989 | 19,098 |
| Auto | 1,161 | 1,161 | 228 | — | — | 1,161 | 1,161 | 228 |
| Other | 1,256 | 1,256 | 186 | — | — | 1,256 | 1,256 | 186 |
| Total Puerto Rico | \$781,204 | \$852,117 | \$115,409 | \$233,904 | \$354,915 | \$1,015,108 | \$1,207,032 | \$115,409 |

December 31, 2018

| Popular U.S. | | | | | | | | |
|---------------------------|------------------------------------|--------------------------|-------------------|----------------------------------|--------------------------|------------------------|--------------------------|-------------------|
| (In thousands) | Impaired Loans - With an Allowance | | | Impaired Loans With No Allowance | | Impaired Loans - Total | | |
| | Recorded investment | Unpaid principal balance | Related allowance | Recorded investment | Unpaid principal balance | Recorded investment | Unpaid principal balance | Related allowance |
| Construction | \$ — | \$ — | \$ — | \$12,060 | \$18,127 | \$12,060 | \$18,127 | \$ — |
| Mortgage | 7,237 | 8,899 | 2,451 | 2,183 | 3,127 | 9,420 | 12,026 | 2,451 |
| Consumer: | | | | | | | | |
| HELOCs | 6,236 | 6,285 | 1,558 | 1,498 | 1,572 | 7,734 | 7,857 | 1,558 |
| Personal | 631 | 631 | 252 | 142 | 143 | 773 | 774 | 252 |
| Total Popular U.S. | \$14,104 | \$15,815 | \$4,261 | \$15,883 | \$22,969 | \$29,987 | \$38,784 | \$4,261 |

December 31, 2018

| Popular, Inc. | | | | | | | | |
|---|------------------------------------|--------------------------|-------------------|----------------------------------|--------------------------|------------------------|--------------------------|-------------------|
| (In thousands) | Impaired Loans - With an Allowance | | | Impaired Loans With No Allowance | | Impaired Loans - Total | | |
| | Recorded investment | Unpaid principal balance | Related allowance | Recorded investment | Unpaid principal balance | Recorded investment | Unpaid principal balance | Related allowance |
| Commercial multi-family | \$ 932 | \$ 932 | \$ 4 | \$ — | \$ — | \$ 932 | \$ 932 | \$ 4 |
| Commercial real estate non-owner occupied | 85,583 | 86,282 | 27,494 | 96,005 | 138,378 | 181,588 | 224,660 | 27,494 |
| Commercial real estate owner occupied | 113,592 | 132,677 | 7,857 | 26,474 | 60,485 | 140,066 | 193,162 | 7,857 |
| Commercial and industrial | 65,208 | 67,094 | 16,835 | 10,724 | 20,968 | 75,932 | 88,062 | 16,835 |
| Construction | 1,788 | 1,788 | 56 | 12,060 | 18,127 | 13,848 | 19,915 | 56 |
| Mortgage | 416,004 | 466,909 | 41,211 | 102,884 | 138,211 | 518,888 | 605,120 | 41,211 |
| Leasing | 1,099 | 1,099 | 320 | — | — | 1,099 | 1,099 | 320 |
| Consumer: | | | | | | | | |
| Credit cards | 28,829 | 28,829 | 4,571 | — | — | 28,829 | 28,829 | 4,571 |
| HELOCs | 6,236 | 6,285 | 1,558 | 1,498 | 1,572 | 7,734 | 7,857 | 1,558 |
| Personal | 73,620 | 73,620 | 19,350 | 142 | 143 | 73,762 | 73,763 | 19,350 |
| Auto | 1,161 | 1,161 | 228 | — | — | 1,161 | 1,161 | 228 |
| Other | 1,256 | 1,256 | 186 | — | — | 1,256 | 1,256 | 186 |
| Total Popular, Inc. | \$795,308 | \$867,932 | \$119,670 | \$249,787 | \$377,884 | \$1,045,095 | \$1,245,816 | \$119,670 |

The following tables present the average recorded investment and interest income recognized on impaired loans for the years ended December 31, 2019 and 2018.

For the year ended December 31, 2019

| <i>(In thousands)</i> | Puerto Rico | | Popular U.S. | | Popular, Inc. | |
|---|-----------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
| | Average recorded investment | Interest income recognized | Average recorded investment | Interest income recognized | Average recorded investment | Interest income recognized |
| Commercial multi-family | \$ 1,470 | \$ 50 | \$ 1,343 | \$ – | \$ 2,813 | \$ 50 |
| Commercial real estate non-owner occupied | 183,233 | 5,742 | – | – | 183,233 | 5,742 |
| Commercial real estate owner occupied | 137,710 | 6,528 | 626 | – | 138,336 | 6,528 |
| Commercial and industrial | 71,828 | 4,097 | – | – | 71,828 | 4,097 |
| Construction | 1,151 | 25 | 9,248 | – | 10,399 | 25 |
| Mortgage | 518,487 | 16,810 | 9,416 | 153 | 527,903 | 16,963 |
| Leasing | 823 | – | – | – | 823 | – |
| Consumer: | | | | | | |
| Credit cards | 26,775 | – | – | – | 26,775 | – |
| HELOCs | – | – | 8,988 | – | 8,988 | – |
| Personal | 69,664 | 282 | 380 | – | 70,044 | 282 |
| Auto | 823 | – | – | – | 823 | – |
| Other | 1,044 | – | – | – | 1,044 | – |
| Total Popular, Inc. | \$1,013,008 | \$33,534 | \$30,001 | \$153 | \$1,043,009 | \$33,687 |

For the year ended December 31, 2018

| <i>(In thousands)</i> | Puerto Rico | | Popular U.S. | | Popular, Inc. | |
|---|-----------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
| | Average recorded investment | Interest income recognized | Average recorded investment | Interest income recognized | Average recorded investment | Interest income recognized |
| Commercial multi-family | \$ 693 | \$ 50 | \$ – | \$ – | \$ 693 | \$ 50 |
| Commercial real estate non-owner occupied | 138,832 | 5,742 | – | – | 138,832 | 5,742 |
| Commercial real estate owner occupied | 148,967 | 6,528 | – | – | 148,967 | 6,528 |
| Commercial and industrial | 69,406 | 4,097 | – | – | 69,406 | 4,097 |
| Construction | 2,094 | 25 | 9,565 | – | 11,659 | 25 |
| Mortgage | 509,038 | 17,663 | 9,258 | 165 | 518,296 | 17,828 |
| Leasing | 1,195 | – | – | – | 1,195 | – |
| Consumer: | | | | | | |
| Credit cards | 31,953 | – | – | – | 31,953 | – |
| HELOCs | – | – | 5,904 | – | 5,904 | – |
| Personal | 68,237 | 415 | 770 | – | 69,007 | 415 |
| Auto | 1,413 | – | – | – | 1,413 | – |
| Other | 1,248 | – | – | – | 1,248 | – |
| Total Popular, Inc. | \$973,076 | \$34,520 | \$25,497 | \$165 | \$998,573 | \$34,685 |

Modifications

A modification of a loan constitutes a troubled debt restructuring when a borrower is experiencing financial difficulty and the modification constitutes a concession. For a summary of the accounting policy related to troubled debt restructurings (“TDRs”), refer to the Summary of Significant Accounting Policies included in Note 2 to these Consolidated Financial Statements.

TDRs amounted to \$1.6 billion at December 31, 2019 (December 31, 2018 - \$1.5 billion). The amount of outstanding

commitments to lend additional funds to debtors owing receivables whose terms have been modified in TDRs amounted to \$14 million related to the commercial loan portfolio at December 31, 2019 (December 31, 2018 - \$16 million).

At December 31, 2019, the mortgage loan TDRs include \$625 million guaranteed by U.S. sponsored entities at BPPR, compared to \$543 million at December 31, 2018.

The following table presents the non-covered and covered loans classified as TDRs according to their accruing status and the related allowance at December 31, 2019 and 2018.

| (In thousands) | December 31, 2019 | | | | December 31, 2018 | | | |
|--------------------------|-------------------|--------------|-------------|-------------------|-------------------|--------------|-------------|-------------------|
| | Accruing | Non-Accruing | Total | Related Allowance | Accruing | Non-Accruing | Total | Related Allowance |
| Loans held-in-portfolio: | | | | | | | | |
| Commercial | \$ 237,861 | \$111,587 | \$ 349,448 | \$16,443 | \$ 229,758 | \$130,921 | \$ 360,679 | \$ 46,889 |
| Construction | – | 119 | 119 | 6 | – | 1,788 | 1,788 | 56 |
| Mortgage | 1,013,561 | 126,036 | 1,139,597 | 42,012 | 906,712 | 135,758 | 1,042,470 | 41,211 |
| Leases | 264 | 243 | 507 | 61 | 668 | 440 | 1,108 | 320 |
| Consumer | 82,205 | 15,808 | 98,013 | 21,404 | 94,193 | 15,651 | 109,844 | 24,523 |
| Loans held-in-portfolio | \$1,333,891 | \$253,793 | \$1,587,684 | \$79,926 | \$1,231,331 | \$284,558 | \$1,515,889 | \$112,999 |

The following tables present the loan count by type of modification for those loans modified in a TDR during the years ended December 31, 2019 and 2018. Loans modified as TDRs for the U.S. operations are considered insignificant to the Corporation.

For the year ended December 31, 2019

| | Reduction in interest rate | Extension of maturity date | Combination of reduction in interest rate and extension of maturity date | Other |
|---|----------------------------|----------------------------|--|------------|
| Commercial multi-family | – | 3 | – | – |
| Commercial real estate non-owner occupied | – | 13 | – | – |
| Commercial real estate owner occupied | 1 | 29 | – | – |
| Commercial and industrial | 2 | 67 | – | – |
| Mortgage | 37 | 130 | 672 | 6 |
| Leasing | – | 1 | 2 | – |
| Consumer: | | | | |
| Credit cards | 515 | – | 2 | 189 |
| HELOCs | – | 16 | 12 | – |
| Personal | 668 | 4 | – | 3 |
| Auto | – | 6 | 2 | – |
| Other | 31 | – | – | – |
| Total | 1,254 | 269 | 690 | 198 |

For the year ended December 31, 2018

| | Reduction in interest rate | Extension of maturity date | Combination of reduction in interest rate and extension of maturity date | Other |
|---|----------------------------|----------------------------|--|------------|
| Commercial multi-family | – | 2 | – | – |
| Commercial real estate non-owner occupied | 3 | 17 | – | – |
| Commercial real estate owner occupied | 4 | 64 | – | – |
| Commercial and industrial | 6 | 87 | – | – |
| Construction | 1 | – | – | – |
| Mortgage | 85 | 49 | 359 | 57 |
| Leasing | – | – | 4 | – |
| Consumer: | | | | |
| Credit cards | 579 | – | 4 | 432 |
| HELOCs | – | 27 | 11 | 1 |
| Personal | 1,356 | 6 | – | 2 |
| Auto | – | 7 | 3 | – |
| Other | 25 | – | 2 | – |
| Total | 2,059 | 259 | 383 | 492 |

The following tables present, by class, quantitative information related to loans modified as TDRs during the years ended December 31, 2019 and 2018.

| Popular, Inc. | | | | |
|---|--------------|--|---|--|
| For the year ended December 31, 2019 | | | | |
| <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 multi-family | 3 | \$ 346 | \$ 295 | \$ (40) |
| Commercial real estate non-owner occupied | 13 | 58,142 | 58,116 | 2,811 |
| Commercial real estate owner occupied | 30 | 7,533 | 7,249 | 81 |
| Commercial and industrial | 69 | 14,991 | 15,435 | 1,368 |
| Mortgage | 845 | 83,833 | 77,308 | 2,814 |
| Leasing | 3 | 264 | 266 | 7 |
| Consumer: | | | | |
| Credit cards | 706 | 5,702 | 5,867 | 554 |
| HELOCs | 28 | 2,725 | 2,423 | 364 |
| Personal | 675 | 10,831 | 10,835 | 3,023 |
| Auto | 8 | 121 | 128 | 21 |
| Other | 31 | 206 | 206 | 30 |
| Total | 2,411 | \$184,694 | \$178,128 | \$11,033 |

| Popular, Inc. | | | | |
|---|--------------|--|---|--|
| For the year ended December 31, 2018 | | | | |
| <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 multi-family | 2 | \$ 1,377 | \$ 1,375 | \$ 106 |
| Commercial real estate non-owner occupied | 20 | 109,081 | 79,695 | 6,230 |
| Commercial real estate owner occupied | 68 | 31,233 | 29,962 | 1,170 |
| Commercial and industrial | 93 | 52,653 | 51,855 | 13,981 |
| Construction | 1 | 4,210 | 4,293 | 474 |
| Mortgage | 550 | 67,518 | 59,919 | 2,696 |
| Leasing | 4 | 98 | 96 | 30 |
| Consumer: | | | | |
| Credit cards | 1,015 | 10,065 | 10,671 | 1,331 |
| HELOCs | 39 | 3,961 | 3,891 | 935 |
| Personal | 1,364 | 21,976 | 21,979 | 6,320 |
| Auto | 10 | 173 | 152 | 26 |
| Other | 27 | 601 | 599 | 99 |
| Total | 3,193 | \$302,946 | \$264,487 | \$33,398 |

During the year ended December 31, 2019, four loans with an aggregate unpaid principal balance of \$ 9.1 million were restructured into multiple notes (“Note A / B split”). No charge-offs were recorded as part of those loan restructurings.

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 as of period end 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.

Defaulted during the year ended December 31, 2019

| <i>(Dollars in thousands)</i> | Loan count | Recorded investment as of first default date |
|---|------------|--|
| Commercial real estate non-owner occupied | 1 | \$ 47 |
| Commercial real estate owner occupied | 3 | 495 |
| Commercial and industrial | 9 | 7,281 |
| Mortgage | 63 | 4,424 |
| Leasing | 1 | 22 |
| Consumer: | | |
| Credit cards | 302 | 2,808 |
| HELOCs | 1 | 135 |
| Personal | 197 | 5,640 |
| Auto | 2 | 24 |
| Other | 3 | 8 |
| Total | 582 | \$20,884 |

Defaulted during the year ended December 31, 2018

| <i>(Dollars in thousands)</i> | Loan count | Recorded investment as of first default date |
|---|------------|--|
| Commercial real estate non-owner occupied | 2 | \$11,245 |
| Commercial real estate owner occupied | 5 | 480 |
| Commercial and industrial | 8 | 7,208 |
| Mortgage | 161 | 12,362 |
| Consumer: | | |
| Credit cards | 236 | 2,098 |
| HELOCs | 2 | 205 |
| Personal | 107 | 2,300 |
| Auto | 5 | 115 |
| Other | 1 | 7 |
| Total | 527 | \$36,020 |

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 Commercial Loan Review department within the Corporate Risk Reviews Division 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, Commercial Loan Review 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 tables present 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, 2019 and 2018.

December 31, 2019

| (In thousands) | Watch | Special Mention | Substandard | Doubtful | Loss | Sub-total | Pass/ Unrated | Total |
|--|-------------|--------------------|-------------|----------|---------|-------------|------------------|--------------|
| Puerto Rico | | | | | | | | |
| Commercial multi-family | \$ 1,341 | \$ 3,870 | \$ 1,793 | \$ – | \$ – | \$ 7,004 | \$ 140,845 | \$ 147,849 |
| Commercial real estate non-owner occupied | 492,357 | 166,810 | 239,448 | 3,290 | – | 901,905 | 1,206,313 | 2,108,218 |
| Commercial real estate owner occupied | 192,895 | 184,678 | 183,377 | 1,629 | – | 562,579 | 1,023,750 | 1,586,329 |
| Commercial and industrial | 592,861 | 170,183 | 130,872 | 148 | 16 | 894,080 | 2,524,654 | 3,418,734 |
| Total Commercial | 1,279,454 | 525,541 | 555,490 | 5,067 | 16 | 2,365,568 | 4,895,562 | 7,261,130 |
| Construction | 340 | 649 | 20,771 | – | – | 21,760 | 115,710 | 137,470 |
| Mortgage | 2,187 | 2,218 | 127,621 | – | – | 132,026 | 6,034,722 | 6,166,748 |
| Leasing | – | – | 3,590 | – | 68 | 3,658 | 1,055,849 | 1,059,507 |
| Consumer: | | | | | | | | |
| Credit cards | – | – | 19,461 | – | – | 19,461 | 1,104,339 | 1,123,800 |
| HELOCs | – | – | – | – | – | – | 5,038 | 5,038 |
| Personal | 77 | – | 19,558 | – | – | 19,635 | 1,348,515 | 1,368,150 |
| Auto | – | – | 30,775 | – | 372 | 31,147 | 2,886,375 | 2,917,522 |
| Other | 459 | 11 | 15,020 | – | 53 | 15,543 | 125,324 | 140,867 |
| Total Consumer | 536 | 11 | 84,814 | – | 425 | 85,786 | 5,469,591 | 5,555,377 |
| Total Puerto Rico | \$1,282,517 | \$528,419 | \$792,286 | \$5,067 | \$ 509 | \$2,608,798 | \$17,571,434 | \$20,180,232 |
| Popular U.S. | | | | | | | | |
| Commercial multi-family | \$ 48,359 | \$ 13,827 | \$ 8,433 | \$ – | \$ – | \$ 70,619 | \$ 1,576,691 | \$ 1,647,310 |
| Commercial real estate non-owner occupied | 80,608 | 24,383 | 100,658 | – | – | 205,649 | 1,664,647 | 1,870,296 |
| Commercial real estate owner occupied | 27,298 | 5,709 | 13,826 | – | – | 46,833 | 292,302 | 339,135 |
| Commercial and industrial | 25,679 | 1,460 | 20,386 | – | – | 47,525 | 1,147,355 | 1,194,880 |
| Total Commercial | 181,944 | 45,379 | 143,303 | – | – | 370,626 | 4,680,995 | 5,051,621 |
| Construction | 46,644 | 17,291 | 44,798 | – | – | 108,733 | 584,889 | 693,622 |
| Mortgage | – | – | 11,091 | – | – | 11,091 | 1,005,693 | 1,016,784 |
| Legacy | 388 | 202 | 1,528 | – | – | 2,118 | 19,987 | 22,105 |
| Consumer: | | | | | | | | |
| Credit cards | – | – | – | – | – | – | 36 | 36 |
| HELOCs | – | – | 2,024 | – | 7,930 | 9,954 | 107,389 | 117,343 |
| Personal | – | – | 1,664 | – | 403 | 2,067 | 322,373 | 324,440 |
| Other | – | – | – | – | – | – | 690 | 690 |
| Total Consumer | – | – | 3,688 | – | 8,333 | 12,021 | 430,488 | 442,509 |
| Total Popular U.S. | \$ 228,976 | \$ 62,872 | \$204,408 | \$ – | \$8,333 | \$ 504,589 | \$ 6,722,052 | \$ 7,226,641 |
| Popular, Inc. | | | | | | | | |
| Commercial multi-family | \$ 49,700 | \$ 17,697 | \$ 10,226 | \$ – | \$ – | \$ 77,623 | \$ 1,717,536 | \$ 1,795,159 |
| Commercial real estate non-owner occupied | 572,965 | 191,193 | 340,106 | 3,290 | – | 1,107,554 | 2,870,960 | 3,978,514 |
| Commercial real estate owner occupied | 220,193 | 190,387 | 197,203 | 1,629 | – | 609,412 | 1,316,052 | 1,925,464 |
| Commercial and industrial | 618,540 | 171,643 | 151,258 | 148 | 16 | 941,605 | 3,672,009 | 4,613,614 |
| Total Commercial | 1,461,398 | 570,920 | 698,793 | 5,067 | 16 | 2,736,194 | 9,576,557 | 12,312,751 |
| Construction | 46,984 | 17,940 | 65,569 | – | – | 130,493 | 700,599 | 831,092 |
| Mortgage | 2,187 | 2,218 | 138,712 | – | – | 143,117 | 7,040,415 | 7,183,532 |
| Legacy | 388 | 202 | 1,528 | – | – | 2,118 | 19,987 | 22,105 |
| Leasing | – | – | 3,590 | – | 68 | 3,658 | 1,055,849 | 1,059,507 |
| Consumer: | | | | | | | | |
| Credit cards | – | – | 19,461 | – | – | 19,461 | 1,104,375 | 1,123,836 |
| HELOCs | – | – | 2,024 | – | 7,930 | 9,954 | 112,427 | 122,381 |
| Personal | 77 | – | 21,222 | – | 403 | 21,702 | 1,670,888 | 1,692,590 |
| Auto | – | – | 30,775 | – | 372 | 31,147 | 2,886,375 | 2,917,522 |
| Other | 459 | 11 | 15,020 | – | 53 | 15,543 | 126,014 | 141,557 |
| Total Consumer | 536 | 11 | 88,502 | – | 8,758 | 97,807 | 5,900,079 | 5,997,886 |
| Total Popular, Inc. | \$1,511,493 | \$591,291 | \$996,694 | \$5,067 | \$8,842 | \$3,113,387 | \$24,293,486 | \$27,406,873 |

The following table presents the weighted average obligor risk rating at December 31, 2019 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: | Substandard | Pass |
| Commercial multi-family | 11.82 | 6.02 |
| Commercial real estate non-owner occupied | 11.17 | 6.77 |
| Commercial real estate owner occupied | 11.36 | 7.30 |
| Commercial and industrial | 11.26 | 7.20 |
| Total Commercial | 11.25 | 7.10 |
| Construction | 11.01 | 7.85 |
| Popular U.S.: | Substandard | Pass |
| Commercial multi-family | 11.25 | 7.37 |
| Commercial real estate non-owner occupied | 11.00 | 6.94 |
| Commercial real estate owner occupied | 11.02 | 7.48 |
| Commercial and industrial | 11.01 | 6.63 |
| Total Commercial | 11.02 | 7.04 |
| Construction | 11.00 | 7.74 |
| Legacy | 11.25 | 7.95 |

December 31, 2018

| <i>(In thousands)</i> | Watch | Special Mention | Substandard | Doubtful | Loss | Sub-total | Pass/ Unrated | Total |
|--|--------------------|--------------------|--------------------|----------------|-----------------|--------------------|---------------------|---------------------|
| Puerto Rico | | | | | | | | |
| Commercial multi-family | \$ 1,634 | \$ 4,548 | \$ 3,590 | \$ – | \$ – | \$ 9,772 | \$ 135,856 | \$ 145,628 |
| Commercial real estate non-owner occupied | 470,506 | 233,173 | 342,962 | – | – | 1,046,641 | 1,275,960 | 2,322,601 |
| Commercial real estate owner occupied | 262,476 | 174,510 | 291,468 | 2,078 | – | 730,532 | 991,721 | 1,722,253 |
| Commercial and industrial | 655,092 | 130,641 | 156,515 | 177 | 73 | 942,498 | 2,239,663 | 3,182,161 |
| Total Commercial | 1,389,708 | 542,872 | 794,535 | 2,255 | 73 | 2,729,443 | 4,643,200 | 7,372,643 |
| Construction | 147 | 634 | 1,788 | – | – | 2,569 | 83,386 | 85,955 |
| Mortgage | 3,057 | 2,182 | 154,506 | – | – | 159,745 | 6,273,578 | 6,433,323 |
| Leasing | – | – | 3,301 | – | 12 | 3,313 | 931,460 | 934,773 |
| Consumer: | | | | | | | | |
| Credit cards | – | – | 16,035 | – | – | 16,035 | 1,031,238 | 1,047,273 |
| HELOCs | – | – | 165 | – | – | 165 | 5,186 | 5,351 |
| Personal | 849 | 19 | 18,827 | – | – | 19,695 | 1,230,930 | 1,250,625 |
| Auto | – | – | 24,093 | – | 84 | 24,177 | 2,584,608 | 2,608,785 |
| Other | – | – | 14,743 | – | 215 | 14,958 | 129,786 | 144,744 |
| Total Consumer | 849 | 19 | 73,863 | – | 299 | 75,030 | 4,981,748 | 5,056,778 |
| Total Puerto Rico | \$1,393,761 | \$545,707 | \$1,027,993 | \$2,255 | \$ 384 | \$2,970,100 | \$16,913,372 | \$19,883,472 |
| Popular U.S. | | | | | | | | |
| Commercial multi-family | \$ 85,901 | \$ 7,123 | \$ 6,979 | \$ – | \$ – | \$ 100,003 | \$ 1,301,537 | \$ 1,401,540 |
| Commercial real estate non-owner occupied | 152,635 | 9,839 | 46,555 | – | – | 209,029 | 1,672,715 | 1,881,744 |
| Commercial real estate owner occupied | 49,415 | 23,963 | 2,394 | – | – | 75,772 | 223,167 | 298,939 |
| Commercial and industrial | 5,825 | 1,084 | 76,459 | – | – | 83,368 | 1,004,785 | 1,088,153 |
| Total Commercial | 293,776 | 42,009 | 132,387 | – | – | 468,172 | 4,202,204 | 4,670,376 |
| Construction | 35,375 | 37,741 | 58,005 | – | – | 131,121 | 562,373 | 693,494 |
| Mortgage | – | – | 11,032 | – | – | 11,032 | 790,903 | 801,935 |
| Legacy | 534 | 224 | 2,409 | – | – | 3,167 | 22,782 | 25,949 |
| Consumer: | | | | | | | | |
| Credit cards | – | – | – | – | – | – | 38 | 38 |
| HELOCs | – | – | 2,615 | – | 10,964 | 13,579 | 129,473 | 143,052 |
| Personal | – | – | 1,910 | – | 701 | 2,611 | 286,738 | 289,349 |
| Other | – | – | 4 | – | – | 4 | 220 | 224 |
| Total Consumer | – | – | 4,529 | – | 11,665 | 16,194 | 416,469 | 432,663 |
| Total Popular U.S. | \$ 329,685 | \$ 79,974 | \$ 208,362 | \$ – | \$11,665 | \$ 629,686 | \$ 5,994,731 | \$ 6,624,417 |
| Popular, Inc. | | | | | | | | |
| Commercial multi-family | \$ 87,535 | \$ 11,671 | \$ 10,569 | \$ – | \$ – | \$ 109,775 | \$ 1,437,393 | \$ 1,547,168 |
| Commercial real estate non-owner occupied | 623,141 | 243,012 | 389,517 | – | – | 1,255,670 | 2,948,675 | 4,204,345 |
| Commercial real estate owner occupied | 311,891 | 198,473 | 293,862 | 2,078 | – | 806,304 | 1,214,888 | 2,021,192 |
| Commercial and industrial | 660,917 | 131,725 | 232,974 | 177 | 73 | 1,025,866 | 3,244,448 | 4,270,314 |
| Total Commercial | 1,683,484 | 584,881 | 926,922 | 2,255 | 73 | 3,197,615 | 8,845,404 | 12,043,019 |
| Construction | 35,522 | 38,375 | 59,793 | – | – | 133,690 | 645,759 | 779,449 |
| Mortgage | 3,057 | 2,182 | 165,538 | – | – | 170,777 | 7,064,481 | 7,235,258 |
| Legacy | 534 | 224 | 2,409 | – | – | 3,167 | 22,782 | 25,949 |
| Leasing | – | – | 3,301 | – | 12 | 3,313 | 931,460 | 934,773 |
| Consumer: | | | | | | | | |
| Credit cards | – | – | 16,035 | – | – | 16,035 | 1,031,276 | 1,047,311 |
| HELOCs | – | – | 2,780 | – | 10,964 | 13,744 | 134,659 | 148,403 |
| Personal | 849 | 19 | 20,737 | – | 701 | 22,306 | 1,517,668 | 1,539,974 |
| Auto | – | – | 24,093 | – | 84 | 24,177 | 2,584,608 | 2,608,785 |
| Other | – | – | 14,747 | – | 215 | 14,962 | 130,006 | 144,968 |
| Total Consumer | 849 | 19 | 78,392 | – | 11,964 | 91,224 | 5,398,217 | 5,489,441 |
| Total Popular, Inc. | \$1,723,446 | \$625,681 | \$1,236,355 | \$2,255 | \$12,049 | \$3,599,786 | \$22,908,103 | \$26,507,889 |

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

| Weighted average obligor risk rating | (Scales 11 and 12) | (Scales 1 through 8) |
|---|--------------------|----------------------|
| Puerto Rico: | Substandard | Pass |
| Commercial multi-family | 11.20 | 6.02 |
| Commercial real estate non-owner occupied | 11.11 | 6.93 |
| Commercial real estate owner occupied | 11.29 | 7.25 |
| Commercial and industrial | 11.33 | 7.15 |
| Total Commercial | 11.22 | 7.09 |
| Construction | 12.00 | 7.64 |
| Popular U.S.: | Substandard | Pass |
| Commercial multi-family | 11.00 | 7.39 |
| Commercial real estate non-owner occupied | 11.01 | 6.82 |
| Commercial real estate owner occupied | 11.16 | 7.55 |
| Commercial and industrial | 11.96 | 7.26 |
| Total Commercial | 11.56 | 7.14 |
| Construction | 11.21 | 7.85 |
| Legacy | 11.17 | 7.94 |

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

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

As of March 31, 2018, the Corporation had an FDIC loss share asset of \$44.5 million related to the covered assets. As part of the loss-share agreements, BPPR had agreed to make a true-up payment to the FDIC 45 days following the last day

(such day, the "true-up measurement date") of the final shared-loss month, or upon the final disposition of all covered assets under the loss-share agreements, in the event losses on the loss-share agreements fail to reach expected levels. The estimated fair value of such true-up payment obligation at March 31, 2018 was approximately \$171 million and was included as a contingent consideration within the caption of other liabilities in the Consolidated Statements of Financial Condition.

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

The following table sets forth the activity in the FDIC loss-share asset for the years ended December 31, 2018 and 2017.

| <i>(In thousands)</i> | Years ended December 31, | |
|--|--------------------------|-----------|
| | 2018 | 2017 |
| Balance at beginning of year | \$ 46,316 | \$ 69,334 |
| FDIC loss-share Termination Agreement | (45,659) | – |
| Amortization | (934) | (469) |
| Credit impairment losses to be covered under loss sharing agreements | 104 | 3,136 |
| Reimbursable expenses | 537 | 2,454 |
| Net payments from FDIC under loss-sharing agreements | (364) | (22,589) |
| Other adjustments attributable to FDIC loss-sharing agreements | – | (5,550) |
| Balance at end of period | \$ – | \$ 46,316 |
| Balance due to the FDIC for recoveries on covered assets | – | (1,124) |
| Balance at end of period | \$ – | \$ 45,192 |

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

Note 11 - Mortgage banking activities

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

The following table presents the components of mortgage banking activities:

| <i>(In thousands)</i> | Years ended December 31, | | |
|---|--------------------------|-----------|-----------|
| | 2019 | 2018 | 2017 |
| Mortgage servicing fees, net of fair value adjustments: | | | |
| Mortgage servicing fees | \$ 46,952 | \$ 49,532 | \$ 48,300 |
| Mortgage servicing rights fair value adjustments | (27,430) | (8,477) | (36,519) |
| Total mortgage servicing fees, net of fair value adjustments | 19,522 | 41,055 | 11,781 |
| Net gain on sale of loans, including valuation on loans held for sale | 18,817 | 9,424 | 17,088 |
| Trading account (loss) profit: | | | |
| Unrealized (losses) gains on outstanding derivative positions | – | (253) | 184 |
| Realized (losses) gains on closed derivative positions | (6,246) | 2,576 | (3,557) |
| Total trading account (loss) profit | (6,246) | 2,323 | (3,373) |
| Total mortgage banking activities | \$ 32,093 | \$ 52,802 | \$ 25,496 |

Note 12 - Transfers of financial assets and mortgage servicing assets

The Corporation typically transfers conforming residential mortgage loans in conjunction with GNMA and FNMA securitization transactions whereby the loans are exchanged for cash or securities and servicing rights. As seller, the Corporation has made certain representations and warranties with respect to the originally transferred loans and, in the past, has sold certain loans with credit recourse to a government-sponsored entity, namely FNMA. Refer to Note 25 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, 2019 and 2018 because they did not contain any credit recourse arrangements. The Corporation recorded a net gain of \$17.2 million and \$8.9 million, respectively, during the years ended December 31, 2019 and 2018 related to the residential mortgage loans securitized.

The following tables present the initial fair value of the assets obtained as proceeds from residential mortgage loans securitized during the years ended December 31, 2019 and 2018:

| <i>(In thousands)</i> | Proceeds Obtained During the Year Ended December 31, 2019 | | | |
|---------------------------------------|---|------------------|----------------|--------------------|
| | Level 1 | Level 2 | Level 3 | Initial fair value |
| Assets | | | | |
| Trading account debt securities: | | | | |
| Mortgage-backed securities - GNMA | \$- | \$347,396 | \$ - | \$347,396 |
| Mortgage-backed securities - FNMA | - | 111,362 | - | 111,362 |
| Total trading account debt securities | \$- | \$458,758 | \$ - | \$458,758 |
| Mortgage servicing rights | \$- | \$ - | \$8,185 | \$ 8,185 |
| Total | \$- | \$458,758 | \$8,185 | \$466,943 |

| <i>(In thousands)</i> | Proceeds Obtained During the Year Ended December 31, 2018 | | | |
|--|---|------------------|----------------|--------------------|
| | Level 1 | Level 2 | Level 3 | Initial fair value |
| Assets | | | | |
| Debt securities available for sale: | | | | |
| Mortgage-backed securities - FNMA | \$- | \$ 11,865 | \$ - | \$ 11,865 |
| Total debt securities available-for-sale | \$- | \$ 11,865 | - | \$ 11,865 |
| Trading account debt securities: | | | | |
| Mortgage-backed securities - GNMA | \$- | \$412,500 | \$ - | \$412,500 |
| Mortgage-backed securities - FNMA | - | 82,320 | - | 82,320 |
| Total trading account debt securities | \$- | \$494,820 | \$ - | \$494,820 |
| Mortgage servicing rights | \$- | \$ - | \$9,337 | \$ 9,337 |
| Total | \$- | \$506,685 | \$9,337 | \$516,022 |

During the year ended December 31, 2019, the Corporation retained servicing rights on whole loan sales involving approximately \$63 million in principal balance outstanding (2018 - \$57 million), with net realized gains of approximately \$1.6 million (2018 - \$0.8 million). All loan sales performed during the years ended December 31, 2019 and 2018 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, 2019 and 2018.

| <i>(In thousands)</i> | Residential MSRs | |
|---|-------------------|-------------------|
| | December 31, 2019 | December 31, 2018 |
| Fair value at beginning of period | | \$168,031 |
| Additions | \$169,777 | 10,223 |
| Changes due to payments on loans [1] | (11,549) | (13,459) |
| Reduction due to loan repurchases | (1,777) | (3,721) |
| Changes in fair value due to changes in valuation model inputs or assumptions | (14,190) | 8,703 |
| Other disposals | (498) | - |
| Fair value at end of period | \$150,906 | \$169,777 |

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

Residential mortgage loans serviced for others were \$14.8 billion at December 31, 2019 (2018 - \$15.7 billion).

Net mortgage servicing fees, a component of mortgage banking activities in the Consolidated Statements of Operations, include the changes from period to period in the fair value of the MSRs, including changes due to collection / realization of expected cash flows. The banking subsidiaries receive servicing fees based on a percentage of the outstanding loan balance. These servicing fees are credited to income when they are collected. At December 31, 2019, those weighted average mortgage servicing fees were 0.30% (2018 - 0.30%). Under these servicing agreements, the banking subsidiaries do not generally earn significant prepayment penalty fees on the underlying loans serviced.

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:

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, 2019 and 2018 were as follows:

| | Years ended | |
|----------------------------------|-------------------|-------------------|
| | December 31, 2019 | December 31, 2018 |
| Prepayment speed | 7.0% | 5.0% |
| Weighted average life (in years) | 9.5 | 10.8 |
| Discount rate (annual rate) | 10.9% | 11.0% |

| | Originated MSRs | | Purchased MSRs | |
|---|-------------------|-------------------|-------------------|-------------------|
| | December 31, 2019 | December 31, 2018 | December 31, 2019 | December 31, 2018 |
| <i>(In thousands)</i> | | | | |
| Fair value of servicing rights | \$58,842 | \$69,400 | \$92,064 | \$100,377 |
| Weighted average life (in years) | 6.7 | 7.1 | 6.3 | 6.6 |
| Weighted average prepayment speed (annual rate) | 5.7% | 5.1% | 6.2% | 5.5% |
| Impact on fair value of 10% adverse change | \$ (1,303) | \$ (1,430) | \$ (2,306) | \$ (2,200) |
| Impact on fair value of 20% adverse change | \$ (2,568) | \$ (2,817) | \$ (4,525) | \$ (4,328) |
| Weighted average discount rate (annual rate) | 11.4% | 11.5% | 11.0% | 11.0% |
| Impact on fair value of 10% adverse change | \$ (2,381) | \$ (3,125) | \$ (3,603) | \$ (4,354) |
| Impact on fair value of 20% adverse change | \$ (4,596) | \$ (6,019) | \$ (6,959) | \$ (8,394) |

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, 2019, the Corporation serviced \$1.2 billion (2018 - \$1.3 billion) in residential mortgage loans with credit recourse to the Corporation. Refer to Note 25 for information on changes in the Corporation's liability of estimated losses related to loans serviced with credit recourse.

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, 2019, the Corporation had recorded \$103 million in mortgage loans on its Consolidated Statements of Financial Condition related to this buy-back option program (2018 - \$134 million). As long as the Corporation continues to service the loans that continue to be collateral in a GNMA guaranteed mortgage-backed security, the MSR is recognized by the Corporation. During the year ended December 31, 2019, the Corporation repurchased approximately \$104 million of mortgage loans under the GNMA buy-back option program (2018 - \$321 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, the risk associated with these loans is reduced due to their guaranteed nature. 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, 2019 and 2018, are disclosed in the following tables. Loans securitized/sold represent loans in which the Corporation has continuing involvement in the form of credit recourse.

| <i>(In thousands)</i> | 2019 | | |
|----------------------------|--|---|--------------------------------|
| | 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 | \$12,312,751 | \$ 200,568 | \$ 66,119 |
| Construction | 831,092 | 145 | (898) |
| Legacy | 22,105 | 2,007 | (1,399) |
| Lease financing | 1,059,507 | 6,710 | 9,337 |
| Mortgage | 8,404,911 | 1,071,537 | 40,644 |
| Consumer | 5,997,886 | 140,928 | 142,470 |
| Less: | | | |
| Loans securitized / sold | 1,162,176 | 72,574 | (1,146) |
| Loans held-for-sale | 59,203 | — | — |
| Loans held-in-portfolio | \$27,406,873 | \$1,349,321 | \$257,419 |

| <i>(In thousands)</i> | 2018 | | |
|----------------------------|--|---|--------------------------------|
| | 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 | \$12,043,019 | \$ 290,759 | \$ 85,715 |
| Construction | 779,449 | 13,848 | 4,452 |
| Legacy | 25,949 | 3,072 | (2,032) |
| Lease financing | 934,773 | 5,140 | 6,030 |
| Mortgage | 8,620,667 | 1,315,384 | 66,209 |
| Consumer | 5,489,441 | 117,775 | 122,170 |
| Less: | | | |
| Loans securitized / sold | 1,333,987 | 129,443 | 394 |
| Loans held-for-sale | 51,422 | — | — |
| Loans held-in-portfolio | \$26,507,889 | \$1,616,535 | \$282,150 |

Note 13 - Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization as follows:

| <i>(In thousands)</i> | Useful life in years | 2019 | 2018 |
|--|----------------------|-----------|-----------|
| Premises and equipment: | | | |
| Land | | \$114,481 | \$120,519 |
| Buildings | 10-50 | 535,602 | 515,985 |
| Equipment | 2-10 | 362,543 | 336,722 |
| Leasehold improvements | 3-10 | 92,923 | 84,244 |
| | | 991,068 | 936,951 |
| Less - Accumulated depreciation and amortization | | 561,742 | 533,930 |
| Subtotal | | 429,326 | 403,021 |
| Construction in progress | | 12,843 | 32,334 |
| Premises and equipment, net | | \$556,650 | \$555,874 |
| Other premises and equipment: | | | |
| Buildings under capital leases | 7-20 | \$ — | \$ 28,264 |
| Less - Accumulated amortization | | — | 14,330 |
| Other premises and equipment, net | | \$ — | \$ 13,934 |
| Total premises and equipment, net | | \$556,650 | \$569,808 |

Depreciation and amortization of premises and equipment for the year 2019 was \$58.1 million (2018 - \$52.5 million; 2017 - \$47.1 million), of which \$27.3 million (2018 - \$24.3 million; 2017 - \$22.4 million) was charged to occupancy expense and \$30.8 million (2018 - \$28.2 million; 2017 - \$24.7 million) was

charged to equipment, communications and other operating expenses. Occupancy expense of premises and equipment is net of rental income of \$19.3 million (2018 - \$28.2 million; 2017 - \$26.6 million). For information related to the amortization expense of finance leases, refer to Note 35 - Leases.

Note 14 - Other real estate owned

The following tables present the activity related to Other Real Estate Owned ("OREO"), for the years ended December 31, 2019, 2018 and 2017.

| <i>(In thousands)</i> | For the year ended December 31, 2019 | | |
|--------------------------------|--------------------------------------|---------------------|------------------|
| | Non-covered OREO | Non-covered OREO | Total |
| | Commercial/Construction | Mortgage | |
| Balance at beginning of period | \$21,794 | \$114,911 | \$136,705 |
| Write-downs in value | (1,584) | (4,541) | (6,125) |
| Additions | 6,801 | 62,630 | 69,431 |
| Sales | (9,892) | (67,137) | (77,029) |
| Other adjustments | (160) | (750) | (910) |
| Ending balance | \$16,959 | \$105,113 | \$122,072 |

| <i>(In thousands)</i> | For the year ended December 31, 2018 | | | |
|------------------------------------|--------------------------------------|---------------------|-----------------|------------------|
| | Non-covered OREO | Non-covered OREO | Covered OREO | Total |
| | Commercial/Construction | Mortgage | Mortgage | |
| Balance at beginning of period | \$21,411 | \$147,849 | \$ 19,595 | \$188,855 |
| Write-downs in value | (2,974) | (10,380) | (287) | (13,641) |
| Additions | 10,688 | 41,167 | – | 51,855 |
| Sales | (8,108) | (78,330) | (3,282) | (89,720) |
| Other adjustments | 777 | (728) | (693) | (644) |
| Transfer to non-covered status [1] | – | 15,333 | (15,333) | – |
| Ending balance | \$21,794 | \$114,911 | \$ – | \$136,705 |

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

| <i>(In thousands)</i> | For the year ended December 31, 2017 | | | Total |
|--------------------------------|--------------------------------------|---------------------|------------------|------------------|
| | Non-covered OREO | Non-covered OREO | Covered OREO | |
| | 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.

Note 15 - Other assets

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

| <i>(In thousands)</i> | December 31, 2019 | December 31, 2018 |
|--|----------------------|----------------------|
| Net deferred tax assets (net of valuation allowance) | \$ 886,353 | \$1,049,895 |
| Investments under the equity method | 237,081 | 228,072 |
| Prepaid taxes | 47,226 | 33,842 |
| Other prepaid expenses | 82,425 | 82,742 |
| Derivative assets | 17,966 | 13,603 |
| Trades receivable from brokers and counterparties | 47,049 | 40,088 |
| Principal, interest and escrow servicing advances | 77,800 | 88,371 |
| Guaranteed mortgage loan claims receivable | 108,946 | 59,613 |
| Operating ROU assets (Note 35) | 149,849 | – |
| Finance ROU assets (Note 35) | 12,888 | – |
| Others | 152,032 | 117,908 |
| Total other assets | \$1,819,615 | \$1,714,134 |

Note 16 - Investments in equity investees

During the year ended December 31, 2019, the Corporation recorded earnings of \$43.0 million, from its equity investments, compared to \$38.0 million for the year ended December 31, 2018. The carrying value of the Corporation's equity method investments was \$237 million and \$228 million at December 31, 2019 and 2018, respectively.

The following table presents aggregated summarized financial information of the Corporation's equity method investees:

| <i>Years ended December 31,</i> | 2019 | 2018 | 2017 |
|---------------------------------|------------------|-------------------|------------------|
| <i>(In thousands)</i> | | | |
| Operating results: | | | |
| Total revenues | \$927,510 | \$1,074,055 | \$931,627 |
| Total expenses | 677,385 | 673,632 | 663,069 |
| Income tax expense | 54,936 | 65,817 | 42,799 |
| Net income | \$195,189 | \$ 334,606 | \$225,759 |

| <i>At December 31,</i> | 2019 | 2018 |
|------------------------|-------------|-------------|
| <i>(In thousands)</i> | | |
| Balance Sheet: | | |
| Total assets | \$7,911,752 | \$8,652,539 |
| Total liabilities | \$6,425,642 | \$6,090,722 |

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 17 - Goodwill and other intangible assets

There were no changes in the carrying amount of goodwill for the year ended December 31, 2019.

The changes in the carrying amount of goodwill for the year ended December 31, 2018, allocated by reportable segments, were as follows (refer to Note 40 for the definition of the Corporation's reportable segments):

| | 2018 | | | | |
|------------------------------|-------------------------------|----------------------------|---------------------------------------|------------------------|---------------------------------|
| <i>(In thousands)</i> | Balance at January 1, 2018 | Goodwill on acquisition | Purchase accounting adjustments | Goodwill impairment | Balance at December 31, 2018 |
| Banco Popular de Puerto Rico | \$276,420 | \$60,242 | \$(16,414) | \$– | \$320,248 |
| Popular U.S. | 350,874 | – | – | – | 350,874 |
| Total Popular, Inc. | \$627,294 | \$60,242 | \$(16,414) | \$– | \$671,122 |

The goodwill recognized during the year ended December 31, 2018 in the reportable segment of Banco Popular de Puerto Rico of \$43.8 million, net of purchase accounting adjustments, was related to the Reliable Transaction. Refer to Note 4, Business combination, for additional information.

At December 31, 2019 and 2018, the Corporation had \$6.1 million of identifiable intangible assets with indefinite useful lives, mostly associated with the E-LOAN trademark.

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

| <i>(In thousands)</i> | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value |
|--------------------------------------|-----------------------------|-----------------------------|--------------------------|
| December 31, 2019 | | | |
| Core deposits | \$37,224 | \$29,792 | \$ 7,432 |
| Other customer relationships | 42,909 | 28,075 | 14,834 |
| Trademark | 488 | 138 | 350 |
| Total other intangible assets | \$80,621 | \$58,005 | \$22,616 |
| December 31, 2018 | | | |
| Core deposits | \$37,224 | \$26,070 | \$11,154 |
| Other customer relationships | 34,915 | 25,847 | 9,068 |
| Trademark | 488 | 41 | 447 |
| Total other intangible assets | \$72,627 | \$51,958 | \$20,669 |

During the year ended December 31, 2019, the Corporation recognized \$9.6 million in customer relationship intangibles in connection with the acquisition of a credit card portfolio in Puerto Rico.

The trademark recognized during the year ended December 31, 2018 of \$0.5 million was related to the Reliable Transaction. Refer to Note 4, Business combination, for additional information.

During the year ended December 31, 2019, the Corporation recognized \$ 9.4 million in amortization expense related to other intangible assets with definite useful lives (2018 - \$9.3 million; 2017 - \$9.4 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 2020 | \$6,369 |
| Year 2021 | 3,559 |
| Year 2022 | 2,683 |
| Year 2023 | 2,642 |
| Year 2024 | 2,355 |
| Later years | 5,008 |

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 2019 using July 31, 2019 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 11.14% to 12.58% for the 2019 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, 2019. The results indicated that the average estimated fair value calculated in Step 1 using all valuation methodologies exceeded BPPR’s equity value by approximately \$1.2 billion or 37%. Accordingly, there was no indication of impairment on the goodwill recorded in BPPR at July 31, 2019 and there was no need for a Step 2 analysis.

PB also passed Step 1 in the annual test as of July 31, 2019. The results indicated that the average estimated fair value calculated in Step 1 using all valuation methodologies exceeded PB’s equity value by approximately \$338 million or 21%. Accordingly, there was no indication of impairment on the goodwill recorded in PB at July 31, 2019 and there was no need for a Step 2 analysis.

The goodwill balance of BPPR and PB, as legal entities, represented approximately 91% of the Corporation’s total goodwill balance as of the July 31, 2019 valuation date.

Furthermore, as part of the analyses, management performed a reconciliation of the aggregate fair values determined for the reporting units to the market capitalization of the Corporation concluding that the fair value results determined for the reporting units in the July 31, 2019 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. Refer to Note 3, New Accounting Pronouncements, for changes on the annual goodwill impairment test in accordance with ASU 2017-04.

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, 2019 | | | | | | |
|------------------------------|---|-------------------------------------|---|---|-------------------------------------|---|
| <i>(In thousands)</i> | Balance at January 1, 2019 (gross amounts) | Accumulated impairment losses | Balance at January 1, 2019 (net amounts) | Balance at December 31, 2019 (gross amounts) | Accumulated impairment losses | Balance at December 31, 2019 (net amounts) |
| Banco Popular de Puerto Rico | \$324,049 | \$ 3,801 | \$320,248 | \$324,049 | \$ 3,801 | \$320,248 |
| Popular U.S. | 515,285 | 164,411 | 350,874 | 515,285 | 164,411 | 350,874 |
| Total Popular, Inc. | \$839,334 | \$168,212 | \$671,122 | \$839,334 | \$168,212 | \$671,122 |

| December 31, 2018 | | | | | | |
|------------------------------|---|-------------------------------------|---|---|-------------------------------------|---|
| <i>(In thousands)</i> | Balance at January 1, 2018 (gross amounts) | Accumulated impairment losses | Balance at January 1, 2018 (net amounts) | Balance at December 31, 2018 (gross amounts) | Accumulated impairment losses | Balance at December 31, 2018 (net amounts) |
| Banco Popular de Puerto Rico | \$280,221 | \$ 3,801 | \$276,420 | \$324,049 | \$ 3,801 | \$320,248 |
| Popular U.S. | 515,285 | 164,411 | 350,874 | 515,285 | 164,411 | 350,874 |
| Total Popular, Inc. | \$795,506 | \$168,212 | \$627,294 | \$839,334 | \$168,212 | \$671,122 |

Note 18 - Deposits

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

| <i>(In thousands)</i> | December 31, 2019 | December 31, 2018 |
|---|----------------------|----------------------|
| Savings accounts | \$10,618,629 | \$ 9,722,824 |
| NOW, money market and other interest bearing demand deposits | 16,305,007 | 13,221,415 |
| Total savings, NOW, money market and other interest bearing demand deposits | 26,923,636 | 22,944,239 |
| Certificates of deposit: | | |
| Under \$100,000 | 3,133,840 | 3,260,330 |
| \$100,000 and over | 4,540,957 | 4,356,434 |
| Total certificates of deposit | 7,674,797 | 7,616,764 |
| Total interest bearing deposits | \$34,598,433 | \$30,561,003 |

A summary of certificates of deposit by maturity at December 31, 2019 follows:

| <i>(In thousands)</i> | |
|--------------------------------------|--------------------|
| 2020 | \$4,612,460 |
| 2021 | 1,149,007 |
| 2022 | 734,322 |
| 2023 | 502,572 |
| 2024 | 615,875 |
| 2025 and thereafter | 60,561 |
| Total certificates of deposit | \$7,674,797 |

At December 31, 2019, the Corporation had brokered deposits amounting to \$0.5 billion (December 31, 2018 - \$ 0.5 billion).

The aggregate amount of overdrafts in demand deposit accounts that were reclassified to loans was \$4 million at December 31, 2019 (December 31, 2018 - \$5 million).

Note 19 - Borrowings

Assets sold under agreements to repurchase amounted \$193 million at December 31, 2019 and \$282 million December 31, 2018.

The Corporation's repurchase transactions are overcollateralized with the securities detailed in the table below. The Corporation's repurchase agreements have a right of set-off with the respective counterparty under the supplemental terms of the master repurchase agreements. In an event of default each party has a right of set-off against the other party for amounts owed in the related agreement and any other amount or obligation owed in respect of any other agreement or transaction between them. Pursuant to the Corporation's accounting policy, the repurchase agreements are not offset with other repurchase agreements held with the same counterparty.

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

Repurchase agreements accounted for as secured borrowings

| <i>(Dollars in thousands)</i> | December 31, 2019 | | December 31, 2018 | |
|---|----------------------|---|----------------------|---|
| | Repurchase liability | Repurchase liability weighted average interest rate | Repurchase liability | Repurchase liability weighted average interest rate |
| U.S. Treasury securities | | | | |
| Within 30 days | \$ 88,646 | 2.59% | \$138,689 | 2.56% |
| After 30 to 90 days | 78,061 | 2.36 | 79,374 | 2.47 |
| After 90 days | 24,538 | 2.52 | 19,558 | 2.72 |
| Total U.S. Treasury securities | 191,245 | 2.49 | 237,621 | 2.54 |
| Obligations of U.S. government sponsored entities | | | | |
| After 30 to 90 days | – | – | 6,055 | 2.45 |
| Total obligations of U.S. government sponsored entities | – | – | 6,055 | 2.45 |
| Mortgage-backed securities | | | | |
| Within 30 days | 1,235 | 0.30 | 6,859 | 1.15 |
| After 90 days | – | – | 20,465 | 2.75 |
| Total mortgage-backed securities | 1,235 | 0.30 | 27,324 | 2.35 |
| Collateralized mortgage obligations | | | | |
| Within 30 days | 898 | 0.24 | 10,529 | 0.25 |
| Total collateralized mortgage obligations | 898 | 0.24 | 10,529 | 0.25 |
| Total | \$193,378 | 2.46% | \$281,529 | 2.43% |

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.

There were no other short-term borrowings outstanding at December 31, 2019, compared to \$42 thousand at December 31, 2018.

Assets sold under agreements to repurchase:

| <i>(Dollars in thousands)</i> | 2019 | 2018 |
|--|-----------|-----------|
| Maximum aggregate balance outstanding at any month-end | \$281,833 | \$401,606 |
| Average monthly aggregate balance outstanding | \$222,565 | \$330,585 |
| Weighted average interest rate: | | |
| For the year | 2.64% | 2.01% |
| At December 31 | 2.50% | 2.44% |

The following table presents information related to the Corporation's other short-term borrowings for the periods ended December 31, 2019 and December 31, 2018.

Other short-term borrowings:

| <i>(Dollars in thousands)</i> | 2019 | 2018 |
|--|-----------|-----------|
| Others | \$ - | \$ 42 |
| Balance outstanding at the end of the period | \$ - | \$ 42 |
| Maximum aggregate balance outstanding at any month-end | \$160,000 | \$186,200 |
| Average monthly aggregate balance outstanding | \$ 8,703 | \$ 27,833 |
| Weighted average interest rate: | | |
| For the year | 2.50% | 2.04% |
| At December 31 | 1.85% | 2.53% |

The following table presents the composition of notes payable at December 31, 2019 and December 31, 2018.

| <i>(In thousands)</i> | December 31, 2019 | December 31, 2018 |
|--|----------------------|----------------------|
| Advances with the FHLB with maturities ranging from 2020 through 2029 paying interest at monthly fixed rates ranging from 1.14% to 4.19% (2018 - 0.95% to 4.19%) | \$ 421,399 | \$ 524,052 |
| Advances with the FHLB maturing on 2019 paying interest monthly at a floating rate of 0.34% over 1 month LIBOR | - | 13,000 |
| Advances with the FHLB maturing on 2019 paying interest quarterly at floating rates ranging from 0.12% to 0.24% over the 3 month LIBOR | - | 19,724 |
| Unsecured senior debt securities maturing on 2023 paying interest semiannually at a fixed rate of 6.125%, net of debt issuance costs of \$4,693 (2018 - \$5,961) | 295,307 | 294,039 |
| Junior subordinated deferrable interest debentures (related to trust preferred securities) with maturities ranging from 2033 to 2034 with fixed interest rates ranging from 6.125% to 6.7%, net of debt issuance costs of \$396 (2018 - \$423) | 384,902 | 384,875 |
| Capital lease obligations | - | 20,412 |
| Total notes payable | \$1,101,608 | \$1,256,102 |

A breakdown of borrowings by contractual maturities at December 31, 2019 is included in the table below.

| <i>(In thousands)</i> | Assets sold under agreements to repurchase | Notes payable | Total |
|-------------------------|---|--------------------|--------------------|
| 2020 | \$193,378 | \$ 139,920 | \$ 333,298 |
| 2021 | – | 50,040 | 50,040 |
| 2022 | – | 103,148 | 103,148 |
| 2023 | – | 318,568 | 318,568 |
| 2024 | – | 28,373 | 28,373 |
| Later years | – | 461,559 | 461,559 |
| Total borrowings | \$193,378 | \$1,101,608 | \$1,294,986 |

At December 31, 2019 and 2018, the Corporation had FHLB borrowing facilities whereby the Corporation could borrow up to \$3.6 billion and \$3.4 billion, respectively, of which \$0.4 billion and \$0.6 billion, respectively, were used. In addition, at December 31, 2019 and 2018, the Corporation had placed \$0.9 billion 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, 2019, the Corporation has a borrowing facility at the discount window of the Federal Reserve Bank of New York amounting to \$1.1 billion (2018 - \$1.2 billion), which remained unused at December 31, 2019 and December 31, 2018.

Note 20 - Trust preferred securities

Statutory trusts established by the Corporation (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 debt securities held-to-maturity. The common securities of each trust are wholly-owned, or indirectly wholly-owned, by the Corporation.

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

The following table presents financial data pertaining to the different trusts at December 31, 2019 and 2018.

(Dollars in thousands)

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

- [1] Statutory business trust that is wholly-owned by PNA and indirectly wholly-owned by the Corporation.
- [2] Statutory business trust that is wholly-owned by the Corporation.
- [3] The obligations of PNA under the junior subordinated debentures and its guarantees of the capital securities under the trust are fully and unconditionally guaranteed on a subordinated basis by the Corporation to the extent set forth in the applicable guarantee agreement.
- [4] These capital securities are fully and unconditionally guaranteed on a subordinated basis by the Corporation to the extent set forth in the applicable guarantee agreement.
- [5] The Corporation has the right, subject to any required prior approval from the Federal Reserve, to redeem after certain dates or upon the occurrence of certain events mentioned below, the junior subordinated debentures at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest to the date of redemption. The maturity of the junior subordinated debentures may be shortened at the option of the Corporation prior to their stated maturity dates (i) on or after the stated optional redemption dates stipulated in the agreements, in whole at any time or in part from time to time, or (ii) in whole, but not in part, at any time within 90 days following the occurrence and during the continuation of a tax event, an investment company event or a capital treatment event as set forth in the indentures relating to the capital securities, in each case subject to regulatory approval.

At December 31, 2019 and 2018, the Corporation's \$374 million in trust preferred securities outstanding do not qualify for Tier 1 capital treatment, but instead qualify for Tier 2 capital treatment.

Note 21 - Other liabilities

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

| <i>(In thousands)</i> | December 31, 2019 | December 31, 2018 |
|---|----------------------|----------------------|
| Accrued expenses | \$ 273,184 | \$276,120 |
| Accrued interest payable | 44,026 | 44,638 |
| Accounts payable | 65,688 | 66,381 |
| Dividends payable | 29,027 | 25,092 |
| Trades payable | 4,084 | 64 |
| Liability for GNMA loans sold with an option to repurchase | 102,663 | 134,260 |
| Reserves for loan indemnifications | 38,074 | 67,066 |
| Reserve for operational losses | 35,665 | 40,921 |
| Operating lease liabilities (Note 35) | 165,139 | — |
| Finance lease liabilities (Note 35) | 19,810 | — |
| Pension benefit obligation | 52,616 | 68,736 |
| Postretirement benefit obligation | 168,681 | 153,415 |
| Others | 46,296 | 45,115 |
| Total other liabilities | \$1,044,953 | \$921,808 |

Note 22 - Stockholders' equity

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.

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 are not listed on NASDAQ.

Preferred stocks

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, 2019 and 2018 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, 2019, 2018 and 2017. Outstanding shares of 2003 Series A Preferred Stock amounted to 885,726 at December 31, 2019, 2018 and 2017.

- 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. Cash dividends declared and paid on the 2008 Series B Preferred Stock amounted to \$ 2.3 million for the year ended December 31, 2019, 2018 and 2017. Outstanding shares of 2008 Series B Preferred Stock amounted to 1,120,665 at December 31, 2019, 2018 and 2017.

On February 24, 2020, the Corporation redeemed all the outstanding shares of the 2008 Series B Preferred Stock. The redemption price of the 2008 Series B Preferred Stock was \$25.00 per share, plus \$0.1375 (representing the amount of accrued and unpaid dividends for the current monthly dividend

period to the redemption date), for a total payment per share in the amount of \$25.1375.

Common stocks

Dividends

During the year 2019, cash dividends of \$1.20 (2018 - \$1.00; 2017 - \$1.00) per common share outstanding were declared amounting to \$116.0 million (2018 - \$101.3 million; 2017 - \$102.1 million) of which \$29.0 million were payable to shareholders of common stock at December 31, 2019 (2018 - \$25.1 million; 2017 - \$25.5 million). The quarterly dividend of \$0.30 per share declared to shareholders of record as of the close of business on December 5, 2019, was paid on January 2, 2020. On January 9, 2020, the Corporation announced as part of its capital plan for 2020, an increase in its quarterly common stock dividend from \$0.30 per share to \$0.40 per share, beginning in the second quarter of 2020, subject to approval by its Board of Directors. On February 28, 2020, the Corporation's Board of Directors approved a quarterly cash dividend of \$0.40 per share on its outstanding common stock, payable on April 1, 2020 to shareholders of record at the close of business on March 19, 2020.

Accelerated share repurchase transaction ("ASR")

During the fourth quarter of 2019, the Corporation completed a \$250 million ASR. In connection therewith, the Corporation received an initial delivery of 3,500,000 shares of common stock during the first quarter of 2019 and received 1,165,607 additional shares of common stock during the fourth quarter of 2019. 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 of \$53.58. In connection with the transaction, the Corporation recognized \$266 million in treasury stock, offset by \$16 million adjustment to capital surplus. During 2018, the Corporation completed a \$125 million ASR receiving 2,438,180 shares and recording \$125 million in treasury stock. During 2017, the Corporation completed a \$75 million ASR receiving 1,847,372 shares and recording \$80 million in treasury stock, based on the stock's spot price, offset by \$5 million adjustment to capital surplus, resulting from the decline in the Corporation's stock price during the term of the ASR.

On January 31, 2020, the Corporation entered into a \$500 million ASR with respect to its common stock, which was accounted for as a treasury stock transaction. As a result of the receipt of the initial shares, the Corporation recognized \$400 million in treasury stock and \$100 million as a reduction in capital surplus. The Corporation expects to further adjust its treasury stock and capital surplus to reflect the delivery or receipt of cash or shares upon the termination of the ASR

agreement, which will depend on the average price of the Corporation's shares during the term of the ASR.

Statutory reserve

The Banking Act of the Commonwealth of Puerto Rico requires that a minimum of 10% of BPPR's net income for the year be transferred to a statutory reserve account until such statutory reserve equals the total of paid-in capital on common and preferred stock. Any losses incurred by a bank must first be charged to retained earnings and then to the reserve fund. Amounts credited to the reserve fund may not be used to pay dividends without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The failure to maintain sufficient statutory reserves would preclude BPPR from paying dividends. BPPR's statutory reserve fund amounted to \$659 million at December 31, 2019 (2018 - \$599 million; 2017 - \$540 million). During 2019, \$60 million was transferred to the statutory reserve account (2018 - \$58 million, 2017 - \$27 million). BPPR was in compliance with the statutory reserve requirement in 2019, 2018 and 2017.

Note 23 - Regulatory capital requirements

The Corporation, BPPR and PB 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. Popular, Inc., BPPR and PB are 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 established a Common Equity Tier I ("CET1") capital measure 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, 2019 and 2018, the Corporation exceeded all capital adequacy requirements to which it is subject.

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.

At December 31, 2019 and 2018, BPPR and PB were well-capitalized under the regulatory framework for prompt corrective action.

The following tables present the Corporation's risk-based capital and leverage ratios at December 31, 2019 and 2018 under the Basel III regulatory guidance.

| (Dollars in thousands) | Actual | | Capital adequacy minimum requirement (including conservation capital buffer) | |
|---|-------------|--------|--|---------|
| | Amount | Ratio | Amount | Ratio |
| 2019 | | | | |
| Total Capital (to Risk-Weighted Assets): | | | | |
| Corporation | \$5,858,615 | 20.31% | \$3,028,239 | 10.500% |
| BPPR | 4,226,374 | 19.98 | 2,220,908 | 10.500 |
| PB | 1,211,045 | 16.98 | 748,836 | 10.500 |
| Common Equity Tier I Capital (to Risk-Weighted Assets): | | | | |
| Corporation | \$5,121,240 | 17.76% | \$2,018,826 | 7.000% |
| BPPR | 3,958,518 | 18.72 | 1,480,605 | 7.000 |
| PB | 1,165,710 | 16.35 | 499,224 | 7.000 |
| Tier I Capital (to Risk-Weighted Assets): | | | | |
| Corporation | \$5,121,240 | 17.76% | \$2,451,431 | 8.500% |
| BPPR | 3,958,518 | 18.72 | 1,797,878 | 8.500 |
| PB | 1,165,710 | 16.35 | 606,200 | 8.500 |
| Tier I Capital (to Average Assets): | | | | |
| Corporation | \$5,121,240 | 10.03% | \$2,042,299 | 4% |
| BPPR | 3,958,518 | 9.62 | 1,645,851 | 4 |
| PB | 1,165,710 | 12.33 | 378,041 | 4 |

| (Dollars in thousands) | Actual | | Capital adequacy minimum requirement (including conservation capital buffer) | |
|---|-------------|--------|--|--------|
| | Amount | Ratio | Amount | Ratio |
| 2018 | | | | |
| Total Capital (to Risk-Weighted Assets): | | | | |
| Corporation | \$5,354,199 | 19.54% | \$2,706,117 | 9.875% |
| BPPR | 3,900,536 | 19.00 | 2,027,005 | 9.875 |
| PB | 1,148,253 | 17.82 | 636,450 | 9.875 |
| Common Equity Tier I Capital (to Risk-Weighted Assets): | | | | |
| Corporation | \$4,631,511 | 16.90% | \$1,746,987 | 6.375% |
| BPPR | 3,638,009 | 17.72 | 1,308,573 | 6.375 |
| PB | 1,085,829 | 16.85 | 410,873 | 6.375 |
| Tier I Capital (to Risk-Weighted Assets): | | | | |
| Corporation | \$4,631,511 | 16.90% | \$2,158,043 | 7.875% |
| BPPR | 3,638,009 | 17.72 | 1,616,473 | 7.875 |
| PB | 1,085,829 | 16.85 | 507,549 | 7.875 |
| Tier I Capital (to Average Assets): | | | | |
| Corporation | \$4,631,511 | 9.88% | \$1,875,057 | 4% |
| BPPR | 3,638,009 | 9.62 | 1,512,568 | 4 |
| PB | 1,085,829 | 12.42 | 349,580 | 4 |

The following table presents the minimum amounts and ratios for the Corporation's banks to be categorized as well-capitalized.

| (Dollars in thousands) | 2019 | | 2018 | |
|---|-------------|-------|-------------|-------|
| | Amount | Ratio | Amount | Ratio |
| Total Capital (to Risk-Weighted Assets): | | | | |
| BPPR | \$2,115,150 | 10% | \$2,052,664 | 10% |
| PB | 713,177 | 10 | 644,506 | 10 |
| Common Equity Tier I Capital (to Risk-Weighted Assets): | | | | |
| BPPR | \$1,374,848 | 6.5% | \$1,334,231 | 6.5% |
| PB | 463,565 | 6.5 | 418,929 | 6.5 |
| Tier I Capital (to Risk-Weighted Assets): | | | | |
| BPPR | \$1,692,120 | 8% | \$1,642,131 | 8% |
| PB | 570,542 | 8 | 515,605 | 8 |
| Tier I Capital (to Average Assets): | | | | |
| BPPR | \$2,057,314 | 5% | \$1,890,709 | 5% |
| PB | 472,551 | 5 | 436,975 | 5 |

Note 24 - Other comprehensive loss

The following table presents changes in accumulated other comprehensive loss by component for the years ended December 31, 2019, 2018 and 2017.

| | | Changes in Accumulated Other Comprehensive Loss by Component [1] | | |
|---|--|--|-------------|-------------|
| | | Years ended December 31, | | |
| (In thousands) | | 2019 | 2018 | 2017 |
| Foreign currency translation | Beginning Balance | \$ (49,936) | \$ (43,034) | \$ (39,956) |
| | Other comprehensive loss | (6,847) | (6,902) | (3,078) |
| | Net change | (6,847) | (6,902) | (3,078) |
| | Ending balance | \$ (56,783) | \$ (49,936) | \$ (43,034) |
| Adjustment of pension and postretirement benefit plans | Beginning Balance | \$(203,836) | \$(205,408) | \$(211,610) |
| | Other comprehensive loss before reclassifications | (13,671) | (9,453) | (5,164) |
| | Amounts reclassified from accumulated other comprehensive loss for amortization of net losses | 14,691 | 13,141 | 13,684 |
| | Amounts reclassified from accumulated other comprehensive loss for amortization of prior service credit | – | (2,116) | (2,318) |
| | Net change | 1,020 | 1,572 | 6,202 |
| | Ending balance | \$(202,816) | \$(203,836) | \$(205,408) |
| Unrealized net holding gains (losses) on debt securities | Beginning Balance | \$(173,811) | \$(102,775) | \$ (69,003) |
| | Other comprehensive income (loss) before reclassifications | 265,950 | (71,036) | (40,446) |
| | Other-than-temporary impairment amounts reclassified from accumulated other comprehensive loss | – | – | 6,740 |
| | Amounts reclassified from accumulated other comprehensive loss for losses (gains) on securities | 16 | – | (66) |
| | Net change | 265,966 | (71,036) | (33,772) |
| | Ending balance | \$ 92,155 | \$(173,811) | \$(102,775) |
| Unrealized net holding gains on equity securities | Beginning Balance | \$ – | \$ 605 | \$ 685 |
| | Reclassification to retained earnings due to cumulative effect adjustment of accounting change | – | (605) | – |
| | Other comprehensive income before reclassifications | – | – | 121 |
| | Amounts reclassified from accumulated other comprehensive income for gains on securities | – | – | (201) |
| | Net change | – | (605) | (80) |
| | Ending balance | \$ – | \$ – | \$ 605 |
| Unrealized net losses on cash flow hedges | Beginning Balance | \$ (391) | \$ (40) | \$ (402) |
| | Reclassification to retained earnings due to cumulative effect adjustment of accounting change | (50) | – | – |
| | Other comprehensive (loss) income before reclassifications | (4,439) | 326 | (790) |
| | Amounts reclassified from accumulated other comprehensive loss | 2,386 | (677) | 1,152 |
| | Net change | (2,103) | (351) | 362 |
| | Ending balance | \$ (2,494) | \$ (391) | \$ (40) |
| | Total | \$(169,938) | \$(427,974) | \$(350,652) |

[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, 2019, 2018, and 2017.

| <i>(In thousands)</i> | Reclassifications Out of Accumulated Other Comprehensive Loss | | | |
|--|--|--------------------------|------------|------------|
| | Affected Line Item in the Consolidated Statements of Operations | Years ended December 31, | | |
| | | 2019 | 2018 | 2017 |
| Adjustment of pension and postretirement benefit plans | | | | |
| Amortization of net losses | Personnel costs | \$(23,508) | \$(21,542) | \$(22,428) |
| Amortization of prior service credit | Personnel costs | – | 3,470 | 3,800 |
| | Total before tax | (23,508) | (18,072) | (18,628) |
| | Income tax benefit | 8,817 | 7,047 | 7,262 |
| | Total net of tax | \$(14,691) | \$(11,025) | \$(11,366) |
| Unrealized holding gains (losses) on debt securities | | | | |
| Realized (loss) gain on sale of debt securities | Net (loss) gain on sale of debt securities | \$ (20) | \$ – | \$ 83 |
| | Other-than-temporary impairment losses on debt securities | – | – | (8,299) |
| | Total before tax | (20) | – | (8,216) |
| | Income tax benefit | 4 | – | 1,542 |
| | Total net of tax | \$ (16) | \$ – | \$ (6,674) |
| Unrealized holding gains on equity securities | | | | |
| Realized gain on sale of equity securities | Net gain, including impairment on equity securities | \$ – | \$ – | \$ 251 |
| | Total before tax | – | – | 251 |
| | Income tax expense | – | – | (50) |
| | Total net of tax | \$ – | \$ – | \$ 201 |
| Unrealized net (losses) gains on cash flow hedges | | | | |
| Forward contracts | Mortgage banking activities | \$ (3,992) | \$ 1,110 | \$ (1,888) |
| Interest rate swaps | Other operating income | 110 | – | – |
| | Total before tax | (3,882) | 1,110 | (1,888) |
| | Income tax benefit (expense) | 1,496 | (433) | 736 |
| | Total net of tax | \$ (2,386) | \$ 677 | \$ (1,152) |
| | Total reclassification adjustments, net of tax | \$(17,093) | \$(10,348) | \$(18,991) |

Note 25 - 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, 2019, the Corporation recorded a liability of \$0.3 million (December 31, 2018 - \$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 contracted amounts in standby letters of credit outstanding at December 31, 2019 and 2018, shown in Note 26, 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, 2019, the Corporation serviced \$1.2 billion (December 31, 2018 - \$1.3 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 2019, the Corporation repurchased approximately \$57 million of unpaid principal balance in mortgage loans subject to the credit recourse provisions (2018 - \$27 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, 2019, the Corporation’s liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to \$35 million (December 31, 2018 - \$56 million). The following table shows the changes in the Corporation’s liability of estimated losses from these credit recourse agreements, included in the consolidated statements of financial condition during the years ended December 31, 2019 and 2018.

| <i>(In thousands)</i> | Years ended December 31, | |
|-----------------------------------|-----------------------------|-----------|
| | 2019 | 2018 |
| Balance as of beginning of period | \$ 56,230 | \$ 58,820 |
| Provision for recourse liability | 2,122 | 12,200 |
| Net charge-offs | (23,490) | (14,790) |
| Balance as of end of period | \$ 34,862 | \$ 56,230 |

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 no repurchases under BPPR’s representation and warranty arrangements during the year ended December 31, 2019 compared to \$12 million during the year ended December 31, 2018. 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.

During the second quarter of 2019, the Corporation recorded the release of a \$4.4 million reserve taken in connection with a sale of loans completed during the year 2013.

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 during the years ended December 31, 2019 and 2018.

| <i>(In thousands)</i> | Years ended December 31, | |
|--|-----------------------------|-----------------|
| | 2019 | 2018 |
| Balance as of beginning of period | \$10,837 | \$11,742 |
| Provision (reversal) for representation and warranties | (5,020) | 78 |
| Net charge-offs | (75) | (983) |
| Settlements paid | (2,530) | — |
| Balance as of end of period | \$ 3,212 | \$10,837 |

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, 2019, the Corporation serviced \$14.8 billion in mortgage loans for third-parties, including the loans serviced with credit recourse (December 31, 2018 - \$15.7 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, 2019, the outstanding balance of funds advanced by the Corporation under such mortgage loan servicing agreements was approximately \$78 million (December 31, 2018 - \$88 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 100% owned consolidated subsidiaries amounting to \$94 million at both December 31, 2019 and December 31, 2018, respectively. In addition, at both December 31, 2019 and December 31, 2018, PIHC fully and unconditionally guaranteed on a subordinated basis

\$374 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 20 to the consolidated financial statements for further information on the trust preferred securities.

Note 26 - 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, 2019 | December 31, 2018 |
|---|-------------------|-------------------|
| Commitments to extend credit: | | |
| Credit card lines | \$4,889,694 | \$4,468,481 |
| Commercial and construction lines of credit | 3,205,306 | 2,751,390 |
| Other consumer unused credit commitments | 262,516 | 254,491 |
| Commercial letters of credit | 2,629 | 2,695 |
| Standby letters of credit | 75,186 | 26,479 |
| Commitments to originate or fund mortgage loans | 96,653 | 22,629 |

At December 31, 2019 and 2018, the Corporation maintained a reserve of approximately \$9 million and \$8 million, respectively, for potential losses associated with unfunded loan commitments related to commercial and consumer lines of credit.

Other commitments

At December 31, 2019, the Corporation's also maintained other non-credit commitments for approximately \$2.5 million, primarily for the acquisition of other investments.

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 40 to the Consolidated Financial Statements.

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

commenced, or has been authorized by the Oversight Board to commence, any such debt restructuring proceeding under PROMESA.

At December 31, 2019 and 2018, the Corporation's direct exposure to the Puerto Rico government and its instrumentalities and municipalities totaled \$432 million and \$458 million, respectively, which amounts were fully outstanding on such dates. Of this amount, \$391 million consists of loans and \$41 million are securities (\$413 million and \$45 million at December 31, 2018). Substantially all of the amount outstanding at December 31, 2019 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, 2019, 75% of the Corporation's exposure to municipal loans and securities was concentrated in the municipalities of San Juan, Guaynabo, Carolina and Bayamón. On July 1, 2019 the Corporation received principal payments amounting to \$22 million from various obligations from Puerto Rico municipalities.

The following table details the loans and investments representing the Corporation's direct exposure to the Puerto Rico government according to their maturities as of December 31, 2019:

| <i>(In thousands)</i> | Investment Portfolio | Loans | Total Outstanding | Total Exposure |
|----------------------------------|----------------------|-----------|-------------------|----------------|
| Central Government | | | | |
| After 1 to 5 years | \$ 8 | \$ — | \$ 8 | \$ 8 |
| After 5 to 10 years | 30 | — | 30 | 30 |
| After 10 years | 540 | — | 540 | 540 |
| Total Central Government | 578 | — | 578 | 578 |
| Municipalities | | | | |
| Within 1 year | 3,745 | 78,108 | 81,853 | 81,853 |
| After 1 to 5 years | 17,580 | 139,283 | 156,863 | 156,863 |
| After 5 to 10 years | 18,195 | 82,967 | 101,162 | 101,162 |
| After 10 years | 655 | 90,601 | 91,256 | 91,256 |
| Total Municipalities | 40,175 | 390,959 | 431,134 | 431,134 |
| Total Direct Government Exposure | \$40,753 | \$390,959 | \$431,712 | \$431,712 |

In addition, at December 31, 2019, the Corporation had \$350 million in loans insured or securities issued by Puerto Rico governmental entities but for which the principal source of repayment is non-governmental (\$368 million at December 31, 2018). These included \$276 million in residential mortgage loans insured by the Puerto Rico Housing Finance Authority ("HFA"), a governmental instrumentality that has been designated as a covered entity under PROMESA (December 31, 2018 - \$293 million). These mortgage loans are secured by first mortgages on Puerto Rico residential properties and the HFA insurance covers losses in the event of a borrower default and upon the satisfaction of certain other conditions. The

Corporation also had at December 31, 2019, \$46 million in bonds issued by HFA which are secured by second mortgage loans on Puerto Rico residential properties, and for which HFA also provides insurance to cover losses in the event of a borrower default and upon the satisfaction of certain other conditions (December 31, 2018 - \$45 million). In the event that the mortgage loans insured by HFA and held by the Corporation directly or those serving as collateral for the HFA bonds default and the collateral is insufficient to satisfy the outstanding balance of these loans, HFA's ability to honor its insurance will depend, among other factors, on the financial condition of HFA at the time such obligations become due and

payable. Although the Governor is currently authorized by local legislation to impose a temporary moratorium on the financial obligations of the HFA, the Governor has not exercised this power as of the date hereof. In addition, at December 31, 2019, the Corporation had \$7 million in securities issued by HFA that have been economically defeased and refunded and for which securities consisting of U.S. agencies and Treasury obligations have been escrowed (December 31, 2018 - \$7 million), and \$21 million of commercial real estate notes issued by government entities but that are payable from rent paid by non-governmental parties (December 31, 2018 - \$23 million).

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

The Corporation has operations in the United States Virgin Islands (the "USVI") and has approximately \$71 million in direct exposure to USVI government entities. The USVI has been experiencing a number of fiscal and economic challenges that could adversely affect the ability of its public corporations and instrumentalities to service their outstanding debt obligations.

Legal Proceedings

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

In certain cases, exposure to loss exists in excess of the accrual to the extent such loss is reasonably possible, but not probable. Management believes and estimates that the 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 ranged from \$0 to approximately \$28.4 million as of December 31, 2019. For certain other cases, management cannot reasonably estimate the possible loss at this time. Any estimate involves significant judgment, given the varying stages of the Legal Proceedings (including the fact that many of them are currently in preliminary stages), the existence of multiple defendants in several of the current Legal Proceedings whose share of liability has yet to be determined, the numerous unresolved issues in many of the Legal Proceedings, and the inherent uncertainty of the various potential outcomes of such Legal Proceedings. Accordingly, management's estimate will change from time-to-time, and actual losses may be more or less than the current estimate.

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

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

BANCO POPULAR DE PUERTO RICO

Hazard Insurance Commission-Related Litigation

Popular, Inc., BPPR and Popular Insurance, LLC (the "Popular Defendants") have been named defendants in a putative class action complaint captioned Pérez Díaz v. Popular, Inc., et al, filed before the Court of First Instance, Arecibo Part. The complaint seeks damages and preliminary and permanent injunctive relief on behalf of the purported class against the Popular Defendants, as well as Antilles Insurance Company and MAPFRE-PRAICO Insurance Company (the "Defendant Insurance Companies"). Plaintiffs allege that the Popular Defendants have been unjustly enriched by failing to reimburse them for commissions paid by the Defendant Insurance Companies to the insurance agent and/or mortgagee for policy years when no claims were filed against their hazard insurance policies. They demand the reimbursement to the purported "class" of an estimated \$400 million plus legal interest, for the "good experience" commissions allegedly paid by the Defendant Insurance Companies during the relevant time period, as well as injunctive relief seeking to enjoin the Defendant Insurance Companies from paying commissions to the insurance agent/mortgagee and ordering them to pay those fees directly to the insured. A motion for dismissal on the merits filed by the Defendant Insurance Companies was denied

with a right to replead following limited targeted discovery. Each of the Puerto Rico Court of Appeals and the Puerto Rico Supreme Court denied the Popular Defendants' request to review the lower court's denial of the motion to dismiss. In December 2017, plaintiffs amended the complaint and, on January 2018, defendants filed an answer thereto. Separately, in October 2017, the Court entered an order whereby it broadly certified the class, after which the Popular Defendants filed a certiorari petition before the Puerto Rico Court of Appeals in relation to the class certification, which the Court declined to entertain. In November 2018 and in January 2019, Plaintiffs filed voluntary dismissal petitions against MAPFRE-PRAICO Insurance Company and Antilles Insurance Company, respectively, leaving the Popular Defendants as the sole remaining defendants in the action.

In April 2019, the Court amended the class definition to limit it to individual homeowners whose residential units were subject to a mortgage from BPPR who, in turn, obtained risk insurance policies with Antilles Insurance or MAPFRE Insurance through Popular Insurance from 2002 to 2015, and who did not make insurance claims against said policies during their effective term. The Court set March 20, 2020 as the deadline to complete discovery and scheduled a pre-trial hearing and tentative trial dates for the second half of 2020.

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 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 monopolistic practices in failing to offer this product). In July 2017, after co-defendants filed motions to dismiss the complaint and opposed the request for preliminary injunctive relief, the Court dismissed the complaint with prejudice. In August 2017, plaintiffs appealed this judgment and, in March 2018, the Court of Appeals reversed the Court of First Instance's dismissal. The Puerto Rico Supreme Court denied review. On August 15, 2019, the Popular Defendants and the Plaintiffs filed a Joint Motion where they informed the Court that Plaintiffs were simultaneously filing voluntary

dismissals with prejudice against all other parties. On September 13, 2019, a status hearing was held where the Plaintiffs and the Popular Defendants informed the Court that the parties were in the process of stipulating a class for settlement purposes. The Court held a further status hearing on February 20, 2020, where it set a hearing for March 12, 2020 to preliminarily approve the terms of a proposed class settlement being negotiated among the parties.

Mortgage-Related Litigation and Claims

BPPR has been named a defendant in a putative class action captioned Lilliam González Camacho, et al. v. Banco Popular de Puerto Rico, et al., filed before the United States District Court for the District of Puerto Rico on behalf of mortgage-holders who have allegedly been subjected to illegal foreclosures and/or loan modifications through their mortgage servicers. Plaintiffs maintain that when they sought to reduce their loan payments, defendants failed to provide them with such reduced loan payments, instead subjecting them to lengthy loss mitigation processes while filing foreclosure claims against them in parallel (or dual tracking). Plaintiffs assert that such actions violate the Home Affordable Modification Program ("HAMP"), the Home Affordable Refinance Program ("HARP") and other federally sponsored loan modification programs, as well as the Puerto Rico Mortgage Debtor Assistance Act and the Truth in Lending Act ("TILA"). For the alleged violations stated above, plaintiffs request that all defendants (over 20, including all local banks) be held jointly and severally liable in an amount no less than \$400 million. BPPR filed a motion to dismiss in August 2017, as did most co-defendants, and, in March 2018, the District Court dismissed the complaint in its entirety. After being denied reconsideration by the District Court, on August 2018, plaintiffs filed a Notice of Appeal to the U.S. Court of Appeals for the First Circuit. The Court of Appeals has entered an order where it consolidated three pending appeals related to the same subset of facts. The plaintiffs filed their appellate brief on August 2019, but on September 2019, the Court of Appeals ordered plaintiffs to submit a new brief for the consolidated appeals that complied with the applicable appellate procedural rules. In October 2019, plaintiffs filed a revised brief, which defendants believe yet again do not comply with applicable court rules. On November 4, 2019, defendants filed their appellate brief, along with a motion to dismiss the appeal due to the plaintiffs' repeated failure to comply with the Circuit Court's rules and orders. The appeal is now fully briefed and pending resolution.

BPPR has also been named a defendant in another putative class action captioned Yiries Josef Saad Maura v. Banco Popular, et al., filed by the same counsel who filed the González Camacho action referenced above, on behalf of residential customers of the defendant banks who have allegedly been subject to illegal foreclosures and/or loan modifications through their mortgage servicers. As in González Camacho, plaintiffs

contend that when they sought to reduce their loan payments, defendants failed to provide them with such reduced loan payments, instead subjecting them to lengthy loss mitigation processes while filing foreclosure claims against them in parallel, all in violation of TILA, the Real Estate Settlement Procedures Act (“RESPA”), the Equal Credit Opportunity Act (“ECOA”), the Fair Credit Reporting Act (“FCRA”), the Fair Debt Collection Practices Act (“FDCPA”) and other consumer-protection laws and regulations. Plaintiffs did not include a specific amount of damages in their complaint. After waiving service of process, BPPR filed a motion to dismiss the complaint on the same grounds as those asserted in the González Camacho action (as did most co-defendants, separately). BPPR further filed a motion to oppose class certification, which the Court granted in September 2018. On April 5, 2019, the Court entered an Opinion and Order granting BPPR’s and several other defendants’ motions to dismiss with prejudice. Plaintiffs filed a Motion for Reconsideration in April 2019, which Popular timely opposed. In September 2019, the Court issued an Amended Opinion and Order dismissing plaintiffs’ claims against all defendants, denying the reconsideration requests and other pending motions, and issuing final judgment. On October 17, 2019, the Plaintiffs filed a Motion for Reconsideration of the Court’s Amended Opinion and Order, which was denied on December 16, 2019. On January 13, 2020, Plaintiffs filed a Notice of Appeal to the U.S. Court of Appeals for the First Circuit. The Court has yet to set a briefing schedule.

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 this development and is currently the primary mortgage lender in the project. Plaintiffs claim damages against the developer, contractor, the relevant insurance companies, and most recently, their mortgage lenders, because of a landslide that occurred in October 2015, affecting various streets and houses within the development. Plaintiffs specifically allege that the mortgage lenders, including BPPR, should be deemed liable for their alleged failure to properly inspect the subject properties. Plaintiffs demand \$30 million in damages plus attorney’s fees, costs and the annulment of their mortgages. BPPR extended plaintiffs four consecutive six-month payment forbearances, the last of which is still in effect. In November 2017, the FDIC notified BPPR that it had agreed to indemnify the Bank in connection with its Doral Bank-related exposure, pursuant to the terms of the relevant Purchase and Assumption Agreement with the FDIC. The FDIC filed a Notice of Removal to the United States District Court for the District of Puerto Rico on March 2018 and, in April 2018, the state court stayed the proceedings in response thereto. In October 2018, the Court

granted the FDIC’s motion to stay the proceedings until plaintiffs have exhausted administrative remedies and, thereafter, the FDIC filed a motion to dismiss all claims for lack of subject matter jurisdiction due to plaintiffs’ failure to properly make any applicable administrative claims. Such motion was referred to a Magistrate Judge, which on May 17, 2019 recommended that the motion be granted and all claims against the FDIC be dismissed. On September 30, 2019, the District Judge issued an order where she adopted the Report and Recommendation of the Magistrate Judge granting the FDIC’s Motion to Dismiss and remanding the remaining claims related to mortgage loans not acquired from Doral (approximately eight (8) loans) to the Commonwealth of Puerto Rico’s Court of First Instance. The District Judge has yet to issue an Opinion and Order triggering the applicable appeal terms. The parties, however, have reached a settlement in principle and expect to complete documentation related thereto during the first half of 2020.

Insufficient Funds Fees Class Action

On February 7, 2020, BPPR was served with a putative class action complaint captioned Soto-Melendez vs. Banco Popular de Puerto Rico, filed before the United States District Court for the District of Puerto Rico. The complaint alleges breach of contract due to BPPR’s purported practice of (a) assessing more than one insufficient funds fees (“NSF Fees”) on the same “item” or transaction and (b) charging both NSF Fees and overdraft fees (“OD Fees”) on the same item or transaction, and is filed on behalf of all persons who during the applicable statute of limitations period were charged NSF Fees and/or OD Fees pursuant to this purported practices. BPPR was served with process and expects to timely file a responsive pleading.

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 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. After the Court held hearings on June and July 2019 to consider whether the involuntary petitions were filed in bad faith, that is, for an improper purpose that constitutes an abuse of the bankruptcy process on October 11, 2019, the Court entered an Opinion and Order determining that the involuntary petitions were not filed in bad faith and issued an order for relief under Chapter 11 of the U.S. Bankruptcy Code granting the involuntary petitions. On October 25, 2019, the debtors filed a Notice of Appeal to the U.S. District Court. Debtors' appellate briefs are due by March 4, 2020 and Lenders' appellate briefs are due thirty (30) days thereafter.

On February 11, 2020, the Debtors initiated an adversary proceeding seeking in excess of \$80 million in damages, alleging that in 2016 the Lenders illegally foreclosed on their accounts receivable and as a result illegally interfered with contracts entered with third parties, forcing the Debtors into bankruptcy. Debtors further seek a judgment declaring that Lenders do not possess security interests over certain personal property of the Debtors because either such security interests were not adequately perfected according to Puerto Rico law, or the security interests were lost upon the lapsing date of the financing statements that the Lenders had originally perfected in connection with such interests. Lenders expect to timely file a responsive pleading to the adversary proceeding.

POPULAR BANK

Employment-Related Litigation

On July 30, 2019, Popular Bank ("PB") was served in a putative class complaint in which it was named as a defendant along with five (5) current PB employees (collectively, the "AB Defendants"), captioned Aileen Betances, et al. v. Popular Bank, et al., filed before the Supreme Court of the State of New York (the "AB Action"). The complaint, filed by five (5) current and former PB employees, seeks to recover damages for the AB Defendants' alleged violation of local and state sexual harassment, discrimination and retaliation laws. Additionally, on July 30, 2019, PB was served in a putative class complaint in which it was named as a defendant along with six (6) current PB employees (collectively, the "DR Defendants"), captioned Damian Reyes, et al. v. Popular Bank, et al., filed before the Supreme Court of the State of New York (the "DR Action"). The DR Action, filed by three (3) current and former PB employees, seeks to recover damages for the DR Defendants' alleged violation of local and state discrimination and retaliation laws. Plaintiffs in both complaints are represented by the same legal counsel, and five of the six named individual defendants in the DR Action are the same named individual defendants in the AB Action. Both complaints are related, among other things, to allegations of purported sexual harassment and/or misconduct by a former PB employee as well as PB's actions in connection thereto and seek no less than

\$100 million in damages each. On October 21, 2019, PB and the other defendants filed several Motions to Dismiss. Plaintiffs opposed such motions on December 11, 2019 and PB and the other defendants replied on January 22, 2020. The Motions to Dismiss are pending resolution.

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, as of February 28, 2020, is named as a respondent (among other broker-dealers) in 173 pending arbitration proceedings with aggregate claimed amounts of approximately \$226 million, including one arbitration with claimed damages of approximately \$30 million. While Popular Securities believes it has meritorious defenses to the claims asserted in these proceedings, it has often determined that it is in its best interest to settle certain claims rather than expend the money and resources required to see such cases to completion. The Puerto Rico Government's defaults and non-payment of its various debt obligations, as well as the Commonwealth's and the Financial Oversight Management Board's (the "Oversight Board") decision to pursue restructurings under Title III and Title VI of PROMESA, have increased and may continue to increase the number of customer complaints (and claimed damages) filed against Popular Securities concerning Puerto Rico bonds and closed-end investment companies that invest primarily in Puerto Rico bonds. An adverse result in the arbitration proceedings described above, or a significant increase in customer complaints, could have a material adverse effect on Popular.

PROMESA Title III Proceedings

In 2017, the Oversight Board engaged the law firm of Kobre & Kim to carry out an independent investigation on behalf of the Oversight Board regarding, among other things, the causes of the Puerto Rico financial crisis. Popular, Inc., BPPR and Popular Securities (collectively, the "Popular Companies") were served by, and cooperated with, the Oversight Board in connection with requests for the preservation and voluntary production of certain documents and witnesses with respect to Kobre & Kim's independent investigation.

On August 20, 2018, Kobre & Kim issued its Final Report, which contained various references to the Popular Companies, including an allegation that Popular Securities participated as an underwriter in the Commonwealth's 2014 issuance of government obligation bonds notwithstanding having allegedly advised against it. The report noted that such allegation could

give rise to an unjust enrichment claim against the Corporation and could also serve as a basis to equitably subordinate claims filed by the Corporation in the Title III proceeding to other third-party claims.

After the publication of the Final Report, the Oversight Board created a special claims committee (“SCC”) and, before the end of the applicable two-year statute of limitations for the filing of such claims pursuant to the U.S. Bankruptcy Code, the SCC, along with the Commonwealth’s Unsecured Creditors’ Committee (“UCC”), filed various avoidance, fraudulent transfer and other claims against third parties, including government vendors and financial institutions and other professionals involved in bond issuances being challenged as invalid by the SCC and the UCC. The Popular Companies, the SCC and the UCC have entered into a tolling agreement with respect to potential claims the SCC and the UCC, on behalf of the Commonwealth or other Title III debtors, may assert against the Popular Companies for the avoidance and recovery of payments and/or transfers made to the Popular Companies or as a result of any role of the Popular Companies in the offering of the aforementioned challenged bond issuances.

Note 27 - Non-consolidated variable interest entities

The Corporation is involved with three 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 and agency collateralized mortgage obligations issued by third party VIEs in which it has no other form of continuing involvement. Refer to Note 30 to the Consolidated Financial Statements for additional information on the debt securities outstanding at December 31, 2019 and 2018, 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, 2019 and 2018.

| <i>(In thousands)</i> | December 31, 2019 | December 31, 2018 |
|---------------------------------|----------------------|----------------------|
| Assets | | |
| Servicing assets: | | |
| Mortgage servicing rights | \$115,718 | \$136,280 |
| Total servicing assets | \$115,718 | \$136,280 |
| Other assets: | | |
| Servicing advances | \$ 29,212 | \$ 37,988 |
| Total other assets | \$ 29,212 | \$ 37,988 |
| Total assets | \$144,930 | \$174,268 |
| Maximum exposure to loss | \$144,930 | \$174,268 |

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 \$9.9 billion at December 31, 2019 (December 31, 2018 - \$10.6 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, 2019 and 2018 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 these entities for the acquisition of the assets. In addition, BPPR provided these joint ventures with a non-revolving advance facility to cover unfunded commitments and costs-to-complete related to certain construction projects, and a revolving working capital line to fund certain operating expenses of the joint venture. As part of these transactions, BPPR received \$ 48 million and \$92 million, for PRLP 2011 Holdings, LLC and PR Asset Portfolio 2013-1 International, LLC, 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. All financing facilities extended by BPPR to these joint ventures have been repaid in full. The Corporation maintains a variable interests in these VIEs in the form of the 24.9% equity interests. 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, 2019 and 2018.

| <i>(In thousands)</i> | PRLP 2011 | | PR Asset | |
|--------------------------|----------------|------------------|-------------------|-------------------|
| | Holdings, LLC | | Portfolio 2013-1 | |
| | December 31, | December 31, | December 31, | December 31, |
| | 2019 | 2018 | 2019 | 2018 |
| Assets | | | | |
| Other assets: | | | | |
| Equity investment | \$6,306 | \$ 6,469 | \$ 3,333 | \$ 5,794 |
| Total assets | \$6,306 | \$ 6,469 | \$ 3,333 | \$ 5,794 |
| Liabilities | | | | |
| Deposits | \$ (3) | \$(2,566) | \$(5,081) | \$(7,994) |
| Total liabilities | \$ (3) | \$(2,566) | \$(5,081) | \$(7,994) |
| Total net assets | \$6,303 | \$ 3,903 | \$ (1,748) | \$ (2,200) |
| Maximum exposure to loss | \$6,303 | \$ 3,903 | \$ – | \$ – |

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, 2019.

Note 28 - 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.

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.

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, 2019, inclusion

of the credit risk in the fair value of the derivatives resulted in a gain of \$0.2 million from the Corporation's credit standing adjustment. During the years ended December 31, 2018 and 2017, the Corporation recognized a loss of \$0.6 million and a gain of \$0.2 million, respectively, from the Corporation's credit standing adjustment. During the year ended December 31, 2017, the Corporation recognized a loss of \$0.1 million from the assessment of the counterparties' credit risk.

The Corporation's derivatives are subject to agreements which allow a right of set-off with each respective counterparty. 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. Pursuant to the Corporation's accounting policy, the fair value of derivatives is not offset with the fair value of other derivatives held with the same counterparty even if these agreements allow a right of set-off. In addition, the fair value of derivatives is not offset with the amounts for the right to reclaim financial collateral or the obligation to return financial collateral.

Financial instruments designated as cash flow hedges or non-hedging derivatives outstanding at December 31, 2019 and 2018 were as follows:

| | Notional amount | | Derivative assets | | | Derivative liabilities | | |
|---|----------------------|-----------|---------------------------------------|---------------------------------|----------|---------------------------------------|---------------------------------|----------|
| | At December 31, 2019 | 2018 | Statement of condition classification | Fair value at December 31, 2019 | 2018 | Statement of condition classification | Fair value at December 31, 2019 | 2018 |
| <i>(In thousands)</i> | | | | | | | | |
| Derivatives designated as hedging instruments: | | | | | | | | |
| Forward contracts | \$ 97,600 | \$ 89,590 | Other assets | \$ 32 | \$ 12 | Other liabilities | \$ 264 | \$ 734 |
| Total derivatives designated as hedging instruments | \$ 97,600 | \$ 89,590 | | \$ 32 | \$ 12 | | \$ 264 | \$ 734 |
| Derivatives not designated as hedging instruments: | | | | | | | | |
| Interest rate caps | \$169,962 | \$177,826 | Other assets | \$ 1 | \$ 125 | Other liabilities | \$ 1 | \$ 119 |
| Indexed options on deposits | 69,354 | 69,254 | Other assets | 17,933 | 13,466 | – | – | – |
| Bifurcated embedded options | 66,755 | 62,902 | – | – | – | Interest bearing deposits | 16,354 | 11,467 |
| Total derivatives not designated as hedging instruments | \$306,071 | \$309,982 | | \$17,934 | \$13,591 | | \$16,355 | \$11,586 |
| Total derivative assets and liabilities | \$403,671 | \$399,572 | | \$17,966 | \$13,603 | | \$16,619 | \$12,320 |

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 83 days at December 31, 2019.

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, 2019 | | | | |
|------------------------------|--|---|--|---|
| <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 | \$(3,502) | Mortgage banking activities | \$(3,992) | \$- |
| Total | \$(3,502) | | \$(3,992) | \$- |

| Year ended December 31, 2018 | | | | |
|------------------------------|--|---|--|---|
| <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 | \$536 | Mortgage banking activities | \$1,202 | \$(92) |
| Total | \$536 | | \$1,202 | \$(92) |

| 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 |

Fair Value Hedges

At December 31, 2019 and 2018, there were no derivatives designated as fair value hedges.

Non-Hedging Activities

For the year ended December 31, 2019, the Corporation recognized a loss of \$ 1.2 million (2018 – gain of \$ 1.3 million; 2017 – loss of \$ 0.9 million) related to its non-hedging derivatives, as detailed in the table below.

| (In thousands) | Amount of Net Gain (Loss) Recognized in Income on Derivatives | | | |
|------------------------------------|---|------------------------------|------------------------------|------------------------------|
| | Classification of Net Gain (Loss) Recognized in Income on Derivatives | Year ended December 31, 2019 | Year ended December 31, 2018 | Year ended December 31, 2017 |
| Forward contracts | Mortgage banking activities | \$(2,254) | \$1,213 | \$(1,484) |
| Interest rate swaps | Other operating income | – | – | 51 |
| Foreign currency forward contracts | Other operating income | – | – | 67 |
| Foreign currency forward contracts | Interest expense | – | – | (14) |
| Interest rate caps | Other operating income | (5) | (4) | (48) |
| Indexed options on deposits | Interest expense | 7,898 | 114 | 5,934 |
| Bifurcated embedded options | Interest expense | (6,883) | (50) | (5,429) |
| Total | | \$(1,244) | \$1,273 | \$ (923) |

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 29 - 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:

| (In thousands) | |
|--|-----------|
| Balance at December 31, 2017 | \$182,989 |
| New loans | 1,068 |
| Payments | (12,040) |
| Other changes | (38,698) |
| Balance at December 31, 2018 | \$133,319 |
| New loans | 1,491 |
| Payments | (1,800) |
| Other changes, including existing loans to new related parties | 44 |
| Balance at December 31, 2019 | \$133,054 |

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., now a division of BPPR, 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 BPPR's loss mitigation program. During 2017, the borrower defaulted on his payment obligations under the restructured loan and as of December 31, 2018 the loan was 670 days past due. On October 2019, the Corporation completed a short sale of this loan which resulted in a charge-off of \$0.4 million.

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 July and October 2019. The July and October 2019 renewals each included a three (3) month interim renewal from June 30, 2019 to September 30, 2019 and from September 30, 2019 to December 31, 2019, respectively, continuing under the same repayment schedule at a 4.5% fixed rate in Notes A and 1% fixed rate in Notes B. In February 2020, and pursuant to the terms of the Related Party Policy, the Audit Committee approved another renewal which includes a four (4) month interim renewal from December 31, 2019 to April 30, 2020 continuing at the same repayment schedule in Notes A and Notes B as the July and October 2019 renewals. After April 30, 2020, the approved renewal provides for a 24-month extension, from April 30, 2020 to April 30, 2022, with Notes A subject to an interest rate of 5%, and Notes B continuing at a 1% interest rate. The approved renewal also contemplates the modification and addition of certain covenants to Notes A. Also, the approved renewal provides for the entity owned by one brother-in-law together with a director's father-in-law and another brother-in-law to purchase the participation of a director's father-in-law and another brother-in-law, the consent for said entity and another related entity to incur in additional indebtedness, and the issuance by a third related entity of an unsecured term note in the amount of \$49 thousand with a 5 year maturity at 7% interest rate. The aggregate outstanding balance on the loans as of December 31, 2019 was approximately \$31.2 million.

The brother of an executive officer of the Corporation and his wife have three outstanding loans, each secured by the borrowers' principal residence, where BPPR acts as either lender or servicer. The aggregate original amount of these loans was of \$0.7 million, comprised of one mortgage loan of approximately \$0.5 million, which is owned by a third-party investor and in which BPPR is the servicer, one mortgage loan of \$0.1 million secured by a second mortgage and another

mortgage loan of \$0.1 million secured by a third mortgage. As of December 31, 2019, the borrowers were in default with their respective obligations under all of these loan agreements. In February 2019, and pursuant to the terms of the Related Party Policy, the Audit Committee approved a series of transactions related to the aforementioned mortgages. With respect to the first mortgage, the parties will enter into a deed in lieu of foreclosure pursuant to which the property will be transferred to the investor free and clear of liens. In connection therewith, BPPR will also release the second and third mortgages over the residential property, subject to the following conditions. The borrowers will be required to make a cash contribution of \$20 thousand to reduce the principal amount of the second mortgage loan and issue, for the benefit of BPPR, a promissory note in the amount of \$82 thousand in order to grant BPPR the right to collect from borrowers the balance of such debt. With respect to the third mortgage loan, the borrowers will issue an unsecured promissory note that will benefit from a corporate guaranty from the entity under which the Corporation's brother operates a property appraisal business. Borrowers will be required to make monthly payments of \$500 until the maturity date of the promissory note, when the financial capacity of borrowers will be re-evaluated, and a new payment plan is expected to be entered into.

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 Chairman, at that time the Chief Executive Officer, as well as certain of his family members, are the owners. In addition, the Chairman'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 PIHC, the loan's maturity was extended by 90 days (under the same terms as originally contracted) to provide the PIHC 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. During 2017, 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. In February 2019, the Audit Committee approved, under the Related Party Policy, a 36-month renewal of the loan at an interest rate of 5.75% and a 30-year amortization schedule. As of December 31, 2019, the unpaid principal balance amounted to \$37.1 million.

In August 2018, BPPR acquired certain assets and assumed certain liabilities of Reliable Financial Services and Reliable Finance Holding Company, Puerto Rico-based subsidiaries of Wells Fargo & Company engaged in the auto finance business in Puerto Rico. Refer to Note 4 for additional information on this transaction. As part of the acquisition transaction, the Corporation entered into an agreement with Reliable Financial Services to sublease the space necessary to continue the acquired operations. Reliable Financial Services' underlying lease agreement was with an entity in which the Chairman of the Corporation's Board and his family members hold an ownership interest, described in the preceding paragraph as having a loan with the Corporation. This lease expired on April 30, 2019 pursuant to its terms. During 2019, the Corporation paid to Reliable Financial Services approximately \$0.5 million under the sublease.

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, 2019, the Corporation's banking subsidiaries held deposits from related parties, excluding EVERTEC, Inc. ("EVERTEC") amounting to \$576 million (2018 - \$632 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.

For the year ended December 31, 2019, the Corporation made contributions of approximately \$1.1 million to Fundación Banco Popular and Popular Bank Foundation, which are not-for-profit corporations dedicated to philanthropic work (2018 - \$2.1 million). The Corporation also provided human and operational resources to support the activities of the Fundación Banco Popular which in 2019 amounted to approximately \$1.4 million (2018- \$1.3 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, 2019, the Corporation's stake in EVERTEC was 16.19%. The Corporation continues to have significant influence over EVERTEC. Accordingly, the investment in EVERTEC is accounted for under the equity method and is evaluated for impairment if events or circumstances indicate that a decrease in value of the investment has occurred that is other than temporary.

The Corporation received \$2.3 million in dividend distributions during the year ended December 31, 2019 from its investments in EVERTEC's holding company (December 31, 2018 - \$1.2 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, 2019 | December 31, 2018 |
|------------------------------|-------------------|-------------------|
| Equity investment in EVERTEC | \$73,534 | \$60,591 |

The Corporation had the following financial condition balances outstanding with EVERTEC at December 31, 2019 and December 31, 2018. Items that represent liabilities to the Corporation are presented with parenthesis.

| <i>(In thousands)</i> | December 31, 2019 | December 31, 2018 |
|--------------------------------------|-------------------|-------------------|
| Accounts receivable (Other assets) | \$ 7,779 | \$ 6,829 |
| Deposits | (63,850) | (28,606) |
| Accounts payable (Other liabilities) | (1,290) | (3,671) |
| Net total | \$(57,361) | \$(25,448) |

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, 2019 and 2018.

| <i>(In thousands)</i> | Years ended December 31, | | |
|---|--------------------------|----------|----------|
| | 2019 | 2018 | 2017 |
| Share of income from investment in EVERTEC | \$16,749 | \$13,892 | \$ 8,924 |
| Share of other changes in EVERTEC's stockholders' equity | 516 | 1,659 | 2,659 |
| Share of EVERTEC's changes in equity recognized in income | \$17,265 | \$15,551 | \$11,583 |

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, 2019, 2018 and 2017. Items that represent expenses to the Corporation are presented with parenthesis.

| <i>(In thousands)</i> | Years ended December 31, | | | Category |
|--|--------------------------|-------------|-------------|--------------------------|
| | 2019 | 2018 | 2017 | |
| Interest expense on deposits | \$ (106) | \$ (79) | \$ (44) | Interest expense |
| ATH and credit cards interchange income from services to EVERTEC | 29,224 | 33,658 | 28,136 | Other service fees |
| Rental income charged to EVERTEC | 7,418 | 7,271 | 6,855 | Net occupancy |
| Fees on services provided by EVERTEC | (219,992) | (174,048) | (176,971) | Professional fees |
| Other services provided to EVERTEC | 1,118 | 1,059 | 1,236 | Other operating expenses |
| Total | \$(182,338) | \$(132,139) | \$(140,788) | |

PRLP 2011 Holdings, LLC and PR Asset Portfolio 2013-1 International, LLC

As indicated in Note 27 to the Consolidated Financial Statements, the Corporation holds a 24.9% equity interest in PRLP 2011 Holdings, LLC and PR Asset Portfolio 2013-1 International, LLC.

The Corporation's equity in PRLP 2011 Holdings, LLC and 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> | PRLP 2011 Holdings, LLC | | PR Asset Portfolio 2013-1 International, LLC | |
|-----------------------|-------------------------|-------------------|--|-------------------|
| | December 31, 2019 | December 31, 2018 | December 31, 2019 | December 31, 2018 |
| Equity investment | \$6,306 | \$6,469 | \$3,333 | \$5,794 |

The Corporation held deposits from these entities, as follows:

| <i>(In thousands)</i> | PRLP 2011 Holdings, LLC | | PR Asset Portfolio 2013-1 International, LLC | |
|---------------------------------|-------------------------|-------------------|--|-------------------|
| | December 31, 2019 | December 31, 2018 | December 31, 2019 | December 31, 2018 |
| Deposits (non-interest bearing) | \$(3) | \$(2,566) | \$(5,081) | \$(7,994) |

The Corporation's proportionate share of income or loss from these entities is presented in the following table and is included in other operating income in the Consolidated Statements of Operations.

| <i>(In thousands)</i> | PRLP 2011 Holdings, LLC | | PR Asset Portfolio 2013-1 International, LLC | |
|---|--------------------------|---------|--|-----------|
| | Years ended December 31, | | | |
| | 2019 | 2018 | 2019 | 2018 |
| Share of (loss) income from the equity investment | \$(163) | \$(356) | \$231 | \$(5,073) |

During the year ended December 31, 2019, the Corporation received \$2.7 million in capital distributions from its investment in PR Asset Portfolio 2013-1 International, LLC (December 31, 2018 - \$ 2.0 million). No capital distributions was received from its investment in PRLP Holdings, LLC during the year ended December 31, 2019 (December 31, 2018 - \$0.4 million).

Centro Financiero BHD León

At December 31, 2019, the Corporation had a 15.84% equity interest in Centro Financiero BHD León, S.A. (“BHD León”), one of the largest banking and financial services groups in the Dominican Republic. During the year ended December 31, 2019, the Corporation recorded \$26.6 million in earnings from its investment in BHD León (December 31, 2018 - \$27.2 million), which had a carrying amount of \$151.6 million at December 31, 2019 (December 31, 2018 - \$143.5 million). On December 2017, BPPR extended a credit facility of \$40 million to BHD León. This credit facility was repaid during the quarter ended March 31, 2018. The Corporation received \$12.6 million in dividend distributions during the year ended December 31, 2019 from its investment in BHD León (December 31, 2018 - \$12.6 million).

On June 30, 2017, BPPR extended an \$8 million credit facility to Grupo Financiero Leon, S.A. Panamá (“GFL”), a shareholder of BHD León. The sources of repayment for this loan were the dividends to be received by GFL from its investment in BHD León. BPPR’s credit facility ranked *pari passu* with another \$8 million credit facility extended to GFL by BHD International Panama, an affiliate of BHD León. This credit facility was repaid during the quarter ended June 30, 2018.

Investment Companies

The Corporation provides advisory services to several investment companies registered under the Puerto Rico Investment Companies Act 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, 2019 administrative fees charged to these investment companies amounted to \$6.4 million (December 31, 2018 - \$6.7 million) and waived fees amounted to \$2.2 million (December 31, 2018 - \$2.1 million), for a net fee of \$4.2 million (December 31, 2018 - \$4.6 million).

The Corporation, through its subsidiary BPPR, has also entered into certain uncommitted credit facilities with those investment companies. As of December 31, 2019, the available lines of credit facilities amounted to \$330 million (December 31, 2018 - \$330 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 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. At December 31, 2019 there was no outstanding balance for these credit facilities.

Note 30 - 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 judgements 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, 2019 and 2018 and on a nonrecurring basis in periods subsequent to initial recognition for the years ended December 31, 2019, 2018, and 2017:

At December 31, 2019

| (In thousands) | Level 1 | Level 2 | Level 3 | Total |
|--|--------------------|---------------------|------------------|---------------------|
| RECURRING FAIR VALUE MEASUREMENTS | | | | |
| Assets | | | | |
| Debt securities available-for-sale: | | | | |
| U.S. Treasury securities | \$3,841,715 | \$ 8,214,540 | \$ – | \$12,056,255 |
| Obligations of U.S. Government sponsored entities | – | 122,404 | – | 122,404 |
| Obligations of Puerto Rico, States and political subdivisions | – | 6,975 | – | 6,975 |
| Collateralized mortgage obligations - federal agencies | – | 586,175 | – | 586,175 |
| Mortgage-backed securities | – | 4,875,132 | 1,182 | 4,876,314 |
| Other | – | 350 | – | 350 |
| Total debt securities available-for-sale | \$3,841,715 | \$13,805,576 | \$ 1,182 | \$17,648,473 |
| Trading account debt securities, excluding derivatives: | | | | |
| U.S. Treasury securities | \$ 7,081 | \$ 2 | \$ – | \$ 7,083 |
| Obligations of Puerto Rico, States and political subdivisions | – | 633 | – | 633 |
| Collateralized mortgage obligations | – | 76 | 530 | 606 |
| Mortgage-backed securities | – | 28,556 | – | 28,556 |
| Other | – | 3,003 | 440 | 3,443 |
| Total trading account debt securities, excluding derivatives | \$ 7,081 | \$ 32,270 | \$ 970 | \$ 40,321 |
| Equity securities | \$ – | \$ 21,327 | \$ – | \$ 21,327 |
| Mortgage servicing rights | – | – | 150,906 | 150,906 |
| Derivatives | – | 17,966 | – | 17,966 |
| Total assets measured at fair value on a recurring basis | \$3,848,796 | \$13,877,139 | \$153,058 | \$17,878,993 |
| Liabilities | | | | |
| Derivatives | \$ – | \$ (16,619) | \$ – | \$ (16,619) |
| Total liabilities measured at fair value on a recurring basis | \$ – | \$ (16,619) | \$ – | \$ (16,619) |

At December 31, 2018

| (In thousands) | Level 1 | Level 2 | Level 3 | Total |
|--|--------------------|---------------------|------------------|---------------------|
| RECURRING FAIR VALUE MEASUREMENTS | | | | |
| Assets | | | | |
| Debt securities available-for-sale: | | | | |
| U.S. Treasury securities | \$2,719,740 | \$ 5,552,456 | \$ – | \$ 8,272,196 |
| Obligations of U.S. Government sponsored entities | – | 333,309 | – | 333,309 |
| Obligations of Puerto Rico, States and political subdivisions | – | 6,742 | – | 6,742 |
| Collateralized mortgage obligations - federal agencies | – | 728,671 | – | 728,671 |
| Mortgage-backed securities | – | 3,957,545 | 1,233 | 3,958,778 |
| Other | – | 488 | – | 488 |
| Total debt securities available-for-sale | \$2,719,740 | \$10,579,211 | \$ 1,233 | \$13,300,184 |
| Trading account debt securities, excluding derivatives: | | | | |
| U.S. Treasury securities | \$ 6,278 | \$ – | \$ – | \$ 6,278 |
| Obligations of Puerto Rico, States and political subdivisions | – | 134 | – | 134 |
| Collateralized mortgage obligations | – | 48 | 611 | 659 |
| Mortgage-backed securities | – | 27,214 | 43 | 27,257 |
| Other | – | 2,974 | 485 | 3,459 |
| Total trading account debt securities, excluding derivatives | \$ 6,278 | \$ 30,370 | \$ 1,139 | \$ 37,787 |
| Equity securities | \$ – | \$ 13,296 | \$ – | \$ 13,296 |
| Mortgage servicing rights | – | – | 169,777 | 169,777 |
| Derivatives | – | 13,603 | – | 13,603 |
| Total assets measured at fair value on a recurring basis | \$2,726,018 | \$10,636,480 | \$172,149 | \$13,534,647 |
| Liabilities | | | | |
| Derivatives | \$ – | \$ (12,320) | \$ – | \$ (12,320) |
| Total liabilities measured at fair value on a recurring basis | \$ – | \$ (12,320) | \$ – | \$ (12,320) |

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, 2019, 2018 and 2017 and excludes nonrecurring fair value measurements of assets no longer outstanding as of the reporting date.

Year ended December 31, 2019

| <i>(In thousands)</i> | Level 1 | Level 2 | Level 3 | Total | |
|--|------------|------------|-----------------|-----------------|--------------------|
| NONRECURRING FAIR VALUE MEASUREMENTS | | | | | |
| Assets | | | | | Write-downs |
| Loans [1] | \$— | \$— | \$35,363 | \$35,363 | \$ (13,533) |
| Other real estate owned [2] | — | — | 18,132 | 18,132 | (3,526) |
| Other foreclosed assets [2] | — | — | 1,213 | 1,213 | (156) |
| Long-lived assets held-for-sale [3] | — | — | 2,500 | 2,500 | (2,591) |
| Total assets measured at fair value on a nonrecurring basis | \$— | \$— | \$57,208 | \$57,208 | \$ (19,806) |

[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] Represents the fair value of long-lived assets held-for-sale that were written down to their fair value.

Year ended December 31, 2018

| <i>(In thousands)</i> | Level 1 | Level 2 | Level 3 | Total | |
|--|------------|------------|------------------|------------------|--------------------|
| NONRECURRING FAIR VALUE MEASUREMENTS | | | | | |
| Assets | | | | | Write-downs |
| Loans [1] | \$— | \$— | \$ 73,893 | \$ 73,893 | \$ (25,745) |
| Other real estate owned [2] | — | — | 43,463 | 43,463 | (9,189) |
| Other foreclosed assets [2] | — | — | 1,349 | 1,349 | (722) |
| Total assets measured at fair value on a nonrecurring basis | \$— | \$— | \$118,705 | \$118,705 | \$ (35,656) |

[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, 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-down include \$2.7 million related to estimated damages caused by Hurricanes Irma and Maria based on the sample of properties examined.

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, 2019, 2018, and 2017.

Year ended December 31, 2019

| <i>(In thousands)</i> | MBS classified as debt securities available- for-sale | CMOs classified as trading account debt securities | MBS classified as trading account debt securities | Other securities classified as trading account debt securities | Mortgage servicing rights | Total assets |
|--|--|--|--|---|---------------------------------|-----------------|
| Balance at January 1, 2019 | \$1,233 | \$ 611 | \$ 43 | \$485 | \$169,777 | \$172,149 |
| Gains (losses) included in earnings | – | (1) | (1) | (45) | (27,516) | (27,563) |
| Gains (losses) included in OCI | (1) | – | – | – | – | (1) |
| Additions | – | 71 | 25 | – | 9,143 | 9,239 |
| Settlements | (50) | (151) | (41) | – | (498) | (740) |
| Transfers out of Level 3 | – | – | (26) | – | – | (26) |
| Balance at December 31, 2019 | \$1,182 | \$ 530 | \$ – | \$440 | \$150,906 | \$153,058 |
| Changes in unrealized gains (losses) included in earnings relating to assets still held at December 31, 2019 | \$ – | \$ 1 | \$ – | \$ 20 | \$ (14,190) | \$ (14,169) |

Year ended December 31, 2018

| <i>(In thousands)</i> | MBS classified as debt securities available- for-sale | CMOs classified as trading account debt securities | MBS classified as trading account debt securities | Other securities classified as trading account debt securities | Mortgage servicing rights | Total assets | Contingent consideration | Total liabilities |
|--|--|--|--|---|---------------------------------|-----------------|-----------------------------|----------------------|
| Balance at January 1, 2018 | \$1,288 | \$ 529 | \$43 | \$529 | \$168,031 | \$170,420 | \$(164,858) | \$(164,858) |
| Gains (losses) included in earnings | – | 2 | – | (44) | (8,477) | (8,519) | (6,112) | (6,112) |
| Gains (losses) included in OCI | (5) | – | – | – | – | (5) | – | – |
| Additions | – | 260 | – | – | 10,223 | 10,483 | – | – |
| Settlements | (50) | (180) | – | – | – | (230) | 170,970 | 170,970 |
| Balance at December 31, 2018 | \$1,233 | \$ 611 | \$43 | \$485 | \$169,777 | \$172,149 | \$ – | \$ – |
| Changes in unrealized gains (losses) included in earnings relating to assets still held at December 31, 2018 | \$ – | \$ 2 | \$ – | \$ 20 | \$ 8,703 | \$ 8,725 | \$ – | \$ – |

[1] Effective May 22, 2018, the Corporation entered into a Termination Agreement with the FDIC to terminate the Corporation's loss share arrangement ahead of their contractual maturities. Refer to Note 10 for additional information.

Year ended December 31, 2017

| <i>(In thousands)</i> | MBS classified as debt securities available- for-sale | CMOs classified as trading account debt securities | MBS classified as trading account debt securities | Other securities classified as trading account debt 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) |

During the years ended December 31, 2019 and 2017, certain MBS and CMO's 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.

Gains and losses (realized and unrealized) included in earnings for the years ended December 31, 2019, 2018, and 2017 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> | 2019 | | 2018 | | 2017 | |
|-------------------------------------|--|---|--|---|--|---|
| | 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 |
| FDIC loss share (expense) income | \$ – | \$ – | \$ (6,112) | \$ – | \$(11,700) | \$(11,700) |
| Mortgage banking activities | (27,516) | (14,190) | (8,477) | 8,703 | (36,519) | (18,986) |
| Trading account (loss) profit | (47) | 21 | (42) | 22 | (197) | 39 |
| Total | \$(27,563) | \$(14,169) | \$(14,631) | \$8,725 | \$(48,416) | \$(30,647) |

The following tables include 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 at December 31, 2019 and 2018.

| <i>(In thousands)</i> | Fair value at December 31, 2019 | Valuation technique | Unobservable inputs | Weighted average (range) [1] |
|---------------------------|---------------------------------------|----------------------------|--|---|
| CMO's - trading | \$ 530 | Discounted cash flow model | Weighted average life Yield Prepayment speed | 1.6 years (1.3 -1.8 years) 4.0% (3.9% - 4.4%) 18.3% (14.8% - 20.7%) |
| Other - trading | \$ 440 | Discounted cash flow model | Weighted average life Yield Prepayment speed | 3.8 years 12.0% 10.8% |
| Mortgage servicing rights | \$150,906 | Discounted cash flow model | Prepayment speed Weighted average life Discount rate | 6.0%(0.2% - 18.5%) 6.5 years (0.1 -14.4 years) 11.1% (9.5% - 14.7%) |
| Loans held-in-portfolio | \$ 38,907 [2] | External appraisal | Haircut applied on external appraisals | 10% |
| Other real estate owned | \$ 16,119 [3] | External appraisal | Haircut applied on external appraisals | 23.8% (5.0% - 35.0%) |

[1] Weighted average of significant unobservable inputs used to develop Level 3 fair value measurements were calculated by relative fair value.

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

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

| <i>(In thousands)</i> | Fair value at December 31, 2018 | Valuation technique | Unobservable inputs | Weighted average (range) [1] |
|---------------------------|---------------------------------------|----------------------------|--|--|
| CMO's - trading | \$ 611 | Discounted cash flow model | Weighted average life Yield Prepayment speed | 1.9 years (1.3 -2.1 years) 4.1% (3.9% - 4.4%) 18.9% (16.3% - 20.7%) |
| Other - trading | \$ 485 | Discounted cash flow model | Weighted average life Yield Prepayment speed | 5.2 years 12.0% 10.8% |
| Mortgage servicing rights | \$169,777 | Discounted cash flow model | Prepayment speed Weighted average life Discount rate | 5.3% (0.2% - 17.8%) 6.8 years (0.1 -17.4 years) 11.2% (9.5% - 15.0%) |
| Loans held-in-portfolio | \$ 61,020 [2] | External appraisal | Haircut applied on external appraisals | 10.3% (10.0% - 20.0%) |
| Other real estate owned | \$ 35,233 [3] | External appraisal | Haircut applied on external appraisals | 24.7% (15.0% - 30.0%) |

[1] Weighted average of significant unobservable inputs used to develop Level 3 fair value measurements were calculated by relative fair value.

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

[3] 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. 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.

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 debt securities and debt 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.
- 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 debt 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.

Equity securities

Equity securities are comprised principally of shares in closed-ended and open-ended mutual funds. Closed-end funds are traded on the secondary market at the shares' market value. Open-ended funds are considered to be liquid, as investors can sell their shares continually to the fund and are priced at NAV. These equity securities are classified as Level 2.

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.

On a quarterly basis, management evaluated and revised 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 was classified as Level 3. As disclosed in Note 10, this true-up payment obligation ended as part of the Termination Agreement with the FDIC.

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 31 - 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, 2019 and December 31, 2018, 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, 2019 | | | | | |
|---|-------------------|-------------|-------------------|------------------|-------------------|
| <i>(In thousands)</i> | Carrying amount | Level 1 | Level 2 | Level 3 | Fair value |
| Financial Assets: | | | | | |
| Cash and due from banks | \$ 388,311 | \$ 388,311 | \$ — | \$ — | \$ 388,311 |
| Money market investments | 3,262,286 | 3,256,274 | 6,012 | — | 3,262,286 |
| Trading account debt securities, excluding derivatives ^[1] | 40,321 | 7,081 | 32,270 | 970 | 40,321 |
| Debt securities available-for-sale ^[1] | 17,648,473 | 3,841,715 | 13,805,576 | 1,182 | 17,648,473 |
| Debt securities held-to-maturity: | | | | | |
| Obligations of Puerto Rico, States and political subdivisions | \$ 85,556 | \$ — | \$ — | \$ 93,002 | \$ 93,002 |
| Collateralized mortgage obligation-federal agency | 45 | — | — | 47 | 47 |
| Securities in wholly owned statutory business trusts | 11,561 | — | 11,561 | — | 11,561 |
| Other | 500 | — | 500 | — | 500 |
| Total debt securities held-to-maturity | \$ 97,662 | \$ — | \$ 12,061 | \$ 93,049 | \$ 105,110 |
| Equity securities: | | | | | |
| FHLB stock | \$ 43,787 | \$ — | \$ 43,787 | \$ — | \$ 43,787 |
| FRB stock | 93,470 | — | 93,470 | — | 93,470 |
| Other investments | 22,630 | — | 21,328 | 7,367 | 28,695 |
| Total equity securities | \$ 159,887 | \$ — | \$ 158,585 | \$ 7,367 | \$ 165,952 |
| Loans held-for-sale | \$ 59,203 | \$ — | \$ — | \$ 60,030 | \$ 60,030 |
| Loans held-in-portfolio | 26,929,165 | — | — | 25,051,400 | 25,051,400 |
| Mortgage servicing rights | 150,906 | — | — | 150,906 | 150,906 |
| Derivatives | 17,966 | — | 17,966 | — | 17,966 |

| December 31, 2019 | | | | | |
|--|---------------------|-------------|---------------------|-------------|---------------------|
| <i>(In thousands)</i> | Carrying amount | Level 1 | Level 2 | Level 3 | Fair value |
| Financial Liabilities: | | | | | |
| Deposits: | | | | | |
| Demand deposits | \$36,083,809 | \$ — | \$36,083,809 | \$ — | \$36,083,809 |
| Time deposits | 7,674,797 | — | 7,598,732 | — | 7,598,732 |
| Total deposits | \$43,758,606 | \$ — | \$43,682,541 | \$ — | \$43,682,541 |
| Assets sold under agreements to repurchase | \$ 193,378 | \$ — | \$ 193,271 | \$ — | \$ 193,271 |
| Notes payable: | | | | | |
| FHLB advances | \$ 421,399 | \$ — | \$ 429,718 | \$ — | \$ 429,718 |
| Unsecured senior debt securities | 295,307 | — | 323,415 | — | 323,415 |
| Junior subordinated deferrable interest debentures (related to trust preferred securities) | 384,902 | — | 395,216 | — | 395,216 |
| Total notes payable | \$ 1,101,608 | \$ — | \$ 1,148,349 | \$ — | \$ 1,148,349 |
| Derivatives | \$ 16,619 | \$ — | \$ 16,619 | \$ — | \$ 16,619 |

[1] Refer to Note 30 to the Consolidated Financial Statements for the fair value by class of financial asset and its hierarchy level

December 31, 2018

| <i>(In thousands)</i> | Carrying amount | Level 1 | Level 2 | Level 3 | Fair value |
|---|--------------------|-------------|-------------------|------------------|-------------------|
| Financial Assets: | | | | | |
| Cash and due from banks | \$ 394,035 | \$ 394,035 | \$ — | \$ — | \$394,035 |
| Money market investments | 4,171,048 | 4,161,832 | 9,216 | — | 4,171,048 |
| Trading account debt securities, excluding derivatives ^[1] | 37,787 | 6,278 | 30,370 | 1,139 | 37,787 |
| Debt securities available-for-sale ^[1] | 13,300,184 | 2,719,740 | 10,579,211 | 1,233 | 13,300,184 |
| Debt securities held-to-maturity: | | | | | |
| Obligations of Puerto Rico, States and political subdivisions | \$ 89,459 | \$ — | \$ — | \$ 90,534 | \$ 90,534 |
| Collateralized mortgage obligation-federal agency | 55 | — | — | 58 | 58 |
| Securities in wholly owned statutory business trusts | 11,561 | — | 11,561 | — | 11,561 |
| Other | 500 | — | 500 | — | 500 |
| Total debt securities held-to-maturity | \$ 101,575 | \$ — | \$ 12,061 | \$ 90,592 | \$ 102,653 |
| Equity securities: | | | | | |
| FHLB stock | \$ 51,628 | \$ — | \$ 51,628 | \$ — | \$ 51,628 |
| FRB stock | 89,358 | — | 89,358 | — | 89,358 |
| Other investments | 14,598 | — | 13,296 | 5,539 | 18,835 |
| Total equity securities | \$ 155,584 | \$ — | \$ 154,282 | \$ 5,539 | \$ 159,821 |
| Loans held-for-sale | \$ 51,422 | \$ — | \$ — | \$ 52,474 | \$ 52,474 |
| Loans held-in-portfolio | 25,938,541 | — | — | 23,143,027 | 23,143,027 |
| Mortgage servicing rights | 169,777 | — | — | 169,777 | 169,777 |
| Derivatives | 13,603 | — | 13,603 | — | 13,603 |

December 31, 2018

| <i>(In thousands)</i> | Carrying amount | Level 1 | Level 2 | Level 3 | Fair value |
|--|---------------------|-------------|---------------------|------------------|---------------------|
| Financial Liabilities: | | | | | |
| Deposits: | | | | | |
| Demand deposits | \$32,093,274 | \$ — | \$32,093,274 | \$ — | \$32,093,274 |
| Time deposits | 7,616,765 | — | 7,392,698 | — | 7,392,698 |
| Total deposits | \$39,710,039 | \$ — | \$39,485,972 | \$ — | \$39,485,972 |
| Assets sold under agreements to repurchase | \$ 281,529 | \$ — | \$ 281,535 | \$ — | \$ 281,535 |
| Other short-term borrowings ^[2] | \$ 42 | \$ — | \$ 42 | \$ — | \$ 42 |
| Notes payable: | | | | | |
| FHLB advances | \$ 556,776 | \$ — | \$ 553,111 | \$ — | \$ 553,111 |
| Unsecured senior debt | 294,039 | — | 302,664 | — | 302,664 |
| Junior subordinated deferrable interest debentures (related to trust preferred securities) | 384,875 | — | 381,079 | — | 381,079 |
| Capital lease obligations | 20,412 | — | — | 20,412 | 20,412 |
| Total notes payable | \$ 1,256,102 | \$ — | \$ 1,236,854 | \$ 20,412 | \$ 1,257,266 |
| Derivatives | \$ 12,320 | \$ — | \$ 12,320 | \$ — | \$ 12,320 |

[1] Refer to Note 30 to the Consolidated Financial Statements for the fair value by class of financial asset and its hierarchy level.

[2] Refer to Note 19 to the Consolidated Financial Statements for the composition of other short-term borrowings.

The notional amount of commitments to extend credit at December 31, 2019 and December 31, 2018 is \$8.4 billion and \$ 7.5 billion, respectively, and represents the unused portion of credit facilities granted to customers. The notional amount of letters of credit at December 31, 2019 and December 31, 2018 is \$ 78 million and \$ 29 million respectively, 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.

Note 32 - Employee benefits

Certain employees of BPPR are covered by three non-contributory defined benefit pension plans, the Banco Popular de Puerto Rico Retirement Plan and two Restoration Plans. Pension benefits are based on age, years of credited service, and final average compensation (the "Pension Plans").

The Pension Plans are currently closed to new hires and the accrual of benefits are frozen to all participants. The Pension Plans' 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 plan 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 Pension Plans 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 Banco Popular de Puerto Rico 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.

In addition to providing pension benefits, BPPR provides certain health care benefits for certain retired employees (the "OPEB Plan"). 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.

The Pension Plans weighted average asset allocation as of December 31, 2019 and 2018 and the approved asset allocation ranges, by asset category, are summarized in the table below.

| | Minimum allotment | Maximum allotment | 2019 | 2018 |
|----------------------------|-------------------|-------------------|------|------|
| Equity | 0% | 70% | 36% | 32% |
| Debt securities | 0% | 100% | 62% | 65% |
| Popular related securities | 0% | 5% | 1% | 1% |
| Cash and cash equivalents | 0% | 100% | 1% | 2% |

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 BPPR 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 following table sets forth by level, within the fair value hierarchy, the Pension Plans' assets at fair value at December 31, 2019 and 2018. 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) | 2019 | | | | | 2018 | | | | |
|---|------------------|------------------|----------------|-----------------|------------------|------------------|------------------|----------------|-----------------|------------------|
| | 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, its agencies, states and political subdivisions | \$ - | \$171,744 | \$ - | \$ 7,239 | \$178,983 | \$ - | \$165,832 | \$ - | \$ 7,137 | \$172,969 |
| Corporate bonds and debentures | - | 304,958 | - | 7,730 | 312,688 | - | 256,657 | - | 6,987 | 263,644 |
| Equity securities - Common Stocks | 116,254 | - | - | - | 116,254 | 90,175 | - | - | - | 90,175 |
| Equity securities - ETF's | 52,083 | 35,559 | - | - | 87,642 | 39,394 | 29,635 | - | - | 69,029 |
| Foreign commingled trust funds | - | - | - | 82,030 | 82,030 | - | - | - | 59,362 | 59,362 |
| Mutual fund | - | 4,490 | - | - | 4,490 | - | 3,630 | - | - | 3,630 |
| Mortgage-backed securities | - | 5,777 | - | - | 5,777 | - | 11,349 | - | - | 11,349 |
| Private equity investments | - | - | 74 | - | 74 | - | - | 68 | - | 68 |
| Cash and cash equivalents | 7,401 | - | - | - | 7,401 | 10,573 | - | - | - | 10,573 |
| Accrued investment income | - | - | 4,596 | - | 4,596 | - | - | 5,024 | - | 5,024 |
| Total assets | \$175,738 | \$522,528 | \$4,670 | \$96,999 | \$799,935 | \$140,142 | \$467,103 | \$5,092 | \$73,486 | \$685,823 |

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, its agencies, states and political subdivisions - The fair value of Obligations of U.S. Government and its agencies obligations are based on an active exchange market and on quoted market prices for similar securities. 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. The fair value of municipal bonds are based on trade data on these instruments reported on Municipal Securities Rulemaking Board ("MSRB") transaction reporting system or comparable bonds from the same issuer and credit quality. 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> | 2019 | 2018 |
|--|----------------|----------------|
| Balance at beginning of year | \$5,092 | \$4,758 |
| Actual return on plan assets: | | |
| Purchases, sales, issuance and settlements (net) | (422) | 334 |
| Balance at end of year | \$4,670 | \$5,092 |

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, 2019 and 2018. There were no transfers in and/or out of Level 1 and Level 2 during the years ended December 31, 2019 and 2018.

Information on the shares of common stock held by the pension plans is provided in the table that follows.

| <i>(In thousands, except number of shares information)</i> | 2019 | 2018 |
|---|----------|----------|
| Shares of Popular, Inc. common stock | 156,444 | 152,804 |
| Fair value of shares of Popular, Inc. common stock | \$ 9,191 | \$ 7,215 |
| Dividends paid on shares of Popular, Inc. common stock held by the plan | \$ 177 | \$ 151 |

The following table presents the components of net periodic benefit cost for the years ended December 31, 2019 and 2018.

| <i>(In thousands)</i> | Pension Plans | | | OPEB Plan | | |
|---|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2019 | 2018 | 2017 | 2019 | 2018 | 2017 |
| Personnel costs: | | | | | | |
| Service cost | \$ – | \$ – | \$ – | \$ 759 | \$ 1,028 | \$ 1,026 |
| Other operating expenses: | | | | | | |
| Interest cost | 28,439 | 25,493 | 25,889 | 5,955 | 5,562 | 5,703 |
| Expected return on plan assets | (32,388) | (40,240) | (42,752) | – | – | – |
| Amortization of prior service cost (credit) | – | – | – | – | (3,470) | (3,800) |
| Recognized net actuarial loss | 23,508 | 20,260 | 21,859 | – | 1,282 | 569 |
| Net periodic benefit (credit) cost | \$ 19,559 | \$ 5,513 | \$ 4,996 | \$ 6,714 | \$ 4,402 | \$ 3,498 |
| Termination benefit loss | – | – | – | – | 1,790 | – |
| Total benefit cost | \$ 19,559 | \$ 5,513 | \$ 4,996 | \$ 6,714 | \$ 6,192 | \$ 3,498 |

During the year 2018, the termination benefit loss of \$1.8 million related to the additional health care benefits provided to the eligible employees that accepted to participate in the “VRP” was recorded as “Personnel costs” in the consolidated statement of operations.

During the years ended December 31, 2019, 2018 and 2017, there is no service cost recognized as part of the net periodic cost for the Pension Plans since the accrual of benefits for all

participants has been frozen. As part of the implementation of ASU 2017-07, the other components of net periodic cost other than the service cost components were reclassified from “Personnel costs” to “Other operating expenses” in the consolidated statement of operations in the amount of \$5.0 million for the year ended December 31, 2017 for Pension Plans and \$2.5 million for the year ended December 31, 2017 for the OPEB Plan.

The following table sets forth the aggregate status of the plans and the amounts recognized in the consolidated financial statements at December 31, 2019 and 2018.

| <i>(In thousands)</i> | Pension Plans | | OPEB Plan | |
|--|--------------------|--------------------|---------------------|---------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Change in benefit obligation: | | | | |
| Benefit obligation at beginning of year | \$ 754,558 | \$ 816,988 | \$ 153,415 | \$ 170,720 |
| Service cost | — | — | 759 | 1,028 |
| Interest cost | 28,439 | 25,493 | 5,955 | 5,562 |
| Termination benefit loss | — | — | — | 1,790 |
| Actuarial (gain) loss [1] | 113,642 | (47,549) | 15,752 | (20,547) |
| Benefits paid | (44,088) | (40,374) | (7,200) | (5,138) |
| Benefit obligation at end of year | \$ 852,551 | \$ 754,558 | \$ 168,681 | \$ 153,415 |
| Change in fair value of plan assets: | | | | |
| Fair value of plan assets at beginning of year | \$ 685,823 | \$ 767,539 | \$ — | \$ — |
| Actual return on plan assets | 137,970 | (41,572) | — | — |
| Employer contributions | 20,230 | 230 | 7,200 | 5,138 |
| Benefits paid | (44,088) | (40,374) | (7,200) | (5,138) |
| Fair value of plan assets at end of year | \$ 799,935 | \$ 685,823 | \$ — | \$ — |
| Funded status of the plan: | | | | |
| Benefit obligation at end of year | \$(852,551) | \$(754,558) | \$(168,681) | \$(153,415) |
| Fair value of plan assets at end of year | 799,935 | 685,823 | — | — |
| Funded status at year end | \$ (52,616) | \$ (68,735) | \$ (168,681) | \$ (153,415) |
| Amounts recognized in accumulated other comprehensive loss: | | | | |
| Net loss | 288,882 | 304,330 | 21,472 | 5,720 |
| Accumulated other comprehensive loss (AOCL) | \$ 288,882 | \$ 304,330 | \$ 21,472 | \$ 5,720 |
| Reconciliation of net (liabilities) assets: | | | | |
| Net liabilities at beginning of year | \$ (68,735) | \$ (49,449) | \$(153,415) | \$(170,720) |
| Amount recognized in AOCL at beginning of year, pre-tax | 304,330 | 290,327 | 5,720 | 24,079 |
| Amount prepaid at beginning of year | 235,595 | 240,878 | (147,695) | (146,641) |
| Net periodic benefit cost | (19,559) | (5,513) | (6,714) | (4,402) |
| Additional benefit cost | — | — | — | (1,790) |
| Contributions | 20,230 | 230 | 7,200 | 5,138 |
| Amount prepaid at end of year | 236,266 | 235,595 | (147,209) | (147,695) |
| Amount recognized in AOCL | (288,882) | (304,330) | (21,472) | (5,720) |
| Net liabilities at end of year | \$ (52,616) | \$ (68,735) | \$(168,681) | \$(153,415) |

[1] For 2019, significant components of the Pension Plans actuarial loss that changed the benefit obligation were mainly related to updates in discount and mortality rates. For OPEB Plans significant components of the actuarial loss that change the benefit obligation were mainly related to updates in discount and mortality rates partially offset by update in healthcare election rates and expected annual healthcare costs. For 2018, significant components of the Pension Plans actuarial gains that change the benefit obligation were mostly related to updates in discount rate partially offset by the impact of the 2018 Voluntary Retirement Program. For OPEB Plans significant components of the actuarial gain that change the benefit obligation were mainly related to updates in discount rate and expected annual healthcare costs.

The following table presents the change in accumulated other comprehensive loss (“AOCL”), pre-tax, for the years ended December 31, 2019 and 2018.

| <i>(In thousands)</i> | Pension Plans | | OPEB Plan | |
|---|---------------|-----------|-----------|-----------|
| | 2019 | 2018 | 2019 | 2018 |
| Accumulated other comprehensive loss at beginning of year | \$304,330 | \$290,327 | \$ 5,720 | \$ 24,079 |
| Increase (decrease) in AOCL: | | | | |
| Recognized during the year: | | | | |
| Prior service credit | – | – | – | 3,470 |
| Amortization of actuarial losses | (23,508) | (20,260) | – | (1,282) |
| Occurring during the year: | | | | |
| Net actuarial (gains) losses | 8,060 | 34,263 | 15,752 | (20,547) |
| Total (decrease) increase in AOCL | (15,448) | 14,003 | 15,752 | (18,359) |
| Accumulated other comprehensive loss at end of year | \$288,882 | \$304,330 | \$21,472 | \$ 5,720 |

The Corporation estimates the service and interest cost components utilizing 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.

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, 2019 and 2018.

The following table presents the discount rate and assumed health care cost trend rates used to determine the benefit obligation and net periodic benefit cost for the plans:

| | Pension Plans | | | OPEB Plan | | |
|--|---------------|--------------|--------------|-----------|-------|-------|
| | 2019 | 2018 | 2017 | 2019 | 2018 | 2017 |
| <i>Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:</i> | | | | | | |
| Discount rate for benefit obligation | 4.20 - 4.23% | 3.54 - 3.56% | 3.98 - 4.02% | 4.30% | 3.62% | 4.10% |
| Discount rate for service cost | N/A | N/A | N/A | 4.49% | 3.74% | 4.30% |
| Discount rate for interest cost | 3.87 - 3.90% | 3.16 - 3.20% | 3.35 - 3.42% | 3.99% | 3.32% | 3.58% |
| Expected return on plan assets | 5.30 - 6.00% | 5.50 - 6.00% | 6.50% | N/A | N/A | N/A |
| Initial health care cost trend rate | N/A | N/A | N/A | 5.00% | 5.50% | 6.00% |
| Ultimate health care cost trend rate | N/A | N/A | N/A | 5.00% | 5.00% | 5.00% |
| Year that the ultimate trend rate is reached | N/A | N/A | N/A | 2019 | 2019 | 2019 |

| | Pension Plans | | OPEB Plan | |
|--|---------------|--------------|-----------|-------|
| | 2019 | 2018 | 2019 | 2018 |
| <i>Weighted average assumptions used to determine benefit obligation at December 31:</i> | | | | |
| Discount rate for benefit obligation | 3.22 - 3.27% | 4.20 - 4.23% | 3.38% | 4.30% |
| Initial health care cost trend rate | N/A | N/A | 5.00% | 5.00% |
| Ultimate health care cost trend rate | N/A | N/A | 5.00% | 5.00% |
| Year that the ultimate trend rate is reached | N/A | N/A | 2019 | 2019 |

The following table presents information for plans with a projected benefit obligation and accumulated benefit obligation in excess of plan assets for the years ended December 31, 2019 and 2018.

| <i>(In thousands)</i> | Pension Plans | | OPEB Plan | |
|--------------------------------|---------------|-----------|-----------|-----------|
| | 2019 | 2018 | 2019 | 2018 |
| Projected benefit obligation | \$852,551 | \$754,558 | \$168,681 | \$153,415 |
| Accumulated benefit obligation | 852,551 | 754,558 | 168,681 | 153,415 |
| Fair value of plan assets | 799,935 | 685,823 | – | – |

The Corporation expects to pay the following contributions to the plans during the year ended December 31, 2019.

| <i>(In thousands)</i> | 2020 |
|-----------------------|---------|
| Pension Plans | \$ 229 |
| OPEB Plan | \$6,515 |

Benefit payments projected to be made from the plans during the next ten years are presented in the table below.

| <i>(In thousands)</i> | Pension Plans | OPEB Plan |
|-----------------------|---------------|-----------|
| 2020 | \$ 48,161 | \$ 6,515 |
| 2021 | 45,152 | 6,510 |
| 2022 | 45,295 | 6,661 |
| 2023 | 45,498 | 6,843 |
| 2024 | 45,696 | 7,057 |
| 2025 - 2029 | 228,701 | 38,483 |

The table below presents a breakdown of the plans' assets and liabilities at December 31, 2019 and 2018.

| <i>(In thousands)</i> | Pension Plans | | OPEB Plan | |
|-------------------------|---------------|--------|-----------|----------|
| | 2019 | 2018 | 2019 | 2018 |
| Current liabilities | \$ 227 | \$ 225 | \$ 6,456 | \$ 8,007 |
| Non-current liabilities | 52,389 | 68,510 | 162,225 | 145,408 |

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, 2019 was \$15.1 million (2018 - \$12.7 million, 2017 - \$10 million).

The plans held 1,378,048 (2018 - 1,490,253) shares of common stock of the Corporation with a market value of approximately \$81 million at December 31, 2019 (2018 - \$70.4 million).

Note 33 - 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, 2019, 2018 and 2017:

| <i>(In thousands, except per share information)</i> | 2019 | 2018 | 2017 |
|---|------------|-------------|-------------|
| Net income from continuing operations | \$ 671,135 | \$ 618,158 | \$ 107,681 |
| Preferred stock dividends | (3,723) | (3,723) | (3,723) |
| Net income applicable to common stock | \$ 667,412 | \$ 614,435 | \$ 103,958 |
| Average common shares outstanding | 96,848,835 | 101,142,258 | 101,966,429 |
| Average potential dilutive common shares | 148,965 | 166,385 | 78,907 |
| Average common shares outstanding - assuming dilution | 96,997,800 | 101,308,643 | 102,045,336 |
| Basic EPS from continuing operations | \$ 6.89 | \$ 6.07 | \$ 1.02 |
| Total Basic EPS | \$ 6.89 | \$ 6.07 | \$ 1.02 |
| Diluted EPS from continuing operations | \$ 6.88 | \$ 6.06 | \$ 1.02 |
| Total Diluted EPS | \$ 6.88 | \$ 6.06 | \$ 1.02 |

As disclosed in Note 22, as of December 31, 2019, the Corporation completed a \$250 million accelerated share repurchase transaction ("ASR") and, in connection therewith, received an initial delivery of 3,500,000 shares of common stock during the first quarter of 2019 and 1,165,607 additional shares of common stock during the fourth quarter of 2019. 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, which amounted to \$53.58.

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.

Note 34 - Revenue from contracts with customers

The following table presents the Corporation's revenue streams from contracts with customers by reportable segment for the years ended December 31, 2019, 2018 and 2017:

| (In thousands) | Years ended December 31, | | | | | |
|---|--------------------------|-----------------|------------------|-----------------|------------------|-----------------|
| | 2019 | | 2018 | | 2017 | |
| | BPPR | Popular U.S. | BPPR | Popular U.S. | BPPR | Popular U.S. |
| Service charges on deposit accounts | \$146,384 | \$14,549 | \$137,062 | \$13,615 | \$140,342 | \$13,367 |
| Other service fees: | | | | | | |
| Debit card fees | 46,066 | 1,076 | 45,139 | 1,035 | 41,851 | 870 |
| Insurance fees, excluding reinsurance | 42,995 | 3,803 | 33,951 | 3,667 | 31,030 | 3,060 |
| Credit card fees, excluding late fees and membership fees | 86,884 | 866 | 74,609 | 921 | 56,938 | 890 |
| Sale and administration of investment products | 23,072 | — | 21,895 | — | 21,958 | — |
| Trust fees | 21,198 | — | 20,351 | — | 20,408 | — |
| Total revenue from contracts with customers [1] | \$366,599 | \$20,294 | \$333,007 | \$19,238 | \$312,527 | \$18,187 |

[1] The amounts include intersegment transactions of \$3.8 million, \$3.2 million and \$3.3 million, respectively, for the years ended December 31, 2019, 2018 and 2017.

Revenue from contracts with customers is recognized when, or as, the performance obligations are satisfied by the Corporation by transferring the promised services to the customers. A service is transferred to the customer when, or as, the customer obtains control of that service. A performance obligation may be satisfied over time or at a point in time. Revenue from a performance obligation satisfied over time is recognized based on the services that have been rendered to date. Revenue from a performance obligation satisfied at a point in time is recognized when the customer obtains control over the service. The transaction price, or the amount of revenue recognized, reflects the consideration the Corporation expects to be entitled to in exchange for those promised services. In determining the transaction price, the Corporation considers the effects of variable consideration. Variable consideration is included in the transaction price only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The Corporation is the principal in a transaction if it obtains control of the specified goods or services before they are transferred to the customer. If the Corporation acts as principal, revenues are presented in the gross amount of consideration to which it expects to be entitled and are not netted with any related expenses. On the other hand, the Corporation is an agent if it does not control the specified goods or services before they are transferred to the customer. If the Corporation acts as an agent, revenues are presented in the amount of consideration to which it expects to be entitled, net of related expenses.

Following is a description of the nature and timing of revenue streams from contracts with customers:

Service charges on deposit accounts

Service charges on deposit accounts are earned on retail and commercial deposit activities and include, but are not limited to, nonsufficient fund fees, overdraft fees and checks stop payment fees. These transaction-based fees are recognized at a point in time, upon occurrence of an activity or event or upon the occurrence of a condition which triggers the fee assessment. The Corporation is acting as principal in these transactions.

Debit card fees

Debit card fees include, but are not limited to, interchange fees, surcharging income and foreign transaction fees. These transaction-based fees are recognized at a point in time, upon occurrence of an activity or event or upon the occurrence of a condition which triggers the fee assessment. Interchange fees are recognized upon settlement of the debit card payment transactions. The Corporation is acting as principal in these transactions.

Insurance fees

Insurance fees include, but are not limited to, commissions and contingent commissions. Commissions and fees are recognized when related policies are effective since the Corporation does not have an enforceable right to payment for services completed to date. An allowance is created for expected adjustments to

commissions earned related to policy cancellations. Contingent commissions are recorded on an accrual basis when the amount to be received is notified by the insurance company. The Corporation is acting as an agent since it arranges for the sale of the policies and receives commissions if, and when, it achieves the sale.

Credit card fees

Credit card fees include, but are not limited to, interchange fees, additional card fees, cash advance fees, balance transfer fees, foreign transaction fees, and returned payments fees. Credit card fees are recognized at a point in time, upon the occurrence of an activity or an event. Interchange fees are recognized upon settlement of the credit card payment transactions. The Corporation is acting as principal in these transactions.

Sale and administration of investment products

Fees from the sale and administration of investment products include, but are not limited to, commission income from the sale of investment products, asset management fees, underwriting fees, and mutual fund fees.

Commission income from investment products is recognized on the trade date since clearing, trade execution, and custody services are satisfied when the customer acquires or disposes of the rights to obtain the economic benefits of the investment products and brokerage contracts have no fixed duration and are terminable at will by either party. The Corporation is acting as principal in these transactions since it performs the service of providing the customer with the ability to acquire or dispose of the rights to obtain the economic benefits of investment products.

Asset management fees are satisfied over time and are recognized in arrears. At contract inception, the estimate of the asset management fee is constrained from the inclusion in the transaction price since the promised consideration is dependent on the market and thus is highly susceptible to factors outside the manager's influence. As advisor, the broker-dealer subsidiary is acting as principal.

Underwriting fees are recognized at a point in time, when the investment products are sold in the open market at a markup. When the broker-dealer subsidiary is lead underwriter, it is acting as an agent. In turn, when it is a participating underwriter, it is acting as principal.

Mutual fund fees, such as distribution fees, are considered variable consideration and are recognized over time, as the uncertainty of the fees to be received is resolved as NAV is determined and investor activity occurs. The promise to

provide distribution-related services is considered a single performance obligation as it requires the provision of a series of distinct services that are substantially the same and have the same pattern of transfer. When the broker-dealer subsidiary is acting as a distributor, it is acting as principal. In turn, when it acts as third-party dealer, it is acting as an agent.

Trust fees

Trust fees are recognized from retirement plan, mutual fund administration, investment management, trustee, escrow, and custody and safekeeping services. These asset management services are considered a single performance obligation as it requires the provision of a series of distinct services that are substantially the same and have the same pattern of transfer. The performance obligation is satisfied over time, except for optional services and certain other services that are satisfied at a point in time. Revenues are recognized in arrears, when, or as, the services are rendered. The Corporation is acting as principal since, as asset manager, it has the obligation to provide the specified service to the customer and has the ultimate discretion in establishing the fee paid by the customer for the specified services.

Note 35 - Leases

The Corporation enters in the ordinary course of business into operating and finance leases for land, buildings and equipment. These contracts generally do not include purchase options or residual value guarantees. The remaining lease terms of 0.1 to 34.0 years considers options to extend the leases for up to 20.0 years. The Corporation identifies leases when it has both the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the asset.

The Corporation recognizes right-of-use assets ("ROU assets") and lease liabilities related to operating and finance leases in its Consolidated Statements of Financial Condition under the caption of other assets and other liabilities, respectively. Refer to Note 15 and Note 21, respectively, for information on the balances of these lease assets and liabilities.

The Corporation uses the incremental borrowing rate for purposes of discounting lease payments for operating and finance leases, since it does not have enough information to determine the rates implicit in the leases. The discount rates are based on fixed-rate and fully amortizing borrowing facilities of its banking subsidiaries that are collateralized. For leases held by non-banking subsidiaries, a credit spread is added to this rate based on financing transactions with a similar credit risk profile.

The following table presents the undiscounted cash flows of operating and finance leases for each of the following periods:

| <i>(In thousands)</i> | 2020 | 2021 | 2022 | 2023 | 2024 | Later Years | Total Lease Payments | Less: Imputed Interest | Total |
|-----------------------|----------|----------|----------|----------|----------|----------------|----------------------------|------------------------------|-----------|
| Operating Leases | \$29,872 | \$27,445 | \$23,540 | \$21,257 | \$20,176 | \$70,842 | \$193,132 | \$(27,993) | \$165,139 |
| Finance Leases | 3,068 | 3,159 | 3,252 | 3,349 | 3,448 | 8,220 | 24,496 | (4,686) | 19,810 |

At December 31, 2018, operating lease commitments under lessee arrangements were \$33.4 million, \$29.5 million, \$26.9 million, \$23.3 million, \$21.1 million for 2019 through 2023, respectively, and \$77.9 million in the aggregate for all years thereafter. The following table presents the lease cost recognized by the Corporation in the Consolidated Statements of Operations as follows:

| <i>(In thousands)</i> | Year ended December 31, 2019 |
|-------------------------------|---------------------------------|
| Finance lease cost: | |
| Amortization of ROU assets | \$ 1,701 |
| Interest on lease liabilities | 1,194 |
| Operating lease cost | 30,664 |
| Short-term lease cost | 252 |
| Variable lease cost | 97 |
| Sublease income | (113) |
| Total lease cost | \$33,795 |

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, 2018 was \$31.2 million (2017 - \$32.1 million), which is included in net occupancy, equipment and communication expenses, according to their nature. Total amortization and interest expense for capital leases for the year ended December 31, 2018 was \$1.5 million (2017 - \$1.3 million) and \$1.2 million (2017 - \$1.2 million), respectively.

The following table presents supplemental cash flow information and other related information related to operating and finance leases.

| <i>(Dollars in thousands)</i> | Year ended December 31, 2019 |
|---|---------------------------------|
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash flows from operating leases | \$ 30,073 |
| Operating cash flows from finance leases | 1,200 |
| Financing cash flows from finance leases | 1,726 |
| ROU assets obtained in exchange for new lease obligations: | |
| Operating leases | \$ 28,430 |
| Finance leases | 661 |
| Weighted-average remaining lease term: | |
| Operating leases | 8.7 years |
| Finance leases | 7.3 years |
| Weighted-average discount rate: | |
| Operating leases | 3.4% |
| Finance leases | 5.9% |

As of December 31, 2019, the Corporation has additional operating leases contracts that have not yet commenced with an undiscounted contract amount of \$3.8 million, which will have lease terms ranging from 10 to 20 years.

Note 36 - FDIC loss share income (expense)

On May 22, 2018, the Corporation entered into a Termination Agreement with the FDIC to terminate all loss-share arrangements in connection with the Westernbank FDIC-assisted transaction. Refer to Note 10 for additional information of the Termination Agreement with the FDIC. The caption of FDIC loss-share income (expense) in the Consolidated Statements of Operations consists of the following major categories:

| <i>(In thousands)</i> | Years ended December 31, | |
|---|--------------------------|-------------------|
| | 2018 | 2017 |
| Amortization | \$ (934) | \$ (469) |
| 80% mirror accounting on credit impairment losses | 104 | 3,136 |
| 80% mirror accounting on reimbursable expenses | 537 | 2,454 |
| 80% mirror accounting on recoveries on covered assets, including rental income on OREOs, subject to reimbursement to the FDIC | (1,658) | 2,405 |
| Change in true-up payment obligation | (6,112) | (11,700) |
| Gain on FDIC loss-share Termination Agreement [1] | 102,752 | - |
| Other | 36 | (5,892) |
| Total FDIC loss share income (expense) | \$ 94,725 | \$(10,066) |

[1] Refer to Note 10 for additional information of the Termination Agreement with the FDIC.

Note 37 - Stock-based compensation

Incentive Plan

The Popular, Inc. 2004 Omnibus Incentive Plan (the "Incentive Plan") permits the issuance of several types of stock based compensation for employees and directors of the Corporation and/or any of its subsidiaries. Participants in the Incentive Plan are designated by the Compensation Committee of the Board of Directors (or its delegate as determined by the Board). Under the Incentive Plan, the Corporation has issued restricted stock and performance shares for its employees and restricted stock and restricted stock units ("RSU") to its directors.

The restricted shares for employees, will 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 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. If a participant terminate 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 performance shares shall continue outstanding and vest at the end of the performance cycle.

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, 2017 | 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 |
| Granted | 239,062 | 45.81 |
| Performance Shares Quantity | | |
| Adjustment | 234,076 | 33.09 |
| Vested | (372,271) | 35.83 |
| Forfeited | (14,021) | 37.35 |
| Non-vested at December 31, 2018 | 382,186 | \$36.41 |
| Granted | 218,169 | 55.55 |
| Performance Shares Quantity | | |
| Adjustment | 15,061 | 55.72 |
| Vested | (270,051) | 44.73 |
| Non-vested at December 31, 2019 | 345,365 | \$41.68 |

During the year ended December 31, 2019, 152,773 shares of restricted stock (2018 - 166,648; 2017 - 138,516) were awarded to management under the Incentive Plan. During the year ended December 31, 2019, 65,396 performance shares (2018 - 72,414; 2017 - 73,684) were awarded to management under the Incentive Plan.

During the year ended December 31, 2019, the Corporation recognized \$7.7 million of restricted stock expense related to management incentive awards, with a tax benefit of \$1.2 million (2018 - \$6.9 million, with a tax benefit of \$1.1 million; 2017 - \$5.6 million, with a tax benefit of \$1.1 million). During the year ended December 31, 2019, the fair market value of the restricted stock vested was \$13.7 million at grant date and \$18.9 million at vesting date. This triggers a windfall of \$1.9 million that was recorded as a reduction on income tax expense. During the year ended December 31, 2019 the Corporation recognized \$4.6 million of performance shares expense, with a tax benefit of \$0.3 million (2018 - \$5.6 million, with a tax benefit of \$0.4 million; 2017 - \$1.2 million, with a tax benefit of \$0.1 million). The total unrecognized compensation cost related to non-vested restricted stock awards to members of management at December 31, 2019 was \$8.8 million and is expected to be recognized over a weighted-average period of 2.4 years.

The following table summarizes the restricted stock and RSU 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 | RSU | Weighted-average grant date fair value |
|---------------------------------|------------------|---|----------|---|
| Non-vested at January 1, 2017 | — | — | — | — |
| Granted | 25,771 | \$38.42 | — | \$ — |
| Vested | (25,771) | 38.42 | — | — |
| Forfeited | — | — | — | — |
| Non-vested at December 31, 2017 | — | — | — | — |
| Granted | 25,159 | \$46.71 | — | \$ — |
| Vested | (25,159) | 46.71 | — | — |
| Forfeited | — | — | — | — |
| Non-vested at December 31, 2018 | — | — | — | — |
| Granted | 1,052 | \$49.25 | 27,449 | \$57.64 |
| Vested | (1,052) | 49.25 | (27,449) | 57.64 |
| Forfeited | — | — | — | — |
| Non-vested at December 31, 2019 | — | — | — | — |

Effective on May 2019, all equity awards granted to the directors may be paid in either restricted stocks or RSU, at the directors' election. For the year 2019, all directors elected RSU. The directors' equity awards will vest and become non-forfeitable on the grant date of such award. At the director's option, the shares of common stocks underlying the RSU award shall be delivered to the director after its retirement, either on a fix date or in annual installments. To the extent that cash dividends are paid on the Corporation's outstanding common stocks, the director will receive an additional number of RSU that reflect reinvested dividend equivalent.

During the year ended December 31, 2019, the Corporation granted 1,052 shares of restricted stock to members of the Board of Directors of Popular, Inc. (2018 - 25,159; 2017 - 25,771) and 27,449 RSUs were granted to members of the

Board of Directors of Popular, Inc., which became vested at grant date. No RSU were granted to the members of the Board of Directors of Popular, Inc. for the years ended December 31, 2018 and 2017. During 2019, the Corporation recognized \$52 thousand of restricted stock expense related to these restricted stock grants, with a tax benefit of \$6 thousand (2018 - \$1.6 million, with a tax benefit of \$0.2 million; 2017 - \$1.3 million, with a tax benefit of \$0.1 million) and \$1.6 million of restricted stock expense related to these RSU, with a tax benefit of \$0.2 million. No restricted stock expense was recognized for years ended December 31, 2018 and 2017 related to RSU. The fair value at vesting date of the restricted stock shares and RSU vested during the year ended December 31, 2019 for directors was \$52 thousand and \$1.6 million respectively.

Note 38 - Income taxes

The components of income tax expense for the years ended December 31, are summarized in the following table.

| <i>(In thousands)</i> | 2019 | 2018 | 2017 |
|---|-----------|-----------|-----------|
| Current income tax (benefit) expense: | | | |
| Puerto Rico | \$ 2,251 | \$126,700 | \$ 17,356 |
| Federal and States | 3,598 | 6,841 | 6,046 |
| Subtotal | 5,849 | 133,541 | 23,402 |
| Deferred income tax expense (benefit): | | | |
| Puerto Rico | 123,337 | (62,601) | 31,132 |
| Federal and States | 17,995 | 20,953 | 7,938 |
| Adjustment for enacted changes in income tax laws | — | 27,686 | 168,358 |
| Subtotal | 141,332 | (13,962) | 207,428 |
| Total income tax expense | \$147,181 | \$119,579 | \$230,830 |

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

| <i>(In thousands)</i> | 2019 | | 2018 | | 2017 | |
|---|-------------------|---------------------|-------------------|---------------------|------------------|---------------------|
| | Amount | % of pre-tax income | Amount | % of pre-tax income | Amount | % of pre-tax income |
| Computed income tax at statutory rates | \$ 306,869 | 38% | \$ 287,717 | 39% | \$132,020 | 39% |
| Benefit of net tax exempt interest income | (145,597) | (18) | (97,199) | (13) | (76,815) | (23) |
| Effect of income subject to preferential tax rate [1] | (9,562) | (1) | (111,738) | (15) | (13,104) | (4) |
| Deferred tax asset valuation allowance | 16,992 | 2 | 27,336 | 4 | 20,882 | 6 |
| Difference in tax rates due to multiple jurisdictions | (12,888) | (2) | (16,324) | (3) | (2,217) | (1) |
| Adjustment in net deferred tax due to change in the applicable tax rate | (6,559) | (1) | 27,686 | 4 | 168,358 | 50 |
| Unrecognized tax benefits | – | – | (1,621) | – | (1,185) | – |
| State and local taxes | 4,749 | 1 | 8,772 | 1 | 4,123 | 1 |
| Others | (6,823) | (1) | (5,050) | (1) | (1,232) | – |
| Income tax expense | \$ 147,181 | 18% | \$ 119,579 | 16% | \$230,830 | 68% |

[1] For the year ended December 31, 2018, includes the impact of the Tax Closing Agreement entered into in connection with the Westernbank FDIC-assisted Transaction.

For the year ended December 31, 2019, the Corporation recorded income tax expense of \$147.2 million, compared to \$119.6 million for the previous year. The results for the year 2019 include an income tax benefit of approximately \$26 million related to a revision of the amount of exempt income earned in prior years and certain adjustments pertaining to tax periods for which the statute of limitations had expired.

Income tax expense of \$119.6 million for the year ended December 31, 2018 reflects the impact of the Termination Agreement with the FDIC. In June 2012, the Puerto Rico Department of the Treasury and the Corporation entered into a Tax Closing Agreement (the “Tax Closing Agreement”) to clarify the tax treatment related to the loans acquired in the FDIC Transaction in accordance with the provisions of the Puerto Rico Tax Code. The Tax Closing Agreement provides that these loans are capital assets and any principal amount collected in excess of the amount paid for such loans will be taxed as a capital gain. The Tax Closing Agreement further provides that the Corporation’s tax liability upon the termination of the Shared-Loss Agreements be calculated based on the “deemed sale” of the underlying loans. As a result, in

connection with the Termination Agreement with the FDIC, the Corporation recognized an additional income tax expense of \$49.8 million associated with the “deemed sale” incremental tax liability at the capital gains rate per the Tax Closing Agreement. In addition, the Corporation recognized an income tax benefit of \$158.7 million related to the increase in deferred tax assets due to increase in the tax basis of the loans as a result of the “deemed sale” for a net tax benefit of \$108.9 million. Also, the Corporation recorded an income tax expense of \$45.0 million related to the gain resulting from the Termination Agreement, mainly related to the reversal of net deferred tax liability of the true-up payment obligation and the FDIC Loss Share Asset.

On December 10, 2018, the Governor of Puerto Rico signed into law Act No. 257 of 2018, which amended the Puerto Rico Internal Revenue Code to, among other things, reduce the Puerto Rico corporate income tax rate from 39% to 37.5%. The Corporation recognized \$27.7 million of income tax expense as a result of a reduction in the Corporation’s net deferred tax asset related to its Puerto Rico operations, due to aforementioned reduction in tax rate at which it expects to realize the benefit of the deferred tax asset.

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, 2019 | | |
|---|-------------------|-----------|------------|
| <i>(In thousands)</i> | PR | US | Total |
| Deferred tax assets: | | | |
| Tax credits available for carryforward | \$ 2,368 | \$ 5,269 | \$ 7,637 |
| Net operating loss and other carryforward available | 112,803 | 716,796 | 829,599 |
| Postretirement and pension benefits | 82,623 | – | 82,623 |
| Deferred loan origination fees | 2,519 | (2,759) | (240) |
| Allowance for loan losses | 405,475 | 10,981 | 416,456 |
| Accelerated depreciation | 3,439 | 4,914 | 8,353 |
| FDIC-assisted transaction | 82,684 | – | 82,684 |
| Intercompany deferred gains | 1,604 | – | 1,604 |
| Lease liability | 22,694 | 23,387 | 46,081 |
| Difference in outside basis from pass-through entities | 21,670 | – | 21,670 |
| Other temporary differences | 26,554 | 7,460 | 34,014 |
| Total gross deferred tax assets | 764,433 | 766,048 | 1,530,481 |
| Deferred tax liabilities: | | | |
| Indefinite-lived intangibles | 37,411 | 36,058 | 73,469 |
| Unrealized net gain (loss) on trading and available-for-sale securities | 15,635 | 432 | 16,067 |
| Right of use assets | 20,598 | 21,430 | 42,028 |
| Other temporary differences | 12,778 | 1,179 | 13,957 |
| Total gross deferred tax liabilities | 86,422 | 59,099 | 145,521 |
| Valuation allowance | 100,175 | 399,800 | 499,975 |
| Net deferred tax asset | \$577,836 | \$307,149 | \$ 884,985 |

| | December 31, 2018 | | |
|---|-------------------|-----------|-------------|
| <i>(In thousands)</i> | PR | US | Total |
| Deferred tax assets: | | | |
| Tax credits available for carryforward | \$ 15,900 | \$ 7,757 | \$ 23,657 |
| Net operating loss and other carryforward available | 116,154 | 720,933 | 837,087 |
| Postretirement and pension benefits | 83,390 | – | 83,390 |
| Deferred loan origination fees | 3,216 | (1,280) | 1,936 |
| Allowance for loan losses | 516,643 | 18,612 | 535,255 |
| Deferred gains | – | 2,551 | 2,551 |
| Accelerated depreciation | 1,963 | 5,786 | 7,749 |
| FDIC-assisted transaction | 95,851 | – | 95,851 |
| Intercompany deferred gains | 1,518 | – | 1,518 |
| Difference in outside basis from pass-through entities | 20,209 | – | 20,209 |
| Other temporary differences | 24,957 | 7,522 | 32,479 |
| Total gross deferred tax assets | 879,801 | 761,881 | 1,641,682 |
| Deferred tax liabilities: | | | |
| Indefinite-lived intangibles | 34,081 | 39,597 | 73,678 |
| Unrealized net gain (loss) on trading and available-for-sale securities | 23,823 | (12,783) | 11,040 |
| Other temporary differences | 10,579 | 1,109 | 11,688 |
| Total gross deferred tax liabilities | 68,483 | 27,923 | 96,406 |
| Valuation allowance | 89,852 | 406,455 | 496,307 |
| Net deferred tax asset | \$721,466 | \$327,503 | \$1,048,969 |

The net deferred tax asset shown in the table above at December 31, 2019 is reflected in the consolidated statements of financial condition as \$0.9 billion in net deferred tax assets (in the “other assets” caption) (2018 - \$1.0 billion in deferred tax asset in the “other assets” caption) and \$1.4 million in deferred tax liabilities (in the “other liabilities” caption) (2018 - \$926 thousands 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 \$29 million related to contributions to BPPR’s qualified pension plan that have no expiration date. Additionally, the deferred tax asset related to the NOLs outstanding at December 31, 2019 expires as follows:

(In thousands)

| | |
|------|------------------|
| 2020 | \$ 492 |
| 2021 | 16 |
| 2022 | 396 |
| 2024 | 9,181 |
| 2025 | 13,516 |
| 2026 | 13,403 |
| 2027 | 22,343 |
| 2028 | 324,569 |
| 2029 | 110,075 |
| 2030 | 100,017 |
| 2031 | 94,332 |
| 2032 | 16,801 |
| 2033 | 2,945 |
| 2034 | 81,253 |
| 2037 | 7,489 |
| 2038 | 1,642 |
| 2039 | 2,104 |
| | <u>\$800,574</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. At December 31, 2019 the net deferred tax asset of the U.S. operations amounted to \$707 million with a valuation allowance of approximately \$400 million, for a net deferred tax asset after valuation allowance of approximately \$307 million. As of December 31, 2019, after weighting all positive and negative evidence, the Corporation concluded that it is more likely than not that approximately \$307 million of the 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 available to realize the deferred tax asset for the remaining carryforward period, together with the historical level of book income adjusted by permanent differences. Management will continue to evaluate the realization of the deferred tax asset each quarter and adjust as any changes arise.

At December 31, 2019, the Corporation’s net deferred tax assets related to its Puerto Rico operations amounted to \$578 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, 2019. 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, 2019. 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 \$100 million as of December 2019.

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, 2018 | \$ 7.3 |
| Additions for tax positions related to 2018 | 1.1 |
| Reduction as a result of lapse of statute of limitations | (1.2) |
| Balance at December 31, 2018 | \$ 7.2 |
| Additions for tax positions related to prior years [1] | 9.1 |
| Balance at December 31, 2019 | \$16.3 |

[1] The Corporation recorded a deferred tax asset of \$8.7 million associated with the unrecognized tax benefit. Since the uncertainty of the tax position is related to the timing of the tax benefit, it met the more likely than not standard of ASC 740-10-25-6.

At December 31, 2019, the total amount of interest recognized in the statement of financial condition approximated \$3.5 million (2018 - \$2.8 million). The total interest expense recognized during 2019 was \$664 thousand (2018 - \$615 thousand net of the reduction of \$483 thousand due to the expiration of the statute of limitations). Management determined that, as of December 31, 2019 and 2018, 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 \$10.5 million at December 31, 2019 (2018 - \$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, 2019, the following years remain subject to examination in the U.S. Federal jurisdiction - 2016 and thereafter and in the Puerto Rico jurisdiction - 2014 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 \$2.1 million.

Note 39 - 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, 2019, 2018 and 2017 are listed in the following table:

| <i>(In thousands)</i> | 2019 | 2018 | 2017 |
|--|-----------|----------|----------|
| Income taxes paid | \$ 14,461 | \$ 4,116 | \$ 2,433 |
| Interest paid | 369,383 | 296,757 | 221,432 |
| Non-cash activities: | | | |
| Loans transferred to other real estate | 67,056 | 47,965 | 82,035 |
| Loans transferred to other property | 53,286 | 43,645 | 27,407 |
| Total loans transferred to foreclosed assets | 120,342 | 91,610 | 109,442 |
| Loans transferred to other assets | 16,503 | 16,843 | 7,514 |
| Financed sales of other real estate assets | 15,907 | 16,779 | 11,237 |
| Financed sales of other foreclosed assets | 30,840 | 17,867 | 8,435 |
| Total financed sales of foreclosed assets | 46,747 | 34,646 | 19,672 |
| Transfers from loans held-in-portfolio to loans held-for-sale | - | - | 2,472 |
| Transfers from loans held-for-sale to loans held-in-portfolio | 7,829 | 20,938 | 1,705 |
| Loans securitized into investment securities [1] | 458,758 | 506,685 | 462,033 |
| Trades receivables from brokers and counterparties | 39,364 | 40,088 | 7,514 |
| Trades payable to brokers and counterparties | 4,084 | 64 | 2 |
| Receivables from investments securities | - | 70,000 | 70,000 |
| Recognition of mortgage servicing rights on securitizations or asset transfers | 9,143 | 10,223 | 7,661 |
| Interest capitalized on loans subject to the temporary payment moratorium | - | 481 | 46,944 |
| Loans booked under the GNMA buy-back option | 72,480 | 384,371 | 790,942 |
| Capitalization of Right of Use Assets | 189,097 | - | - |
| Gain from the FDIC Termination Agreement | - | 102,752 | - |

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

The following table provides a reconciliation of cash and due from banks, and restricted cash reported within the Consolidated Statement of Financial Condition that sum to the total of the same such amounts shown in the Consolidated Statement of Cash Flows.

| <i>(In thousands)</i> | December 31, 2019 | December 31, 2018 | December 31, 2017 |
|---|-------------------|-------------------|-------------------|
| Cash and due from banks | \$361,705 | \$353,936 | \$381,289 |
| Restricted cash and due from banks | 26,606 | 40,099 | 21,568 |
| Restricted cash in money market investments | 6,012 | 9,216 | 9,772 |
| Total cash and due from banks, and restricted cash [2] | \$394,323 | \$403,251 | \$412,629 |

[2] Refer to Note 5 - Restrictions on cash and due from banks and certain securities for nature of restrictions.

Note 40 - Segment reporting

The Corporation's corporate structure consists of two reportable segments – Banco Popular de Puerto Rico and Popular U.S.

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, 2019, 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. During 2018, the Reliable brand was transferred to Popular, Inc. and is being used by Popular Auto. 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. Popular Insurance V.I. was dissolved on December 31, 2018.

Popular U.S.:

Popular U.S. reportable segment consists of the banking operations of Popular Bank (PB) and Popular Insurance Agency, U.S.A. PB operates through a retail branch network in the U.S. mainland under the name of Popular. Popular Insurance Agency, U.S.A. offers investment and insurance services across the PB 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, León.

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.

Effective on January 1, 2019, the Corporation's management changed the measurement basis for its reportable segments. Historically, for management reporting purposes, the Corporation had reversed the effect of the intercompany billings from Popular Inc., holding company, to its subsidiaries for certain services or expenses incurred on their behalf. In addition, the Corporation used to reflect an income tax expense allocation for several of its subsidiaries which are Limited Liability Companies ("LLCs") and had made an election to be treated as a pass through entities for income tax purposes. The Corporation's management has determined to discontinue making these adjustments, effective on January 1, 2019, for purposes of its management and reportable segment reporting. The Corporation reflected

these changes in the measurement of the reportable segments' results prospectively beginning on January 1, 2019. For the year ended December 31, 2018, the intercompany billings from Popular, Inc to Banco Popular de Puerto Rico amounted to \$78.3 million (2017 - \$66.4 million) and to the Popular U.S. reportable segments amounted to \$12.5 million (2017 - \$10.3 million).

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

| December 31, 2019 | | | |
|-----------------------------|------------------------------|--------------|---------------------------|
| (In thousands) | Banco Popular de Puerto Rico | Popular U.S. | Intersegment Eliminations |
| Net interest income | \$ 1,633,950 | \$ 295,470 | \$ (51) |
| Provision for loan losses | 135,495 | 30,028 | — |
| Non-interest income | 506,739 | 23,160 | (561) |
| Amortization of intangibles | 8,610 | 664 | — |
| Depreciation expense | 49,058 | 8,263 | — |
| Other operating expenses | 1,208,458 | 205,219 | (547) |
| Income tax expense | 129,145 | 19,164 | — |
| Net income | \$ 609,923 | \$ 55,292 | \$ (65) |
| Segment assets | \$41,756,864 | \$10,056,316 | \$(18,576) |

| December 31, 2019 | | | | |
|-------------------------------|---------------------|-------------|---------------|---------------------|
| (In thousands) | Reportable Segments | Corporate | Eliminations | Total Popular, Inc. |
| Net interest income (expense) | \$ 1,929,369 | \$ (37,675) | \$ — | \$ 1,891,694 |
| Provision for loan losses | 165,523 | 256 | — | 165,779 |
| Non-interest income | 529,338 | 43,901 | (3,356) | 569,883 |
| Amortization of intangibles | 9,274 | 96 | — | 9,370 |
| Depreciation expense | 57,321 | 746 | — | 58,067 |
| Other operating expenses | 1,413,130 | 55 | (3,140) | 1,410,045 |
| Income tax expense (expense) | 148,309 | (1,041) | (87) | 147,181 |
| Net income | \$ 665,150 | \$ 6,114 | \$ (129) | \$ 671,135 |
| Segment assets | \$51,794,604 | \$5,228,276 | \$(4,907,556) | \$52,115,324 |

| December 31, 2018 | | | |
|-----------------------------|------------------------------|--------------|---------------------------|
| (In thousands) | Banco Popular de Puerto Rico | Popular U.S. | Intersegment Eliminations |
| Net interest income | \$ 1,482,178 | \$ 304,576 | \$ (2) |
| Provision for loan losses | 198,442 | 29,881 | — |
| Non-interest income | 592,938 | 19,988 | (560) |
| Amortization of intangibles | 8,620 | 665 | — |
| Depreciation expense | 43,504 | 9,053 | — |
| Other operating expenses | 1,073,012 | 182,154 | (546) |
| Income tax expense | 121,195 | 25,294 | — |
| Net income | \$ 630,343 | \$ 77,517 | \$ (16) |
| Segment assets | \$38,037,696 | \$9,381,636 | \$(114,923) |

| December 31, 2018 | | | | |
|--------------------------------------|---------------------|-------------|---------------|---------------------|
| (In thousands) | Reportable Segments | Corporate | Eliminations | Total Popular, Inc. |
| Net interest income (expense) | \$ 1,786,752 | \$ (51,875) | \$ — | \$ 1,734,877 |
| Provision (reversal) for loan losses | 228,323 | (251) | — | 228,072 |
| Non-interest income | 612,366 | 42,914 | (2,786) | 652,494 |
| Amortization of intangibles | 9,285 | 41 | — | 9,326 |
| Depreciation expense | 52,557 | 743 | — | 53,300 |
| Loss on early extinguishment of debt | — | 12,522 | — | 12,522 |
| Other operating expenses | 1,254,620 | 94,640 | (2,846) | 1,346,414 |
| Income tax expense (benefit) | 146,489 | (26,947) | 37 | 119,579 |
| Net income (loss) | \$ 707,844 | \$ (89,709) | \$ 23 | \$ 618,158 |
| Segment assets | \$47,304,409 | \$5,099,491 | \$(4,799,323) | \$47,604,577 |

| December 31, 2017 | | | |
|-----------------------------|------------------------------|--------------|---------------------------|
| (In thousands) | Banco Popular de Puerto Rico | Popular U.S. | 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 (loss) | \$ 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 |

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

| December 31, 2019 | | | | | |
|--------------------------------------|---------------------|-----------------------------|--------------------------|-----------------------|------------------------------------|
| 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 | \$ 619,926 | \$ 1,009,196 | \$ 4,828 | \$ - | \$ 1,633,950 |
| Provision (reversal) for loan losses | (46,099) | 181,594 | - | - | 135,495 |
| Non-interest income | 99,758 | 303,268 | 106,218 | (2,505) | 506,739 |
| Amortization of intangibles | 195 | 4,294 | 4,121 | - | 8,610 |
| Depreciation expense | 20,024 | 28,411 | 623 | - | 49,058 |
| Other operating expenses | 309,762 | 835,582 | 65,631 | (2,517) | 1,208,458 |
| Income tax expense | 104,636 | 11,999 | 12,510 | - | 129,145 |
| Net income | \$ 331,166 | \$ 250,584 | \$ 28,161 | \$ 12 | \$ 609,923 |
| Segment assets | \$34,340,842 | \$23,976,004 | \$380,557 | \$(16,940,539) | \$41,756,864 |

| December 31, 2018 | | | | | |
|------------------------------|---------------------|-----------------------------|--------------------------|--|------------------------------------|
| Banco Popular de Puerto Rico | | | | | |
| (In thousands) | Commercial Banking | Consumer and Retail Banking | Other Financial Services | Eliminations and Other Adjustments [1] | Total Banco Popular de Puerto Rico |
| Net interest income | \$ 584,293 | \$ 892,735 | \$ 5,201 | \$ (51) | \$ 1,482,178 |
| Provision for loan losses | 105,604 | 92,838 | - | - | 198,442 |
| Non-interest income | 84,762 | 311,775 | 95,199 | 101,202 | 592,938 |
| Amortization of intangibles | 208 | 4,275 | 4,137 | - | 8,620 |
| Depreciation expense | 17,668 | 25,222 | 614 | - | 43,504 |
| Other operating expenses | 276,158 | 718,990 | 71,344 | 6,520 | 1,073,012 |
| Income tax expense | 76,255 | 100,925 | 7,903 | (63,888) | 121,195 |
| Net income | \$ 193,162 | \$ 262,260 | \$ 16,402 | \$ 158,519 | \$ 630,343 |
| Segment assets | \$27,712,852 | \$22,712,950 | \$376,992 | \$(12,765,098) | \$38,037,696 |

[1] Includes the impact of the Termination Agreement with the FDIC and the Tax Closing Agreement entered into in connection with the FDIC transaction. These transactions resulted in a gain of \$102.8 million reported in the non-interest income line, other operating expenses of \$8.1 million and a net tax benefit of \$63.9 million. Refer to Notes 10 and 38 to the Consolidated Financial Statements for additional information.

| 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 (benefit) | 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 |

Geographic Information

The following information presents selected financial information based on the geographic location where the Corporation conducts its business. The banking operations of BPPR are primarily based in Puerto Rico, where it has the largest retail banking franchise. BPPR also conducts banking operations in the U.S. Virgin Islands, the British Virgin Islands and New York. BPPR's banking operations in the United States include E-loan, an online platform used to offer personal loans, co-branded credit cards offerings and an online deposit gathering platform. In the Virgin Islands, the BPPR segment offers banking products, including loans and deposits. During the year ended December 31, 2019, the BPPR segment generated approximately \$55.7 million (2018 - \$37.6 million, 2017 - \$24.5 million) in revenues from its operations in the United States, including net interest income, service charges on deposit accounts and other service fees. In addition, the BPPR segment generated \$47.6 million in revenues (2018 - \$48.8 million, 2017 - \$50.5 million) from its operations in the U.S. and British Virgin Islands. At December 31, 2019, total assets for the BPPR segment related to its operations in the United States amounted to \$635 million (2018 - \$455 million) and total deposits amounted to \$46 million (2018 - \$92 million).

| <i>(In thousands)</i> | 2019 | 2018 | 2017 |
|------------------------------------|--------------------|--------------------|--------------------|
| Revenues: [1] | | | |
| Puerto Rico | \$2,016,089 | \$1,953,671 | \$1,527,758 |
| United States | 371,368 | 357,680 | 318,093 |
| Other | 74,120 | 76,020 | 75,280 |
| Total consolidated revenues | \$2,461,577 | \$2,387,371 | \$1,921,131 |

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

Selected Balance Sheet Information

| <i>(In thousands)</i> | 2019 | 2018 | 2017 |
|-----------------------|--------------|--------------|--------------|
| Puerto Rico | | | |
| Total assets | \$40,544,255 | \$36,863,930 | \$33,705,624 |
| Loans | 18,989,286 | 18,837,742 | 17,591,078 |
| Deposits | 34,664,243 | 31,237,529 | 27,575,292 |
| United States | | | |
| Total assets | \$10,693,536 | \$9,847,944 | \$9,648,865 |
| Loans | 7,819,187 | 7,034,075 | 6,608,056 |
| Deposits | 7,664,792 | 6,878,599 | 6,635,153 |
| Other | | | |
| Total assets | \$877,533 | \$892,703 | \$922,848 |
| Loans | 657,603 | 687,494 | 743,329 |
| Deposits [1] | 1,429,571 | 1,593,911 | 1,243,063 |

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

Note 41 - 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, 2019 and 2018, and the results of its operations and cash flows for the years ended December 31, 2019, 2018 and 2017.

Condensed Statements of Condition

| <i>(In thousands)</i> | December 31, | |
|--|--------------------|--------------------|
| | 2019 | 2018 |
| ASSETS | | |
| Cash and due from banks (includes \$56,008 due from bank subsidiary (2018 – \$68,022)) | \$ 55,956 | \$ 68,022 |
| Money market investments | 221,598 | 176,256 |
| Debt securities held-to-maturity, at amortized cost (includes \$8,726 in common securities from statutory trusts (2018 – \$8,726)) | 8,726 | 8,726 |
| Equity securities, at lower of cost or realizable value [1] | 10,744 | 6,693 |
| Investment in BPPR and subsidiaries, at equity | 4,233,046 | 3,813,640 |
| Investment in Popular North America and subsidiaries, at equity | 1,749,518 | 1,648,577 |
| Investment in other non-bank subsidiaries, at equity | 260,501 | 241,902 |
| Other loans | 32,027 | 32,678 |
| Less – Allowance for loan losses | 410 | 155 |
| Premises and equipment | 3,893 | 3,394 |
| Investment in equity method investees | 75,739 | 62,781 |
| Other assets (includes \$4,353 due from subsidiaries and affiliate (2018 – \$1,355)) | 25,087 | 20,281 |
| Total assets | \$6,676,425 | \$6,082,795 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Notes payable | \$ 586,119 | \$ 584,851 |
| Other liabilities (includes \$2,109 due to subsidiaries and affiliate (2018 – \$3,110)) | 73,596 | 62,799 |
| Stockholders' equity | 6,016,710 | 5,435,145 |
| Total liabilities and stockholders' equity | \$6,676,425 | \$6,082,795 |
| [1] Refer to Note 20 to the consolidated financial statements for information on the statutory trusts. | | |

Condensed Statements of Operations

| <i>(In thousands)</i> | Years ended December 31, | | |
|--|--------------------------|------------------|------------------|
| | 2019 | 2018 | 2017 |
| Income: | | | |
| Dividends from subsidiaries | \$408,000 | \$453,200 | \$211,500 |
| Interest income (includes \$4,237 due from subsidiaries and affiliates (2018 – \$6,121; 2017 – \$3,183)) | 6,669 | 8,366 | 4,238 |
| Earnings from investments in equity method investees | 17,279 | 15,498 | 11,761 |
| Other operating income | 1 | 253 | 86 |
| Net gain (loss), including impairment, on equity securities | 988 | (777) | – |
| Net gain on trading account debt securities | – | – | 266 |
| Total income | 432,937 | 476,540 | 227,851 |
| Expenses: | | | |
| Interest expense | 38,528 | 51,218 | 52,470 |
| Provision (reversal) for loan losses | 256 | (251) | 403 |
| Loss on early extinguishment of debt | – | 12,522 | – |
| Operating expenses (includes expenses for services provided by subsidiaries and affiliate of \$14,400 (2018 – \$10,511 ; 2017 – \$8,225)), net of reimbursement by subsidiaries for services provided by parent of \$106,725 (2018 – \$90,807 ; 2017 – \$76,720) | 80 | 3,656 | (1,773) |
| Total expenses | 38,864 | 67,145 | 51,100 |
| Income before equity in undistributed earnings of subsidiaries | 394,073 | 409,395 | 176,751 |
| Equity in undistributed earnings (losses) of subsidiaries | 277,062 | 208,763 | (69,070) |
| Net income | \$671,135 | \$618,158 | \$107,681 |
| Comprehensive income, net of tax | \$929,171 | \$540,836 | \$ 77,315 |

Condensed Statements of Cash Flows

| <i>(In thousands)</i> | Years ended December 31, | | |
|--|--------------------------|------------|------------|
| | 2019 | 2018 | 2017 |
| Cash flows from operating activities: | | | |
| Net income | \$ 671,135 | \$ 618,158 | \$ 107,681 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Equity in (earnings) losses of subsidiaries, net of dividends or distributions | (277,062) | (208,763) | 69,070 |
| Provision (reversal) for loan losses | 256 | (251) | 403 |
| Amortization of intangibles | 96 | 41 | — |
| Net accretion of discounts and amortization of premiums and deferred fees | 1,240 | 2,022 | 2,086 |
| Share-based compensation | 7,927 | 7,441 | — |
| Earnings from investments under the equity method, net of dividends or distributions | (14,948) | (14,333) | (7,765) |
| Loss on early extinguishment of debt | — | 12,522 | — |
| Net (increase) decrease in: | | | |
| Equity securities | (4,051) | (1,583) | (1,346) |
| Other assets | 1,134 | 344 | 8,696 |
| Net (decrease) increase in: | | | |
| Interest payable | — | (10,288) | — |
| Other liabilities | 2,508 | 8,059 | 3,230 |
| Total adjustments | (282,900) | (204,789) | 74,374 |
| Net cash provided by operating activities | 388,235 | 413,369 | 182,055 |
| Cash flows from investing activities: | | | |
| Net (increase) decrease in money market investments | (45,000) | 70,000 | 6,000 |
| Net repayments on other loans | 677 | 536 | 181 |
| Capital contribution to subsidiaries | (9,000) | (87,000) | (5,955) |
| Return of capital from wholly owned subsidiaries | 13,000 | 13,000 | 22,400 |
| Acquisition of loans portfolio | — | — | (31,909) |
| Acquisition of trademark | — | — | (5,560) |
| Acquisition of premises and equipment | (1,289) | (1,099) | (965) |
| Proceeds from sale of: | | | |
| Premises and equipment | 3 | 293 | 23 |
| Foreclosed assets | — | — | 38 |
| Net cash used in investing activities | (41,609) | (4,270) | (15,747) |
| Cash flows from financing activities: | | | |
| Payments of notes payable | — | (448,518) | — |
| Payments of debt extinguishment | — | (12,522) | — |
| Proceeds from issuance of notes payable | — | 293,819 | — |
| Proceeds from issuance of common stock | 13,451 | 11,653 | 7,016 |
| Dividends paid | (115,810) | (105,441) | (95,910) |
| Net payments for repurchase of common stock | (250,571) | (125,731) | (75,668) |
| Payments related to tax withholding for share-based compensation | (5,420) | (2,201) | (1,756) |
| Net cash used in financing activities | (358,350) | (388,941) | (166,318) |
| Net (decrease) increase in cash and due from banks, and restricted cash | (11,724) | 20,158 | (10) |
| Cash and due from banks, and restricted cash at beginning of period | 68,278 | 48,120 | 48,130 |
| Cash and due from banks, and restricted cash at end of period | \$ 56,554 | \$ 68,278 | \$ 48,120 |

Popular, Inc. (parent company only) received dividend distributions from its direct equity method investees amounting to \$2.3 million for the year ended December 31, 2019 (2018 - \$1.2 million).

Notes payable include junior subordinated debentures issued by the Corporation that are associated to capital securities issued by the Popular Capital Trust I and Popular Capital Trust II and medium-term notes. Refer to Note 20 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, 2019:

| <i>Year</i> | (In thousands) |
|-------------|----------------|
| 2020 | \$ — |
| 2021 | — |
| 2022 | — |
| 2023 | — |
| 2024 | 295,307 |
| Later years | 290,812 |
| Total | \$586,119 |

Note 42 - 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, 2019 and 2018, and the results of their operations and cash flows for the periods ended December 31, 2019, 2018 and 2017.

PNA is an operating, 100% subsidiary of PIHC and is the holding company of its wholly-owned subsidiaries: Equity One, Inc. and Popular Bank, including Popular Bank’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, 2019

| <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 | \$ 55,956 | \$ — | \$ 388,363 | \$ (56,008) | \$ 388,311 |
| Money market investments | 221,598 | 16,029 | 3,261,688 | (237,029) | 3,262,286 |
| Trading account debt securities, at fair value | — | — | 40,321 | — | 40,321 |
| Debt securities available-for-sale, at fair value | — | — | 17,648,473 | — | 17,648,473 |
| Debt securities held-to-maturity, at amortized cost | 8,726 | 2,835 | 86,101 | — | 97,662 |
| Equity securities | 10,744 | 20 | 149,322 | (199) | 159,887 |
| Investment in subsidiaries | 6,243,065 | 1,806,583 | — | (8,049,648) | — |
| Loans held-for-sale, at lower of cost or fair value | — | — | 59,203 | — | 59,203 |
| Loans held-in-portfolio | 32,027 | — | 27,549,874 | 5,955 | 27,587,856 |
| Less - Unearned income | — | — | 180,983 | — | 180,983 |
| Allowance for loan losses | 410 | — | 477,298 | — | 477,708 |
| Total loans held-in-portfolio, net | 31,617 | — | 26,891,593 | 5,955 | 26,929,165 |
| Premises and equipment, net | 3,893 | — | 552,757 | — | 556,650 |
| Other real estate | 146 | — | 121,926 | — | 122,072 |
| Accrued income receivable | 382 | 108 | 180,630 | (249) | 180,871 |
| Mortgage servicing assets, at fair value | — | — | 150,906 | — | 150,906 |
| Other assets | 93,835 | 21,324 | 1,722,839 | (18,383) | 1,819,615 |
| Goodwill | — | — | 671,123 | (1) | 671,122 |
| Other intangible assets | 6,463 | — | 22,317 | — | 28,780 |
| Total assets | \$6,676,425 | \$ 1,846,899 | \$51,947,562 | \$ (8,355,562) | \$52,115,324 |
| Liabilities and Stockholders' Equity | | | | | |
| Liabilities: | | | | | |
| Deposits: | | | | | |
| Non-interest bearing | \$ — | \$ — | \$ 9,216,181 | \$ (56,008) | \$ 9,160,173 |
| Interest bearing | — | — | 34,835,462 | (237,029) | 34,598,433 |
| Total deposits | — | — | 44,051,643 | (293,037) | 43,758,606 |
| Assets sold under agreements to repurchase | — | — | 193,378 | — | 193,378 |
| Notes payable | 586,119 | 94,090 | 421,399 | — | 1,101,608 |
| Other liabilities | 73,596 | 3,200 | 986,865 | (18,708) | 1,044,953 |
| Total liabilities | 659,715 | 97,290 | 45,653,285 | (311,745) | 46,098,545 |
| Stockholders' equity: | | | | | |
| Preferred stock | 50,160 | — | — | — | 50,160 |
| Common stock | 1,044 | 2 | 56,307 | (56,309) | 1,044 |
| Surplus | 4,438,706 | 4,173,169 | 5,847,389 | (10,011,852) | 4,447,412 |
| Retained earnings (accumulated deficit) | 2,156,442 | (2,425,429) | 555,398 | 1,861,504 | 2,147,915 |
| Treasury stock, at cost | (459,704) | — | — | (110) | (459,814) |
| Accumulated other comprehensive (loss) income, net of tax | (169,938) | 1,867 | (164,817) | 162,950 | (169,938) |
| Total stockholders' equity | 6,016,710 | 1,749,609 | 6,294,277 | (8,043,817) | 6,016,779 |
| Total liabilities and stockholders' equity | \$6,676,425 | \$ 1,846,899 | \$51,947,562 | \$ (8,355,562) | \$52,115,324 |

Condensed Consolidating Statement of Financial Condition

At December 31, 2018

| <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 | \$ 68,022 | \$ — | \$ 394,035 | \$ (68,022) | \$ 394,035 |
| Money market investments | 176,256 | 15,288 | 4,170,792 | (191,288) | 4,171,048 |
| Trading account debt securities, at fair value | — | — | 37,787 | — | 37,787 |
| Debt securities available-for-sale, at fair value | — | — | 13,300,184 | — | 13,300,184 |
| Debt securities held-to-maturity, at amortized cost | 8,726 | 2,835 | 90,014 | — | 101,575 |
| Equity securities | 6,693 | 20 | 149,012 | (141) | 155,584 |
| Investment in subsidiaries | 5,704,119 | 1,700,082 | — | (7,404,201) | — |
| Loans held-for-sale, at lower of cost or fair value | — | — | 51,422 | — | 51,422 |
| Loans held-in-portfolio | 32,678 | — | 26,625,080 | 5,955 | 26,663,713 |
| Less - Unearned income | — | — | 155,824 | — | 155,824 |
| Allowance for loan losses | 155 | — | 569,193 | — | 569,348 |
| Total loans held-in-portfolio, net | 32,523 | — | 25,900,063 | 5,955 | 25,938,541 |
| Premises and equipment, net | 3,394 | — | 566,414 | — | 569,808 |
| Other real estate | 146 | — | 136,559 | — | 136,705 |
| Accrued income receivable | 284 | 116 | 165,767 | (145) | 166,022 |
| Mortgage servicing assets, at fair value | — | — | 169,777 | — | 169,777 |
| Other assets | 76,073 | 27,639 | 1,626,119 | (15,697) | 1,714,134 |
| Goodwill | — | — | 671,123 | (1) | 671,122 |
| Other intangible assets | 6,559 | — | 20,274 | — | 26,833 |
| Total assets | \$6,082,795 | \$ 1,745,980 | \$47,449,342 | \$ (7,673,540) | \$47,604,577 |
| Liabilities and Stockholders' Equity | | | | | |
| Liabilities: | | | | | |
| Deposits: | | | | | |
| Non-interest bearing | \$ — | \$ — | \$ 9,217,058 | \$ (68,022) | \$ 9,149,036 |
| Interest bearing | — | — | 30,752,291 | (191,288) | 30,561,003 |
| Total deposits | — | — | 39,969,349 | (259,310) | 39,710,039 |
| Assets sold under agreements to repurchase | — | — | 281,529 | — | 281,529 |
| Other short-term borrowings | — | — | 42 | — | 42 |
| Notes payable | 584,851 | 94,063 | 577,188 | — | 1,256,102 |
| Other liabilities | 62,799 | 3,287 | 871,733 | (16,011) | 921,808 |
| Total liabilities | 647,650 | 97,350 | 41,699,841 | (275,321) | 42,169,520 |
| Stockholders' equity: | | | | | |
| Preferred stock | 50,160 | — | — | — | 50,160 |
| Common stock | 1,043 | 2 | 56,307 | (56,309) | 1,043 |
| Surplus | 4,357,079 | 4,172,983 | 5,790,324 | (9,954,780) | 4,365,606 |
| Retained earnings (accumulated deficit) | 1,660,258 | (2,479,503) | 327,713 | 2,143,263 | 1,651,731 |
| Treasury stock, at cost | (205,421) | — | — | (88) | (205,509) |
| Accumulated other comprehensive loss, net of tax | (427,974) | (44,852) | (424,843) | 469,695 | (427,974) |
| Total stockholders' equity | 5,435,145 | 1,648,630 | 5,749,501 | (7,398,219) | 5,435,057 |
| Total liabilities and stockholders' equity | \$6,082,795 | \$ 1,745,980 | \$47,449,342 | \$ (7,673,540) | \$47,604,577 |

Condensed Consolidating Statement of Operations

Year ended December 31, 2019

| <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 | \$408,000 | \$ – | \$ – | \$ (408,000) | \$ – |
| Loans | 2,231 | – | 1,800,737 | – | 1,802,968 |
| Money market investments | 3,670 | 211 | 89,824 | (3,882) | 89,823 |
| Investment securities | 768 | 186 | 367,048 | – | 368,002 |
| Total interest and dividend income | 414,669 | 397 | 2,257,609 | (411,882) | 2,260,793 |
| Interest expense: | | | | | |
| Deposits | – | – | 308,740 | (3,882) | 304,858 |
| Short-term borrowings | – | – | 6,100 | – | 6,100 |
| Long-term debt | 38,528 | 6,229 | 13,384 | – | 58,141 |
| Total interest expense | 38,528 | 6,229 | 328,224 | (3,882) | 369,099 |
| Net interest income (expense) | 376,141 | (5,832) | 1,929,385 | (408,000) | 1,891,694 |
| Provision for loan losses | 256 | – | 165,523 | – | 165,779 |
| Net interest income (expense) after provision for loan losses | 375,885 | (5,832) | 1,763,862 | (408,000) | 1,725,915 |
| Service charges on deposit accounts | – | – | 160,933 | – | 160,933 |
| Other service fees | 1 | – | 288,471 | (3,266) | 285,206 |
| Mortgage banking activities | – | – | 32,093 | – | 32,093 |
| Net loss on sale of debt securities | – | – | (20) | – | (20) |
| Net gain, including impairment on equity securities | 988 | – | 1,555 | (37) | 2,506 |
| Net gain on trading account debt securities | – | – | 994 | – | 994 |
| Indemnity reserves on loans sold expense | – | – | (343) | – | (343) |
| Other operating income (expense) | 17,279 | (984) | 72,272 | (53) | 88,514 |
| Total non-interest income (expense) | 18,268 | (984) | 555,955 | (3,356) | 569,883 |
| Operating expenses: | | | | | |
| Personnel costs | 63,258 | – | 527,367 | – | 590,625 |
| Net occupancy expenses | 4,297 | – | 92,084 | (42) | 96,339 |
| Equipment expenses | 3,525 | 4 | 80,686 | – | 84,215 |
| Other taxes | 248 | 1 | 51,404 | – | 51,653 |
| Professional fees | 21,323 | 113 | 363,479 | (504) | 384,411 |
| Communications | 616 | – | 22,834 | – | 23,450 |
| Business promotion | 3,918 | – | 71,454 | – | 75,372 |
| FDIC deposit insurance | – | – | 18,179 | – | 18,179 |
| Other real estate owned (OREO) expenses | – | – | 4,298 | – | 4,298 |
| Other operating expenses | (97,201) | 56 | 239,309 | (2,594) | 139,570 |
| Amortization of intangibles | 96 | – | 9,274 | – | 9,370 |
| Total operating expenses | 80 | 174 | 1,480,368 | (3,140) | 1,477,482 |
| Income (loss) before income tax and equity in earnings of subsidiaries | 394,073 | (6,990) | 839,449 | (408,216) | 818,316 |
| Income tax (benefit) expense | – | (1,468) | 148,735 | (86) | 147,181 |
| Income (loss) before equity in earnings of subsidiaries | 394,073 | (5,522) | 690,714 | (408,130) | 671,135 |
| Equity in undistributed earnings of subsidiaries | 277,062 | 54,773 | – | (331,835) | – |
| Net income | \$671,135 | \$49,251 | \$ 690,714 | \$ (739,965) | \$ 671,135 |
| Comprehensive income, net of tax | \$929,171 | \$95,970 | \$ 950,740 | \$(1,046,710) | \$ 929,171 |

Condensed Consolidating Statement of Operations

Year ended December 31, 2018

| <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 | \$453,200 | \$ – | \$ – | \$(453,200) | \$ – |
| Loans | 2,115 | – | 1,643,670 | (49) | 1,645,736 |
| Money market investments | 5,555 | 69 | 111,287 | (5,623) | 111,288 |
| Investment securities | 696 | 279 | 263,849 | – | 264,824 |
| Total interest and dividend income | 461,566 | 348 | 2,018,806 | (458,872) | 2,021,848 |
| Interest expense: | | | | | |
| Deposits | – | – | 209,888 | (5,623) | 204,265 |
| Short-term borrowings | – | 49 | 7,210 | (49) | 7,210 |
| Long-term debt | 51,218 | 9,330 | 14,948 | – | 75,496 |
| Total interest expense | 51,218 | 9,379 | 232,046 | (5,672) | 286,971 |
| Net interest income (expense) | 410,348 | (9,031) | 1,786,760 | (453,200) | 1,734,877 |
| Provision (reversal) for loan losses- non-covered loans | (251) | – | 226,593 | – | 226,342 |
| Provision for loan losses- covered loans | – | – | 1,730 | – | 1,730 |
| Net interest income (expense) after provision (reversal) for loan losses | 410,599 | (9,031) | 1,558,437 | (453,200) | 1,506,805 |
| Service charges on deposit accounts | – | – | 150,677 | – | 150,677 |
| Other service fees | – | – | 260,730 | (2,710) | 258,020 |
| Mortgage banking activities | – | – | 52,802 | – | 52,802 |
| Net loss, including impairment on equity securities | (777) | – | (1,268) | (36) | (2,081) |
| Net loss on trading account debt securities | – | – | (208) | – | (208) |
| Net gain on sale of loans, including valuation adjustments on loans held-for-sale | – | – | 33 | – | 33 |
| Indemnity reserves on loans sold expense | – | – | (12,959) | – | (12,959) |
| FDIC loss-share income | – | – | 94,725 | – | 94,725 |
| Other operating income | 15,751 | 737 | 95,037 | (40) | 111,485 |
| Total non-interest income | 14,974 | 737 | 639,569 | (2,786) | 652,494 |
| Operating expenses: | | | | | |
| Personnel costs | 59,821 | – | 503,167 | – | 562,988 |
| Net occupancy expenses | 4,055 | – | 84,274 | – | 88,329 |
| Equipment expenses | 3,433 | 3 | 68,352 | – | 71,788 |
| Other taxes | 233 | 1 | 46,050 | – | 46,284 |
| Professional fees | 18,159 | 178 | 331,978 | (471) | 349,844 |
| Communications | 485 | – | 22,622 | – | 23,107 |
| Business promotion | 2,236 | – | 63,682 | – | 65,918 |
| FDIC deposit insurance | – | – | 27,757 | – | 27,757 |
| Loss on early extinguishment of debt | 12,522 | – | – | – | 12,522 |
| Other real estate owned (OREO) expenses | – | – | 23,338 | – | 23,338 |
| Other operating expenses | (84,807) | 80 | 227,463 | (2,375) | 140,361 |
| Amortization of intangibles | 41 | – | 9,285 | – | 9,326 |
| Total operating expenses | 16,178 | 262 | 1,407,968 | (2,846) | 1,421,562 |
| Income (loss) before income tax and equity in earnings of subsidiaries | 409,395 | (8,556) | 790,038 | (453,140) | 737,737 |
| Income tax expense | – | 3,267 | 116,275 | 37 | 119,579 |
| Income (loss) before equity in earnings of subsidiaries | 409,395 | (11,823) | 673,763 | (453,177) | 618,158 |
| Equity in undistributed earnings of subsidiaries | 208,763 | 69,027 | – | (277,790) | – |
| Net income | \$618,158 | \$ 57,204 | \$ 673,763 | \$(730,967) | \$ 618,158 |
| Comprehensive income, net of tax | \$540,836 | \$ 41,838 | \$ 597,768 | \$(639,606) | \$ 540,836 |

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 | 194,796 | – | 195,684 |
| 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 debt securities | – | – | 83 | – | 83 |
| Other-than-temporary impairment losses on debt securities | – | – | (8,299) | – | (8,299) |
| Net gain on equity securities | – | – | 251 | – | 251 |
| Net profit (loss) on trading account debt securities | 266 | – | (1,110) | 27 | (817) |
| Net loss on sale of loans, including valuation adjustments on loans held-for-sale | – | – | (420) | – | (420) |
| Indemnity reserves on loans sold expense | – | – | (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 | – | 429,201 | – | 476,762 |
| 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 | 197,935 | (2,256) | 125,007 |
| 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 Cash Flows

Year ended December 31, 2019

| <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 | \$ 671,135 | \$ 49,251 | \$ 690,714 | \$(739,965) | \$ 671,135 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | | | | |
| Equity in earnings of subsidiaries, net of dividends or distributions | (277,062) | (54,773) | - | 331,835 | - |
| Provision for loan losses | 256 | - | 165,523 | - | 165,779 |
| Amortization of intangibles | 96 | - | 9,274 | - | 9,370 |
| Depreciation and amortization of premises and equipment | 746 | - | 57,321 | - | 58,067 |
| Net accretion of discounts and amortization of premiums and deferred fees | 1,240 | 27 | (159,337) | - | (158,070) |
| Share-based compensation | 7,927 | - | 4,376 | - | 12,303 |
| Impairment losses on long-lived assets | - | - | 2,591 | - | 2,591 |
| Fair value adjustments on mortgage servicing rights | - | - | 27,771 | - | 27,771 |
| Indemnity reserves on loans sold expense | - | - | 343 | - | 343 |
| (Earnings) losses from investments under the equity method, net of dividends or distributions | (14,948) | 984 | (14,047) | - | (28,011) |
| Deferred income tax (benefit) expense | - | (1,468) | 142,886 | (86) | 141,332 |
| Loss (gain) on: | | | | | |
| Disposition of premises and equipment and other productive assets | 41 | - | (6,707) | - | (6,666) |
| Proceeds from insurance claims | - | - | (1,205) | - | (1,205) |
| Sale of debt securities | - | - | 20 | - | 20 |
| Sale of loans, including valuation adjustments on loans held for sale and mortgage banking activities | - | - | (15,888) | - | (15,888) |
| Sale of foreclosed assets, including write-downs | - | - | (21,982) | - | (21,982) |
| Acquisitions of loans held-for-sale | - | - | (223,939) | - | (223,939) |
| Proceeds from sale of loans held-for-sale | - | - | 71,075 | - | 71,075 |
| Net originations on loans held-for-sale | - | - | (289,430) | - | (289,430) |
| Net decrease (increase) in: | | | | | |
| Trading debt securities | - | - | 460,969 | - | 460,969 |
| Equity securities | (4,051) | - | (3,981) | - | (8,032) |
| Accrued income receivable | (98) | 8 | (8,383) | 104 | (8,369) |
| Other assets | 445 | 2,571 | (43,636) | 2,773 | (37,847) |
| Net (decrease) increase in: | | | | | |
| Interest payable | - | - | (180) | (104) | (284) |
| Pension and other postretirement benefits obligations | - | - | 778 | - | 778 |
| Other liabilities | 2,508 | (87) | (116,270) | (2,594) | (116,443) |
| Total adjustments | (282,900) | (52,738) | 37,942 | 331,928 | 34,232 |
| Net cash provided by (used in) operating activities | 388,235 | (3,487) | 728,656 | (408,037) | 705,367 |
| Cash flows from investing activities: | | | | | |
| Net (increase) decrease in money market investments | (45,000) | (741) | 905,558 | 45,741 | 905,558 |
| Purchases of investment securities: | | | | | |
| Available-for-sale | - | - | (18,733,295) | - | (18,733,295) |
| Equity | - | - | (16,359) | 59 | (16,300) |
| Proceeds from calls, paydowns, maturities and redemptions of investment securities: | | | | | |
| Available-for-sale | - | - | 14,650,440 | - | 14,650,440 |
| Held-to-maturity | - | - | 5,913 | - | 5,913 |
| Proceeds from sale of investment securities: | | | | | |
| Available for sale | - | - | 99,445 | - | 99,445 |
| Equity | - | - | 20,030 | - | 20,030 |
| Net repayments (disbursements) on loans | 677 | - | (641,706) | - | (641,029) |
| Proceeds from sale of loans | - | - | 110,534 | - | 110,534 |
| Acquisition of loan portfolios | - | - | (619,737) | - | (619,737) |
| Payments to acquire other intangible | - | - | (10,382) | - | (10,382) |
| Return of capital from equity method investments | - | 4,228 | 2,714 | - | 6,942 |
| Capital contribution to subsidiary | (9,000) | - | - | 9,000 | - |
| Return of capital from wholly-owned subsidiaries | 13,000 | - | - | (13,000) | - |
| Acquisition of premises and equipment | (1,289) | - | (74,376) | - | (75,665) |
| Proceeds from insurance claims | - | - | 1,205 | - | 1,205 |
| Proceeds from sale of: | | | | | |
| Premises and equipment and other productive assets | 3 | - | 18,605 | - | 18,608 |
| Foreclosed assets | - | - | 107,881 | - | 107,881 |
| Net cash (used in) provided by investing activities | (41,609) | 3,487 | (4,173,530) | 41,800 | (4,169,852) |
| Cash flows from financing activities: | | | | | |
| Net increase (decrease) in: | | | | | |
| Deposits | - | - | 4,077,682 | (33,727) | 4,043,955 |
| Assets sold under agreements to repurchase | - | - | (88,151) | - | (88,151) |
| Other short-term borrowings | - | - | (41) | - | (41) |
| Payments of notes payable | - | - | (210,377) | - | (210,377) |
| Principal payments of finance leases | - | - | (1,726) | - | (1,726) |
| Proceeds from issuance of notes payable | - | - | 75,000 | - | 75,000 |
| Proceeds from issuance of common stock | 13,451 | - | (4,732) | - | 8,719 |
| Dividends paid to parent company | - | - | (408,000) | 408,000 | - |
| Dividends paid | (115,810) | - | - | - | (115,810) |
| Net payments for repurchase of common stock | (250,571) | - | 12 | (22) | (250,581) |
| Return of capital to parent company | - | - | (13,000) | 13,000 | - |
| Capital contribution from parent | - | - | 9,000 | (9,000) | - |
| Payments related to tax withholding for share-based compensation | (5,420) | - | (11) | - | (5,431) |
| Net cash (used in) provided by financing activities | (358,350) | - | 3,435,656 | 378,251 | 3,455,557 |
| Net decrease in cash and due from banks, and restricted cash | (11,724) | - | (9,218) | 12,014 | (8,928) |
| Cash and due from banks, and restricted cash at beginning of period | 68,278 | - | 402,995 | (68,022) | 403,251 |
| Cash and due from banks, and restricted cash at end of period | \$ 56,554 | \$ - | \$ 393,777 | \$ (56,008) | \$ 394,323 |

Condensed Consolidating Statement of Cash Flows

Year ended December 31, 2018

| <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 | \$ 618,158 | \$ 57,204 | \$ 673,763 | \$(730,967) | \$ 618,158 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | | | |
| Equity in earnings of subsidiaries, net of dividends or distributions | (208,763) | (69,027) | – | 277,790 | – |
| Provision (reversal) for loan losses | (251) | – | 228,323 | – | 228,072 |
| Amortization of intangibles | 41 | – | 9,285 | – | 9,326 |
| Depreciation and amortization of premises and equipment | 743 | – | 52,557 | – | 53,300 |
| Net accretion of discounts and amortization of premiums and deferred fees | 2,022 | 27 | (89,203) | – | (87,154) |
| Share-based compensation | 7,441 | – | 3,080 | – | 10,521 |
| Impairment losses on long-lived assets | – | – | 272 | – | 272 |
| Fair value adjustments on mortgage servicing rights | – | – | 8,477 | – | 8,477 |
| FDIC loss-share income | – | – | (94,725) | – | (94,725) |
| Adjustments to indemnity reserves on loans sold | – | – | 12,959 | – | 12,959 |
| Earnings from investments under the equity method, net of dividends or distributions | (14,333) | (737) | (9,147) | – | (24,217) |
| Deferred income tax expense (benefit) | – | 1,531 | (13,888) | 37 | (12,320) |
| Loss (gain) on: | | | | | |
| Disposition of premises and equipment and other productive assets | 22 | – | 15,962 | – | 15,984 |
| Proceeds from insurance claims | – | – | (20,147) | – | (20,147) |
| Early extinguishment of debt | 12,522 | – | – | – | 12,522 |
| Sale of loans, including valuation adjustments on loans held for sale and mortgage banking activities | – | – | (9,681) | – | (9,681) |
| Sale of foreclosed assets, including write-downs | – | – | 6,833 | – | 6,833 |
| Acquisitions of loans held-for-sale | – | – | (232,264) | – | (232,264) |
| Proceeds from sale of loans held-for-sale | – | – | 66,687 | – | 66,687 |
| Net originations on loans held-for-sale | – | – | (254,582) | – | (254,582) |
| Net decrease (increase) in: | | | | | |
| Trading debt securities | – | – | 458,548 | (101) | 458,447 |
| Equity securities | (1,583) | – | (39) | – | (1,622) |
| Accrued income receivable | 85 | (4) | 49,273 | (66) | 49,288 |
| Other assets | (506) | (83) | 264,482 | 948 | 264,841 |
| Net (decrease) increase in: | | | | | |
| Interest payable | (10,288) | (1,891) | 2,327 | 66 | (9,786) |
| Pension and other postretirement benefits obligations | – | – | 4,558 | – | 4,558 |
| Other liabilities | 8,059 | (99) | (233,160) | (1,044) | (226,244) |
| Total adjustments | (204,789) | (70,283) | 226,787 | 277,630 | 229,345 |
| Net cash provided by (used in) operating activities | 413,369 | (13,079) | 900,550 | (453,337) | 847,503 |
| Cash flows from investing activities: | | | | | |
| Net decrease (increase) in money market investments | 70,000 | (12,481) | 1,083,515 | (57,519) | 1,083,515 |
| Purchases of investment securities: | | | | | |
| Available-for-sale | – | – | (10,050,165) | – | (10,050,165) |
| Equity | – | – | (13,208) | 140 | (13,068) |
| Proceeds from calls, paydowns, maturities and redemptions of investment securities: | | | | | |
| Available-for-sale | – | – | 6,946,209 | – | 6,946,209 |
| Held-to-maturity | – | 1,637 | 5,643 | – | 7,280 |
| Proceeds from sale of investment securities: | | | | | |
| Equity | – | – | 24,209 | – | 24,209 |
| Net repayments (disbursements) on loans | 536 | – | (7,201) | – | (6,665) |
| Proceeds from sale of loans | – | – | 29,669 | – | 29,669 |
| Acquisition of loan portfolios | – | – | (601,550) | – | (601,550) |
| Net payments (to) from FDIC under loss-sharing agreements | – | – | (25,012) | – | (25,012) |
| Payments to acquire businesses, net of cash acquired | – | – | (1,843,333) | – | (1,843,333) |
| Return of capital from equity method investments | – | 5,963 | (1,873) | – | 4,090 |
| Capital contribution to subsidiary | (87,000) | – | – | 87,000 | – |
| Return of capital from wholly-owned subsidiaries | 13,000 | – | – | (13,000) | – |
| Acquisition of premises and equipment | (1,099) | – | (79,450) | – | (80,549) |
| Proceeds from insurance claims | – | – | 20,147 | – | 20,147 |
| Proceeds from sale of: | | | | | |
| Premises and equipment and other productive assets | 293 | – | 8,892 | – | 9,185 |
| Foreclosed assets | – | – | 105,371 | – | 105,371 |
| Net cash used in investing activities | (4,270) | (4,881) | (4,398,137) | 16,621 | (4,390,667) |
| Cash flows from financing activities: | | | | | |
| Net increase (decrease) in: | | | | | |
| Deposits | – | – | 4,221,975 | 37,676 | 4,259,651 |
| Assets sold under agreements to repurchase | – | – | (109,391) | – | (109,391) |
| Other short-term borrowings | – | – | (96,167) | – | (96,167) |
| Payments of notes payable | (448,518) | (54,502) | (252,946) | – | (755,966) |
| Payments of debt extinguishment | (12,522) | – | – | – | (12,522) |
| Proceeds from issuance of notes payable | 293,819 | – | 180,000 | – | 473,819 |
| Proceeds from issuance of common stock | 11,653 | – | (4,385) | – | 7,268 |
| Dividends paid to parent company | – | – | (453,200) | 453,200 | – |
| Dividends paid | (105,441) | – | – | – | (105,441) |
| Net payments for repurchase of common stock | (125,731) | – | 471 | (4) | (125,264) |
| Return of capital to parent company | – | – | (13,000) | 13,000 | – |
| Capital contribution from parent | – | 72,000 | 15,000 | (87,000) | – |
| Payments related to tax withholding for share-based compensation | (2,201) | – | – | – | (2,201) |
| Net cash (used in) provided by financing activities | (388,941) | 17,498 | 3,488,357 | 416,872 | 3,533,786 |
| Net increase (decrease) in cash and due from banks, and restricted cash | 20,158 | (462) | (9,230) | (19,844) | (9,378) |
| Cash and due from banks, and restricted cash at beginning of period | 48,120 | 462 | 412,225 | (48,178) | 412,629 |
| Cash and due from banks, and restricted cash at end of period | \$ 68,278 | \$ – | \$ 402,995 | \$ (68,022) | \$ 403,251 |

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 debt 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, net of dividends or distributions | (7,765) | (921) | (9,561) | — | (18,247) |
| 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 debt securities | — | — | (83) | — | (83) |
| 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 decrease (increase) in: | | | | | |
| Trading debt securities | — | — | 503,108 | — | 503,108 |
| Equity securities | (1,346) | — | 108 | (31) | (1,269) |
| Accrued income receivable | (748) | 26 | (75,201) | 121 | (75,802) |
| Other assets | 8,761 | — | (76,727) | 2,122 | (65,844) |
| 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 | 74,374 | 143,936 | 531,129 | (220,636) | 528,803 |
| Net cash provided by (used in) operating activities | 182,055 | (10,722) | 670,699 | (205,548) | 636,484 |
| Cash flows from investing activities: | | | | | |
| Net decrease (increase) in money market investments | 6,000 | 10,455 | (2,365,132) | (18,255) | (2,366,932) |
| Purchases of investment securities: | | | | | |
| Available-for-sale | — | — | (4,139,650) | — | (4,139,650) |
| Equity | — | — | (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 | — | — | 14,423 | — | 14,423 |
| Equity | — | — | 30,250 | — | 30,250 |
| 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 (to) from FDIC under loss-sharing agreements | — | — | (7,679) | — | (7,679) |
| Return of capital from equity method investments | — | 138 | 8,056 | — | 8,194 |
| 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 | (15,747) | 20,993 | (5,305,929) | (51,055) | (5,351,738) |
| 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, and restricted cash | (10) | (129) | 38,669 | (97) | 38,433 |
| Cash and due from banks, and restricted cash at beginning of period | 48,130 | 591 | 373,556 | (48,081) | 374,196 |
| Cash and due from banks, and restricted cash at end of period | \$ 48,120 | \$ 462 | \$ 412,225 | \$ (48,178) | \$ 412,629 |

Note 43 - Subsequent events

On January 30, 2020, the Corporation entered into an accelerated share repurchase transaction of \$500 million with respect to its common stock, which was accounted for as a treasury stock transaction. Accordingly, as a result of the receipt of the initial shares, the Corporation recognized in shareholders' equity approximately \$400 million in treasury stock and \$100 million as a reduction of capital surplus. The Corporation expects to further adjust its treasury stock and capital surplus accounts to reflect the delivery or receipt of cash or shares upon the termination of the ASR agreement, which will depend on the average price of the Corporation's shares during the term of the ASR, less a discount. The final settlement of the ASR is expected to occur no later than the fourth quarter of 2020.

On February 24, 2020, the Corporation redeemed all outstanding shares of its 8.25% Non-Cumulative Monthly Income Preferred Stock, Series B. The redemption price of the Series B Preferred Stock was \$25.00 per share, plus \$0.1375 in accrued and unpaid dividends on each share, for a total payment per share in the amount of \$25.1375.



P.O. Box 362708 | San Juan, Puerto Rico 00936-2708