

POPULAR INC
Form 10-Q
November 09, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2015**

Commission File Number: 001-34084

POPULAR, INC.

(Exact name of registrant as specified in its charter)

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

66-0667416
(IRS Employer
Identification Number)

Popular Center Building
209 Muñoz Rivera Avenue
Hato Rey, Puerto Rico
(Address of principal executive offices)

00918
(Zip code)

(787) 765-9800

(Registrant's telephone number, including area code)

NOT APPLICABLE

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, \$0.01 par value, 103,585,570 shares outstanding as of November 3, 2015.

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Forward-Looking Information

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

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

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

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

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

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

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

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

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

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

the ability of the Government of Puerto Rico to manage its fiscal situation;

the performance of the stock and bond markets;

competition in the financial services industry;

additional Federal Deposit Insurance Corporation (FDIC) assessments;

possible legislative, tax or regulatory changes; and

risks related to the Doral Transaction, including (a) our ability to maintain customer relationships, including managing any potential customer confusion caused by the alliance structure, (b) risks associated with the limited amount of diligence able to be conducted by a buyer in an FDIC transaction and (c) difficulties in converting or integrating the Doral branches or difficulties in providing transition support to alliance co-bidders.

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 interest rates and market liquidity which may reduce interest margins, impact funding sources and affect our ability to originate and distribute financial products in the primary and secondary markets; changes in market rates and prices which may adversely impact the value of financial assets and liabilities; liabilities resulting from litigation and regulatory investigations; changes in accounting standards, rules and interpretations; our ability to grow our core businesses; decisions to downsize, sell or close units or otherwise change our business mix; and management's ability to identify and manage these and other risks. Moreover, the outcome of legal proceedings, as discussed in Part II, Item I. Legal Proceedings, is inherently uncertain and depends on judicial interpretations of law and the findings of regulators, judges and juries. Investors should refer to the

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Corporation's Annual Report on Form 10-K for the year ended December 31, 2014 as well as Part II, Item 1A of this Form 10-Q for a discussion of such factors and certain risks and uncertainties to which the Corporation is subject.

All forward-looking statements included in this document are based upon information available to the Corporation as of the date of this document, and other than as required by law, including the requirements of applicable securities laws, we assume no obligation to update or revise any such forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

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

(In thousands, except share information)	September 30, 2015	December 31, 2014
Assets:		
Cash and due from banks	\$ 320,555	\$ 381,095
Money market investments:		
Securities purchased under agreements to resell	145,263	151,134
Time deposits with other banks	2,263,308	1,671,252
Total money market investments	2,408,571	1,822,386
Trading account securities, at fair value:		
Pledged securities with creditors right to repledge	37,825	80,945
Other trading securities	100,118	57,582
Investment securities available-for-sale, at fair value:		
Pledged securities with creditors right to repledge	973,207	1,020,529
Other investment securities available-for-sale	4,527,724	4,294,630
Investment securities held-to-maturity, at amortized cost (fair value 2015 - \$84,036; 2014 - \$94,199)	100,295	103,170
Other investment securities, at lower of cost or realizable value (realizable value 2015 - \$176,598; 2014 - \$165,024)	173,657	161,906
Loans held-for-sale, at lower of cost or fair value	171,019	106,104
Loans held-in-portfolio:		
Loans not covered under loss-sharing agreements with the FDIC	22,601,271	19,498,286
Loans covered under loss-sharing agreements with the FDIC	665,428	2,542,662
Less Unearned income	103,205	93,835
Allowance for loan losses	570,514	601,792
Total loans held-in-portfolio, net	22,592,980	21,345,321
FDIC loss share asset	311,946	542,454
Premises and equipment, net	495,103	494,581
Other real estate not covered under loss-sharing agreements with the FDIC	155,826	135,500
Other real estate covered under loss-sharing agreements with the FDIC	35,701	130,266
Accrued income receivable	118,044	121,818
Mortgage servicing assets, at fair value	210,851	148,694
Other assets	2,221,054	1,646,443
Goodwill	504,925	465,676
Other intangible assets	71,393	37,595

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Total assets	\$ 35,530,794	\$ 33,096,695
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 6,070,719	\$ 5,783,748
Interest bearing	20,642,487	19,023,787
Total deposits	26,713,206	24,807,535
Federal funds purchased and assets sold under agreements to repurchase	1,085,765	1,271,657
Other short-term borrowings	1,200	21,200
Notes payable	1,674,511	1,711,828
Other liabilities	1,004,676	1,012,029
Liabilities from discontinued operations (Refer to Note 4)	1,800	5,064
Total liabilities	30,481,158	28,829,313
<u>Commitments and contingencies (Refer to Note 26)</u>		
Stockholders' equity:		
Preferred stock, 30,000,000 shares authorized; 2,006,391 shares issued and outstanding	50,160	50,160
Common stock, \$0.01 par value; 170,000,000 shares authorized; 103,745,956 shares issued (2014 103,614,553) and 103,556,285 shares outstanding (2014 103,476,847)	1,037	1,036
Surplus	4,200,805	4,196,458
Retained earnings	993,309	253,717
Treasury stock at cost, 189,671 shares (2014 137,706)	(5,869)	(4,117)
Accumulated other comprehensive loss, net of tax	(189,806)	(229,872)
Total stockholders' equity	5,049,636	4,267,382
Total liabilities and stockholders' equity	\$ 35,530,794	\$ 33,096,695

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

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

(In thousands, except per share information)	Quarters ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Interest income:				
Loans	\$ 364,458	\$ 362,592	\$ 1,094,222	\$ 1,121,180
Money market investments	2,003	1,007	5,294	3,111
Investment securities	31,671	33,154	93,269	102,270
Trading account securities	3,150	4,446	8,872	15,047
Total interest income	401,282	401,199	1,201,657	1,241,608
Interest expense:				
Deposits	28,357	26,533	80,479	79,614
Short-term borrowings	2,222	28,955	5,819	46,887
Long-term debt	19,968	19,290	58,876	496,896
Total interest expense	50,547	74,778	145,174	623,397
Net interest income	350,735	326,421	1,056,483	618,211
Provision for loan losses - non-covered loans	69,568	68,166	159,747	172,362
Provision (reversal) for loan losses - covered loans	(2,890)	12,463	23,200	49,781
Net interest income after provision for loan losses	284,057	245,792	873,536	396,068
Service charges on deposit accounts	40,960	40,585	120,115	119,181
Other service fees (Refer to Note 32)	56,115	54,839	169,162	164,125
Mortgage banking activities (Refer to Note 14)	24,195	14,402	58,372	21,868
Net gain (loss) and valuation adjustments on investment securities	136	(1,763)	141	(1,763)
Other-than-temporary impairment losses on investment securities			(14,445)	
Trading account (loss) profit	(398)	740	(3,092)	3,772
Net gain on sale of loans, including valuation adjustments on loans held-for-sale		15,593	602	29,645
Adjustments (expense) to indemnity reserves on loans sold	(5,874)	(9,480)	(9,981)	(27,281)
FDIC loss share-income (expense) (Refer to Note 33)	1,207	(4,864)	24,421	(84,331)
Other operating income	14,768	14,278	41,808	57,935
Total non-interest income	131,109	124,330	387,103	283,151

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Operating expenses:				
Personnel costs	120,863	104,542	358,298	307,943
Net occupancy expenses	21,277	21,203	66,272	62,830
Equipment expenses	14,739	12,370	44,075	35,826
Other taxes	9,951	15,369	29,638	42,575
Professional fees	77,154	67,649	231,131	201,672
Communications	6,058	6,455	18,387	19,565
Business promotion	12,325	13,062	36,914	40,486
FDIC deposit insurance	7,300	9,511	22,240	30,969
Other real estate owned (OREO) expenses	7,686	19,745	75,571	29,595
Other operating expenses	25,551	30,418	73,981	73,276
Amortization of intangibles	3,512	2,026	8,497	6,077
Restructuring costs (Refer to Note 6)	481	8,290	17,408	12,864
Total operating expenses	306,897	310,640	982,412	863,678
Income (loss) from continuing operations before income tax	108,269	59,482	278,227	(184,459)
Income tax expense (benefit)	22,620	26,667	(478,344)	45,807
Income (loss) from continuing operations	85,649	32,815	756,571	(230,266)
(Loss) income from discontinued operations, net of tax (Refer to Note 4)	(9)	29,758	1,347	(132,066)
Net Income (Loss)	\$ 85,640	\$ 62,573	\$ 757,918	\$ (362,332)
Net Income (Loss) Applicable to Common Stock	\$ 84,709	\$ 61,643	\$ 755,126	\$ (365,124)

Table of Contents**Net Income (Loss) per Common Share Basic**

Net income (loss) from continuing operations	\$ 0.82	0.31	7.33	(2.27)
Net income (loss) from discontinued operations		0.29	0.01	(1.28)

Net Income (Loss) per Common Share Basic	\$ 0.82	\$ 0.60	\$ 7.34	\$ (3.55)
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Net Income (Loss) per Common Share Diluted

Net income (loss) from continuing operations	\$ 0.82	0.31	7.31	(2.27)
Net income (loss) from discontinued operations		0.29	0.01	(1.28)

Net Income (Loss) per Common Share Diluted	\$ 0.82	\$ 0.60	\$ 7.32	\$ (3.55)
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Dividends Declared per Common Share	\$ 0.15	\$	\$ 0.15	\$
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The accompanying notes are an integral part of these consolidated financial statements.

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

(In thousands)	Quarters ended, September 30,		Nine months ended, September 30,	
	2015	2014	2015	2014
Net income (loss)	\$ 85,640	\$ 62,573	\$ 757,918	\$ (362,332)
Other comprehensive income (loss) before tax:				
Foreign currency translation adjustment	(31)	98	(1,704)	(2,620)
Reclassification adjustment for losses included in net income				7,718
Amortization of net losses of pension and postretirement benefit plans	5,025	2,127	15,075	6,379
Amortization of prior service cost of pension and postretirement benefit plans	(950)	(950)	(2,850)	(2,850)
Unrealized holding gains (losses) on investments arising during the period	28,669	(20,081)	22,820	34,585
Other-than-temporary impairment included in net income			14,445	
Reclassification adjustment for gains included in net income	(136)	(1,763)	(141)	(1,763)
Unrealized net losses on cash flow hedges	(2,575)	(684)	(4,106)	(4,957)
Reclassification adjustment for net losses included in net income	1,664	1,120	3,973	4,745
Other comprehensive income (loss) before tax	31,666	(20,133)	47,512	41,237
Income tax (expense) benefit	(2,441)	357	(7,446)	(2,559)
Total other comprehensive income (loss) , net of tax	29,225	(19,776)	40,066	38,678
Comprehensive income (loss), net of tax	\$ 114,865	\$ 42,797	\$ 797,984	\$ (323,654)

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

(In thousands)	Quarters ended September 30,		Nine months ended, September 30,	
	2015	2014	2015	2014
Amortization of net losses of pension and postretirement benefit plans	\$ (1,961)	\$ (829)	\$ (5,880)	\$ (2,488)
Amortization of prior service cost of pension and postretirement benefit plans	371	370	1,112	1,112
Unrealized holding gains (losses) on investments arising during the period	(1,234)	986	(272)	(1,265)
Other-than-temporary impairment included in net income			(2,486)	

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Reclassification adjustment for gains included in net income	27		28	
Unrealized net losses on cash flow hedges	1,004	267	1,601	1,933
Reclassification adjustment for net losses included in net income	(648)	(437)	(1,549)	(1,851)
Income tax (expense) benefit	\$ (2,441)	\$ 357	\$ (7,446)	\$ (2,559)

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

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

(In thousands)	Common stock	Preferred stock	Surplus	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total
Balance at December 31, 2013	\$ 1,034	\$ 50,160	\$ 4,170,152	\$ 594,430	\$ (881)	\$ (188,745)	\$ 4,626,150
Net loss				(362,332)			(362,332)
Issuance of stock	2		4,321				4,323
Tax windfall benefit on vesting of restricted stock			417				417
Repurchase of TARP-related warrants			(3,000)				(3,000)
Dividends declared:							
Preferred stock				(2,792)			(2,792)
Common stock purchases					(3,063)		(3,063)
Common stock reissuance					11		11
Other comprehensive income, net of tax						38,678	38,678
Balance at September 30, 2014	\$ 1,036	\$ 50,160	\$ 4,171,890	\$ 229,306	\$ (3,933)	\$ (150,067)	\$ 4,298,392
Balance at December 31, 2014	\$ 1,036	\$ 50,160	\$ 4,196,458	\$ 253,717	\$ (4,117)	\$ (229,872)	\$ 4,267,382
Net income				757,918			757,918
Issuance of stock	1		4,176				4,177
Tax windfall benefit on vesting of restricted stock			171				171
Dividends declared:							
Common stock				(15,534)			(15,534)
Preferred stock				(2,792)			(2,792)
Common stock purchases					(1,798)		(1,798)
Common stock reissuance					46		46
						40,066	40,066

Other comprehensive
income, net of tax

Balance at September 30, 2015	\$ 1,037	\$ 50,160	\$ 4,200,805	\$ 993,309	\$ (5,869)	\$ (189,806)	\$ 5,049,636
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Disclosure of changes in number of shares:	September 30, 2015	September 30, 2014
Preferred Stock:		
Balance at beginning and end of period	2,006,391	2,006,391
Common Stock		
Issued:		
Balance at beginning of period	103,614,553	103,435,967
Issuance of stock	131,403	143,945
Balance at end of the period	103,745,956	103,579,912
Treasury stock	(189,671)	(131,706)
Common Stock Outstanding	103,556,285	103,448,206

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

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

(In thousands)	Nine months ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income (loss)	\$ 757,918	\$ (362,332)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	182,947	215,378
Goodwill impairment losses		186,511
Amortization of intangibles	8,497	7,351
Depreciation and amortization of premises and equipment	35,459	35,407
Net accretion of discounts and amortization of premiums and deferred fees	(58,637)	298,318
Other-than-temporary impairment on investment securities	14,445	
Fair value adjustments on mortgage servicing rights	5,808	18,424
FDIC loss share (income) expense	(24,421)	84,331
Adjustments (expense) to indemnity reserves on loans sold	9,981	27,281
Earnings from investments under the equity method	(17,085)	(31,930)
Deferred income tax (benefit) expense	(496,279)	34,175
(Gain) loss on:		
Disposition of premises and equipment	(2,939)	(2,578)
Sale and valuation adjustments of investment securities	(141)	1,763
Sale of loans, including valuation adjustments on loans held-for-sale and mortgage banking activities	(24,657)	(69,391)
Sale of foreclosed assets, including write-downs	56,391	13,147
Disposal of discontinued business		(28,025)
Acquisitions of loans held-for-sale	(331,860)	(232,430)
Proceeds from sale of loans held-for-sale	71,296	97,638
Net originations on loans held-for-sale	(574,942)	(512,521)
Net (increase) decrease in:		
Trading securities	783,304	883,035
Accrued income receivable	11,582	11,437
Other assets	61,179	124,669
Net increase (decrease) in:		
Interest payable	(10,612)	(11,747)
Pension and other postretirement benefits obligation	2,567	(4,478)
Other liabilities	(39,053)	33,821
Total adjustments	(337,170)	1,179,586
Net cash provided by operating activities	420,748	817,254

Cash flows from investing activities:

Net increase in money market investments	(586,185)	(194,668)
Purchases of investment securities:		
Available-for-sale	(1,239,962)	(1,825,654)
Held-to-maturity	(250)	(1,000)
Other	(39,391)	(97,301)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:		
Available-for-sale	1,152,074	1,327,672
Held-to-maturity	4,428	29,834
Other	45,497	90,530
Proceeds from sale of investment securities:		
Available-for-sale	96,760	91,298
Other	12,928	27,356
Net repayments on loans	318,919	628,571
Proceeds from sale of loans	27,780	233,527
Acquisition of loan portfolios	(173,505)	(356,710)
Acquisition of trademark	(50)	
Net payments from FDIC under loss sharing agreements	245,416	179,250
Net cash received and acquired from business combination	731,279	
Acquisition of servicing advances	(61,304)	
Cash paid related to business acquisition	(17,250)	
Net cash disbursed from disposal of discontinued business		(233,967)
Mortgage servicing rights purchased	(2,400)	
Acquisition of premises and equipment	(41,109)	(39,604)
Proceeds from sale of:		
Premises and equipment	10,166	12,144
Foreclosed assets	115,078	110,677
Net cash provided by (used in) used in investing activities	598,919	(18,045)

Table of Contents**Cash flows from financing activities:**

Net increase (decrease) in:		
Deposits	(289,444)	(212,264)
Federal funds purchased and assets sold under agreements to repurchase	(185,892)	(8,580)
Other short-term borrowings	(148,215)	(400,000)
Payments of notes payable	(719,575)	(1,047,546)
Proceeds from issuance of notes payable	263,286	781,905
Proceeds from issuance of common stock	4,177	4,323
Dividends paid	(2,792)	(2,792)
Repurchase of TARP - related warrants		(3,000)
Net payments for repurchase of common stock	(1,752)	(3,052)
Net cash used in financing activities	(1,080,207)	(891,006)
Net decrease in cash and due from banks	(60,540)	(91,797)
Cash and due from banks at beginning of period	381,095	423,211
Cash and due from banks at the end of period, including discontinued operations	320,555	331,414
Less: cash from discontinued operations		9,500
Cash and due from banks at the end of the period	\$ 320,555	\$ 321,914

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

The Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014 include the cash flows from operating, investing and financing activities associated with discontinued operations.

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Popular, Inc. (the Corporation) is a diversified, publicly-owned financial holding company subject to the supervision and regulation of the Board of Governors of the Federal Reserve System. The Corporation has operations in Puerto Rico, the United States and the Caribbean. In Puerto Rico, the Corporation provides retail, including mortgage loan originations, and commercial banking services through its principal banking subsidiary, Banco Popular de Puerto Rico (BPPR), as well as investment banking, broker-dealer, auto and equipment leasing and financing, and insurance services through specialized subsidiaries. In the U.S. mainland, the Corporation operates Banco Popular North America (BPNA), including its wholly-owned subsidiary E-LOAN. BPNA focuses efforts and resources on the core community banking business. BPNA operates branches in New York, New Jersey and South Florida. E-LOAN markets deposit accounts under its name for the benefit of BPNA. Refer to Note 4 for discussion of the sales of the California, Illinois and Central Florida regional operations during 2014. Note 38 to the consolidated financial statements presents information about the Corporation's business segments.

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

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Note 2 Basis of Presentation and Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated interim financial statements have been prepared without audit. The consolidated statement of financial condition data at December 31, 2014 was derived from audited financial statements. The unaudited interim financial statements are, in the opinion of management, a fair statement of the results for the periods reported and include all necessary adjustments, all of a normal recurring nature, for a fair statement of such results.

Certain reclassifications have been made to the 2014 consolidated financial statements and notes to the financial statements to conform with the 2015 presentation. As discussed in Note 4, current and prior periods presented in the consolidated statement of operations as well as the related note disclosures covering income and expense amounts have been retrospectively adjusted for the impact of the discontinued operations for comparative purposes. The consolidated statement of financial condition and related note disclosure for prior periods do not reflect the reclassification of BPNA's assets and liabilities to discontinued operations.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted from the unaudited financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, these financial statements should be read in conjunction with the audited consolidated financial statements of the Corporation for the year ended December 31, 2014, included in the Corporation's 2014 Annual Report (the "2014 Annual Report"). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Business Combination

The Corporation determined that the acquisition of certain assets and assumption of certain liabilities in connection with the Doral Bank Transaction constitutes a business combination as defined by the Financial Accounting Standards Board (FASB) Codification (ASC) Topic 805 Business Combinations. The assets and liabilities, both tangible and intangible, were initially recorded at their estimated fair values. Fair values were determined based on the requirements of FASB Codification Topic 820 Fair Value Measurements. These fair value estimates are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair value becomes available. Acquisition-related costs are expensed as incurred. Refer to Note 5, Business Combination, for additional information of assets acquired and liabilities assumed in connection with this transaction.

Loans acquired as part of the Doral Bank Transaction

Loans acquired in a business acquisition are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan losses is not recorded at the acquisition date.

Certain residential mortgage loans and commercial loans acquired as part of the Doral Bank Transaction were considered impaired. Accordingly, the Corporation applied the guidance of ASC Subtopic 310-30. Under this guidance, the loans acquired from the FDIC were aggregated into pools based on similar characteristics, including factors such as loan type, interest rate type, accruing status, and amortization type. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Under ASC Subtopic 310-30, the difference between the undiscounted cash flows expected at acquisition and the fair value in the loans, or the accretable yield, is recognized as interest income using the effective yield method over the estimated life of the loan if the timing and amount of the future cash flows of the pool is reasonably estimable. The non-accretable difference represents the difference between contractually required principal and interest and the cash flows expected to be collected. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date are recognized as a reduction in the allowance for loan losses, if any, and then as interest income prospectively. Decreases in expected cash flows after the acquisition date are recognized by recording an allowance for loan losses. Refer to Note 11 to the consolidated financial statements for additional information with respect to the loans acquired as part of the Doral Bank Transaction that were considered impaired.

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Note 3 New accounting pronouncements

FASB Accounting Standards Update (ASU) 2015-16, Business Combination - (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments

The FASB issued ASU 2015-16 in September 2015, which eliminates the requirement to retrospectively adjust and revise prior period financial statements for measurement period adjustments related to a business combination. The new guidance requires an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The cumulative impact of measurement period adjustments on current and prior periods, including the prior period impact on depreciation, amortization, and other income statement items and their related tax effects, is now required to be recognized in the period the adjustment amount is determined and within the respective financial statement line items affected.

The new guidance requires an acquirer to disclose the nature and amount of measurement period adjustments. In addition, the amendments in this Update require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date.

The amendments of this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The amendments in this Update should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this Update with earlier application permitted for financial statements that have not been issued.

The Corporation expects to early adopt this accounting pronouncement during the fourth quarter of 2015, in connection with the Doral Bank Transaction.

FASB Accounting Standards Update 2015-15, Interest- Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements

The FASB issued ASU 2015-15 in August 2015 since ASU 2015-03 does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance within ASU 2015-03, the SEC staff clarified that it would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement.

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

FASB Accounting Standards Update 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date

The FASB issued ASU 2015-14 in August 2015, which defers the effective date of ASU 2014-09 for all entities by one year. Therefore, ASU 2014-09 is now effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Earlier application is permitted only as of annual reporting periods, and interim periods within those fiscal years, beginning after December 15, 2016.

FASB Accounting Standards Update 2015-09, Insurance - (Topic 944): Disclosures about Short-Duration Contracts

In June 2015, the FASB issued Accounting Standards Update 2015-09, Disclosure about Short-Duration Contracts, which applies to all insurance entities that issue short-duration contracts. The amendment requires, among other things, additional disclosures about the liability for unpaid claims and claim adjustment expenses. The amendments also require insurance entities to disclose information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements.

The amendments in this update are effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016.

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The Corporation does not anticipate that the adoption of this accounting pronouncement will have a significant impact on its consolidated financial statements.

FASB Accounting Standards Update 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investment in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (ASU 2015-07)

The FASB issued ASU 2015-07 in May 2015, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. Currently, investments valued using the practical expedient are categorized within the fair value hierarchy on the basis of whether the investment is redeemable with the investee at net asset value on the measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at a future date. For investments that are redeemable with the investee at a future date, a reporting entity must take into account the length of time until those investments become redeemable to determine the classification within the fair value hierarchy. There is diversity in practice related to how certain investment measured at net asset value with redemption dates in the future are categorized within the fair value hierarchy.

The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient.

The amendments of this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2015. Early adoption is permitted. A reporting entity should apply the amendments retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the net asset value per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements.

The adoption of this guidance impacts presentation disclosures only and will not have an impact on the Corporation's consolidated statement of financial condition or results of operations.

FASB Accounting Standards Update 2015-05, Intangibles – Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement (ASU 2015-05)

The FASB issued ASU 2015-05 in April 2015, which provides guidance about a customer's accounting for fees paid in a cloud computing arrangement. The amendments in this ASU provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. This guidance will not change the accounting for service contracts. All software licenses within the scope of ASC Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets.

The amendments of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2015. Early adoption is permitted. An entity can adopt the amendments either prospectively to all arrangements entered into or materially modified after the effective date, or retrospectively.

The Corporation is currently evaluating the impact that the adoption of this accounting pronouncement will have on its consolidated financial statements.

FASB Accounting Standards Update 2015-04, Compensation – Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer’s Defined Benefit Obligation and Plan Assets (ASU 2015-04)

The FASB issued ASU 2015-04 in April 2015, which simplifies the measurement of benefit plan assets and obligations. For an entity with a fiscal year-end that does not coincide with a month-end, the amendments in this ASU provides a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity’s fiscal year-end and apply that practical expedient from year to year. The practical expedient should be applied consistently to all plans if an entity has more than one plan.

For an entity that has a significant event in an interim period that calls for a remeasurement of defined benefit plan assets and obligation, the amendments in this ASU also provide a practical expedient that permits the entity to remeasure define plan assets and obligations using the month-end that is closest to the date of the significant event.

An entity is required to disclose the accounting policy election and the date used to measure defined benefit plan assets and obligations in accordance with the amendments of this ASU. Employee benefit plans are not within the scope of these amendments.

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The amendments of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2015. Early adoption is permitted. The amendments in this ASU should be applied prospectively.

The Corporation does not expect that the adoption of this accounting pronouncement will have a significant impact on its financial statements.

FASB Accounting Standards Update 2015-03, Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03)

The FASB issued ASU 2015-03 in April 2015, which simplifies the presentation of debt issuance costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of that debt liability, consistent with debt discounts. Having different balance sheet presentation requirements for debt issuance costs and debt discount and premium creates unnecessary complexity. The recognition and measurement guidance for debt issuance costs are not affected by the amendments of this Update.

The amendments of this Update are effective for financial statements issued for fiscal years beginning after December 31, 2015, and interim periods within fiscal years beginning after December 31, 2016. Early adoption is permitted for financial statements that have not been previously issued.

An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle.

The Corporation's current policy is to record debt issuance costs as a deferred asset, and accordingly, it will need to reclassify this balance upon adoption. However, this balance sheet reclassification is not expected to have a material impact in the Corporation's consolidated financial statements.

FASB Accounting Standards Update 2015-02, Consolidation (Topic 810): Amendment to the Consolidation Analysis (ASU 2015-02)

The FASB issued ASU 2015-02 in February 2015, which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments:

- 1) Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities
- 2) Eliminate the presumption that a general partner should consolidate a limited partnership
- 3) Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships

- 4) Provide a scope exception from consolidation guidance for reporting entities with interest in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds.

The amendments of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2015. Early adoption is permitted, including adoption in an interim period. If an entity early adopts in an interim period, any adjustment should be reflected as of the beginning of the fiscal year of that includes that interim period.

The amendments may be applied using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. A reporting entity may also apply the amendments of this ASU retrospectively.

The Corporation is currently evaluating the impact that the adoption of this accounting pronouncement will have on its consolidated financial statements.

FASB Accounting Standards Update 2015-01, Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items (ASU 2015-01)

The FASB issued ASU 2015-01 in January 2015, which eliminates from GAAP the concept of extraordinary items. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports the classification as an extraordinary item. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity is also required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item.

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Eliminating the concept of extraordinary items will save time and reduce costs for preparers because they will not have to assess whether a particular event or transaction event is extraordinary. This will alleviate uncertainty for preparers, auditors, and regulators because auditors and regulators no longer will need to evaluate whether a preparer treated an unusual and/or infrequent item appropriately.

The presentation and disclosure guidance for items that are unusual in nature and occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring.

The amendments of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2015. The amendments may be applied prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided is applied from the beginning of the fiscal year of adoption.

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

FASB Accounting Standards Update 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is more Akin to Debt or to Equity (ASU 2014-16)

The FASB issued ASU 2014-16 in November 2014, which intends to eliminate the use of different methods in practice and thereby reduce existing diversity under GAAP in the accounting for hybrid financial instruments issued in the form of a share. An entity should determine the nature of the host contract by considering the economic characteristics and risks of the entire hybrid financial instrument, including the embedded derivative feature that is being evaluated for separate accounting from the host contract. In evaluating the stated and implied substantive terms and features, the existence or omission of any single term or feature does not necessarily determine the economic characteristics and risks of the host contract. Although an individual term or feature may weigh more heavily in the evaluation on the basis of facts and circumstances, an entity should use judgment based on an evaluation of all relevant terms and features.

The amendment in this ASU does not change the current criteria in GAAP for determining when separation of certain embedded derivative features in a hybrid financial instrument is required. An entity will continue to evaluate whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to those of the host contract, among other relevant criteria.

The amendments in the ASU are effective for annual periods, and interim periods within those annual periods, beginning in the first quarter of 2016. Early adoption is permitted. The effects of initially adopting the amendments of this ASU should be applied on a modified retrospective basis to existing hybrid financial instruments issued in the form of a share as of the beginning of the fiscal year for which the amendments are effective. Retrospective application is permitted to all relevant prior periods.

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

FASB Accounting Standards Update 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability as a Going Concern (ASU 2014-15)

The FASB issued ASU 2014-15 in August 2014, which provides guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide the related footnote disclosures. These amendments should reduce diversity in the timing and content of footnote disclosures.

In connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable).

When management identifies conditions or events that raise substantial doubt about an entity's ability to continue as a going concern, management should consider whether its plans that are intended to mitigate those relevant conditions or events will alleviate the substantial doubt. The mitigating effect of management's plans should be considered only to the extent that (1) it is probable that the plans will be effectively implemented and, if so, (2) it is probable that the plans will mitigate the conditions or events that raise substantial doubt about the entity's ability to continue as a going concern.

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The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted.

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

FASB Accounting Standards Update 2014-13, Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financial Entity (ASU 2014-13)

The FASB issued ASU 2014-13 in August 2014, which intends to clarify that when a reporting entity that consolidates a collateralized financing entity may elect to measure the financial assets and the financial liabilities of that collateralized financing entity using either the measurement alternative included in this Update or Topic 820 on fair value measurement. When the measurement alternative is not elected, the amendments of this Update clarify that the fair value of the financial assets and the fair value of the financial liabilities of the consolidated collateralized financing entity should be measured using the requirements of Topic 820 and any differences in the fair value of the financial assets and the fair value of the financial liabilities of that entity should be reflected in earnings and attributed to the reporting entity in the consolidated statement of income.

When a reporting entity elects the measurement alternative included in this Update for a collateralized financing entity, the reporting entity should measure both the financial assets and the financial liabilities of that entity in its consolidated financial statements using the more observable of the fair value of the financial assets and the fair value of the financial liabilities.

The amendments in the ASU are effective in the first quarter of 2016. Early adoption is permitted as of the beginning of an annual period. The amendments of this ASU can be applied using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the annual period of adoption. A reporting entity also may apply the amendments retrospectively to all relevant prior periods beginning with the annual period in which the amendments of ASU 2009-17 were initially adopted.

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

FASB Accounting Standards Update 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (ASU 2014-12)

The FASB issued ASU 2014-12 in June 2014, which intends to resolve the diverse accounting treatment of awards with a performance target that could be achieved after an employee completes the requisite service period. That is, the employee would be eligible to vest in the award regardless of whether the employee is rendering service on the date the performance target is achieved.

The amendments of the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award.

Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite

service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period.

The amendments in the ASU are effective in the first quarter of 2016. Early adoption is permitted. The amendments of this ASU can be applied (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets outstanding at the beginning of the period of adoption and to all new or modified awards thereafter.

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

FASB Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606); (ASU 2014-09)

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The FASB issued ASU 2014-09 in May 2014, which clarifies the principles for recognizing revenue and develop a common revenue standard that would (1) remove inconsistencies and weaknesses in revenue requirements, (2) provide a more robust framework for addressing revenue issues, (3) improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, (4) provide more useful information to users of financial statement through improved disclosure requirements and (5) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. ASU 2014-09 amends the ASC Codification and creates a new Topic 606, Revenue from Contracts with Customers.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

In addition, the new guidance requires disclosures to enable users of financial statements to understand the nature, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative information is required about contract with customers, significant judgments and changes in judgments, and assets recognized from the cost to obtain or fulfill a contract.

The amendments in this ASU were originally effective in the first quarter of 2017. However, in August 2015, the FASB issued ASU 2015-14, which defers the effective date until January 1, 2018.

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

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During the year ended December 31, 2014, the Corporation completed the sale of its California, Illinois and Central Florida regional operations to three different buyers.

The regional operations sold constituted a business, as defined in ASC 805-10-55. Accordingly, the decision to sell these businesses resulted in the discontinuance of each of their respective operations and classification as held-for-sale. For financial reporting purposes, the results of the discontinued operations are presented as Assets / Liabilities from discontinued operations in the consolidated statement of condition and (Loss) income from discontinued operations, net of tax in the consolidated statement of operations. As required by ASC 205-20, current and prior periods presented in the consolidated statement of operations as well as the related note disclosures covering income and expense amounts have been retrospectively adjusted for the impact of the discontinued operations for comparative purposes.

During the quarter ended June 30, 2014, the Corporation recorded non-cash impairment charge of \$187 million related to the goodwill allocated, on a relative fair value basis, to these operations. However, this non-cash charge had no impact on the Corporation's tangible capital or regulatory capital ratios.

After the sale of these three regions, at September 30, 2015, there were no assets held within the discontinued operations. As of September 30, 2015, liabilities within discontinued operations amounted to approximately \$1.8 million, mainly comprised of the indemnity reserve related to the California regional sale.

The following table provides the components of net income from the discontinued operations for the quarters and nine months ended September 30, 2015 and 2014.

(In thousands)	Quarters ended September 30,		Nine month period ended	
	2015	2014	September 30,	September 30,
			2015	2014
Net interest income	\$	\$ 16,022	\$	\$ 56,911
Provision (reversal) for loan losses				(6,764)
Net gain on sale of regions		25,775		25,775
Other non-interest income		6,567		26,488
Total non-interest income		32,342		52,263
Operating expenses:				
Personnel costs	9	11,941		32,910
Net occupancy expenses		(1,305)		5,871
Professional fees		4,916	(1,348)	13,612
Goodwill impairment charge				186,511
Other operating expenses		3,054	1	9,100
Total operating expenses	9	18,606	(1,347)	248,004
Net (loss) income from discontinued operations	\$ (9)	\$ 29,758	\$ 1,347	\$ (132,066)

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Note 5 Business combination

On February 27, 2015, BPPR, the Corporation's Puerto Rico banking subsidiary, in an alliance with co-bidders, including BPNA, the Corporation's U.S. mainland banking subsidiary, acquired certain assets and all deposits (other than certain brokered deposits) of former Doral Bank from the Federal Deposit Insurance Corporation (FDIC), as receiver (the Doral Bank Transaction).

Under the FDIC's bidding format, BPPR was the lead bidder and party to the purchase and assumption agreement with the FDIC covering all assets and deposits acquired by it and its alliance co-bidders. BPPR entered into back to back purchase and assumption agreements with the alliance co-bidders for the transfer of certain assets and deposits. The other co-bidders that formed part of the alliance led by BPPR were FirstBank Puerto Rico, Centennial Bank, and a vehicle formed by J.C. Flowers III LP. BPPR entered into transition service agreements with each of the alliance co-bidders.

After taking into account the transfers to the unaffiliated alliance co-bidders, BPPR and BPNA assumed an aggregate of approximately \$2.2 billion in deposits and acquired an aggregate of approximately \$1.7 billion in commercial and residential loans.

BPPR assumed approximately \$574 million in deposits associated with eight Puerto Rico branches of Doral Bank and approximately \$425 million from its online deposit platform, and approximately \$827 million in Puerto Rico residential and commercial loans.

BPNA assumed approximately \$1.2 billion in deposits in three New York branches of Doral Bank, and acquired approximately \$891 million in commercial loans primarily in the New York metropolitan area.

There is no loss-sharing arrangement with the FDIC on the acquired assets.

On February 27, 2015, the FDIC, as receiver for Doral Bank, accepted BPPR's bid for the purchase of the mortgage servicing rights on three pools of residential mortgage loans of approximately \$5.0 billion in unpaid principal balance for a purchase price initially estimated at \$48.6 million. As of February 27, 2015, the transfers of the mortgage servicing rights were subject to a number of specified closing conditions, including the consent of each of Ginnie Mae, Fannie Mae and Freddie Mac in a form acceptable to BPPR, and other customary closing conditions. Therefore, the fair value as of March 31, 2015 was recorded as a contingent asset as part of other assets in the Consolidated Statement of Condition. During the second quarter of 2015, BPPR completed the acquisition of the mortgage servicing rights pools on the three pools for an aggregate purchase price of \$56.2 million, including certain servicing advances purchased. As a result of the completion of these transactions, during the second quarter of 2015 BPPR reclassified the contingent asset from other assets to mortgage servicing rights.

During the second and third quarters of 2015, retrospective adjustments were made to the estimated fair values of certain assets and liabilities assumed with the Doral Bank Transaction to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the acquisition-date fair value measurements. The retrospective adjustments resulted in a decrease of \$2.1 million to the initial fair value estimate of the mortgage servicing rights, a decrease in other liabilities assumed of \$0.5 million and, an increase of \$2.6 million in the receivable from the FDIC related to the acquisition cost of deposits, all of which were adjusted against goodwill.

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The following table presents the fair values of major classes of identifiable assets acquired and liabilities assumed by the Corporation as of February 27, 2015, which includes updated fair value adjustments of the mortgage servicing rights initially recorded as a contingent asset and of the deposits.

(In thousands)	Book value prior to purchase accounting adjustments	Fair value adjustments	Additional consideration ^[1]	As recorded by Popular, Inc. on February 27, 2015
Assets:				
Cash and due from banks	\$ 339,633	\$	\$	\$ 339,633
Investment in available-for-sale securities	172,706			172,706
Investments in FHLB stock	30,785			30,785
Loans	1,718,208	(52,452)		1,665,756
Accrued income receivable	7,808			7,808
Receivable from the FDIC			441,721	441,721
Core deposit intangible	23,572			23,572
Other assets	67,676	7,569		75,245
Total assets	\$ 2,360,388	\$ (44,883)	\$ 441,721	\$ 2,757,226
Liabilities:				
Deposits	\$ 2,193,404	\$ 8,051	\$	\$ 2,201,455
Advances from the Federal Home Loan Bank	542,000	5,187		547,187
Other liabilities	50,728	(511)		50,217
Total liabilities	\$ 2,786,132	\$ 12,727	\$	\$ 2,798,859
Excess of liabilities assumed over assets acquired	\$ 425,744			
Aggregate fair value adjustments		\$ (57,610)		
Additional consideration			\$ 441,721	
Goodwill on acquisition				\$ 41,633

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

The fair values assigned to the assets acquired and liabilities assumed are preliminary and subject to refinement for up to one year after the closing date of the acquisition as new information relative to closing date fair values becomes available. The Corporation continues to analyze its estimates of fair value on loans and other assets acquired as well as the deposits and other liabilities assumed. As the Corporation finalizes its analyses of these assets and liabilities, there may be additional adjustments to the recorded carrying values, and thus the recognized goodwill may increase or decrease.

The following is a description of the methods used to determine the fair values of significant assets acquired and liabilities assumed on the Doral Bank Transaction:

Loans

Fair values of loans were based on a discounted cash flow methodology. Certain loans were valued individually, while other loans were valued as pools. Aggregation into pools considered characteristics such as loan type, payment term, rate type and accruing status. 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, taking into account principally the loan type, market rates as of the valuation date, liquidity expectations, and the expected life of the loans.

Mortgage Servicing Rights (recorded as Contingent Asset at February 27, 2015)

The Corporation uses a discounted cash flow model to estimate the fair value of mortgage servicing rights. 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. The mortgage servicing rights from the Doral Bank Transaction were recorded at the BPPR reportable segment.

Goodwill

The amount of goodwill is the residual difference in the fair value of liabilities assumed and net consideration paid to the FDIC over the fair value of the assets acquired. The goodwill created by this transaction is driven by the deployment of capital with meaningful earnings accretion and significant cost savings opportunities. In addition to strengthening the Corporation's Puerto Rico franchise,

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the transaction grows the U.S. business through the addition of an attractive commercial platform. The goodwill is deductible for income tax purposes. The goodwill from the Doral Bank Transaction was assigned to the BPPR and BPNA reportable segments based on the relative fair value of the assets acquired and liabilities assumed.

Core deposit intangible

This intangible asset represents the value of the relationships that Doral Bank had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the core deposit base, interest costs, and the net maintenance cost attributable to customer deposits, and the cost of alternative funds. The core deposit intangible asset will be amortized over a period of ten years.

Deposits

The fair values used for the demand deposits that comprise the transaction accounts acquired, which have no stated maturity and include non-interest bearing demand deposits, savings, NOW, and money market accounts, by definition equal the amount payable on demand at the reporting date. The fair values for time deposits were estimated using a discounted cash flow calculation that applies interest rates currently offered to comparable time deposits with similar maturities, and also accounts for the non-performance risk by using internally-developed models that consider, where applicable, the remaining term and the credit premium of the institution.

Deferred taxes

Deferred taxes relate to a difference between the financial statement and tax basis of the assets acquired and assumed liabilities assumed in the transaction. Deferred taxes were reported based upon the principles in ASC Topic 740

Income Taxes , and were measured using the enacted statutory income tax rate to be in effect for BPPR and BPNA at the time the deferred tax is expected to reverse.

For income tax purposes, the Doral Bank Transaction was accounted for as an asset purchase and the tax bases of assets acquired were allocated based on fair values using a modified residual method. Under this method, the purchase price was allocated among the assets in order of liquidity (the most liquid first) up to its fair market value.

The operating results of the Corporation for the quarter and nine months periods ended on September 30, 2015 include the operating results produced by the acquired assets and assumed liabilities. This includes approximately \$30.9 million and \$79.3 million in gross revenues and approximately \$19.1 million and \$60.3 million in operating expenses for the quarter and nine months periods ended on September 30, 2015, respectively. The Corporation believes that given the amount of assets and liabilities assumed, the size of the operations acquired in relation to Popular s operations and the significant amount of fair value adjustments, the historical results of Doral Bank are not meaningful to Popular s results, and thus no pro forma information is presented.

Table of Contents**Note 6 Restructuring plan**

As discussed in Note 4, in connection with the sale of the operations of the California, Illinois and Central Florida regions, the Corporation has relocated certain back office operations, previously conducted in these regions, to Puerto Rico and New York. The Corporation has undertaken a restructuring plan (the PCB Restructuring Plan) to eliminate and re-locate employment positions, terminate contracts and incur other costs associated with moving the operations to Puerto Rico and New York. The Corporation has incurred restructuring charges of approximately \$44.1 million, of which approximately \$26.7 million were incurred during 2014 and \$17.4 million during the nine months ended September 30, 2015. As of September 30, 2015, the restructuring related to the U.S. operations has been substantially completed. The Corporation does not anticipate any significant restructuring expenses to be incurred prospectively.

The following table details the expenses recorded by the Corporation that were associated with the PCB Restructuring Plan:

(In thousands)	Quarter ended September 30, 2015	Nine months ended September 30, 2015
Personnel costs	\$ 496	\$ 12,728
Net occupancy expenses	208	3,254
Equipment expenses	15	239
Professional fees	(406)	375
Other operating expenses	168	812
 Total restructuring costs	 \$ 481	 \$ 17,408

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

(In thousands)	
Balance at January 1, 2015	\$ 13,536
Charges expensed during the period	7,725
Payments made during the period	(20,469)
 Balance at September 30, 2015	 \$ 792

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Note 7 - Restrictions on cash and due from banks and certain securities

The Corporation's banking subsidiaries, BPPR and BPNA, are required by federal and state regulatory agencies to maintain average reserve balances with the Federal Reserve Bank of New York (the "Fed") or other banks. Those required average reserve balances amounted to \$ 1.1 billion at September 30, 2015 (December 31, 2014 - \$ 1.0 billion). Cash and due from banks, as well as other short-term, highly liquid securities, are used to cover the required average reserve balances.

At September 30, 2015, the Corporation held \$32 million in restricted assets in the form of funds deposited in money market accounts, trading account securities and investment securities available for sale (December 31, 2014 - \$45 million). The amounts held in trading account securities and investment securities available for sale consist primarily of restricted assets held for the Corporation's non-qualified retirement plans and fund deposits guaranteeing possible liens or encumbrances over the title of insured properties.

Table of Contents**Note 8 Pledged assets**

Certain securities and loans were pledged to secure public and trust deposits, assets sold under agreements to repurchase, other borrowings and credit facilities available, derivative positions, and loan servicing agreements. The classification and carrying amount of the Corporation's pledged assets, in which the secured parties are not permitted to sell or repledge the collateral, were as follows:

(In thousands)	September 30, 2015	December 31, 2014
Investment securities available-for-sale, at fair value	\$ 2,439,298	\$ 1,700,820
Investment securities held-to-maturity, at amortized cost	57,170	60,515
Loans held-in-portfolio covered under loss sharing agreements with the FDIC	395,461	480,441
Loans held-in-portfolio not covered under loss sharing agreements with the FDIC	7,542,089	8,820,204
Total pledged assets	\$ 10,434,018	\$ 11,061,980

Pledged securities that the creditor has the right by custom or contract to repledge are presented separately on the consolidated statements of financial condition.

At September 30, 2015, the Corporation had \$ 1.5 billion in investment securities available-for-sale and \$ 0.5 billion in loans that served as collateral to secure public funds (December 31, 2014 - \$ 0.7 billion and \$ 0.7 billion, respectively).

At September 30, 2015, the Corporation's banking subsidiaries had short-term and long-term credit facilities authorized with the Federal Home Loan Bank system (the FHLB) aggregating to \$3.6 billion (December 31, 2014 - \$3.7 billion). Refer to Note 20 to the consolidated financial statements for borrowings outstanding under these credit facilities. At September 30, 2015, the credit facilities authorized with the FHLB were collateralized by \$ 4.8 billion in loans held-in-portfolio (December 31, 2014 - \$ 4.5 billion). Also, at September 30, 2015, the Corporation's banking subsidiaries had a borrowing capacity at the Federal Reserve (Fed) discount window of \$1.5 billion, which remained unused as of such date (December 31, 2014 - \$2.1 billion). The amount available under these credit facilities with the Fed is dependent upon the balance of loans and securities pledged as collateral. At September 30, 2015, the credit facilities with the Fed discount window were collateralized by \$ 2.7 billion in loans held-in-portfolio (December 31, 2014 - \$ 4.1 billion). These pledged assets are included in the above table and were not reclassified and separately reported in the consolidated statements of financial condition.

Table of Contents**Note 9 Investment securities available-for-sale**

The following tables present the amortized cost, gross unrealized gains and losses, approximate fair value, weighted average yield and contractual maturities of investment securities available-for-sale at September 30, 2015 and December 31, 2014.

(In thousands)	At September 30, 2015				Weighted average yield
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	
U.S. Treasury securities					
Within 1 year	\$ 25,070	\$ 591	\$	\$ 25,661	4.09%
After 1 to 5 years	1,013,895	6,617		1,020,512	1.01
Total U.S. Treasury securities	1,038,965	7,208		1,046,173	1.09
Obligations of U.S. Government sponsored entities					
Within 1 year	10,000	17		10,017	1.61
After 1 to 5 years	964,801	4,172	815	968,158	1.34
After 5 to 10 years	250	3		253	5.64
After 10 years	23,000	67		23,067	3.21
Total obligations of U.S. Government sponsored entities	998,051	4,259	815	1,001,495	1.38
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	2,744	3		2,747	3.94
After 1 to 5 years	7,162		214	6,948	4.00
After 5 to 10 years	5,940		1,962	3,978	4.02
After 10 years	18,580		5,820	12,760	6.99
Total obligations of Puerto Rico, States and political subdivisions	34,426	3	7,996	26,433	5.61
Collateralized mortgage obligations - federal agencies					
After 1 to 5 years	17,876	920		18,796	3.00
After 5 to 10 years	43,668	936		44,604	2.72
After 10 years	1,600,824	12,395	19,849	1,593,370	1.99
Total collateralized mortgage obligations - federal agencies	1,662,368	14,251	19,849	1,656,770	2.01

Mortgage-backed securities

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After 1 to 5 years	24,436	1,211	7	25,640	4.65
After 5 to 10 years	268,439	6,337	27	274,749	2.52
After 10 years	1,417,444	41,317	1,957	1,456,804	3.00
Total mortgage-backed securities	1,710,319	48,865	1,991	1,757,193	2.95
Equity securities (without contractual maturity)	1,351	1,045	7	2,389	7.91
Other					
After 1 to 5 years	9,004	11		9,015	1.70
After 5 to 10 years	1,416	47		1,463	3.62
Total other	10,420	58		10,478	1.96
Total investment securities available-for-sale	\$ 5,455,900	\$ 75,689	\$ 30,658	\$ 5,500,931	2.04%

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(In thousands)	At December 31, 2014				Weighted average yield
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	
U.S. Treasury securities					
After 1 to 5 years	\$ 698,003	\$ 2,226	\$ 75	\$ 700,154	1.14%
Total U.S. Treasury securities	698,003	2,226	75	700,154	1.14
Obligations of U.S. Government sponsored entities					
Within 1 year	42,140	380		42,520	1.61
After 1 to 5 years	1,603,245	1,168	9,936	1,594,477	1.26
After 5 to 10 years	67,373	58	2,271	65,160	1.72
After 10 years	23,000		184	22,816	3.18
Total obligations of U.S. Government sponsored entities	1,735,758	1,606	12,391	1,724,973	1.31
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	2,765	17		2,782	3.83
After 1 to 5 years	1,024	38		1,062	8.40
After 5 to 10 years	22,552	2	2,331	20,223	5.82
After 10 years	48,823	40	11,218	37,645	6.22
Total obligations of Puerto Rico, States and political subdivisions	75,164	97	13,549	61,712	6.04
Collateralized mortgage obligations - federal agencies					
After 1 to 5 years	3,687	87		3,774	2.66
After 5 to 10 years	25,202	985		26,187	2.93
After 10 years	1,905,763	13,109	38,803	1,880,069	2.03
Total collateralized mortgage obligations - federal agencies	1,934,652	14,181	38,803	1,910,030	2.04
Mortgage-backed securities					
After 1 to 5 years	27,339	1,597		28,936	4.68
After 5 to 10 years	147,182	7,314	1	154,495	3.51
After 10 years	676,567	45,047	683	720,931	3.93
Total mortgage-backed securities	851,088	53,958	684	904,362	3.88
Equity securities (without contractual maturity)	1,351	1,271		2,622	5.03
Other					

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After 1 to 5 years	9,277	10		9,287	1.69
After 5 to 10 years	1,957	62		2,019	3.63
Total other	11,234	72		11,306	2.03
Total investment securities available-for-sale	\$ 5,307,250	\$ 73,411	\$ 65,502	\$ 5,315,159	2.04%

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

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

During the nine months ended September 30, 2015 the Corporation sold U.S. agency securities and obligations from the Puerto Rico government and its political subdivisions. The proceeds from these sales were \$ 96.8 million. The Corporation realized a gain of \$ 141 thousand on these transactions. During the nine months ended September 30, 2014 the Corporation sold approximately \$94.2 million in mortgage backed securities and collateralized mortgage obligations at the BPNA segment. The proceeds from this sale were \$91.3 million. The Corporation realized a loss of \$1.8 million on this transaction.

The following tables present the Corporation's fair value and gross unrealized losses of investment securities available-for-sale, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2015 and December 31, 2014.

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(In thousands)	Less than 12 months		At September 30, 2015 12 months or more		Total	
	Fair	Gross	Fair	Gross	Fair	Gross
	value	unrealized losses	value	unrealized losses	value	unrealized losses
Obligations of U.S. Government sponsored entities	\$ 65,391	\$ 90	\$ 203,748	\$ 725	\$ 269,139	\$ 815
Obligations of Puerto Rico, States and political subdivisions	868	173	20,803	7,823	21,671	7,996
Collateralized mortgage obligations - federal agencies	184,932	970	871,984	18,879	1,056,916	19,849
Mortgage-backed securities	348,969	1,451	23,523	540	372,492	1,991
Equity securities	43	7			43	7
Total investment securities available-for-sale in an unrealized loss position	\$ 600,203	\$ 2,691	\$ 1,120,058	\$ 27,967	\$ 1,720,261	\$ 30,658

(In thousands)	Less than 12 months		At December 31, 2014 12 months or more		Total	
	Fair	Gross	Fair	Gross	Fair	Gross
	value	unrealized losses	value	unrealized losses	value	unrealized losses
U.S. Treasury securities	\$ 49,465	\$ 75	\$	\$	\$ 49,465	\$ 75
Obligations of U.S. Government sponsored entities	888,325	6,866	429,835	5,525	1,318,160	12,391
Obligations of Puerto Rico, States and political subdivisions	14,419	3,031	41,084	10,518	55,503	13,549
Collateralized mortgage obligations - federal agencies	539,658	13,774	733,814	25,029	1,273,472	38,803
Mortgage-backed securities	457	4	25,486	680	25,943	684
Total investment securities available-for-sale in an unrealized loss position	\$ 1,492,324	\$ 23,750	\$ 1,230,219	\$ 41,752	\$ 2,722,543	\$ 65,502

As of September 30, 2015, the available-for-sale investment portfolio reflects gross unrealized losses of approximately \$31 million, driven by U.S. Agency Collateralized Mortgage Obligations, Mortgage-backed securities and obligations of the Puerto Rico Government and its political subdivisions. As part of its analysis for all US Agencies securities, management considers the U.S. Agency guarantee. The portfolio of obligations of the Puerto Rico Government is mostly comprised of securities with specific sources of income or revenues identified for repayments. The Corporation performs periodic credit quality reviews on these issuers.

Management evaluates investment securities for other-than-temporary (OTTI) declines in fair value on a quarterly basis. Once a decline in value is determined to be other-than-temporary, the value of a debt security is reduced and a corresponding charge to earnings is recognized for anticipated credit losses. Also, for equity securities that are

considered other-than-temporarily impaired, the excess of the security's carrying value over its fair value at the evaluation date is accounted for as a loss in the results of operations. The OTTI analysis requires management to consider various factors, which include, but are not limited to: (1) the length of time and the extent to which fair value has been less than the amortized cost basis, (2) the financial condition of the issuer or issuers, (3) actual collateral attributes, (4) the payment structure of the debt security and the likelihood of the issuer being able to make payments, (5) any rating changes by a rating agency, (6) adverse conditions specifically related to the security, industry, or a geographic area, and (7) management's intent to sell the debt security or whether it is more likely than not that the Corporation would be required to sell the debt security before a forecasted recovery occurs. At September 30, 2015, management performed its quarterly analysis of all debt securities in an unrealized loss position.

During the second quarter of 2015, the Corporation recognized an other-than-temporary impairment charge of \$14.4 million on its portfolio of investment securities available-for-sale classified as obligations from the Puerto Rico government and its political subdivisions. At June 30, 2015 these securities were rated Caa2 and CCC- by Moody's and S&P, respectively. Notwithstanding the payment priorities established by the Puerto Rico Constitution for these securities, Puerto Rico's fiscal and economic situation, together with the Government's announcements regarding its ability to pay its debt and its intention to pursue a comprehensive debt restructuring, led management to conclude that the unrealized losses on these government securities were other-than-temporary. The Corporation determined that the entire balance of the unrealized loss carried by these securities was attributed to estimated credit losses. Accordingly, the other-than-temporary impairment was recognized in its entirety in the accompanying consolidated statement of operations and no amount remained recognized in the accompanying statement of other

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comprehensive income related to these specific securities. These securities, for which an other-than-temporary impairment was recorded, were sold during the third quarter of 2015, resulting in a realized gain of \$0.1 million. The proceeds from this sale were \$26.8 million.

Further negative evidence impacting the liquidity and sources of repayment of the obligations of Puerto Rico and its political subdivisions, could result in a further charge to earnings to recognize estimated credit losses determined to be other-than-temporary. At September 30, 2015, the Corporation did not have the intent to sell debt securities in an unrealized loss position and it is not more likely than not that the Corporation will have to sell the investment 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 securities of such issuer (includes available-for-sale and held-to-maturity securities), in which the aggregate amortized cost of such securities exceeds 10% of stockholders' equity. This information excludes securities backed by the full faith and credit of the U.S. Government. Investments in obligations issued by a state of the U.S. and its political subdivisions and agencies, which are payable and secured by the same source of revenue or taxing authority, other than the U.S. Government, are considered securities of a single issuer.

(In thousands)	September 30, 2015		December 31, 2014	
	Amortized cost	Fair value	Amortized cost	Fair value
FNMA	\$ 2,204,701	\$ 2,212,441	\$ 1,746,807	\$ 1,736,987
FHLB	360,171	361,276	737,149	732,894
Freddie Mac	1,015,526	1,017,525	1,117,865	1,112,485

Table of Contents**Note 10 Investment securities held-to-maturity**

The following tables present the amortized cost, gross unrealized gains and losses, approximate fair value, weighted average yield and contractual maturities of investment securities held-to-maturity at September 30, 2015 and December 31, 2014.

(In thousands)	At September 30, 2015				Weighted average yield
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	\$ 2,920	\$	\$ 440	\$ 2,480	5.90%
After 1 to 5 years	13,655		4,714	8,941	5.98
After 5 to 10 years	20,020		7,637	12,383	6.14
After 10 years	62,114	4,548	7,999	58,663	2.09
Total obligations of Puerto Rico, States and political subdivisions	98,709	4,548	20,790	82,467	3.56
Collateralized mortgage obligations - federal agencies					
After 5 to 10 years	86	5		91	5.45
Total collateralized mortgage obligations - federal agencies	86	5		91	5.45
Other					
After 1 to 5 years	1,500		22	1,478	1.21
Total other	1,500		22	1,478	1.21
Total investment securities held-to-maturity	\$ 100,295	\$ 4,553	\$ 20,812	\$ 84,036	3.53%

(In thousands)	At December 31, 2014				Weighted average yield
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	\$ 2,740	\$	\$ 8	\$ 2,732	5.84%
After 1 to 5 years	12,830		764	12,066	5.95
After 5 to 10 years	21,325		6,003	15,322	6.09
After 10 years	64,678	3,342	5,543	62,477	2.22

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Total obligations of Puerto Rico, States and political subdivisions	101,573	3,342	12,318	92,597	3.60
Collateralized mortgage obligations - federal agencies					
After 5 to 10 years	97	5		102	5.45
Total collateralized mortgage obligations - federal agencies	97	5		102	5.45
Other					
Within 1 year	250			250	1.33
After 1 to 5 years	1,250			1,250	1.10
Total other	1,500			1,500	1.14
Total investment securities held-to-maturity	\$ 103,170	\$ 3,347	\$ 12,318	\$ 94,199	3.57%

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

The following tables present the Corporation's fair value and gross unrealized losses of investment securities held-to-maturity, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2015 and December 31, 2014.

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(In thousands)	At September 30, 2015					
	Less than 12 months		12 months or more		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Obligations of Puerto Rico, States and political subdivisions	\$	\$	\$ 36,130	\$ 20,790	\$ 36,130	\$ 20,790
Other	1,478	22			1,478	22
Total investment securities held-to-maturity in an unrealized loss position	\$ 1,478	\$ 22	\$ 36,130	\$ 20,790	\$ 37,608	\$ 20,812

(In thousands)	At December 31, 2014					
	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	\$ 373	\$ 2	\$ 45,969	\$ 12,316	\$ 46,342	\$ 12,318
Total investment securities held-to-maturity in an unrealized loss position	\$ 373	\$ 2	\$ 45,969	\$ 12,316	\$ 46,342	\$ 12,318

As indicated in Note 9 to these consolidated financial statements, management evaluates investment securities for OTTI declines in fair value on a quarterly basis.

The Obligations of Puerto Rico, States and political subdivisions classified as held-to-maturity at September 30, 2015 are primarily associated with securities issued by municipalities of Puerto Rico and are generally not rated by a credit rating agency. This includes \$57 million of securities issued by three municipalities of Puerto Rico that are payable from the real and personal property taxes collected within such municipalities. These bonds have seniority to the payment of operating cost and expenses of the municipality. The portfolio also includes approximately \$42 million in securities for which the underlying source of payment is not the central government, but in which it provides a guarantee in the event of default.

The Corporation performs periodic credit quality reviews on these issuers. The Corporation does not have the intent to sell securities held-to-maturity and it is not more likely than not that the Corporation will have to sell these investment securities prior to recovery of their amortized cost basis.

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

The risks on loans acquired in the FDIC-assisted transaction are significantly different from the risks on loans not covered under the FDIC loss sharing agreements because of the loss protection provided by the FDIC. Accordingly, the Corporation presents loans subject to the loss sharing agreements as covered loans in the information below and loans that are not subject to the FDIC loss sharing agreements as non-covered loans. The FDIC loss sharing agreements expired on June 30, 2015 for commercial (including construction) and consumer loans, and expires on June 30, 2020 for single-family residential mortgage loans, as explained in Note 13.

As a result of the expiration of the shared-loss arrangement under the commercial loss share agreement on June 30, 2015, approximately \$1.5 billion in loans and \$18 million in OREOs were reclassified as non-covered in the accompanying statement of financial condition during the quarter ended June 30, 2015, because they are no longer subject to the shared-loss payments by the FDIC. However, included in these balances were loans with carrying amount at June 30, 2015 of approximately \$248.7 million that are subject to the resolution of several arbitration proceedings currently ongoing with the FDIC related primarily to (i) the FDIC's denial of reimbursements for certain charge-offs claimed by BPPR with respect to certain loans and the treatment of those loans as shared-loss assets under the commercial loss share agreement; and (ii) the denial by the FDIC of portfolio sale proposals submitted by BPPR pursuant to the applicable commercial shared loss agreement provision governing portfolio sales. Until the disputes described above are finally resolved, the terms of the commercial loss share agreement will remain in effect with respect to any such items under dispute. Refer to additional information of these disputes on Note 26, Commitment and Contingencies.

For a summary of the accounting policy related to loans, interest recognition and allowance for loan losses refer to the summary of significant accounting policies included in Note 2 to the consolidated financial statements included in 2014 Annual Report.

Change in non-accrual accounting policy for guaranteed residential mortgage loans

During the quarter ended September 30, 2015, the Corporation changed its policy on interest income recognition for residential mortgage loans guaranteed by the Federal Housing Administration (FHA) or the Veterans Administration (VA). Previously, the Corporation discontinued the recognition of interest income on these loans when they were 18-months delinquent as to principal or interest. The Corporation modified its policy to discontinue the recognition of interest when 15-months delinquent as to principal or interest. This change in estimate was based on an analysis of

historical collections from these agencies. This change in policy resulted in the reversal of previously accrued interest amounting to approximately \$1.9 million during the quarter ended September 30, 2015.

The following table presents the composition of non-covered loans held-in-portfolio (HIP), net of unearned income, at September 30, 2015 and December 31, 2014.

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(In thousands)	September 30, 2015	December 31, 2014
Commercial multi-family	\$ 784,641	\$ 487,280
Commercial real estate non-owner occupied	3,629,669	2,526,146
Commercial real estate owner occupied	2,080,668	1,667,267
Commercial and industrial	3,635,446	3,453,574
Construction	692,492	251,820
Mortgage	7,165,479	6,502,886
Leasing	606,927	564,389
Legacy ^[2]	67,974	80,818
Consumer:		
Credit cards	1,135,510	1,155,229
Home equity lines of credit	326,559	366,162
Personal	1,377,131	1,375,452
Auto	805,063	767,369
Other	190,507	206,059
Total loans held-in-portfolio^[1]	\$ 22,498,066	\$ 19,404,451

- [1] Non-covered loans held-in-portfolio at September 30, 2015 are net of \$103 million in unearned income and exclude \$171 million in loans held-for-sale (December 31, 2014 - \$94 million in unearned income and \$106 million in loans held-for-sale).
- [2] The legacy portfolio is comprised of commercial loans, construction loans and lease financings related to certain lending products exited by the Corporation as part of restructuring efforts carried out in prior years at the BPNA segment.

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The following table presents the composition of covered loans at September 30, 2015 and December 31, 2014.

(In thousands)	September 30, 2015	December 31, 2014
Commercial real estate	\$	\$ 1,511,472
Commercial and industrial		103,309
Construction		70,336
Mortgage	645,663	822,986
Consumer	19,765	34,559
Total covered loans held-in-portfolio	\$ 665,428	\$ 2,542,662

The following table provides a breakdown of loans held-for-sale (LHFS) at September 30, 2015 and December 31, 2014 by main categories.

(In thousands)	September 30, 2015	December 31, 2014
Commercial	\$ 47,447	\$ 309
Construction	10	
Legacy		319
Mortgage	123,562	100,166
Consumer		5,310
Total loans held-for-sale	\$ 171,019	\$ 106,104

Excluding the impact of the Doral Bank Transaction, during the quarter and nine months ended September 30, 2015, the Corporation recorded purchases (including repurchases) of mortgage loans amounting to \$91 million and \$495 million, respectively (September 30, 2014 - \$139 million and \$470 million, respectively). The Corporation did not record purchases of consumer loans during the quarter and nine months ended September 30, 2015 (September 30, 2014 - \$92 million). In addition, during the nine months ended September 30, 2015, the Corporation did not record purchases of commercial loans (during the quarter and nine months ended September 30, 2014 - \$21 million). The Corporation recorded purchases amounting to \$762 thousand and \$926 thousand of lease financing during the quarter and nine months ended September 30, 2015, respectively, and none during the nine months ended September 30, 2014.

The Corporation sold approximately \$19 million and \$82 million of residential mortgage loans (on a whole loan basis) during the quarter and nine months ended September 30, 2015, respectively (September 30, 2014 - \$56 million and \$126 million, respectively). Also, the Corporation securitized approximately \$ 251 million and \$ 651 million of mortgage loans into Government National Mortgage Association (GNMA) mortgage-backed securities during the quarter and nine months ended September 30, 2015, respectively (September 30, 2014 - \$ 172 million and \$ 522 million, respectively). Furthermore, the Corporation securitized approximately \$ 57 million and \$ 174 million of mortgage loans into Federal National Mortgage Association (FNMA) mortgage-backed securities during the quarter and nine months ended September 30, 2015, respectively (September 30, 2014 - \$ 51 million and \$ 174 million, respectively). The Corporation sold commercial and construction loans with a book value of approximately \$9 million during the nine months ended September 30, 2015 (during the quarter and nine months ended September 30, 2014 - \$96 million and \$157 million, respectively).

Non-covered loans

The following tables present non-covered loans held-in-portfolio by loan class that are in non-performing status or are accruing interest but are past due 90 days or more at September 30, 2015 and December 31, 2014. Accruing loans past due 90 days or more consist primarily of credit cards, FHA / VA and other insured mortgage loans, and delinquent mortgage loans which are included in the Corporation's financial statements pursuant to GNMA's buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option. Residential conventional loans purchased from another financial institution, which are in the process of foreclosure, are classified as non-performing mortgage loans.

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(In thousands)	At September 30, 2015					
	Puerto Rico		U.S. mainland		Popular, Inc.	
	Non-accrual loans	Accruing loans past-due 90 days or more [1]	Non-accrual loans	Accruing loans past-due 90 days or more	Non-accrual loans	Accruing loans past-due 90 days or more
Commercial multi-family	\$ 1,287	\$	\$ 46	\$	\$ 1,333	\$
Commercial real estate non-owner occupied	45,869				45,869	
Commercial real estate owner occupied	113,654		722		114,376	
Commercial and industrial	75,085	515	2,734		77,819	515
Construction	3,605				3,605	
Mortgage ^[3]	331,022	422,786	12,388		343,410	422,786
Leasing	3,091				3,091	
Legacy			4,059		4,059	
Consumer:						
Credit cards		19,092	406		406	19,092
Home equity lines of credit		306	4,078		4,078	306
Personal	22,233	578	983		23,216	578
Auto	12,007		6		12,013	
Other	1,616	111	11		1,627	111
Total ^[2]	\$ 609,469	\$ 443,388	\$ 25,433	\$	\$ 634,902	\$ 443,388

[1] Non-covered loans of \$351 million accounted for under ASC Subtopic 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.

[2] For purposes of this table non-performing loans exclude \$ 48 million in non-performing loans held-for-sale.

[3] It is the Corporation's policy to report delinquent residential mortgage loans insured by FHA or guaranteed by the VA as accruing loans past due 90 days or more as opposed to non-performing since the principal repayment is insured. These balances include \$159 million of residential mortgage loans in Puerto Rico insured by FHA or guaranteed by the VA that are no longer accruing interest as of September 30, 2015. Furthermore, the Corporation has approximately \$71 million in reverse mortgage loans in Puerto Rico which are guaranteed by FHA, but which are currently not accruing interest. Due to the guaranteed nature of the loans, it is the Corporation's policy to exclude these balances from non-performing assets.

(In thousands)	At December 31, 2014					
	Puerto Rico		U.S. mainland		Popular, Inc.	
	Non-accrual loans	Accruing loans past-due 90 days or more [1]	Non-accrual loans	Accruing loans past-due 90 days or more	Non-accrual loans	Accruing loans past-due 90 days or more
Commercial multi-family	\$ 2,199	\$	\$	\$	\$ 2,199	\$

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Commercial real estate non-owner occupied	33,452			33,452	
Commercial real estate owner occupied	92,648		805	93,453	
Commercial and industrial	129,611	494	1,510	131,121	494
Construction	13,812			13,812	
Mortgage ^[3]	295,629	426,387	9,284	304,913	426,387
Leasing	3,102			3,102	
Legacy			1,545	1,545	
Consumer:					
Credit cards		20,368	449	449	20,368
Home equity lines of credit		21	4,090	4,090	21
Personal	25,678	10	1,410	27,088	10
Auto	11,387			11,387	
Other	3,865	682	7	3,872	682
Total ^[2]	\$ 611,383	\$ 447,962	\$ 19,100	\$ 630,483	\$ 447,962

- [1] Non-covered loans by \$59 million accounted for under ASC Subtopic 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.
- [2] For purposes of this table non-performing loans exclude \$ 19 million in non-performing loans held-for-sale.
- [3] It is the Corporation's policy to report delinquent residential mortgage loans insured by FHA or guaranteed by the VA as accruing loans past due 90 days or more as opposed to non-performing since the principal repayment is insured. These balances include \$125 million of residential mortgage loans in Puerto Rico insured by FHA or guaranteed by the VA that are no longer accruing interest as of December 31, 2014. Furthermore, the Corporation has approximately \$66 million in reverse mortgage loans in Puerto Rico which are guaranteed by FHA, but which are currently not accruing interest. Due to the guaranteed nature of the loans, it is the Corporation's policy to exclude these balances from non-performing assets.

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The following tables present loans by past due status at September 30, 2015 and December 31, 2014 for non-covered loans held-in-portfolio (net of unearned income), including loans previously covered by the commercial FDIC loss sharing agreements.

(In thousands)	September 30, 2015				Total past due	Current	Non-covered loans HIP Puerto Rico
	Puerto Rico						
	Past due						
30-59 days	60-89 days	90 days or more					
Commercial multi-family	\$ 767	\$ 119	\$ 1,732	\$ 2,618	\$ 130,949	\$ 133,567	
Commercial real estate non-owner occupied	61,049	3,837	116,146	181,032	2,570,075	2,751,107	
Commercial real estate owner occupied	27,884	8,803	163,507	200,194	1,733,278	1,933,472	
Commercial and industrial	7,140	3,927	78,740	89,807	2,613,791	2,703,598	
Construction	220	152	26,396	26,768	81,910	108,678	
Mortgage	312,915	164,142	850,258	1,327,315	4,893,080	6,220,395	
Leasing	7,048	1,683	3,091	11,822	595,105	606,927	
Consumer:							
Credit cards	12,755	8,749	19,092	40,596	1,080,881	1,121,477	
Home equity lines of credit	173	393	306	872	10,577	11,449	
Personal	14,726	9,001	22,811	46,538	1,186,307	1,232,845	
Auto	34,965	7,763	12,007	54,735	750,255	804,990	
Other	725	463	2,227	3,415	186,720	190,135	
Total	\$ 480,367	\$ 209,032	\$ 1,296,313	\$ 1,985,712	\$ 15,832,928	\$ 17,818,640	

(In thousands)	September 30, 2015				Total past due	Current	Loans HIP U.S. mainland
	U.S. mainland						
	Past due						
30-59 days	60-89 days	90 days or more					
Commercial multi-family	\$	\$ 118	\$ 46	\$ 164	\$ 650,910	\$ 651,074	
Commercial real estate non-owner occupied	11,400	255		11,655	866,907	878,562	
Commercial real estate owner occupied	1,711		722	2,433	144,763	147,196	
Commercial and industrial	1,046	1,648	109,922	112,616	819,232	931,848	
Construction	19,610	1,407		21,017	562,797	583,814	
Mortgage	2,200	5,422	12,388	20,010	925,074	945,084	
Legacy	266	598	4,059	4,923	63,051	67,974	
Consumer:							
Credit cards	242	130	406	778	13,255	14,033	
Home equity lines of credit	2,698	758	4,078	7,534	307,576	315,110	
Personal	736	736	983	2,455	141,831	144,286	

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Auto			6	6	67	73
Other	5	11	16	356	372	
Total	\$ 39,909	\$ 11,077	\$ 132,621	\$ 183,607	\$ 4,495,819	\$ 4,679,426

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(In thousands)	September 30, 2015					
	Popular, Inc.					
	Past due					Non-covered
	30-59	60-89	90 days	Total	Current	loans HIP
	days	days	or more	past due		Popular, Inc.
Commercial multi-family	\$ 767	\$ 237	\$ 1,778	\$ 2,782	\$ 781,859	\$ 784,641
Commercial real estate non-owner occupied	72,449	4,092	116,146	192,687	3,436,982	3,629,669
Commercial real estate owner occupied	29,595	8,803	164,229	202,627	1,878,041	2,080,668
Commercial and industrial	8,186	5,575	188,662	202,423	3,433,023	3,635,446
Construction	19,830	1,559	26,396	47,785	644,707	692,492
Mortgage	315,115	169,564	862,646	1,347,325	5,818,154	7,165,479
Leasing	7,048	1,683	3,091	11,822	595,105	606,927
Legacy	266	598	4,059	4,923	63,051	67,974
Consumer:						
Credit cards	12,997	8,879	19,498	41,374	1,094,136	1,135,510
Home equity lines of credit	2,871	1,151	4,384	8,406	318,153	326,559
Personal	15,462	9,737	23,794	48,993	1,328,138	1,377,131
Auto	34,965	7,763	12,013	54,741	750,322	805,063
Other	725	468	2,238	3,431	187,076	190,507
Total	\$ 520,276	\$ 220,109	\$ 1,428,934	\$ 2,169,319	\$ 20,328,747	\$ 22,498,066

(In thousands)	December 31, 2014					
	Puerto Rico					
	Past due					Non-covered
	30-59	60-89	90 days	Total	Current	loans HIP
	days	days	or more	past due		Puerto Rico
Commercial multi-family	\$ 221	\$ 69	\$ 2,199	\$ 2,489	\$ 77,588	\$ 80,077
Commercial real estate non-owner occupied	9,828	121	33,452	43,401	1,970,178	2,013,579
Commercial real estate owner occupied	8,954	7,709	92,648	109,311	1,364,051	1,473,362
Commercial and industrial	18,498	5,269	130,105	153,872	2,653,913	2,807,785
Construction	2,497		13,812	16,309	143,075	159,384
Mortgage	304,319	167,219	780,678	1,252,216	4,198,285	5,450,501
Leasing	6,779	1,246	3,102	11,127	553,262	564,389
Consumer:						
Credit cards	13,715	9,290	20,368	43,373	1,096,791	1,140,164
Home equity lines of credit	137	159	21	317	13,083	13,400
Personal	13,479	6,646	25,688	45,813	1,216,720	1,262,533
Auto	34,238	8,397	11,387	54,022	713,274	767,296
Other	1,009	209	4,547	5,765	199,879	205,644
Total	\$ 413,674	\$ 206,334	\$ 1,118,007	\$ 1,738,015	\$ 14,200,099	\$ 15,938,114

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(In thousands)	December 31, 2014					
	U.S. mainland Past due			Total past due	Current	Loans HIP U.S. mainland
	30-59 days	60-89 days	90 days or more			
Commercial multi-family	\$ 87	\$ 376	\$	\$ 463	\$ 406,740	\$ 407,203
Commercial real estate non-owner occupied	1,478			1,478	511,089	512,567
Commercial real estate owner occupied	45	3,631	805	4,481	189,424	193,905
Commercial and industrial	1,133	123	1,510	2,766	643,023	645,789
Construction	810			810	91,626	92,436
Mortgage	29,582	8,646	9,284	47,512	1,004,873	1,052,385
Legacy	929	1,931	1,545	4,405	76,413	80,818
Consumer:						
Credit cards	314	246	449	1,009	14,056	15,065
Home equity lines of credit	5,036	1,025	4,090	10,151	342,611	352,762
Personal	2,476	893	1,410	4,779	108,140	112,919
Auto					73	73
Other	10	4	7	21	394	415
Total	\$ 41,900	\$ 16,875	\$ 19,100	\$ 77,875	\$ 3,388,462	\$ 3,466,337

(In thousands)	December 31, 2014					
	Popular, Inc. Past due			Total past due	Current	Non-covered loans HIP Popular, Inc.
	30-59 days	60-89 days	90 days or more			
Commercial multi-family	\$ 308	\$ 445	\$ 2,199	\$ 2,952	\$ 484,328	\$ 487,280
Commercial real estate non-owner occupied	11,306	121	33,452	44,879	2,481,267	2,526,146
Commercial real estate owner occupied	8,999	11,340	93,453	113,792	1,553,475	1,667,267
Commercial and industrial	19,631	5,392	131,615	156,638	3,296,936	3,453,574
Construction	3,307		13,812	17,119	234,701	251,820
Mortgage	333,901	175,865	789,962	1,299,728	5,203,158	6,502,886
Leasing	6,779	1,246	3,102	11,127	553,262	564,389
Legacy	929	1,931	1,545	4,405	76,413	80,818
Consumer:						
Credit cards	14,029	9,536	20,817	44,382	1,110,847	1,155,229
Home equity lines of credit	5,173	1,184	4,111	10,468	355,694	366,162
Personal	15,955	7,539	27,098	50,592	1,324,860	1,375,452
Auto	34,238	8,397	11,387	54,022	713,347	767,369
Other	1,019	213	4,554	5,786	200,273	206,059

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Total	\$ 455,574	\$ 223,209	\$ 1,137,107	\$ 1,815,890	\$ 17,588,561	\$ 19,404,451
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The following table provides a breakdown of loans held-for-sale (LHFS) in non-performing status at September 30, 2015 and December 31, 2014 by main categories.

(In thousands)	September 30, 2015	December 31, 2014
Commercial	\$ 47,447	\$ 309
Construction	10	
Mortgage	224	14,041
Consumer		4,549
Total	\$ 47,681	\$ 18,899

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

(In thousands)	
Fair value of loans accounted under ASC Subtopic 310-20	\$ 1,246,855
Gross contractual amounts receivable (principal and interest)	\$ 1,680,121
Estimate of contractual cash flows not expected to be collected	\$ 11,430

Covered loans

The following table presents covered loans in non-performing status and accruing loans past-due 90 days or more by loan class at September 30, 2015 and December 31, 2014.

(In thousands)	September 30, 2015		December 31, 2014	
	Non-accrual loans	Accruing loans past due 90 days or more	Non-accrual loans	Accruing loans past due 90 days or more
Commercial real estate	\$	\$	\$ 8,810	\$
Commercial and industrial			1,142	
Construction			2,770	
Mortgage	4,077	109	4,376	28
Consumer	110		735	
Total ^[1]	\$ 4,187	\$ 109	\$ 17,833	\$ 28

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

The following tables present loans by past due status at September 30, 2015 and December 31, 2014 for covered loans held-in-portfolio. The information considers covered loans accounted for under ASC Subtopic 310-20 and ASC Subtopic 310-30.

(In thousands)	September 30, 2015			Total past due	Current	Covered loans HIP
	30-59 days	60-89 days	Past due 90 days or more			
Mortgage	\$ 36,637	\$ 17,313	\$ 88,191	\$ 142,141	\$ 503,522	\$ 645,663

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Consumer	1,291	542	1,419	3,252	16,513	19,765
Total covered loans	\$ 37,928	\$ 17,855	\$ 89,610	\$ 145,393	\$ 520,035	\$ 665,428

December 31, 2014

Past due

90 days

(In thousands)	30-59 days	60-89 days	90 days or more	Total past due	Current	Covered loans HIP
Commercial real estate	\$ 98,559	\$ 12,597	\$ 291,010	\$ 402,166	\$ 1,109,306	\$ 1,511,472
Commercial and industrial	512	7	7,756	8,275	95,034	103,309
Construction		384	58,665	59,049	11,287	70,336
Mortgage	45,764	23,531	143,140	212,435	610,551	822,986
Consumer	1,884	747	2,532	5,163	29,396	34,559
Total covered loans	\$ 146,719	\$ 37,266	\$ 503,103	\$ 687,088	\$ 1,855,574	\$ 2,542,662

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The Corporation accounts for lines of credit with revolving privileges under the accounting guidance of ASC Subtopic 310-20, which requires that any differences between the contractually required loans payment receivable in excess of the initial investment in the loans be accreted into interest income over the life of the loans, if the loan is accruing interest. Covered loans accounted for under ASC Subtopic 310-20 amounted to \$10 million at September 30, 2015 (December 31, 2014 - \$0.1 billion).

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

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

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

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

(In thousands)	September 30, 2015 [1]			December 31, 2014		
	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Commercial real estate	\$ 1,152,066	\$ 50,676	\$ 1,202,742	\$ 1,392,482	\$ 90,202	\$ 1,482,684
Commercial and industrial	91,702	1,004	92,706	57,059	2,197	59,256
Construction	14,795	14,126	28,921	32,836	32,409	65,245
Mortgage	690,251	36,081	726,332	764,148	45,829	809,977
Consumer	23,927	1,384	25,311	25,617	1,393	27,010
Carrying amount	1,972,741	103,271	2,076,012	2,272,142	172,030	2,444,172
Allowance for loan losses	(54,027)	(10,556)	(64,583)	(52,798)	(26,048)	(78,846)
Carrying amount, net of allowance	\$ 1,918,714	\$ 92,715	\$ 2,011,429	\$ 2,219,344	\$ 145,982	\$ 2,365,326

[1] The carrying amount of loans acquired from Westernbank and accounted for under ASC 310-30 which remain subject to the loss sharing agreement with the FDIC amounted to approximately \$655 million as of September 30, 2015.

The outstanding principal balance of Westernbank loans accounted pursuant to ASC Subtopic 310-30, amounted to \$2.5 billion at September 30, 2015 (December 31, 2014 - \$3.1 billion). At September 30, 2015, none of the acquired loans from the Westernbank FDIC-assisted transaction accounted for under ASC Subtopic 310-30 were considered non-performing loans. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, was recognized on all acquired loans.

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Changes in the carrying amount and the accretable yield for the Westernbank loans accounted pursuant to the ASC Subtopic 310-30, for the quarters ended September 30, 2015 and 2014, were as follows:

(In thousands)	Activity in the accretable yield Westernbank loans ASC 310-30 For the quarters ended					
	September 30, 2015			September 30, 2014		
	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	\$ 1,239,776	\$ 6,148	\$ 1,245,924	\$ 1,271,202	\$ 9,556	\$ 1,280,758
Accretion	(44,568)	(2,125)	(46,693)	(62,958)	(3,059)	(66,017)
Change in expected cash flows	(56,526)	2,744	(53,782)	95,920	1,860	97,780
Ending balance	\$ 1,138,682	\$ 6,767	\$ 1,145,449	\$ 1,304,164	\$ 8,357	\$ 1,312,521

(In thousands)	Activity in the accretable yield Westernbank loans ASC 310-30 For the nine months ended					
	September 30, 2015			September 30, 2014		
	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	\$ 1,265,752	\$ 5,585	\$ 1,271,337	\$ 1,297,725	\$ 11,480	\$ 1,309,205
Accretion	(148,572)	(7,812)	(156,384)	(212,826)	(12,172)	(224,998)
Change in expected cash flows	21,502	8,994	30,496	219,265	9,049	228,314
Ending balance	\$ 1,138,682	\$ 6,767	\$ 1,145,449	\$ 1,304,164	\$ 8,357	\$ 1,312,521

(In thousands)	Carrying amount of Westernbank loans accounted for pursuant to ASC 310-30 For the quarters ended					
	September 30, 2015 [1]			September 30, 2014		
	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	\$ 2,022,493	\$ 114,585	\$ 2,137,078	\$ 2,387,911	\$ 222,753	\$ 2,610,664
Accretion	44,568	2,125	46,693	62,958	3,059	66,017
Collections and charge-offs	(94,320)	(13,439)	(107,759)	(124,265)	(23,983)	(148,248)
Ending balance	\$ 1,972,741	\$ 103,271	\$ 2,076,012	\$ 2,326,604	\$ 201,829	\$ 2,528,433
Allowance for loan losses ASC 310-30 Westernbank loans	(54,027)	(10,556)	(64,583)	(52,812)	(32,828)	(85,640)
Ending balance, net of ALLL	\$ 1,918,714	\$ 92,715	\$ 2,011,429	\$ 2,273,792	\$ 169,001	\$ 2,442,793

[1] The carrying amount of loans acquired from Westernbank and accounted for under ASC 310-30 which remain subject to the loss sharing agreement with the FDIC amounted to approximately \$ 655 million as of September 30, 2015.

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Carrying amount of Westernbank loans accounted for pursuant to ASC 310-30						
For the nine months ended						
(In thousands)	September 30, 2015 [1]			September 30, 2014		
	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	\$ 2,272,142	\$ 172,030	\$ 2,444,172	\$ 2,509,075	\$ 318,872	\$ 2,827,947
Accretion	148,572	7,812	156,384	212,826	12,172	224,998
Collections and charge offs	(447,973)	(76,571)	(524,544)	(395,297)	(129,215)	(524,512)
Ending balance	\$ 1,972,741	\$ 103,271	\$ 2,076,012	\$ 2,326,604	\$ 201,829	\$ 2,528,433
Allowance for loan losses ASC 310-30 Westernbank loans	(54,027)	(10,556)	(64,583)	(52,812)	(32,828)	(85,640)
Ending balance, net of ALLL	\$ 1,918,714	\$ 92,715	\$ 2,011,429	\$ 2,273,792	\$ 169,001	\$ 2,442,793

[1] The carrying amount of loans acquired from Westernbank and accounted for under ASC 310-30 which remain subject to the loss sharing agreement with the FDIC amounted to approximately \$655 million as of September 30, 2015.

Other loans acquired with deteriorated credit quality

The outstanding principal balance of other acquired loans accounted pursuant to ASC Subtopic 310-30, amounted to \$707 million at September 30, 2015 (December 31, 2014 - \$243 million). At September 30, 2015, none of the other acquired loans accounted under ASC Subtopic 310-30 were considered non-performing loans. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, was recognized on all acquired loans.

Changes in the carrying amount and the accretable yield for the other acquired loans accounted pursuant to the ASC Subtopic 310-30, for the quarters ended September 30, 2015 and 2014 were as follows:

Activity in the accretable yield - other acquired loans ASC 310-30		
For the quarter ended		
(In thousands)	September 30, 2015	For the quarter ended September 30, 2014
Beginning balance	\$ 162,159	\$ 76,827
Additions	25,978	3,761
Accretion	(4,543)	(2,594)
Change in expected cash flows	1,402	23,191
Ending balance	\$ 184,996	\$ 101,185

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

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(In thousands)	For the nine months ended September 30, 2015	For the nine months ended September 30, 2014
Beginning balance	\$ 116,304	\$ 49,398
Additions	82,046	14,904
Accretion	(12,399)	(7,520)
Change in expected cash flows	(955)	44,403
Ending balance	\$ 184,996	\$ 101,185

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Carrying amount of other acquired loans accounted for pursuant to ASC 310-30		
	For the quarter ended September 30, 2015	For the quarter ended September 30, 2014
(In thousands)		
Beginning balance	\$ 368,287	199,041
Additions	281,911	12,985
Accretion	4,543	2,595
Collections and charge-offs	(13,655)	(7,151)
Ending balance	\$ 641,086	\$ 207,470
Allowance for loan losses ASC 310-30 other acquired loans	(18,561)	(16,256)
Ending balance, net of ALLL	\$ 622,525	\$ 191,214

Carrying amount of other acquired loans accounted for pursuant to ASC 310-30		
	For the nine months ended September 30, 2015	For the nine months ended September 30, 2014
(In thousands)		
Beginning balance	\$ 212,763	\$ 173,659
Additions	456,091	46,165
Accretion	12,399	7,520
Collections and charge-offs	(40,167)	(19,874)
Ending balance	\$ 641,086	\$ 207,470
Allowance for loan losses ASC 310-30 other acquired loans	(18,561)	(16,256)
Ending balance, net of ALLL	\$ 622,525	\$ 191,214

During the quarter ended September 30 2015, the Corporation reclassified loans with a carrying value as of the acquisition date of February 27, 2015, of approximately \$269.5 million to be accounted for under ASC 310-30. Based on new information obtained about facts and circumstances that existed as of the acquisition date, in accordance with ASC 805, the Corporation determined that these loans had evidence of deteriorated credit quality as of the acquisition date. These balances are reflected as an addition of \$270.9 million to the carrying value of loans and \$21.8 million to the accretable discount of loans accounted for under ASC 310-30 in the tables above.

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

(In thousands)	
Contractually-required principal and interest	\$ 573,274
Non-accretable difference	74,342
Cash flows expected to be collected	498,932

Accretable yield	80,329
Fair value of loans accounted for under ASC Subtopic 310-30	\$ 418,603

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Note 12 Allowance for loan losses

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

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

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

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

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

For the period ended September 30, 2015, 18% (September 30, 2014- 33%) of the ALLL for BPPR non-covered loan portfolios utilized the recent loss trend adjustment instead of the base loss. The effect of replacing the base loss with the recent loss trend adjustment was mainly concentrated in the mortgage and commercial multi-family loan portfolios for 2015, and in the commercial multi-family, commercial and industrial, personal and auto loan portfolios for 2014.

For the period ended September 30, 2015, 17% (September 30, 2014 - 12%) of the ALLL for BPNA loan portfolios utilized the recent loss trend adjustment instead of the base loss. The effect of replacing the base loss with the recent loss trend adjustment was concentrated in the consumer loan portfolio for 2015 and in the commercial multi-family, commercial and industrial and legacy loan portfolios for 2014.

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

During the second quarter of 2015, management completed the annual review of the components of the ALLL models. As part of this review management updated core metrics and revised certain components related to the estimation

process for evaluating the adequacy of the general reserve of the allowance for loan losses. These enhancements to the ALLL methodology, which are described in the paragraphs below, were implemented as of June 30, 2015 and resulted in a net decrease to the allowance for loan losses of \$ 1.9 million for the non-covered portfolio. The effect of the aforementioned enhancements was immaterial for the covered loans portfolio.

Management made the following principal enhancements to the methodology during the second quarter of 2015:

Increased the historical look-back period for determining the base loss rates for commercial and construction loans. The Corporation increased the look-back period for assessing historical loss trends applicable to the determination of commercial and construction loan net charge-offs from 36 months to 60 months. Given the current overall commercial and construction credit quality improvements, including lower loss trends, management concluded that a 60-month look-back period for the base loss rates aligns the Corporation's allowance for loan losses methodology to maintain adequate loss observations in its main general reserve component.

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The combined effect of the aforementioned enhancements to the base loss rates resulted in an increase to the allowance for loan losses of \$19.6 million at June 30, 2015, of which \$17.9 million related to the non-covered BPPR segment and \$1.7 million related to the BPNA segment.

Annual review and recalibration of the environmental factors adjustment. The environmental factor adjustments are developed by performing regression analyses on selected credit and economic indicators for each applicable loan segment. During the second quarter of 2015, 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 combined effect of the aforementioned recalibration and enhancements to the environmental factors adjustment resulted in a decrease to the allowance for loan losses of \$21.5 million at June 30, 2015, of which \$20.5 million related to the non-covered BPPR segment and \$1 million related to the BPNA segment.

The following tables present the changes in the allowance for loan losses for the quarters ended September 30, 2015 and 2014.

(In thousands)	For the quarter ended September 30, 2015					
	Puerto Rico - Non-covered loans					
	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 207,095	\$ 6,558	\$ 126,177	\$ 9,160	\$ 133,710	\$ 482,700
Provision (reversal of provision)	23,044	2,375	19,412	825	23,099	68,755
Charge-offs	(16,845)	(451)	(16,263)	(1,485)	(29,625)	(64,669)
Recoveries	7,673	3,099	739	591	5,322	17,424
Ending balance	\$ 220,967	\$ 11,581	\$ 130,065	\$ 9,091	\$ 132,506	\$ 504,210

(In thousands)	For the quarter ended September 30, 2015					
	Puerto Rico - Covered loans					
	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$	\$	\$ 37,815	\$	\$ 259	\$ 38,074
Provision (reversal of provision)			(2,880)		(10)	(2,890)
Charge-offs			(790)		(76)	(866)
Recoveries			189		2	191
Ending balance	\$	\$	\$ 34,334	\$	\$ 175	\$ 34,509

(In thousands)	For the quarter ended September 30, 2015					
	U.S. Mainland					
	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						

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Beginning balance	\$	8,625	\$	2,429	\$	3,770	\$	3,315	\$	11,900	\$	30,039
Provision (reversal of provision)		(1,090)		741		1,452		(1,113)		823		813
Charge-offs		(308)				(768)		(804)		(1,826)		(3,706)
Recoveries		2,267				(19)		1,407		994		4,649
Ending balance	\$	9,494	\$	3,170	\$	4,435	\$	2,805	\$	11,891	\$	31,795

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For the quarter ended September 30, 2015

Popular, Inc.

(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Beginning balance	\$ 215,720	\$ 8,987	\$ 167,762	\$ 3,315	\$ 9,160	\$ 145,869	\$ 550,813
Provision (reversal of provision)	21,954	3,116	17,984	(1,113)	825	23,912	66,678
Charge-offs	(17,153)	(451)	(17,821)	(804)	(1,485)	(31,527)	(69,241)
Recoveries	9,940	3,099	909	1,407	591	6,318	22,264
Ending balance	\$ 230,461	\$ 14,751	\$ 168,834	\$ 2,805	\$ 9,091	\$ 144,572	\$ 570,514

For the nine months ended September 30, 2015

Puerto Rico - Non-covered loans

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 201,589	\$ 5,483	\$ 120,860	\$ 7,131	\$ 154,072	\$ 489,135
Provision (reversal of provision)	71,954	822	45,359	4,596	38,466	161,197
Charge-offs	(49,740)	(2,645)	(38,597)	(4,415)	(83,507)	(178,904)
Recoveries	18,707	6,497	1,861	1,779	20,897	49,741
Net write-downs related to loans transferred to held-for-sale	(29,996)					(29,996)
Allowance transferred from covered loans	8,453	1,424	582		2,578	13,037
Ending balance	\$ 220,967	\$ 11,581	\$ 130,065	\$ 9,091	\$ 132,506	\$ 504,210

For the nine months ended September 30, 2015

Puerto Rico - Covered loans

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 30,871	\$ 7,202	\$ 40,948	\$	\$ 3,052	\$ 82,073
Provision (reversal of provision)	10,115	15,150	(1,812)		(253)	23,200
Charge-offs	(37,936)	(25,086)	(4,695)		(843)	(68,560)
Recoveries	6,504	4,700	635		817	12,656
Net write-downs related to loans transferred to held-for-sale	(1,101)	(542)	(160)		(20)	(1,823)
Allowance transferred to non-covered loans	(8,453)	(1,424)	(582)		(2,578)	(13,037)
Ending balance	\$	\$	\$ 34,334	\$	\$ 175	\$ 34,509

For the nine months ended September 30, 2015

U.S. Mainland - Continuing Operations

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(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 9,648	\$ 1,187	\$ 2,462	\$ 2,944	\$ 14,343	\$ 30,584
Provision (reversal of provision)	(3,471)	1,983	(2,439)	(2,540)	5,017	(1,450)
Charge-offs	(1,190)		(1,329)	(1,758)	(7,318)	(11,595)
Recoveries	4,507		212	4,159	3,250	12,128
Net recovery (write-down) related to loans transferred to held-for-sale			5,529		(3,401)	2,128
Ending balance	\$ 9,494	\$ 3,170	\$ 4,435	\$ 2,805	\$ 11,891	\$ 31,795

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For the nine months ended September 30, 2015

Popular, Inc.

(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Beginning balance	\$ 242,108	\$ 13,872	\$ 164,270	\$ 2,944	\$ 7,131	\$ 171,467	\$ 601,792
Provision (reversal of provision)	78,598	17,955	41,108	(2,540)	4,596	43,230	182,947
Charge-offs	(88,866)	(27,731)	(44,621)	(1,758)	(4,415)	(91,668)	(259,059)
Recoveries	29,718	11,197	2,708	4,159	1,779	24,964	74,525
Net (write-down) recovery related to loans transferred to held-for-sale	(31,097)	(542)	5,369			(3,421)	(29,691)
Ending balance	\$ 230,461	\$ 14,751	\$ 168,834	\$ 2,805	\$ 9,091	\$ 144,572	\$ 570,514

For the quarter ended September 30, 2014

Puerto Rico - Non-covered loans

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 184,235	\$ 5,191	\$ 120,399	\$ 5,959	\$ 150,482	\$ 466,266
Provision (reversal of provision)	22,432	(761)	12,150	2,822	25,225	61,868
Charge-offs	(12,050)	(985)	(13,701)	(1,876)	(30,896)	(59,508)
Recoveries	11,039	2,222	371	466	6,728	20,826
Ending balance	\$ 205,656	\$ 5,667	\$ 119,219	\$ 7,371	\$ 151,539	\$ 489,452

For the quarter ended September 30, 2014

Puerto Rico - Covered Loans

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 46,693	\$ 8,996	\$ 38,941	\$	\$ 4,035	\$ 98,665
Provision (reversal of provision)	6,312	2,263	5,392	(1)	(1,503)	12,463
Charge-offs	(16,290)	(5,075)	(2,163)		943	(22,585)
Recoveries	(300)	1,009	354	1	81	1,145
Ending balance	\$ 36,415	\$ 7,193	\$ 42,524	\$	\$ 3,556	\$ 89,688

For the quarter ended September 30, 2014

U.S. Mainland - Continuing Operations

(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 18,274	\$ 151	\$ 17,529	\$ 9,343	\$ 14,683	\$ 59,980
Provision (reversal of provision)	6,992	631	(6,901)	3,340	2,236	6,298

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Charge-offs	(3,715)		(853)	(2,570)	(3,630)	(10,768)
Recoveries	4,608	59	827	2,349	1,138	8,981
Net (write-down) recovery related to loans transferred to LHFS	(15,384)		(8,300)	(8,461)	(111)	(32,256)
Ending balance	\$ 10,775	\$ 841	\$ 2,302	\$ 4,001	\$ 14,316	\$ 32,235

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For the quarter ended September 30, 2014

Popular, Inc.

(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Beginning balance	\$ 249,202	\$ 14,338	\$ 176,869	\$ 9,343	\$ 5,959	\$ 169,200	\$ 624,911
Provision (reversal of provision)	35,736	2,133	10,641	3,340	2,821	25,958	80,629
Charge-offs	(32,055)	(6,060)	(16,717)	(2,570)	(1,876)	(33,583)	(92,861)
Recoveries	15,347	3,290	1,552	2,349	467	7,947	30,952
Net (write-down) recovery related to loans transferred to LHFS	(15,384)		(8,300)	(8,461)		(111)	(32,256)
Ending balance	\$ 252,846	\$ 13,701	\$ 164,045	\$ 4,001	\$ 7,371	\$ 169,411	\$ 611,375

For the nine months ended September 30, 2014

Puerto Rico - Non-covered loans

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 128,150	\$ 5,095	\$ 130,330	\$ 10,622	\$ 152,578	\$ 426,775
Provision (reversal of provision)	102,998	(2,658)	20,661	(41)	69,683	190,643
Charge-offs	(50,384)	(1,443)	(32,510)	(4,597)	(90,033)	(178,967)
Recoveries	24,892	4,673	738	1,387	19,311	51,001
Ending balance	\$ 205,656	\$ 5,667	\$ 119,219	\$ 7,371	\$ 151,539	\$ 489,452

For the nine months ended September 30, 2014

Puerto Rico - Covered Loans

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 42,198	\$ 19,491	\$ 36,006	\$	\$ 4,397	\$ 102,092
Provision (reversal of provision)	23,893	16,560	12,234		(2,906)	49,781
Charge-offs	(30,251)	(34,483)	(6,081)	(2)	1,915	(68,902)
Recoveries	575	5,625	365	2	150	6,717
Ending balance	\$ 36,415	\$ 7,193	\$ 42,524	\$	\$ 3,556	\$ 89,688

For the nine months ended September 30, 2014

U.S. Mainland - Continuing Operations

(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 24,930	\$ 214	\$ 26,599	\$ 11,335	\$ 19,205	\$ 82,283
Allowance transferred from discontinued operations	7,984					7,984

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Provision (reversal of provision)	(4,750)	392	(14,708)	(4,066)	4,851	(18,281)
Charge-offs	(14,379)		(3,305)	(6,901)	(12,703)	(37,288)
Recoveries	12,374	235	2,016	12,094	3,074	29,793
Net (write-down) recovery related to loans transferred to LHFS	(15,384)		(8,300)	(8,461)	(111)	(32,256)
Ending balance	\$ 10,775	\$ 841	\$ 2,302	\$ 4,001	\$ 14,316	\$ 32,235

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For the nine months ended September 30, 2014

U.S. Mainland - Discontinued Operations

(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 21,902	\$ 33	\$	\$ 2,369	\$ 5,101	\$ 29,405
Allowance transferred to continuing operations	(7,984)					(7,984)
Provision (reversal of provision)	(2,831)	(226)		(1,812)	(1,895)	(6,764)
Charge-offs	(2,995)			(557)	(900)	(4,452)
Recoveries	8,283	220		1,400	94	9,997
Net write-downs related to loans transferred to discontinued operations	(16,375)	(27)		(1,400)	(2,400)	(20,202)
Ending balance	\$	\$	\$	\$	\$	\$

For the nine months ended September 30, 2014

Popular, Inc.

(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Beginning balance	\$ 217,180	\$ 24,833	\$ 192,935	\$ 13,704	\$ 10,622	\$ 181,281	\$ 640,555
Provision (reversal of provision)	119,310	14,068	18,187	(5,878)	(41)	69,733	215,379
Charge-offs	(98,009)	(35,926)	(41,896)	(7,458)	(4,597)	(101,721)	(289,607)
Recoveries	46,124	10,753	3,119	13,494	1,387	22,629	97,506
Net write-down related to loans transferred to LHFS	(15,384)		(8,300)	(8,461)		(111)	(32,256)
Net write-downs related to loans transferred to discontinued operations	(16,375)	(27)		(1,400)		(2,400)	(20,202)
Ending balance	\$ 252,846	\$ 13,701	\$ 164,045	\$ 4,001	\$ 7,371	\$ 169,411	\$ 611,375

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

ASC 310-30

(In thousands)	For the quarters ended		For the nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Balance at beginning of period	\$ 47,049	\$ 90,892	\$ 78,846	\$ 93,915
Provision for loan losses	17,201	15,693	38,071	51,199
Net charge-offs	333	(20,945)	(52,334)	(59,474)

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Balance at end of period	\$ 64,583	\$	85,640	\$ 64,583	\$	85,640
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The following tables present information at September 30, 2015 and December 31, 2014 regarding loan ending balances and the allowance for loan losses by portfolio segment and whether such loans and the allowance pertains to loans individually or collectively evaluated for impairment.

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(In thousands)	At September 30, 2015					
	Puerto Rico					
	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Specific ALLL non-covered loans	\$ 83,615	\$ 358	\$ 46,956	\$ 634	\$ 24,221	\$ 155,784
General ALLL non-covered loans	137,352	11,223	83,109	8,457	108,285	348,426
ALLL - non-covered loans	220,967	11,581	130,065	9,091	132,506	504,210
Specific ALLL covered loans						
General ALLL covered loans			34,334		175	34,509
ALLL - covered loans			34,334		175	34,509
Total ALLL	\$ 220,967	\$ 11,581	\$ 164,399	\$ 9,091	\$ 132,681	\$ 538,719
Loans held-in-portfolio:						
Impaired non-covered loans	\$ 391,066	\$ 2,536	\$ 457,631	\$ 2,645	\$ 111,683	\$ 965,561
Non-covered loans held-in-portfolio excluding impaired loans	7,130,678	106,142	5,762,764	604,282	3,249,213	16,853,079
Non-covered loans held-in-portfolio	7,521,744	108,678	6,220,395	606,927	3,360,896	17,818,640
Impaired covered loans						
Covered loans held-in-portfolio excluding impaired loans			645,663		19,765	665,428
Covered loans held-in-portfolio			645,663		19,765	665,428
Total loans held-in-portfolio	\$ 7,521,744	\$ 108,678	\$ 6,866,058	\$ 606,927	\$ 3,380,661	\$ 18,484,068

(In thousands)	At September 30, 2015					
	U.S. Mainland					
	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Specific ALLL	\$	\$	\$ 589	\$	\$ 475	\$ 1,064
General ALLL	9,494	3,170	3,846	2,805	11,416	30,731
Total ALLL	\$ 9,494	\$ 3,170	\$ 4,435	\$ 2,805	\$ 11,891	\$ 31,795
Loans held-in-portfolio:						

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Impaired loans	\$	\$	\$ 5,175	\$ 1,188	\$ 2,182	\$ 8,545
Loans held-in-portfolio, excluding impaired loans	2,608,680	583,814	939,909	66,786	471,692	4,670,881
Total loans held-in-portfolio	\$ 2,608,680	\$ 583,814	\$ 945,084	\$ 67,974	\$ 473,874	\$ 4,679,426

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	At September 30, 2015							
	Popular, Inc.							
(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total	
Allowance for credit losses:								
Specific ALLL non-covered loans	\$ 83,615	\$ 358	\$ 47,545	\$	\$ 634	\$ 24,696	\$ 156,848	
General ALLL non-covered loans	146,846	14,393	86,955	2,805	8,457	119,701	379,157	
ALLL - non-covered loans	230,461	14,751	134,500	2,805	9,091	144,397	536,005	
Specific ALLL covered loans								
General ALLL covered loans			34,334			175	34,509	
ALLL - covered loans			34,334			175	34,509	
Total ALLL	\$ 230,461	\$ 14,751	\$ 168,834	\$ 2,805	\$ 9,091	\$ 144,572	\$ 570,514	
Loans held-in-portfolio:								
Impaired non-covered loans	\$ 391,066	\$ 2,536	\$ 462,806	\$ 1,188	\$ 2,645	\$ 113,865	\$ 974,106	
Non-covered loans held-in-portfolio excluding impaired loans	9,739,358	689,956	6,702,673	66,786	604,282	3,720,905	21,523,960	
Non-covered loans held-in-portfolio	10,130,424	692,492	7,165,479	67,974	606,927	3,834,770	22,498,066	
Impaired covered loans								
Covered loans held-in-portfolio excluding impaired loans			645,663			19,765	665,428	
Covered loans held-in-portfolio			645,663			19,765	665,428	
Total loans held-in-portfolio	\$ 10,130,424	\$ 692,492	\$ 7,811,142	\$ 67,974	\$ 606,927	\$ 3,854,535	\$ 23,163,494	

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(In thousands)	At December 31, 2014					
	Puerto Rico					
	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Specific ALLL non-covered loans	\$ 64,736	\$ 363	\$ 45,838	\$ 770	\$ 27,796	\$ 139,503
General ALLL non-covered loans	136,853	5,120	75,022	6,361	126,276	349,632
ALLL - non-covered loans	201,589	5,483	120,860	7,131	154,072	489,135
Specific ALLL covered loans	5					5
General ALLL covered loans	30,866	7,202	40,948		3,052	82,068
ALLL - covered loans	30,871	7,202	40,948		3,052	82,073
Total ALLL	\$ 232,460	\$ 12,685	\$ 161,808	\$ 7,131	\$ 157,124	\$ 571,208
Loans held-in-portfolio:						
Impaired non-covered loans	\$ 356,911	\$ 13,268	\$ 431,569	\$ 3,023	\$ 115,759	\$ 920,530
Non-covered loans held-in-portfolio excluding impaired loans	6,017,892	146,116	5,018,932	561,366	3,273,278	15,017,584
Non-covered loans held-in-portfolio	6,374,803	159,384	5,450,501	564,389	3,389,037	15,938,114
Impaired covered loans	4,487	2,419				6,906
Covered loans held-in-portfolio excluding impaired loans	1,610,294	67,917	822,986		34,559	2,535,756
Covered loans held-in-portfolio	1,614,781	70,336	822,986		34,559	2,542,662
Total loans held-in-portfolio	\$ 7,989,584	\$ 229,720	\$ 6,273,487	\$ 564,389	\$ 3,423,596	\$ 18,480,776

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(In thousands)	At December 31, 2014					
	U.S. Mainland					
	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Specific ALLL	\$	\$	\$ 273	\$	\$ 365	\$ 638
General ALLL	9,648	1,187	2,189	2,944	13,978	29,946
Total ALLL	\$ 9,648	\$ 1,187	\$ 2,462	\$ 2,944	\$ 14,343	\$ 30,584
Loans held-in-portfolio:						
Impaired loans	\$ 250	\$	\$ 4,255	\$	\$ 1,973	\$ 6,478
Loans held-in-portfolio,excluding impaired loans	1,759,214	92,436	1,048,130	80,818	479,261	3,459,859
Total loans held-in-portfolio	\$ 1,759,464	\$ 92,436	\$ 1,052,385	\$ 80,818	\$ 481,234	\$ 3,466,337

(In thousands)	At December 31, 2014						
	Popular, Inc.						
	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Specific ALLL non-covered loans	\$ 64,736	\$ 363	\$ 46,111	\$	\$ 770	\$ 28,161	\$ 140,141
General ALLL non-covered loans	146,501	6,307	77,211	2,944	6,361	140,254	379,578
ALLL - non-covered loans	211,237	6,670	123,322	2,944	7,131	168,415	519,719
Specific ALLL covered loans	5						5
General ALLL covered loans	30,866	7,202	40,948			3,052	82,068
ALLL - covered loans	30,871	7,202	40,948			3,052	82,073
Total ALLL	\$ 242,108	\$ 13,872	\$ 164,270	\$ 2,944	\$ 7,131	\$ 171,467	\$ 601,792
Loans held-in-portfolio:							
Impaired non-covered loans	\$ 357,161	\$ 13,268	\$ 435,824	\$	\$ 3,023	\$ 117,732	\$ 927,008
Non-covered loans held-in-portfolio	7,777,106	238,552	6,067,062	80,818	561,366	3,752,539	18,477,443

excluding impaired
loans

Non-covered loans held-in-portfolio	8,134,267	251,820	6,502,886	80,818	564,389	3,870,271	19,404,451
Impaired covered loans	4,487	2,419					6,906
Covered loans held-in-portfolio excluding impaired loans	1,610,294	67,917	822,986			34,559	2,535,756
Covered loans held-in-portfolio	1,614,781	70,336	822,986			34,559	2,542,662
Total loans held-in-portfolio	\$ 9,749,048	\$ 322,156	\$ 7,325,872	\$ 80,818	\$ 564,389	\$ 3,904,830	\$ 21,947,113

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The following tables present loans individually evaluated for impairment at September 30, 2015 and December 31, 2014.

(In thousands)	September 30, 2015 Puerto Rico								
	Impaired Loans Allowance			With an		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	\$	\$	\$	\$ 2,379	\$ 2,379	\$ 2,379	\$ 2,379	\$	
Commercial real estate non-owner occupied	116,323	117,186	41,932	9,329	12,556	125,652	129,742	41,932	
Commercial real estate owner occupied	143,169	160,158	22,675	16,504	23,912	159,673	184,070	22,675	
Commercial and industrial	81,784	86,339	19,008	21,578	27,262	103,362	113,601	19,008	
Construction	2,536	7,907	358			2,536	7,907	358	
Mortgage	417,209	456,202	46,956	40,422	47,551	457,631	503,753	46,956	
Leasing	2,645	2,645	634			2,645	2,645	634	
Consumer:									
Credit cards	39,788	39,788	7,133			39,788	39,788	7,133	
Personal	69,277	69,277	16,619			69,277	69,277	16,619	
Auto	2,043	2,043	361			2,043	2,043	361	
Other	575	575	108			575	575	108	
Total Puerto Rico	\$ 875,349	\$ 942,120	\$ 155,784	\$ 90,212	\$ 113,660	\$ 965,561	\$ 1,055,780	\$ 155,784	

(In thousands)	September 30, 2015 U.S. mainland								
	Impaired Loans Allowance			With an		Impaired Loans With No Allowance		Impaired Loans - Total	
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance	
Mortgage	\$ 3,089	\$ 3,760	\$ 589	\$ 2,086	\$ 2,889	\$ 5,175	\$ 6,649	\$ 589	
Legacy				1,188	1,357	1,188	1,357		

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Consumer:								
HELOCs	780	798	254	784	784	1,564	1,582	254
Personal	536	536	221	82	82	618	618	221

Total U.S. mainland	\$ 4,405	\$ 5,094	\$ 1,064	\$ 4,140	\$ 5,112	\$ 8,545	\$ 10,206	\$ 1,064
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September 30, 2015

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	\$	\$	\$	\$ 2,379	\$ 2,379	\$ 2,379	\$ 2,379	\$	
Commercial real estate non-owner occupied	116,323	117,186	41,932	9,329	12,556	125,652	129,742	41,932	
Commercial real estate owner occupied	143,169	160,158	22,675	16,504	23,912	159,673	184,070	22,675	
Commercial and industrial	81,784	86,339	19,008	21,578	27,262	103,362	113,601	19,008	
Construction	2,536	7,907	358			2,536	7,907	358	
Mortgage	420,298	459,962	47,545	42,508	50,440	462,806	510,402	47,545	
Legacy				1,188	1,357	1,188	1,357		
Leasing	2,645	2,645	634			2,645	2,645	634	
Consumer:									
Credit Cards	39,788	39,788	7,133			39,788	39,788	7,133	
HELOCs	780	798	254	784	784	1,564	1,582	254	
Personal	69,813	69,813	16,840	82	82	69,895	69,895	16,840	
Auto	2,043	2,043	361			2,043	2,043	361	
Other	575	575	108			575	575	108	
Total Popular, Inc.	\$ 879,754	\$ 947,214	\$ 156,848	\$ 94,352	\$ 118,772	\$ 974,106	\$ 1,065,986	\$ 156,848	

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December 31, 2014								
Puerto Rico								
(In thousands)	Impaired Loans With an			Impaired Loans		Impaired Loans - Total		
	Recorded investment	Allowance Unpaid principal balance	With an Related allowance	Recorded investment	Allowance Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial real estate non-owner occupied	\$ 50,324	\$ 53,154	\$ 5,182	\$ 7,929	\$ 7,929	\$ 58,253	\$ 61,083	\$ 5,182
Commercial real estate owner occupied	114,163	127,855	16,770	14,897	16,110	129,060	143,965	16,770
Commercial and industrial	145,633	148,204	42,784	23,965	31,722	169,598	179,926	42,784
Construction	2,575	7,980	363	10,693	28,994	13,268	36,974	363
Mortgage	395,911	426,502	45,838	35,658	39,248	431,569	465,750	45,838
Leasing	3,023	3,023	770			3,023	3,023	770
Consumer:								
Credit cards	41,477	41,477	8,023			41,477	41,477	8,023
Personal	71,825	71,825	19,410			71,825	71,825	19,410
Auto	1,932	1,932	262			1,932	1,932	262
Other	525	525	101			525	525	101
Covered loans	2,419	7,500	5	4,487	4,487	6,906	11,987	5
Total Puerto Rico	\$ 829,807	\$ 889,977	\$ 139,508	\$ 97,629	\$ 128,490	\$ 927,436	\$ 1,018,467	\$ 139,508

December 31, 2014								
U.S. mainland								
(In thousands)	Impaired Loans With an			Impaired Loans		Impaired Loans - Total		
	Recorded investment	Allowance Unpaid principal balance	With an Related allowance	Recorded investment	Allowance Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial and industrial	\$	\$	\$	\$ 250	\$ 250	\$ 250	\$ 250	\$
Mortgage	3,049	3,443	273	1,206	2,306	4,255	5,749	273
Consumer:								
HELOCs	1,095	1,095	362	791	791	1,886	1,886	362
Other	3	3	3	84		87	3	3
Total U.S. mainland	\$ 4,147	\$ 4,541	\$ 638	\$ 2,331	\$ 3,347	\$ 6,478	\$ 7,888	\$ 638

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December 31, 2014

Popular, Inc.

(In thousands)	Impaired Loans With an			Impaired Loans		Impaired Loans - Total		
	Recorded investment	Allowance Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial real estate non-owner occupied	\$ 50,324	\$ 53,154	\$ 5,182	\$ 7,929	\$ 7,929	\$ 58,253	\$ 61,083	\$ 5,182
Commercial real estate owner occupied	114,163	127,855	16,770	14,897	16,110	129,060	143,965	16,770
Commercial and industrial	145,633	148,204	42,784	24,215	31,972	169,848	180,176	42,784
Construction	2,575	7,980	363	10,693	28,994	13,268	36,974	363
Mortgage	398,960	429,945	46,111	36,864	41,554	435,824	471,499	46,111
Leasing	3,023	3,023	770			3,023	3,023	770
Consumer:								
Credit Cards	41,477	41,477	8,023			41,477	41,477	8,023
HELOCs	1,095	1,095	362	791	791	1,886	1,886	362
Personal	71,825	71,825	19,410			71,825	71,825	19,410
Auto	1,932	1,932	262			1,932	1,932	262
Other	528	528	104	84		612	528	104
Covered loans	2,419	7,500	5	4,487	4,487	6,906	11,987	5
Total Popular, Inc.	\$ 833,954	\$ 894,518	\$ 140,146	\$ 99,960	\$ 131,837	\$ 933,914	\$ 1,026,355	\$ 140,146

The following tables present the average recorded investment and interest income recognized on impaired loans for the quarter and nine months ended September 30, 2015 and 2014.

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For the quarter ended September 30, 2015						
(In thousands)	Puerto Rico		U.S. Mainland		Popular, Inc.	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial multi-family	\$ 1,239	\$ 23	\$	\$	\$ 1,239	\$ 23
Commercial real estate non-owner occupied	121,842	1,191			121,842	1,191
Commercial real estate owner occupied	140,054	1,094			140,054	1,094
Commercial and industrial	101,187	978			101,187	978
Construction	3,082				3,082	
Mortgage	454,210	3,446	5,110	34	459,320	3,480
Legacy			1,273		1,273	
Leasing	2,600				2,600	
Consumer:						
Credit cards	39,893				39,893	
Helocs			1,608		1,608	
Personal	69,619		555		70,174	
Auto	2,083				2,083	
Other	614				614	
Total Popular, Inc.	\$ 936,423	\$ 6,732	\$ 8,546	\$ 34	\$ 944,969	\$ 6,766

For the quarter ended September 30, 2014						
(In thousands)	Puerto Rico		U.S. Mainland		Popular, Inc.	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial multi-family	\$ 653	\$	\$ 980	\$	\$ 1,633	\$
Commercial real estate non-owner occupied	75,093	739	2,914		78,007	739
Commercial real estate owner occupied	124,314	1,280	771		125,085	1,280
Commercial and industrial	140,346	1,194	554		140,900	1,194
Construction	19,994				19,994	
Mortgage	419,486	4,990	29,496	175	448,982	5,165
Legacy			2,424		2,424	
Leasing	2,681				2,681	
Consumer:						
Credit cards	40,666				40,666	
Helocs			2,151		2,151	
Personal	73,537				73,537	
Auto	2,304		43		2,347	
Other	721		47		768	
Covered loans	5,213	117			5,213	117
Total Popular, Inc.	\$ 905,008	\$ 8,320	\$ 39,380	\$ 175	\$ 944,388	\$ 8,495

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For the nine months ended September 30, 2015

(In thousands)	Puerto Rico		U.S. Mainland		Popular, Inc.	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial multi-family	\$ 757	\$ 23	\$	\$	\$ 757	\$ 23
Commercial real estate non-owner occupied	105,308	3,339			105,308	3,339
Commercial real estate owner occupied	134,011	3,591			134,011	3,591
Commercial and industrial	135,657	3,155	63		135,720	3,155
Construction	7,317				7,317	
Mortgage	446,374	12,010	4,895	63	451,269	12,073
Legacy			636		636	
Leasing	2,787				2,787	
Consumer:						
Credit cards	40,615				40,615	
HELOCs			1,685		1,685	
Personal	70,430		380		70,810	
Auto	2,033				2,033	
Other	570		22		592	
Covered loans	4,409	153			4,409	153
Total Popular, Inc.	\$ 950,268	\$ 22,271	\$ 7,681	\$ 63	\$ 957,949	\$ 22,334

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For the nine months ended September 30, 2014

(In thousands)	Puerto Rico		U.S. Mainland		Popular, Inc.	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial multi-family	\$ 1,923	\$ 8	\$ 3,321	\$	\$ 5,244	\$ 8
Commercial real estate non-owner occupied	73,130	1,979	11,580		84,710	1,979
Commercial real estate owner occupied	111,352	2,833	7,222		118,574	2,833
Commercial and industrial	121,276	3,614	1,131		122,407	3,614
Construction	19,706		1,416		21,122	
Mortgage	411,093	15,253	41,044	1,167	452,137	16,420
Legacy			3,651		3,651	
Leasing	2,678				2,678	
Consumer:						
Credit cards	42,562				42,562	
HELOCs			1,738		1,738	
Personal	75,285				75,285	
Auto	1,872		65		1,937	
Other	804		544		1,348	
Covered loans	9,228	351			9,228	351
Total Popular, Inc.	\$ 870,909	\$ 24,038	\$ 71,712	\$ 1,167	\$ 942,621	\$ 25,205

Modifications

Troubled debt restructurings related to non-covered loan portfolios amounted to \$ 1.2 billion at September 30, 2015 (December 31, 2014 - \$ 1.1 billion). The amount of outstanding commitments to lend additional funds to debtors owing receivables whose terms have been modified in troubled debt restructurings amounted \$3 million related to the commercial loan portfolio and none in the construction loan portfolio at September 30, 2015 (December 31, 2014 - \$5 million and \$1 million, respectively).

A modification of a loan constitutes a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulty and the modification constitutes a concession.

Commercial and industrial loans modified in a TDR often involve temporary interest-only payments, term extensions, and converting evergreen revolving credit lines to long-term loans. Commercial real estate (CRE), which includes multifamily, owner-occupied and non-owner occupied CRE, and construction loans modified in a TDR often involve reducing the interest rate for a limited period of time or the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or reductions in the payment plan. Construction loans modified in a TDR may also involve extending the interest-only payment period.

Residential mortgage loans modified in a TDR are primarily comprised of loans where monthly payments are lowered to accommodate the borrowers' financial needs for a period of time, normally five years to ten years. After the lowered monthly payment period ends, the borrower reverts back to paying principal and interest per the original terms with the maturity date adjusted accordingly.

Home equity loans modifications are made infrequently and are not offered if the Corporation also holds the first mortgage. Home equity loans modifications are uniquely designed to meet the specific needs of each borrower. Automobile loans modified in a TDR are primarily comprised of loans where the Corporation has lowered monthly payments by extending the term. Credit cards modified in a TDR are primarily comprised of loans where monthly payments are lowered to accommodate the borrowers' financial needs for a period of time, normally up to 24 months.

As part of its NPL reduction strategy and in order to expedite the resolution of delinquent construction and commercial loans, commencing in 2012, the Corporation routinely enters into liquidation agreements with borrowers and guarantors through the regular legal process, bankruptcy procedures and in certain occasions, out of court transactions. These liquidation agreements, in general, contemplate the following conditions: (1) consent to judgment by the borrowers and guarantors; (2) acknowledgement by the borrower of the debt, its liquidity and maturity; and (3) acknowledgment of the default in payments. The contractual interest rate is not reduced and continues to accrue during the term of the agreement. At the end of the period, the borrower is obligated to remit all amounts due or be subject to the Corporation's exercise of its foreclosure rights and further collection efforts. Likewise, the borrower's failure to make stipulated payments will grant the Corporation the ability to exercise its foreclosure rights. This strategy tends to expedite the foreclosure process, resulting in a more effective and efficient collection process. Although in general, these liquidation agreements do not contemplate the forgiveness of principal or interest as debtor is required to cover all outstanding

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amounts when the agreement becomes due, it could be construed that the Corporation has granted a concession by temporarily accepting a payment schedule that is different from the contractual payment schedule. Accordingly, loans under these program agreements are considered TDRs.

Loans modified in a TDR that are not accounted pursuant to ASC Subtopic 310-30 are typically already in non-accrual status at the time of the modification and partial charge-offs have in some cases already been taken against the outstanding loan balance. The TDR loan continues in non-accrual status until the borrower has demonstrated a willingness and ability to make the restructured loan payments (generally 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.

Loans modified in a TDR may have the financial effect to the Corporation of increasing the specific allowance for loan losses associated with the loan. Consumer and residential mortgage loans modified under the Corporation's loss mitigation programs that are determined to be TDRs are individually evaluated for impairment based on an analysis of discounted cash flows.

For consumer and mortgage loans that are modified with regard to payment terms and which constitute TDRs, the discounted cash flow value method is used as the impairment valuation is more appropriately calculated based on the ongoing cash flow from the individuals rather than the liquidation of the asset. The computations give consideration to probability of defaults and loss-given-foreclosure on the related estimated cash flows.

Commercial and construction loans that have been modified as part of loss mitigation efforts are evaluated individually for impairment. The vast majority of the Corporation's modified commercial loans are measured for impairment using the estimated fair value of the collateral, as these are normally considered as collateral dependent loans. The Corporation may also measure commercial loans at their estimated realizable values determined by discounting the expected future cash flows. Construction loans that have been modified are also accounted for as collateral dependent loans. The Corporation determines the fair value measurement dependent upon its exit strategy for the particular asset(s) acquired in foreclosure.

The following tables present the non-covered and covered loans classified as TDRs according to their accruing status at September 30, 2015 and December 31, 2014.

	Popular, Inc.							
	Non-Covered Loans							
	September 30, 2015			December 31, 2014				
(In thousands)	Accruing	Non-Accruing	Total	Related Allowance	Accruing	Non-Accruing	Total	Related Allowance
Commercial	\$ 163,782	\$ 125,168	\$ 288,950	\$ 60,340	\$ 153,380	\$ 150,069	\$ 303,449	\$ 57,465
Construction	248	2,288	2,536	358	453	5,488	5,941	363
Mortgage	625,886	127,452	753,338	47,545	556,346	116,465	672,811	46,111
Leases	1,925	719	2,644	634	775	2,248	3,023	770
Consumer	105,756	13,841	119,597	24,696	107,530	14,848	122,378	28,161
Total	\$ 897,597	\$ 269,468	\$ 1,167,065	\$ 133,573	\$ 818,484	\$ 289,118	\$ 1,107,602	\$ 132,870

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(In thousands)	September 30, 2015			Popular, Inc. Covered Loans				
	Accruing	Non-Accruing	Total	Related Allowance	Accruing	Non-Accruing	Total	Related Allowance
Commercial	\$	\$	\$	\$	\$ 1,689	\$ 3,257	\$ 4,946	\$
Construction						2,419	2,419	
Mortgage	2,792	3,322	6,114		3,629	3,990	7,619	
Consumer					26	5	31	
Total	\$ 2,792	\$ 3,322	\$ 6,114	\$	\$ 5,344	\$ 9,671	\$ 15,015	\$

The following tables present the loan count by type of modification for those loans modified in a TDR during the quarters and nine months ended September 30, 2015 and 2014.

	Puerto Rico				Puerto Rico			
	For the quarter ended September 30, 2015		For the quarter ended September 30, 2015		For the nine months ended September 30, 2015		For the nine months ended September 30, 2015	
	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other	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	1	2			6	10		
Commercial real estate owner occupied	12	5			22	14		
Commercial and industrial	7	4			18	15		
Construction		1			1	1		
Mortgage	12	9	96	38	41	39	277	76
Leasing		5	1			7	15	
Consumer:								
Credit cards	235			187	657			538
Personal	267	6		1	769	24		1
Auto		3				8	3	
Other	13				35			
Total	547	35	97	226	1,549	120	295	615

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	U.S. Mainland For the quarter ended September 30, 2015			For the nine months ended September 30, 2015			
	Combination of reduction in interest rate and extension of			Combination of reduction in interest rate and extension of			
	Reduction in interest rate	Extension of maturity date	maturity date	Reduction in interest rate	Extension of maturity date	maturity date	Other
Mortgage			4		1	14	1
Consumer:							
HELOCs			1		1	1	2
Personal					2		
Total			5		1	4	3

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	Popular, Inc.							
	For the quarter ended September 30, 2015				For the nine months ended September 30, 2015			
	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other	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	1	2			6	10		
Commercial real estate owner occupied	12	5			22	14		
Commercial and industrial	7	4			18	15		
Construction		1			1	1		
Mortgage	12	9	100	39	41	40	291	77
Leasing		5	1			7	15	
Consumer:								
Credit cards	235			187	657			538
HELOCs			1			1	1	2
Personal	267	6		1	769	26		1
Auto		3				8	3	
Other	13				35			
Total	547	35	102	227	1,549	124	310	618

	Puerto Rico							
	For the quarter ended September 30, 2014				For the nine months ended September 30, 2014			
	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Commercial real estate non-owner occupied	3	3			5	7		
	6	3			21	10		

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Commercial real estate
owner occupied

Commercial and industrial	2	31			25	37		
Construction						3		
Mortgage	7	11	80	31	34	37	270	98
Leasing		6	12			11	36	
Consumer:								
Credit cards	252			151	799			478
Personal	249	20		2	712	53		5
Auto		3				11	3	
Other	40				83			2
Total	559	77	92	184	1,679	169	309	583

	U.S. Mainland							
	For the quarter ended September 30, 2014				For the nine months ended September 30, 2014			
	Combination of reduction in interest rate and extension of maturity date			Other	Combination of reduction in interest rate and extension of maturity date			Other
	Reduction in interest rate	Extension of maturity date	extension of maturity date		Reduction in interest rate	Extension of maturity date	extension of maturity date	
Mortgage			4				15	
Consumer:								
HELOCs	5				5			
Total	5		4		5		15	

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	Popular, Inc.							
	For the quarter ended September 30, 2014				For the nine months ended September 30, 2014			
	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Commercial real estate non-owner occupied	3	3			5	7		
Commercial real estate owner occupied	6	3			21	10		
Commercial and industrial	2	31			25	37		
Construction						3		
Mortgage	7	11	84	31	34	37	285	98
Leasing		6	12			11	36	
Consumer:								
Credit cards	252			151	799			478
HELOCs	5				5			
Personal	249	20		2	712	53		5
Auto		3				11	3	
Other	40				83			2
Total	564	77	96	184	1,684	169	324	583

The following tables present by class, quantitative information related to loans modified as TDRs during the quarters and nine months ended September 30, 2015 and 2014.

Puerto Rico
For the quarter ended September 30, 2015

(Dollars in thousands)	Loan count	Increase (decrease) in the allowance for loan losses as a result of modification		
		Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	
	3	\$ 775	\$ 769	\$ 33

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Commercial real estate non-owner occupied				
Commercial real estate owner occupied	17	2,830	2,654	(3)
Commercial and industrial	11	7,970	8,386	10
Construction	1	40	39	(4)
Mortgage	155	18,089	18,286	1,490
Leasing	6	135	132	30
Consumer:				
Credit cards	422	3,485	3,994	583
Personal	274	4,393	4,440	992
Auto	3	41	45	12
Other	13	30	30	5
Total	905	\$ 37,788	\$ 38,775	\$ 3,148

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

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Mortgage	5	\$ 426	\$ 454	\$ 186
Consumer:				
HELOCs	1	123	128	54
Total	6	\$ 549	\$ 582	\$ 240

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

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	3	\$ 775	\$ 769	\$ 33
Commercial real estate owner occupied	17	2,830	2,654	(3)
Commercial and industrial	11	7,970	8,386	10
Construction	1	40	39	(4)
Mortgage	160	18,515	18,740	1,676
Leasing	6	135	132	30
Consumer:				
Credit cards	422	3,485	3,994	583
HELOCs	1	123	128	54
Personal	274	4,393	4,440	992
Auto	3	41	45	12
Other	13	30	30	5
Total	911	\$ 38,337	\$ 39,357	\$ 3,388

Puerto Rico
For the quarter ended September 30, 2014

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	6	\$ 14,641	\$ 14,668	\$ (942)
Commercial real estate owner occupied	9	10,209	10,366	91
Commercial and industrial	33	81,470	81,731	6,730
Mortgage	129	22,681	22,070	1,487
Leasing	18	440	439	88
Consumer:				
Credit cards	403	3,522	4,080	679
Personal	271	5,035	5,064	1,093

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Auto	3	39	43	2
Other	40	152	148	28
Total	912	\$ 138,189	\$ 138,609	\$ 9,256

U.S. Mainland
For the quarter ended September 30, 2014

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Mortgage	4	\$ 350	\$ 353	\$ 97
Consumer:				
HELOCs	5	251	250	67
Total	9	\$ 601	\$ 603	\$ 164

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Popular, Inc.
For the quarter ended September 30, 2014

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	6	\$ 14,641	\$ 14,668	\$ (942)
Commercial real estate owner occupied	9	10,209	10,366	91
Commercial and industrial	33	81,470	81,731	6,730
Mortgage	133	23,031	22,423	1,584
Leasing	18	440	439	88
Consumer:				
Credit cards	403	3,522	4,080	679
HELOCs	5	251	250	67
Personal	271	5,035	5,064	1,093
Auto	3	39	43	2
Other	40	152	148	28
Total	921	\$ 138,790	\$ 139,212	\$ 9,420

Puerto Rico
For the nine months ended September 30, 2015

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial multi-family	2	\$ 551	\$ 551	\$ 2
Commercial real estate non-owner occupied	16	67,494	67,635	13,701
Commercial real estate owner occupied	36	12,620	11,690	330
Commercial and industrial	33	20,337	21,272	672
Construction	2	308	298	(170)
Mortgage	433	42,275	48,197	3,786
Leasing	22	557	556	126
Consumer:				
Credit cards	1,195	10,367	11,747	1,780
Personal	794	13,646	13,689	2,968
Auto	11	101	158	29

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Other	35	86	97	14
Total	2,579	\$ 168,342	\$ 175,890	\$ 23,238

U.S. mainland
For the nine months ended September 30, 2015

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Mortgage	16	\$ 1,081	\$ 2,112	\$ 365
Consumer:				
HELOCs	4	197	295	79
Personal	2	30	30	3
Total	22	\$ 1,308	\$ 2,437	\$ 447

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Popular, Inc.
For the nine months ended September 30, 2015

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial multi-family	2	\$ 551	\$ 551	\$ 2
Commercial real estate non-owner occupied	16	67,494	67,635	13,701
Commercial real estate owner occupied	36	12,620	11,690	330
Commercial and industrial	33	20,337	21,272	672
Construction	2	308	298	(170)
Mortgage	449	43,356	50,309	4,151
Leasing	22	557	556	126
Consumer:				
Credit cards	1,195	10,367	11,747	1,780
HELOCs	4	197	295	79
Personal	796	13,676	13,719	2,971
Auto	11	101	158	29
Other	35	86	97	14
Total	2,601	\$ 169,650	\$ 178,327	\$ 23,685

Puerto Rico
For the nine months ended September 30, 2014

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	12	\$ 17,503	\$ 17,583	\$ (864)
Commercial real estate owner occupied	31	43,467	43,176	1,511
Commercial and industrial	62	123,661	123,706	6,799
Construction	3	11,358	11,358	(570)
Mortgage	439	68,718	69,006	3,429
Leasing	47	1,153	1,156	254
Consumer:				
Credit cards	1,277	10,474	11,982	1,908
Personal	770	13,484	13,529	2,859

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Auto	14	215	225	12
Other	85	255	250	45
Total	2,740	\$ 290,288	\$ 291,971	\$ 15,383

U.S. mainland
For the nine months ended September 30, 2014

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Mortgage	15	\$ 1,918	\$ 2,180	\$ 337
Consumer:				
HELOCs	5	251	250	67
Total	20	\$ 2,169	\$ 2,430	\$ 404

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Popular, Inc.
For the nine months ended September 30, 2014

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	12	\$ 17,503	\$ 17,583	\$ (864)
Commercial real estate owner occupied	31	43,467	43,176	1,511
Commercial and industrial	62	123,661	123,706	6,799
Construction	3	11,358	11,358	(570)
Mortgage	454	70,636	71,186	3,766
Leasing	47	1,153	1,156	254
Consumer:				
Credit cards	1,277	10,474	11,982	1,908
HELOCs	5	251	250	67
Personal	770	13,484	13,529	2,859
Auto	14	215	225	12
Other	85	255	250	45
Total	2,760	\$ 292,457	\$ 294,401	\$ 15,787

During the nine months ended September 30, 2015 and 2014, eleven loans with an aggregate unpaid principal balance of \$10.8 million and four loans of \$3.1 million, respectively, were restructured into multiple notes (Note A / B split). The Corporation recorded \$747 thousand charge-offs as part of those loan restructurings during the nine months ended September 30, 2015 (September 30, 2014 - \$14 thousand). The restructuring of those loans was made after analyzing the borrowers' capacity to repay the debt, collateral and ability to perform under the modified terms. The recorded investment on those commercial TDRs amounted to approximately \$10.2 million at September 30, 2015 (September 30, 2014 - \$3.4 million) with a related allowance for loan losses amounting to approximately \$309 thousand (September 30, 2014 - \$111 thousand).

The following tables present by class, TDRs that were subject to payment default and that had been modified as a TDR during the twelve months preceding the default date. Payment default is defined as a restructured loan becoming 90 days past due after being modified, foreclosed or charged-off, whichever occurs first. The recorded investment at September 30, 2015 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.

(Dollars in thousands)	Puerto Rico		Defaulted during the nine months ended	
	Loan count	Recorded investment as of first default date	Loan count	Recorded investment as of first default date
		Defaulted during the quarter ended September 30, 2015		Defaulted during the nine months ended September 30, 2015

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Commercial real estate owner occupied				1	\$	291
Commercial and industrial	3	\$	521	5		675
Construction				2		1,192
Mortgage	51		4,208	85		11,633
Leasing	1		68	7		170
Consumer:						
Credit cards	124		1,444	314		3,238
Personal	29		669	42		990
Auto	2		33	9		128
Total	210	\$	6,943	465	\$	18,317

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(Dollars in thousands)	U.S. Mainland			
	Defaulted during the quarter ended September 30, 2015		Defaulted during the nine months ended September 30, 2015	
	Loan count	Recorded investment as of first default date	Loan count	Recorded investment as of first default date
Mortgage	1	\$ 94	1	\$ 94
Total	1	\$ 94	1	\$ 94

(Dollars in thousands)	Popular, Inc.			
	Defaulted during the quarter ended September 30, 2015		Defaulted during the nine months ended September 30, 2015	
	Loan count	Recorded investment as of first default date	Loan count	Recorded investment as of first default date
Commercial real estate owner occupied		\$	1	\$ 291
Commercial and industrial	3	521	5	675
Construction			2	1,192
Mortgage	52	4,302	86	11,727
Legacy	1	68	7	170
Consumer:				
Credit cards	124	1,444	314	3,238
Personal	29	669	42	990
Auto	2	33	9	128
Total	211	\$ 7,037	466	\$ 18,411

(Dollars in thousands)	Puerto Rico			
	Defaulted during the quarter ended September 30, 2014		Defaulted during the nine months ended September 30, 2014	
	Loan count	Recorded investment as of first default date	Loan count	Recorded investment as of first default date
Commercial real estate non-owner occupied		\$	1	\$ 30
Commercial real estate owner occupied			3	377
Commercial and industrial			5	609
Construction	1	952	1	952
Mortgage	40	8,569	91	19,160
Leasing	3	34	8	95
Consumer:				
Credit cards	166	1,314	354	3,075
Personal	35	412	79	992

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Auto	2	31	14	265
Total	247	\$ 11,312	556	\$ 25,555

(Dollars in thousands)	U.S. Mainland			
	Defaulted during the quarter ended September 30, 2014		Defaulted during the nine months ended September 30, 2014	
	Loan count	Recorded investment as of first default date	Loan count	Recorded investment as of first default date
Commercial real estate non-owner occupied		\$	1	\$ 907
Mortgage	1	110	1	110
Total	1	\$ 110	2	\$ 1,017

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(Dollars in thousands)	Popular, Inc. Defaulted during the quarter ended		Defaulted during the nine months ended	
	September 30, 2014		September 30, 2014	
	Loan count	Recorded investment as of first default date	Loan count	Recorded investment as of first default date
Commercial real estate non-owner occupied		\$	2	\$ 937
Commercial real estate owner occupied			3	377
Commercial and industrial			5	609
Construction	1	952	1	952
Mortgage	41	8,679	92	19,270
Leasing	3	34	8	95
Consumer:				
Credit cards	166	1,314	354	3,075
Personal	35	412	79	992
Auto	2	31	14	265
Total	248	\$ 11,422	558	\$ 26,572

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

Credit Quality

The following table presents the outstanding balance, net of unearned income, of non-covered loans held-in-portfolio based on the Corporation's assignment of obligor risk ratings as defined at September 30, 2015 and December 31, 2014.

(In thousands)	September 30, 2015						Sub-total	Pass/ Unrated	Total
	Watch	Special Mention	Substandard	Doubtful	Loss				
Puerto Rico^[1]									
Commercial multi-family	\$ 2,327	\$ 1,300	\$ 8,144	\$	\$	\$ 11,771	\$ 121,796	\$ 133,567	
Commercial real estate non-owner occupied	280,884	439,644	458,908			1,179,436	1,571,671	2,751,107	
Commercial real estate owner	318,261	165,409	472,505	2,258		958,433	975,039	1,933,472	

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occupied									
Commercial and industrial	207,925	153,972	310,990	633	98	673,618	2,029,980	2,703,598	
Total									
Commercial	809,397	760,325	1,250,547	2,891	98	2,823,258	4,698,486	7,521,744	
Construction	5,573	7,619	33,884			47,076	61,602	108,678	
Mortgage	3,640	6,003	247,674			257,317	5,963,078	6,220,395	
Leasing			3,014		77	3,091	603,836	606,927	
Consumer:									
Credit cards			19,092			19,092	1,102,385	1,121,477	
HELOCs			72			72	11,377	11,449	
Personal	1,488	1,553	23,309			26,350	1,206,495	1,232,845	
Auto			11,834		82	11,916	793,074	804,990	
Other			1,770		457	2,227	187,908	190,135	
Total									
Consumer	1,488	1,553	56,077		539	59,657	3,301,239	3,360,896	
Total Puerto Rico	\$ 820,098	\$ 775,500	\$ 1,591,196	\$ 2,891	\$ 714	\$ 3,190,399	\$ 14,628,241	\$ 17,818,640	
U.S. mainland									
Commercial multi-family	\$ 15,028	\$ 7,231	\$ 475	\$	\$	\$ 22,734	\$ 628,340	\$ 651,074	
Commercial real estate non-owner occupied	52,349	7,295	16,498			76,142	802,420	878,562	
Commercial real estate owner occupied	10,975	1,091	3,700			15,766	131,430	147,196	
Commercial and industrial	15,001	7,497	196,691			219,189	712,659	931,848	
Total									
Commercial	93,353	23,114	217,364			333,831	2,274,849	2,608,680	
Construction		58,197	671			58,868	524,946	583,814	
Mortgage			12,388			12,388	932,696	945,084	

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Legacy	6,970	1,974	7,002			15,946	52,028	67,974
Consumer:								
Credit cards							14,033	14,033
HELOCs			1,421	2,657	4,078		311,032	315,110
Personal			456	525	981		143,305	144,286
Auto							73	73
Other							372	372
Total Consumer			1,877	3,182	5,059		468,815	473,874
Total U.S. mainland	\$ 100,323	\$ 83,285	\$ 239,302	\$ 3,182	\$ 426,092	\$ 4,253,334	\$ 4,679,426	
Popular, Inc.								
Commercial multi-family	\$ 17,355	\$ 8,531	\$ 8,619	\$	\$	\$ 34,505	\$ 750,136	\$ 784,641
Commercial real estate non-owner occupied	333,233	446,939	475,406			1,255,578	2,374,091	3,629,669
Commercial real estate owner occupied	329,236	166,500	476,205	2,258		974,199	1,106,469	2,080,668
Commercial and industrial	222,926	161,469	507,681	633	98	892,807	2,742,639	3,635,446
Total Commercial	902,750	783,439	1,467,911	2,891	98	3,157,089	6,973,335	10,130,424
Construction	5,573	65,816	34,555			105,944	586,548	692,492
Mortgage	3,640	6,003	260,062			269,705	6,895,774	7,165,479
Legacy	6,970	1,974	7,002			15,946	52,028	67,974
Leasing			3,014		77	3,091	603,836	606,927
Consumer:								
Credit cards			19,092			19,092	1,116,418	1,135,510
HELOCs			1,493	2,657	4,150		322,409	326,559
Personal	1,488	1,553	23,765	525	27,331		1,349,800	1,377,131
Auto			11,834	82	11,916		793,147	805,063
Other			1,770	457	2,227		188,280	190,507
Total Consumer	1,488	1,553	57,954	3,721	64,716		3,770,054	3,834,770
Total Popular, Inc.	\$ 920,421	\$ 858,785	\$ 1,830,498	\$ 2,891	\$ 3,896	\$ 3,616,491	\$ 18,881,575	\$ 22,498,066

The following table presents the weighted average obligor risk rating at September 30, 2015 for those classifications that consider a range of rating scales.

Weighted average obligor risk rating	(Scales 11 and 12)	(Scales 1 through 8)
	Substandard	Pass
Puerto Rico:^[1]		
Commercial multi-family	11.16	6.04
Commercial real estate non-owner occupied	11.10	6.73
Commercial real estate owner occupied	11.23	7.08
Commercial and industrial	11.24	7.10
Total Commercial	11.18	6.95
Construction	11.11	7.56
	Substandard	Pass
U.S. mainland:		
Commercial multi-family	11.10	7.14
Commercial real estate non-owner occupied	11.00	6.90
Commercial real estate owner occupied	11.20	6.97
Commercial and industrial	11.56	6.28
Total Commercial	11.51	6.78
Construction	11.00	7.84
Legacy	11.14	7.71

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

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December 31, 2014

(In thousands)	Watch	Special Mention	Substandard	Doubtful	Loss	Sub-total	Pass/Unrated	Total
Puerto Rico^[1]								
Commercial multi-family	\$ 2,306	\$ 5,021	\$ 3,186	\$	\$	\$ 10,513	\$ 69,564	\$ 80,077
Commercial real estate non-owner occupied	171,771	144,104	169,900			485,775	1,527,804	2,013,579
Commercial real estate owner occupied	212,236	144,536	306,014	3,595		666,381	806,981	1,473,362
Commercial and industrial	421,332	367,834	272,880	849	255	1,063,150	1,744,635	2,807,785
Total								
Commercial	807,645	661,495	751,980	4,444	255	2,225,819	4,148,984	6,374,803
Construction	4,612	6,204	16,908			27,724	131,660	159,384
Mortgage			218,680			218,680	5,231,821	5,450,501
Leasing			3,102			3,102	561,287	564,389
Consumer:								
Credit cards			21,070			21,070	1,119,094	1,140,164
HELOCs			8,186		7	8,193	5,207	13,400
Personal			8,380		77	8,457	1,254,076	1,262,533
Auto			11,348		40	11,388	755,908	767,296
Other			2,130		1,735	3,865	201,779	205,644
Total Consumer								
			51,114		1,859	52,973	3,336,064	3,389,037
Total Puerto Rico								
	\$ 812,257	\$ 667,699	\$ 1,041,784	\$ 4,444	\$ 2,114	\$ 2,528,298	\$ 13,409,816	\$ 15,938,114
U.S. mainland								
Commercial multi-family	\$ 11,283	\$ 6,818	\$ 13,653	\$	\$	\$ 31,754	\$ 375,449	\$ 407,203
Commercial real estate non-owner occupied	17,424	8,745	13,446			39,615	472,952	512,567
Commercial real estate owner occupied	24,284	4,707	4,672			33,663	160,242	193,905
	5,357	2,548	7,988			15,893	629,896	645,789

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Commercial
and industrial

Total								
Commercial	58,348	22,818	39,759		120,925	1,638,539	1,759,464	
Construction						92,436	92,436	
Mortgage			23,100		23,100	1,029,285	1,052,385	
Legacy	7,902	2,491	9,204		19,597	61,221	80,818	
Consumer:								
Credit cards						15,065	15,065	
HELOCs			2,457	1,632	4,089	348,673	352,762	
Personal			571	835	1,406	111,513	112,919	
Auto						73	73	
Other			7		7	408	415	

Total								
Consumer			3,035	2,467	5,502	475,732	481,234	

Total U.S. mainland	\$ 66,250	\$ 25,309	\$ 75,098	\$	\$ 2,467	\$ 169,124	\$ 3,297,213	\$ 3,466,337
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Popular, Inc.

Commercial multi-family	\$ 13,589	\$ 11,839	\$ 16,839	\$	\$	\$ 42,267	\$ 445,013	\$ 487,280
Commercial real estate non-owner occupied	189,195	152,849	183,346			525,390	2,000,756	2,526,146
Commercial real estate owner occupied	236,520	149,243	310,686	3,595		700,044	967,223	1,667,267
Commercial and industrial	426,689	370,382	280,868	849	255	1,079,043	2,374,531	3,453,574

Total								
Commercial	865,993	684,313	791,739	4,444	255	2,346,744	5,787,523	8,134,267
Construction	4,612	6,204	16,908			27,724	224,096	251,820
Mortgage			241,780			241,780	6,261,106	6,502,886
Legacy	7,902	2,491	9,204			19,597	61,221	80,818
Leasing			3,102			3,102	561,287	564,389
Consumer:								
Credit cards			21,070			21,070	1,134,159	1,155,229
HELOCs			10,643	1,639		12,282	353,880	366,162
Personal			8,951	912		9,863	1,365,589	1,375,452
Auto			11,348	40		11,388	755,981	767,369
Other			2,137	1,735		3,872	202,187	206,059

Total								
Consumer			54,149	4,326	58,475	3,811,796	3,870,271	

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Total Popular, Inc.	\$ 878,507	\$ 693,008	\$ 1,116,882	\$ 4,444	\$ 4,581	\$ 2,697,422	\$ 16,707,029	\$ 19,404,451
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The following table presents the weighted average obligor risk rating at December 31, 2014 for those classifications that consider a range of rating scales.

Weighted average obligor risk rating	(Scales 11 and 12)	(Scales 1 through 8)
	<u>Substandard</u>	<u>Pass</u>
Puerto Rico:^[1]		
Commercial multi-family	11.69	5.63
Commercial real estate non-owner occupied	11.20	6.83
Commercial real estate owner occupied	11.28	6.96
Commercial and industrial	11.48	6.89
Total Commercial	11.33	6.87
Construction	11.82	7.43
	<u>Substandard</u>	<u>Pass</u>
U.S. mainland:		
Commercial multi-family	11.00	7.24
Commercial real estate non-owner occupied	11.00	6.83
Commercial real estate owner occupied	11.17	7.04
Commercial and industrial	11.09	6.29
Total Commercial	11.04	6.74
Construction		7.76
Legacy	11.11	7.70

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

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In connection with the Westernbank FDIC-assisted transaction, BPPR entered into loss-share arrangements with the FDIC with respect to the covered loans and other real estate owned. Pursuant to the terms of the loss-share arrangements, the FDIC's obligation to reimburse BPPR for losses with respect to covered assets begins with the first dollar of loss incurred. The FDIC reimburses BPPR for 80% of losses with respect to covered assets, and BPPR reimburses the FDIC for 80% of recoveries with respect to losses for which the FDIC paid 80% reimbursement under loss-share arrangements. The loss-share agreement applicable to single-family residential mortgage loans provides for FDIC loss and recoveries sharing for ten years expiring at the end of the quarter ending June 30, 2020. The loss-share arrangements applicable to commercial (including construction) and consumer loans expired during the quarter ended June 30, 2015 and provides for reimbursement to the FDIC through the quarter ending June 30, 2018.

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

(In thousands)	Quarters ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Balance at beginning of period	\$ 392,947	\$ 712,869	\$ 542,454	\$ 909,414
Amortization	(3,931)	(42,524)	(62,312)	(163,565)
Reversal of accelerated amortization in prior periods		15,046		15,046
Credit impairment losses (reversal) to be covered under loss-sharing agreements	(183)	9,863	15,710	35,325
Reimbursable expenses	6,276	15,545	70,551	39,375
Net payments from FDIC under loss-sharing agreements	(80,993)	(68,183)	(245,416)	(178,801)
Other adjustments attributable to FDIC loss-sharing agreements	(2,170)	(6,285)	(9,041)	(20,463)
Balance at end of period	\$ 311,946	\$ 636,331	\$ 311,946	\$ 636,331

As a result of the expiration of the shared-loss arrangement under the commercial loss-share agreement on June 30, 2015, loans with a carrying amount at June 30, 2015 of approximately \$248.7 million, which were reclassified to non-covered in the accompanying statement of financial condition, are subject to the resolution of several arbitration proceedings currently ongoing with the FDIC related primarily to (i) the FDIC's denial of reimbursements for certain charge-offs claimed by BPPR with respect to certain loans and the treatment of those loans as shared-loss assets under the commercial loss-share agreement; and (ii) the denial by the FDIC of portfolio sale proposals submitted by BPPR pursuant to the applicable commercial shared-loss agreement provision governing portfolio sales. Until the disputes described above are finally resolved, the terms of the commercial loss-share agreement will remain in effect with respect to any such items under dispute. As of September 30, 2015, losses amounting to \$141.3 million related to these assets are reflected in the FDIC indemnification asset as a receivable from the FDIC. Refer to additional information of these disputes on Note 26, Commitments and Contingencies.

The weighted average life of the single family loan portfolio subject to the FDIC loss-sharing agreement at September 30, 2015 is 7.58 years.

As part of the loss-share agreements, BPPR has agreed to make a true-up payment to the FDIC on the date that is 45 days following the last day (such day, the true-up measurement date) of the final shared-loss month, or upon the final disposition of all covered assets under the loss-share agreements, in the event losses on the loss-share agreements fail to reach expected levels. The estimated fair value of such true-up payment obligation is recorded as contingent consideration, which is included in the caption of other liabilities in the consolidated statements of financial condition. Under the loss sharing agreements, BPPR will pay to the FDIC 50% of the excess, if any, of: (i) 20% of the intrinsic loss estimate of \$4.6 billion (or \$925 million) (as determined by the FDIC) less (ii) the sum of: (A) 25% of the asset discount (per bid) (or (\$1.1 billion)); plus (B) 25% of the cumulative shared-loss payments (defined as the aggregate of all of the payments made or payable to BPPR minus the aggregate of all of the payments made or payable to the FDIC); plus (C) the sum of the period servicing amounts for every consecutive twelve-month period prior to and ending on the true-up measurement date in respect of each of the loss-sharing agreements during which the loss-sharing provisions of the applicable loss-sharing agreement is in effect (defined as the product of the simple average of the principal amount of shared- loss loans and shared-loss assets at the beginning and end of such period times 1%).

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The following table provides the fair value and the undiscounted amount of the true-up payment obligation at September 30, 2015 and December 31, 2014.

(In thousands)	September 30, 2015	December 31, 2014
Carrying amount (fair value)	\$ 122,527	\$ 129,304
Undiscounted amount	\$ 170,531	\$ 187,238

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

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

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

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

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

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

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

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

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

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

Refer to Note 26, Commitment and Contingencies, for additional information on the settlement of the arbitration proceedings with the FDIC regarding the commercial loss-share agreement.

Table of Contents**Note 14 Mortgage banking activities**

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

The following table presents the components of mortgage banking activities:

(In thousands)	Quarters ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Mortgage servicing fees, net of fair value adjustments:				
Mortgage servicing fees	\$ 17,020	\$ 11,091	\$ 43,957	\$ 32,397
Mortgage servicing rights fair value adjustments	1,038	(2,588)	(5,808)	(18,424)
 Total mortgage servicing fees, net of fair value adjustments	 18,058	 8,503	 38,149	 13,973
 Net gain on sale of loans, including valuation on loans held-for-sale	 9,698	 7,466	 24,999	 22,831
 Trading account (loss) profit:				
Unrealized (losses) gains on outstanding derivative positions	(69)	13	(10)	(725)
Realized (losses) gains on closed derivative positions	(3,492)	(1,580)	(4,766)	(14,211)
 Total trading account (loss) profit	 (3,561)	 (1,567)	 (4,776)	 (14,936)
 Total mortgage banking activities	 \$ 24,195	 \$ 14,402	 \$ 58,372	 \$ 21,868

Table of Contents**Note 15 Transfers of financial assets and mortgage servicing assets**

The Corporation typically transfers conforming residential mortgage loans in conjunction with GNMA and FNMA securitization transactions whereby the loans are exchanged for cash or securities and servicing rights. The securities issued through these transactions are guaranteed by the corresponding agency and, as such, under seller/service agreements the Corporation is required to service the loans in accordance with the agencies' servicing guidelines and standards. Substantially all mortgage loans securitized by the Corporation in GNMA and FNMA securities have fixed rates and represent conforming loans. As seller, the Corporation has made certain representations and warranties with respect to the originally transferred loans and, in the past, has sold certain loans with credit recourse to a government-sponsored entity, namely FNMA. Refer to Note 25 to the consolidated financial statements for a description of such arrangements.

No liabilities were incurred as a result of these securitizations during the quarters and nine months ended September 30, 2015 and 2014 because they did not contain any credit recourse arrangements. During the quarter ended September 30, 2015, the Corporation recorded a net gain \$9.1 million (September 30, 2014 - \$7.4 million) related to the residential mortgage loans securitized. During the nine months ended September 30, 2015, the Corporation recorded a net gain \$22.8 million (September 30, 2014 - \$24.4 million) related to the residential mortgage loans securitized.

The following tables present the initial fair value of the assets obtained as proceeds from residential mortgage loans securitized during the quarters and nine months ended September 30, 2015 and 2014:

(In thousands)	Proceeds Obtained During the Quarter Ended September 30, 2015			Initial Fair Value
	Level 1	Level 2	Level 3	
Assets				
Trading account securities:				
Mortgage-backed securities - GNMA	\$	\$ 251,061	\$	\$ 251,061
Mortgage-backed securities - FNMA		56,800		56,800
Total trading account securities	\$	\$ 307,861	\$	\$ 307,861
Mortgage servicing rights			3,309	3,309
Total	\$	\$ 307,861	\$ 3,309	\$ 311,170

(In thousands)	Proceeds Obtained During the Nine Months Ended September 30, 2015			Initial Fair Value
	Level 1	Level 2	Level 3	

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<u>Assets</u>			
Trading account securities:			
Mortgage-backed securities - GNMA	\$	\$ 650,891	\$ 650,891
Mortgage-backed securities - FNMA		174,235	174,235
Total trading account securities	\$	\$ 825,126	\$ 825,126
Mortgage servicing rights		10,078	10,078
Total	\$	\$ 825,126	\$ 835,204

Proceeds Obtained During the Quarter
Ended
September 30, 2014

(In thousands)	Level 1	Level 2	Level 3	Initial Fair Value
<u>Assets</u>				
Trading account securities:				
Mortgage-backed securities - GNMA	\$	\$ 171,508	\$	\$ 171,508
Mortgage-backed securities - FNMA		51,017		51,017
Total trading account securities	\$	\$ 222,525	\$	\$ 222,525
Mortgage servicing rights			2,711	2,711
Total	\$	\$ 222,525	\$ 2,711	\$ 225,236

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(In thousands)	Proceeds Obtained During the Nine Months Ended			Initial Fair Value
	Level 1	Level 2	Level 3	
Assets				
Trading account securities:				
Mortgage-backed securities - GNMA	\$	\$ 521,747	\$	\$ 521,747
Mortgage-backed securities - FNMA		173,669		173,669
Total trading account securities	\$	\$ 695,416	\$	\$ 695,416
Mortgage servicing rights			8,828	8,828
Total	\$	\$ 695,416	\$ 8,828	\$ 704,244

During the nine months ended September 30, 2015, the Corporation retained servicing rights on whole loan sales involving approximately \$56 million in principal balance outstanding (September 30, 2014 - \$71 million), with realized gains of approximately \$2.2 million (September 30, 2014 - gains of \$2.8 million). All loan sales performed during the nine months ended September 30, 2015 and 2014 were without credit recourse agreements.

The Corporation recognizes as assets the rights to service loans for others, whether these rights are purchased or result from asset transfers such as sales and securitizations. These mortgage servicing rights (MSRs) are measured at fair value.

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

The following table presents the changes in MSRs measured using the fair value method for the nine months ended September 30, 2015 and 2014.

(In thousands)	Residential MSRs	
	September 30, 2015	September 30, 2014
Fair value at beginning of period	\$ 148,694	\$ 161,099
Additions ^[1]	73,411	9,607
Changes due to payments on loans ^[2]	(12,891)	(12,670)
Reduction due to loan repurchases	(1,576)	(2,440)
Changes in fair value due to changes in valuation model inputs or assumptions	3,213	(3,314)
Fair value at end of period	\$ 210,851	\$ 152,282

[1] Includes \$54.9 million from the acquisition of mortgage servicing rights from the FDIC as a receiver for Doral Bank during the second quarter of 2015.

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

During the second quarter of 2015, BPPR completed the acquisition of mortgage servicing rights on three pools of residence mortgage loans serviced for GNMA, FNMA and FHLMC, with an unpaid principal balance of approximately \$5.0 billion, from the FDIC as a receiver for Doral Bank, as part of the Doral Bank Transaction. The aggregate purchase price for the mortgage servicing rights and related servicing advances was approximately \$56.2 million.

During the third quarter of 2015, BPPR acquired mortgage servicing rights for a portfolio previously serviced by Doral Bank, with approximately \$873 million in unpaid principal balance and a fair value of \$4.4 million, in connection with a pre-existing backup servicing agreement. The Corporation also purchased the servicing advances related to this portfolio from the FDIC, as receiver of Doral Bank, for a price of \$46.6 million.

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Residential mortgage loans serviced for others were \$20.9 billion at September 30, 2015 (December 31, 2014 - \$15.6 billion).

Net mortgage servicing fees, a component of mortgage banking activities in the consolidated statements of operations, include the changes from period to period in the fair value of the MSR, including changes due to collection / realization of expected cash flows. Mortgage servicing fees, excluding fair value adjustments, for the quarter and nine months ended September 30, 2015 amounted to \$17.0 million and \$44.0 million, respectively (September 30, 2014 - \$11.1 million and \$32.4 million, respectively). The banking subsidiaries receive servicing fees based on a percentage of the outstanding loan balance. At September 30, 2015, those weighted average mortgage servicing fees were 0.28% (September 30, 2014 - 0.27%). Under these servicing agreements, the banking subsidiaries do not generally earn significant prepayment penalty fees on the underlying loans serviced.

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

Key economic assumptions used in measuring the servicing rights derived from loans securitized or sold by the Corporation during the quarters and nine months ended September 30, 2015 and 2014 were as follows:

	Quarter ended		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Prepayment speed	7.0%	6.1%	7.0%	6.2%
Weighted average life	8.8 years	16.4 years	7.1 years	16.1 years
Discount rate (annual rate)	11.1%	10.9%	11.0%	10.8%

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

(In thousands)	Originated MSR	
	September 30, 2015	December 31, 2014
Fair value of servicing rights	\$ 99,205	\$ 110,534
Weighted average life	7.0 years	11.7 years
Weighted average prepayment speed (annual rate)	6.8%	8.6%
Impact on fair value of 10% adverse change	\$ (338)	\$ (4,089)
Impact on fair value of 20% adverse change	\$ (3,408)	\$ (7,995)
Weighted average discount rate (annual rate)	11.5%	11.5%
Impact on fair value of 10% adverse change	\$ (1,495)	\$ (4,492)
Impact on fair value of 20% adverse change	\$ (5,540)	\$ (8,701)

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

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	Purchased MSRs	
(In thousands)	September 30, 2015	December 31, 2014
Fair value of servicing rights	\$ 111,646	\$ 38,160
Weighted average life	5.9 years	11.0 years
Weighted average prepayment speed (annual rate)	7.9%	9.1%
Impact on fair value of 10% adverse change	\$ (374)	\$ (1,620)
Impact on fair value of 20% adverse change	\$ (3,809)	\$ (2,924)
Weighted average discount rate (annual rate)	11.0%	10.7%
Impact on fair value of 10% adverse change	\$ (1,244)	\$ (1,603)
Impact on fair value of 20% adverse change	\$ (5,408)	\$ (2,877)

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 September 30, 2015, the Corporation serviced \$1.9 billion (December 31, 2014 - \$2.1 billion) in residential mortgage loans with credit recourse to the Corporation.

Under the GNMA securitizations, the Corporation, as servicer, has the right to repurchase (but not the obligation), at its option and without GNMA's prior authorization, any loan that is collateral for a GNMA guaranteed mortgage-backed security when certain delinquency criteria are met. At the time that individual loans meet GNMA's specified delinquency criteria and are eligible for repurchase, the Corporation is deemed to have regained effective control over these loans if the Corporation was the pool issuer. At September 30, 2015, the Corporation had recorded \$116 million in mortgage loans on its consolidated statements of financial condition related to this buy-back option program (December 31, 2014 - \$81 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 nine months ended September 30, 2015, the Corporation repurchased approximately \$ 68 million (September 30, 2014 - \$141 million) of mortgage loans under the GNMA buy-back option program. The determination to repurchase these loans was based on the economic benefits of the transaction, which results in a reduction of the servicing costs for these severely delinquent loans, mostly related to principal and interest advances. Furthermore, due to their guaranteed nature, the risk associated with the loans is minimal. The Corporation places these loans under its loss mitigation programs and once brought back to current status, these may be either retained in portfolio or re-sold in the secondary market.

Table of Contents**Note 16 Other real estate owned**

The following tables present the activity related to Other Real Estate Owned (OREO), for the quarters and nine months ended September 30, 2015 and 2014.

(In thousands)	For the quarter ended September 30, 2015				
	Non-covered		Covered		Total
	OREO	Non-covered	OREO	Covered	
	Commercial/	OREO	Commercial/	OREO	
Construction	Mortgage	Construction	Mortgage		
Balance at beginning of period	\$ 34,725	\$ 107,530	\$ 33,504	\$ 33,504	\$ 175,759
Write-downs in value	(668)	(1,843)	(640)	(640)	(3,151)
Additions	7,959	24,318	5,759	5,759	38,036
Sales	(3,190)	(12,402)	(2,922)	(2,922)	(18,514)
Other adjustments	(510)	(93)			(603)
Ending balance	\$ 38,316	\$ 117,510	\$ 35,701	\$ 35,701	\$ 191,527

(In thousands)	For the nine months ended September 30, 2015				
	Non-covered		Covered		Total
	OREO	Non-covered	OREO	Covered	
	Commercial/	OREO	Commercial/	OREO	
Construction	Mortgage	Construction	Mortgage		
Balance at beginning of period	\$ 38,983	\$ 96,517	\$ 85,394	\$ 44,872	\$ 265,766
Write-downs in value	(10,717)	(5,678)	(20,350)	(3,315)	(40,060)
Additions	12,787	63,925	9,661	20,019	106,392
Sales	(17,485)	(39,731)	(59,749)	(22,550)	(139,515)
Other adjustments	244	(615)	(452)	(233)	(1,056)
Transfer to non-covered status ^[1]	14,504	3,092	(14,504)	(3,092)	
Ending balance	\$ 38,316	\$ 117,510	\$ 35,701	\$ 35,701	\$ 191,527

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

During the second quarter of 2015, the Corporation completed a bulk sale of \$37 million of covered OREOs.

(In thousands)	For the quarter ended September 30, 2014				Total
	Non-covered		Covered		
	OREO	OREO	OREO	OREO	
	Commercial/	Mortgage	Commercial/	Mortgage	

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	Construction		Construction		
Balance at beginning of period	\$ 49,787	\$ 89,633	\$ 107,905	\$ 47,900	\$ 295,225
Write-downs in value	(2,714)	(1,844)	(5,839)	(2,222)	(12,619)
Additions	2,853	15,787	10,693	7,276	36,609
Sales	(5,148)	(13,008)	(7,077)	(7,057)	(32,290)
Other adjustments	(1)	(89)	(812)	615	(287)
Ending balance	\$ 44,777	\$ 90,479	\$ 104,870	\$ 46,512	\$ 286,638

For the nine months ended September 30, 2014

(In thousands)	Non-covered		Covered		Total
	OREO Commercial/ Construction	Non-covered OREO Mortgage	OREO Commercial/ Construction	Covered OREO Mortgage	
Balance at beginning of period	\$ 48,649	\$ 86,852	\$ 120,215	\$ 47,792	\$ 303,508
Write-downs in value	(3,499)	(2,952)	(17,037)	(3,369)	(26,857)
Additions	13,824	46,070	46,147	15,870	121,911
Sales	(15,482)	(37,274)	(40,290)	(13,211)	(106,257)
Other adjustments	1,285	(2,217)	(4,165)	(570)	(5,667)
Ending balance	\$ 44,777	\$ 90,479	\$ 104,870	\$ 46,512	\$ 286,638

Table of Contents**Note 17 Other assets**

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

(In thousands)	September 30, 2015	December 31, 2014
Net deferred tax assets (net of valuation allowance)	\$ 1,271,410	\$ 812,819
Investments under the equity method	228,214	225,625
Prepaid taxes	191,913	198,120
Other prepaid expenses	83,873	84,079
Derivative assets	16,750	25,362
Trades receivable from brokers and counterparties	125,625	66,949
Others	303,269	233,489
 Total other assets	 \$ 2,221,054	 \$ 1,646,443

Prepaid taxes at September 30, 2015 and December 31, 2014 includes a payment of \$45 million in income taxes in connection with the Closing Agreement signed with the Puerto Rico Department of Treasury on June 30, 2014.

As discussed in Note 36, the corporation recorded during the quarter ended June 30, 2015 a partial reversal of the valuation allowance on its deferred tax assets from its U.S. operations for approximately \$545 million.

Table of Contents**Note 18 Goodwill and other intangible assets*****Goodwill***

The changes in the carrying amount of goodwill for the nine months ended September 30, 2015 and 2014, allocated by reportable segments, were as follows (refer to Note 38 for the definition of the Corporation's reportable segments):

(In thousands)	2015				
	Balance at January 1, 2015	Goodwill on acquisition	Purchase accounting adjustments	Other	Balance at September 30, 2015
Banco Popular de Puerto Rico	\$ 250,109	\$ 3,899	\$ (3,385)	\$	\$ 250,623
Banco Popular North America	215,567	38,735			254,302
Total Popular, Inc.	\$ 465,676	\$ 42,634	\$ (3,385)	\$	\$ 504,925

(In thousands)	2014					
	Balance at January 1, 2014	Goodwill on acquisition	Purchase accounting adjustments	Goodwill written-off related to discontinued operations	Other	Balance at September 30, 2014
Banco Popular de Puerto Rico	\$ 245,679	\$	\$	\$	\$	\$ 245,679
Banco Popular North America	402,078			(186,511)		215,567
Total Popular, Inc.	\$ 647,757	\$	\$	\$ (186,511)	\$	\$ 461,246

The goodwill acquired during 2015 in the reportable segments of Banco Popular de Puerto Rico and Banco Popular North America of \$2.9 million, after considering purchase accounting adjustments, and \$38.7 million, respectively, was related to the Doral Bank Transaction. During the nine months ended September 30, 2015, the Corporation recorded adjustments to its initial fair value estimates resulting in a net reduction of the goodwill recorded in connection with the Doral Bank Transaction of approximately \$1.0 million. Refer to Note 5, Business Combination, for additional information. In addition, the Corporation recorded purchase accounting adjustments to reduce the goodwill related to the acquisition of an insurance benefits business during the year ended December 31, 2014 by approximately \$2.4 million.

Other Intangible Assets

At September 30, 2015 and December 31, 2014, the Corporation had \$ 6 million of identifiable intangible assets, with indefinite useful lives, mostly associated with E-LOAN's trademark.

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

(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
September 30, 2015			
Core deposits	\$ 74,302	\$ 37,424	\$ 36,878
Other customer relationships	37,665	9,264	28,401
Total other intangible assets	\$ 111,967	\$ 46,688	\$ 65,279
December 31, 2014			
Core deposits	\$ 50,679	\$ 32,006	\$ 18,673
Other customer relationships	19,452	6,644	12,808
Total other intangible assets	\$ 70,131	\$ 38,650	\$ 31,481

During the first quarter of 2015, the Corporation also acquired \$23.6 million in core deposit intangibles related to the Doral Bank Transaction. During the second quarter of 2015, the Corporation acquired the Doral Insurance Agency portfolio, as part of a separate bidding process after Doral Financial Corporation filed for bankruptcy. As a result of this acquisition, the Corporation recorded \$17.3 million in customer relationship intangibles.

During the quarter ended September 30, 2015, the Corporation recognized \$ 3.5 million in amortization expense related to other intangible assets with definite useful lives (September 30, 2014 - \$ 2.0 million). During the nine months ended September 30, 2015, the Corporation recognized \$ 8.5 million in amortization related to other intangible assets with definite useful lives (September 30, 2014 - \$ 6.1 million).

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

(In thousands)	
Remaining 2015	\$ 3,419
Year 2016	13,414
Year 2017	10,665
Year 2018	10,573
Year 2019	10,330
Year 2020	6,131

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

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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 2015 using July 31, 2015 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 11.64% to 15.52% for the 2015 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.

For BPNA reporting unit, the average estimated fair value calculated in Step 1 using all valuation methodologies exceeded BPNA's equity value by approximately \$92 million in the July 31, 2015 annual test and by \$205 million in the July 31, 2014 annual test. Accordingly, there is no indication of impairment on the goodwill recorded in BPNA at July 31, 2015 and there is no need for a Step 2 analysis.

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For the BPPR reporting unit, the average estimated fair value calculated in Step 1 using all valuation methodologies exceeded BPPR's equity value by approximately \$180 million in the July 31, 2015 annual test as compared with approximately \$337 million at July 31, 2014. This result indicates there is no indication of impairment on the goodwill recorded in BPPR at July 31, 2015. The goodwill balance of BPPR and BPNA, as legal entities, represented approximately 96% of the Corporation's total goodwill balance as of the July 31, 2015 valuation date.

Furthermore, as part of the analyses, management performed a reconciliation of the aggregate fair values determined for the reporting units to the market capitalization of Popular, Inc. concluding that the fair value results determined for the reporting units in the July 31, 2015 annual assessment were reasonable.

The goodwill impairment evaluation process requires the Corporation to make estimates and assumptions with regard to the fair value of the reporting units. Actual values may differ significantly from these estimates. Such differences could result in future impairment of goodwill that would, in turn, negatively impact the Corporation's results of operations and the reporting units where the goodwill is recorded. Declines in the Corporation's market capitalization could increase the risk of goodwill impairment in the future.

Management monitors events or changes in circumstances between annual tests to determine if these events or changes in circumstances would more likely than not reduce the fair value of a reporting unit below its carrying amount.

The following table presents the gross amount of goodwill and accumulated impairment losses by reportable segments.

(In thousands)	September 30, 2015					
	Balance at January 1, 2015 (gross amounts)	Accumulated impairment losses	Balance at January 1, 2015 (net amounts)	Balance at September 30, 2015 (gross amounts)	Accumulated impairment losses	Balance at September 30, 2015 (net amounts)
Banco Popular de Puerto Rico	\$ 250,109	\$	\$ 250,109	\$ 250,623	\$	\$ 250,623
Banco Popular North America	379,978	164,411	215,567	418,713	164,411	254,302
Total Popular, Inc.	\$ 630,087	\$ 164,411	\$ 465,676	\$ 669,336	\$ 164,411	\$ 504,925

(In thousands)	December 31, 2014					
	Balance at January 1, 2014 (gross amounts)	Accumulated impairment losses	Balance at January 1, 2014 (net amounts)	Balance at December 31, 2014 (gross amounts)	Accumulated impairment losses	Balance at December 31, 2014 (net amounts)
Banco Popular de Puerto Rico	\$ 245,679	\$	\$ 245,679	\$ 250,109	\$	\$ 250,109
Banco Popular North America	566,489	164,411	402,078	379,978	164,411	215,567

Total Popular, Inc.	\$ 812,168	\$ 164,411	\$ 647,757	\$ 630,087	\$ 164,411	\$ 465,676
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Goodwill Impairment Test – U.S. Regional Sales

As discussed in Note 4, Discontinued Operations, on April 22, 2014, BPNA entered into definitive agreements to sell its regional operations in California, Illinois and Central Florida to three different buyers. In connection with the transactions, the Corporation has centralized certain back office operations in Puerto Rico and New York. During the second quarter of 2014, the assets and liabilities for those regions were reclassified as held-for-sale in accordance with ASC 360-10-45. As a result of the reclassification, and in accordance with ASC 350-20-40, BPNA allocated a proportionate share of the goodwill balance to the discontinued businesses on a relative fair value basis and performed an impairment test for the goodwill allocated to each of the discontinued operations as well as for retained business, each as a separate reporting unit. This allocation of goodwill and related impairment analysis resulted in an impairment charge of \$186.5 million during the second quarter of 2014. The goodwill impairment charge is a non-cash charge that did not have an impact on the Corporation's tangible capital or regulatory capital ratios. The goodwill impairment analysis of the retained portion of the BPNA operations resulted in no impairment as of June 30, 2014.

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The methodology used to determine the relative value of the regions sold and the retained portion of the BPNA reporting unit for purpose of the goodwill allocation among these reporting units takes into consideration the fair value estimates resulting from a combination of: (1) the average price to tangible book multiple based on a regression analysis of the projected return on equity for comparable companies, (2) the average price to revenue multiple based on a regression analysis of the projected revenue margin for comparable companies, and (3) the average price to earnings multiple based on comparable companies. After allocating the carrying amount of goodwill to the regions sold and the retained portion, the Corporation performed the goodwill impairment test of ASC 350-20 to each region sold and to the retained business reporting unit. The fair value of each region was based on the transaction price agreed with the buyers as part of the Step 2 of the goodwill impairment analysis. This fair value was compared to the fair value of the assets and liabilities sold including any unrecognized intangible asset. The goodwill impairment analysis of the regions sold indicated that all the goodwill allocated to each region sold was impaired, and accordingly, the Corporation recorded an impairment charge of \$186.5 million during the second quarter of 2014.

Table of Contents**Note 19 Deposits**

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

(In thousands)	September 30, 2015	December 31, 2014
Savings accounts	\$ 7,014,907	\$ 6,737,370
NOW, money market and other interest bearing demand deposits	5,526,306	4,811,972
Total savings, NOW, money market and other interest bearing demand deposits	12,541,213	11,549,342
Certificates of deposit:		
Under \$100,000	4,221,449	4,211,180
\$100,000 and over	3,879,825	3,263,265
Total certificates of deposit	8,101,274	7,474,445
Total interest bearing deposits	\$ 20,642,487	\$ 19,023,787

A summary of certificates of deposit by maturity at September 30, 2015 follows:

(In thousands)	
2015	\$ 2,064,999
2016	3,172,360
2017	972,285
2018	646,645
2019	429,969
2020 and thereafter	815,016
Total certificates of deposit	\$ 8,101,274

At September 30, 2015, the Corporation had brokered deposits amounting to \$ 1.6 billion (December 31, 2014 - \$ 1.9 billion).

The aggregate amount of overdrafts in demand deposit accounts that were reclassified to loans was \$13 million at September 30, 2015 (December 31, 2014 - \$9 million).

Table of Contents**Note 20 Borrowings**

The following table presents the composition of fed funds purchased and assets sold under agreements to repurchase at September 30, 2015 and December 31, 2014.

(In thousands)	September 30, 2015	December 31, 2014
Federal funds purchased	\$	\$ 100,000
Assets sold under agreements to repurchase	1,085,765	1,171,657
Total federal funds purchased and assets sold under agreements to repurchase	\$ 1,085,765	\$ 1,271,657

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

Repurchase agreements accounted for as secured borrowings

(In thousands)	September 30, 2015 Repurchase liability	December 31, 2014 Repurchase liability
U.S. Treasury Securities		
Within 30 days	\$ 923	\$
After 90 days	43,341	
Total U.S. Treasury Securities	44,264	
Obligations of U.S. government sponsored entities		
Overnight	30,425	
Within 30 days	261,711	289,545
After 30 to 90 days	129,040	25,761
After 90 days	355	420,176
Total obligations of U.S. government sponsored entities	421,531	735,482
Obligations of Puerto Rico, states and political subdivisions		
Overnight		23,397
Within 30 days	8,006	5,199

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Total Obligations of Puerto Rico, states and political subdivisions	8,006	28,596
Mortgage-backed securities		
Overnight	4,272	4,850
Within 30 days	80,737	54,311
After 30 to 90 days	149,275	
After 90 days	326,849	195,629
Total mortgage-backed securities	561,133	254,790
Collateralized mortgage obligations		
Within 30 days	33,704	16,700
After 30 to 90 days	1,149	55,338
After 90 days	12,210	71,281
Total collateralized mortgage obligations	47,063	143,319
Other		
Overnight		1,353
Within 30 days	3,768	8,117
Total other	3,768	9,470
Total	\$ 1,085,765	\$ 1,171,657

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Repurchase agreements in portfolio are generally short-term, often overnight and Popular acts as borrowers transferring assets to the counterparty. As such our risk is very limited. We manage the liquidity risks arising from secured funding by sourcing funding globally from a diverse group of counterparties, providing a range of securities collateral and pursuing longer durations, when appropriate.

The following table presents the composition of other short-term borrowings at September 30, 2015 and December 31, 2014.

(In thousands)	September 30, 2015	December 31, 2014
Advances with the FHLB paying interest at maturity	\$	\$ 20,000
Others	1,200	1,200
Total other short-term borrowings	\$ 1,200	\$ 21,200

Note: Refer to the Corporation's 2014 Annual Report for rates information at December 31, 2014.

The following table presents the composition of notes payable at September 30, 2015 and December 31, 2014.

(In thousands)	September 30, 2015	December 31, 2014
Advances with the FHLB with maturities ranging from 2015 through 2029 paying interest at monthly fixed rates ranging from 0.41% to 4.19%	\$ 765,485	\$ 802,198
Unsecured senior debt securities maturing on 2019 paying interest semiannually at a fixed rate of 7.00%	450,000	450,000
Junior subordinated deferrable interest debentures (related to trust preferred securities) with maturities ranging from 2027 to 2034 with fixed interest rates ranging from 6.125% to 8.327% (Refer to Note 22)	439,799	439,800
Others	19,227	19,830
Total notes payable	\$ 1,674,511	\$ 1,711,828

Note: Refer to the Corporation's 2014 Annual Report for rates information at December 31, 2014.

A breakdown of borrowings by contractual maturities at September 30, 2015 is included in the table below.

(In thousands)	Assets sold under agreements to repurchase	Short-term borrowings	Notes payable	Total
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Year				
2015	\$	703,010	\$ 1,200	\$ 18,315 \$ 722,525
2016		382,755		253,536 636,291
2017				85,645 85,645
2018				139,400 139,400
2019				525,664 525,664
Later years				651,951 651,951
Total borrowings	\$	1,085,765	\$ 1,200	\$ 1,674,511 \$ 2,761,476

Table of Contents**Note 21 Offsetting of financial assets and liabilities**

The following tables present the potential effect of rights of setoff associated with the Corporation's recognized financial assets and liabilities at September 30, 2015 and December 31, 2014.

(In thousands)	As of September 30, 2015			Gross Amounts Not Offset in the Statement of Financial Position			
	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Financial Instruments	Securities Collateral Received	Cash Collateral Received	Net Amount
Derivatives	\$ 16,750	\$	\$ 16,750	\$ 109	\$	\$	\$ 16,641
Reverse repurchase agreements	145,263		145,263		145,263		
Total	\$ 162,013	\$	\$ 162,013	\$ 109	\$ 145,263	\$	\$ 16,641

(In thousands)	As of September 30, 2015			Gross Amounts Not Offset in the Statement of Financial Position			
	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Financial Instruments	Securities Collateral Pledged	Cash Collateral Pledged	Net Amount
Derivatives	\$ 15,302	\$	\$ 15,302	\$ 109	\$ 5,408	\$	\$ 9,785
Repurchase agreements	1,085,765		1,085,765		1,085,765		
Total	\$ 1,101,067	\$	\$ 1,101,067	\$ 109	\$ 1,091,173	\$	\$ 9,785

(In thousands)	As of December 31, 2014			Gross Amounts Not Offset in the Statement of Financial Position			
	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Financial Instruments	Securities Collateral Pledged	Cash Collateral Pledged	Net Amount

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	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Financial Instruments	Securities Collateral Received	Cash Collateral Received	Net Amount
Derivatives	\$ 25,361	\$	\$ 25,361	\$ 320	\$	\$	\$ 25,041
Reverse repurchase agreements	151,134		151,134		151,134		
Total	\$ 176,495	\$	\$ 176,495	\$ 320	\$ 151,134	\$	\$ 25,041

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	As of December 31, 2014				Gross Amounts Not Offset in the Statement of Financial Position		
			Net Amounts of Liabilities Presented in the Statement of Financial Position	Financial Instruments	Securities Collateral Pledged	Cash Collateral Received	Net Amount
(In thousands)	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Financial Position				
Derivatives	\$ 23,032	\$	\$ 23,032	\$ 320	\$ 8,781	\$	\$ 13,931
Repurchase agreements	1,171,657		1,171,657		1,171,657		
Total	\$ 1,194,689	\$	\$ 1,194,689	\$ 320	\$ 1,180,438	\$	\$ 13,931

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

Table of Contents**Note 22 Trust preferred securities**

At September 30, 2015 and December 31, 2014, statutory trusts established by the Corporation (BanPonce Trust I, Popular Capital Trust I, Popular North America Capital Trust I and Popular Capital Trust II) had issued trust preferred securities (also referred to as capital securities) to the public. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts (the common securities), were used by the trusts to purchase junior subordinated deferrable interest debentures (the junior subordinated debentures) issued by the Corporation.

The sole assets of the trusts consisted of the junior subordinated debentures of the Corporation and the related accrued interest receivable. These trusts are not consolidated by the Corporation pursuant to accounting principles generally accepted in the United States of America.

The junior subordinated debentures are included by the Corporation as notes payable in the consolidated statements of financial condition, while the common securities issued by the issuer trusts are included as other investment securities. The common securities of each trust are wholly-owned, or indirectly wholly-owned, by the Corporation.

The following table presents financial data pertaining to the different trusts at September 30, 2015 and December 31, 2014.

(Dollars in thousands)

Issuer	BanPonce Trust I	Popular Capital Trust I	Popular North America Capital Trust I	Popular Capital Trust II
Capital securities	\$ 52,865	\$ 181,063	\$ 91,651	\$ 101,023
Distribution rate	8.327%	6.700%	6.564%	6.125%
Common securities	\$ 1,637	\$ 5,601	\$ 2,835	\$ 3,125
Junior subordinated debentures aggregate liquidation amount	\$ 54,502	\$ 186,664	\$ 94,486	\$ 104,148
Stated maturity date	February 2027	November 2033	September 2034	December 2034
Reference notes	[1],[3],[6]	[2],[4],[5]	[1],[3],[5]	[2],[4],[5]

- [1] Statutory business trust that is wholly-owned by Popular North America and indirectly wholly-owned by the Corporation.
- [2] Statutory business trust that is wholly-owned by the Corporation.
- [3] The obligations of PNA under the junior subordinated debentures and its guarantees of the capital securities under the trust are fully and unconditionally guaranteed on a subordinated basis by the Corporation to the extent set forth in the applicable guarantee agreement.
- [4] These capital securities are fully and unconditionally guaranteed on a subordinated basis by the Corporation to the extent set forth in the applicable guarantee agreement.
- [5] The Corporation has the right, subject to any required prior approval from the Federal Reserve, to redeem after certain dates or upon the occurrence of certain events mentioned below, the junior subordinated debentures at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest to the date of

redemption. The maturity of the junior subordinated debentures may be shortened at the option of the Corporation prior to their stated maturity dates (i) on or after the stated optional redemption dates stipulated in the agreements, in whole at any time or in part from time to time, or (ii) in whole, but not in part, at any time within 90 days following the occurrence and during the continuation of a tax event, an investment company event or a capital treatment event as set forth in the indentures relating to the capital securities, in each case subject to regulatory approval.

[6] Same as [5] above, except that the investment company event does not apply for early redemption.

The Basel III Capital Rules require that capital instruments such as trust preferred securities be phased-out of Tier 1 capital. The Corporation's capital components at September 30, 2015 included \$ 427 million of trust preferred securities that are subject to the phase-out provisions of the Basel III Capital Rules. The Corporation is allowed to include only 25% of such trust preferred securities in Tier I capital as of January 1, 2015 and would be allowed 0% as of January 1, 2016 and thereafter. The Basel III Capital Rules also permanently grandfathered as Tier 2 capital such trust preferred securities.

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Note 23 Stockholders equity

During the quarter ended September 30, 2015 the Corporation declared a cash dividend of \$0.15 per share on its outstanding common stock, which was paid on October 7, 2015 to shareholders of record at the close of business on September 29, 2015. This represents a payout of approximately \$15.5 million and is the first cash dividend the Corporation pays to its shareholders since April 2009.

BPPR statutory reserve

The Banking Act of the Commonwealth of Puerto Rico requires that a minimum of 10% of BPPR's net income for the year be transferred to a statutory reserve account until such statutory reserve equals the total of paid-in capital on common and preferred stock. Any losses incurred by a bank must first be charged to retained earnings and then to the reserve fund. Amounts credited to the reserve fund may not be used to pay dividends without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The failure to maintain sufficient statutory reserves would preclude BPPR from paying dividends. BPPR's statutory reserve fund amounted to \$469 million at September 30, 2015 (December 31, 2014 - \$469 million). There were no transfers between the statutory reserve account and the retained earnings account during the quarters and nine months ended September 30, 2015 and September 30, 2014.

Table of Contents**Note 24 Other comprehensive loss**

The following table presents changes in accumulated other comprehensive loss by component for the quarters and nine months ended September 30, 2015 and 2014.

		Changes in Accumulated Other Comprehensive Loss by Component [1]			
		Quarters ended		Nine months ended	
		September 30,		September 30,	
(In thousands)		2015	2014	2015	2014
Foreign currency translation	Beginning Balance	\$ (34,505)	\$ (31,099)	\$ (32,832)	\$ (36,099)
	Other comprehensive (loss) income before reclassifications	(31)	98	(1,704)	(2,620)
	Amounts reclassified from accumulated other comprehensive loss				7,718
	Net change	(31)	98	(1,704)	5,098
	Ending balance	\$ (34,536)	\$ (31,001)	\$ (34,536)	\$ (31,001)
Adjustment of pension and postretirement benefit plans	Beginning Balance	\$ (200,215)	\$ (102,867)	\$ (205,187)	\$ (104,302)
	Amounts reclassified from accumulated other comprehensive loss for amortization of net losses	3,064	1,298	9,195	3,891
	Amounts reclassified from accumulated other comprehensive loss for amortization of prior service cost	(579)	(580)	(1,738)	(1,738)
	Net change	2,485	718	7,457	2,153
	Ending balance	\$ (197,730)	\$ (102,149)	\$ (197,730)	\$ (102,149)
Unrealized net holding gains (losses) on investments	Beginning Balance	\$ 15,533	\$ 4,071	\$ 8,465	\$ (48,344)
	Other comprehensive income (loss) before reclassifications	27,435	(19,095)	22,548	33,320
	Other-than-temporary impairment amount reclassified from accumulated other			11,959	

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comprehensive income (loss)				
Amounts reclassified from accumulated other comprehensive income (loss)				
	(109)	(1,763)	(113)	(1,763)
Net change	27,326	(20,858)	34,394	31,557
Ending balance	\$ 42,859	\$ (16,787)	\$ 42,859	\$ (16,787)
Unrealized net losses on cash flow hedges				
Beginning Balance	\$ 156	\$ (396)	\$ (318)	\$
Other comprehensive loss before reclassifications				
	(1,571)	(417)	(2,505)	(3,024)
Amounts reclassified from accumulated other comprehensive (loss) income				
	1,016	683	2,424	2,894
Net change	(555)	266	(81)	(130)
Ending balance	\$ (399)	\$ (130)	\$ (399)	\$ (130)
Total	\$ (189,806)	\$ (150,067)	\$ (189,806)	\$ (150,067)

[1] All amounts presented are net of tax.

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The following table presents the amounts reclassified out of each component of accumulated other comprehensive loss during the quarters and nine months ended September 30, 2015 and 2014.

		Reclassifications Out of Accumulated Other Comprehensive Loss				
		Affected Line Item in the Consolidated Statements of Operations		Quarters ended September 30,		Nine months ended September 30,
(In thousands)			2015	2014	2015	2014
Foreign Currency Translation						
Cumulative translation adjustment reclassified into earnings	Other operating income		\$	\$	\$	\$ (7,718)
	Total before tax					(7,718)
	Total net of tax		\$	\$	\$	\$ (7,718)
Adjustment of pension and postretirement benefit plans						
Amortization of net losses	Personnel costs		\$ (5,025)	\$ (2,127)	\$ (15,075)	\$ (6,379)
Amortization of prior service cost	Personnel costs		950	950	2,850	2,850
	Total before tax		(4,075)	(1,177)	(12,225)	(3,529)
	Income tax benefit		1,590	459	4,768	1,376
	Total net of tax		\$ (2,485)	\$ (718)	\$ (7,457)	\$ (2,153)
Unrealized net holding gains (losses) on investments						
Realized loss on sale of securities	Other-than-temporary impairment losses on available-for-sale debt securities		\$	\$	\$ (14,445)	\$
	Net gain (loss) and valuation adjustments on investment securities		136	1,763	141	1,763
	Total before tax		136	1,763	(14,304)	1,763
	Income tax (expense) benefit		(27)		2,458	
	Total net of tax		\$ 109	\$ 1,763	\$ (11,846)	\$ 1,763
Unrealized net losses on cash flow hedges						
Forward contracts	Mortgage banking activities		\$ (1,664)	\$ (1,120)	\$ (3,973)	\$ (4,745)

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Total before tax	(1,664)	(1,120)	(3,973)	(4,745)
Income tax benefit (expense)	648	437	1,549	1,851
Total net of tax	\$ (1,016)	\$ (683)	\$ (2,424)	\$ (2,894)
Total reclassification adjustments, net of tax	\$ (3,392)	\$ 362	\$ (21,727)	\$ (11,002)

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At September 30, 2015, the Corporation recorded a liability of \$0.5 million (December 31, 2014 - \$0.4 million), which represents the unamortized balance of the obligations undertaken in issuing the guarantees under the standby letters of credit. Management does not anticipate any material losses related to these instruments.

From time to time, the Corporation securitized mortgage loans into guaranteed mortgage-backed securities subject to limited, and in certain instances, lifetime credit recourse on the loans that serve as collateral for the mortgage-backed securities. The Corporation has not sold any mortgage loans subject to credit recourse since 2009. At September 30, 2015, the Corporation serviced \$ 1.9 billion (December 31, 2014 - \$ 2.1 billion) in residential mortgage loans subject to credit recourse provisions, principally loans associated with FNMA and FHLMC residential mortgage loan securitization programs. In the event of any customer default, pursuant to the credit recourse provided, the Corporation is required to repurchase the loan or reimburse the third party investor for the incurred loss. The maximum potential amount of future payments that the Corporation would be required to make under the recourse arrangements in the event of nonperformance by the borrowers is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. During the quarter and nine months ended September 30, 2015, the Corporation repurchased approximately \$ 14 million and \$ 44 million, respectively, of unpaid principal balance in mortgage loans subject to the credit recourse provisions (September 30, 2014 - \$ 21 million and \$ 69 million, respectively). In the event of nonperformance by the borrower, the Corporation has rights to the underlying collateral securing the mortgage loan. The Corporation suffers ultimate losses on these loans when the proceeds from a foreclosure sale of the property underlying a defaulted mortgage loan are less than the outstanding principal balance of the loan plus any uncollected interest advanced and the costs of holding and disposing the related property. At September 30, 2015, the Corporation's liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to \$ 57 million (December 31, 2014 - \$ 59 million).

The following table shows the changes in the Corporation's liability of estimated losses related to loans serviced with credit recourse provisions during the quarters and nine month periods ended September 30, 2015 and 2014.

(In thousands)	Quarters ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Balance as of beginning of period	\$ 57,589	\$ 47,892	\$ 59,438	\$ 41,463
Provision for recourse liability	4,394	9,189	15,262	28,215
Net charge-offs	(4,927)	(5,885)	(17,644)	(18,482)
Balance as of end of period	\$ 57,056	\$ 51,196	\$ 57,056	\$ 51,196

The estimated losses to be absorbed under the credit recourse arrangements are recorded as a liability when the loans are sold or credit recourse is assumed as part of acquired servicing rights, 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 or other private investors 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. Repurchases under BPPR's representation and warranty arrangements for the nine months

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ended September 30, 2015 approximated \$175 thousand, in unpaid principal balance, with losses amounting to \$24 thousand, and \$ 2.2 million and \$ 1.6 million, respectively, for the same period of 2014. 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.

As discussed on Note 4 Discontinued operations, on November 8, 2014, the Corporation completed the sale of the California regional operations. In connection with this transaction, the Corporation agreed to provide, subject to certain limitations, customary indemnification to the purchaser, including with respect to certain pre-closing liabilities and violations of representations and warranties. The Corporation also agreed to indemnify the purchaser for up to 1.5% of credit losses on transferred loans for a period of two years after the closing. Pursuant to this indemnification provision, the Corporation's maximum exposure is approximately \$16.0 million. The Corporation recognized a reserve of approximately \$2.2 million, representing its best estimate of the loss that would be incurred in connection with this indemnification. This reserve is included within the liabilities from discontinued operations.

During the quarter ended June 30, 2013, the Corporation established a reserve for certain specific representation and warranties made in connection with BPPR's sale of non-performing mortgage loans. The purchaser's sole remedy under the indemnity clause is to seek monetary damages from BPPR, for a maximum of \$16.3 million. BPPR recognized a reserve of approximately \$3.0 million, representing its best estimate of the loss that would be incurred in connection with this indemnification. BPPR's obligations under this clause end one year after the closing except to any claim asserted prior to such termination date. At September 30, 2015, the Corporation has a reserve balance of \$3 million to cover claims received from the purchaser, which are currently being evaluated.

During the quarter ended March 31, 2013, the Corporation established a reserve for certain specific representations and warranties made in connection with BPPR's sale of commercial and construction loans, and commercial and single family real estate owned. The purchaser's sole remedy under the indemnity clause is to seek monetary damages from BPPR, for a maximum of \$18.0 million. BPPR is not required to repurchase any of the assets. BPPR recognized a reserve of approximately \$10.7 million, representing its best estimate of the loss that would be incurred in connection with this indemnification. During the first and second quarter of 2015, the Corporation released \$3.2 million and \$1.8 million, respectively, based on an evaluation of claims received under this clause. At September 30, 2015, the Corporation has a reserve balance of \$0.1 million to cover claims received from the purchaser.

The following table presents the changes in the Corporation's liability for estimated losses associated with indemnifications and representations and warranties related to loans sold by BPPR for the quarters and nine months ended September 30, 2015 and 2014.

(In thousands)	Quarters ended		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Balance as of beginning of period	\$ 6,062	\$ 15,919	\$ 15,959	\$ 19,277
Additions for new sales				
Provision (reversal) for representation and warranties	1,409	230	(6,199)	(1,235)
Net charge-offs	(14)	(7)	(53)	(1,900)
Settlements paid			(2,250)	
Balance as of end of period	\$ 7,457	\$ 16,142	\$ 7,457	\$ 16,142

In addition, at September 30, 2015, the Corporation has reserves for customary representations and warranties related to loans sold by its U.S. subsidiary E-LOAN prior to 2009. These loans were sold to investors on a servicing released basis subject to certain representation and warranties. Although the risk of loss or default was generally assumed by the investors, the Corporation made certain representations relating to borrower creditworthiness, loan documentation and collateral, which if not correct, may result in requiring the Corporation to repurchase the loans or indemnify investors for any related losses associated with these loans. At September 30, 2015, the Corporation's reserve for estimated losses from such representation and warranty arrangements amounted to \$ 4 million, which was included as part of other liabilities in the consolidated statement of financial condition (December 31, 2014 - \$ 5 million).

E-LOAN is no longer originating and selling loans since the subsidiary ceased these activities in 2008 and most of the outstanding agreements with major counterparties were settled during 2010 and 2011.

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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 September 30, 2015, the Corporation serviced \$ 20.9 billion in mortgage loans for third-parties, including the loans serviced with credit recourse (December 31, 2014 - \$ 15.6 billion). The Corporation generally recovers funds advanced pursuant to these arrangements from the mortgage owner, from liquidation proceeds when the mortgage loan is foreclosed or, in the case of FHA/VA loans, under the applicable FHA and VA insurance and guarantees programs. However, in the meantime, the Corporation must absorb the cost of the funds it advances during the time the advance is outstanding. The Corporation must also bear the costs of attempting to collect on delinquent and defaulted mortgage loans. In addition, if a defaulted loan is not cured, the mortgage loan would be canceled as part of the foreclosure proceedings and the Corporation would not receive any future servicing income with respect to that loan. At September 30, 2015, the outstanding balance of funds advanced by the Corporation under such mortgage loan servicing agreements was approximately \$102 million (December 31, 2014 - \$36 million). To the extent the mortgage loans underlying the Corporation's servicing portfolio experience increased delinquencies, the Corporation would be required to dedicate additional cash resources to comply with its obligation to advance funds as well as incur additional administrative costs related to increases in collection efforts.

Popular, Inc. Holding Company (PIHC) fully and unconditionally guarantees certain borrowing obligations issued by certain of its wholly-owned consolidated subsidiaries amounting to \$ 0.2 billion at September 30, 2015 (December 31, 2014 - \$ 0.2 billion). In addition, at September 30, 2015 and December 31, 2014, PIHC fully and unconditionally guaranteed on a subordinated basis \$ 0.4 billion and \$ 0.4 billion, respectively, of capital securities (trust preferred securities) issued by wholly-owned issuing trust entities to the extent set forth in the applicable guarantee agreement. Refer to Note 22 to the consolidated financial statements for further information on the trust preferred securities.

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

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

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

(In thousands)	September 30, 2015	December 31, 2014
Commitments to extend credit:		
Credit card lines	\$ 4,450,137	\$ 4,450,284
Commercial and construction lines of credit	2,313,111	2,415,843
Other consumer unused credit commitments	263,131	269,225
Commercial letters of credit	2,425	2,820
Standby letters of credit	47,552	46,362
Commitments to originate or fund mortgage loans	27,901	25,919

At September 30, 2015, the Corporation maintained a reserve of approximately \$12 million for potential losses associated with unfunded loan commitments related to commercial and consumer lines of credit, as compared to \$13 million at December 31, 2014.

Other commitments

At September 30, 2015, the Corporation also maintained other non-credit commitments for approximately \$9 million, primarily for the acquisition of other investments, as compared to \$9 million at December 31, 2014.

Business concentration

Since the Corporation's business activities are currently concentrated primarily in Puerto Rico, its results of operations and financial condition are dependent upon the general trends of the Puerto Rico economy and, in particular, the residential and commercial real estate markets. The concentration of the Corporation's operations in Puerto Rico exposes it to greater risk than other banking companies with a wider geographic base. Its asset and revenue composition by geographical area is presented in Note 38 to the consolidated financial statements.

At September 30, 2015, the Corporation's direct exposure to the Puerto Rico government and its instrumentalities and municipalities amounted to \$ 635 million, of which approximately \$ 579 million is outstanding (\$ 1.0 billion and \$

811 million, respectively, at December 31, 2014). Of the amount outstanding, \$ 498 million consists of loans and \$ 81 million are securities (\$ 689 million and \$ 122 million at December 31, 2014). Of this amount, \$ 82 million represents obligations from the Government of Puerto Rico and public corporations that have a specific source of income or revenues identified for their repayment (\$ 336 million at December 31, 2014). Some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services or products, such as public utilities. Public corporations have varying degrees of independence from the central Government and many receive appropriations or other payments from it. The remaining \$ 497 million outstanding represents obligations from various municipalities in Puerto Rico for which, in most cases, the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment (\$ 475 million at December 31, 2014). These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all of its general obligation bonds and loans. These loans have seniority to the payment of operating cost and expenses of the municipality. During the quarter ended June 30, 2015, the Corporation agreed to sell a \$75 million non-accrual public sector credit at BPPR (subject among other

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conditions, to the approval of the syndicate's agent bank, and accordingly transferred it to held-for-sale. The sale agreement was terminated on July 29, 2015 pursuant to its terms after the parties were not able to obtain the approval of the agent bank on terms acceptable to the assignee. However, at September 30, 2015, the loan remains classified as held-for-sale as the Corporation maintains its ability and intent to sell the loan.

The following table details the loans and investments representing the Corporation's direct exposure to the Puerto Rico government according to their maturities:

(In thousands)	Investment Portfolio	Loans	Total Outstanding	Total Exposure
Central Government				
Within 1 year	\$	\$	\$	\$ 794
After 1 to 5 years	868		868	868
After 5 to 10 years	3,044		3,044	3,044
After 10 years	13,940		13,940	13,940
Total Central Government	17,852		17,852	18,646
Government Development Bank (GDB)				
Within 1 year	2,752		2,752	2,752
After 1 to 5 years	1,812		1,812	1,812
After 5 to 10 years	571		571	571
Total Government Development Bank (GDB)	5,135		5,135	5,135
Public Corporations:				
Puerto Rico Aqueduct and Sewer Authority				
Within 1 year		15,000	15,000	45,690
After 10 years	480		480	480
Total Puerto Rico Aqueduct and Sewer Authority	480	15,000	15,480	46,170
Puerto Rico Electric Power Authority				
Within 1 year		43,625	43,625	45,002
After 10 years	23		23	23
Total Puerto Rico Electric Power Authority	23	43,625	43,648	45,025
Puerto Rico Highways and Transportation Authority				
After 5 to 10 years	4		4	4
Total Puerto Rico Highways and Transportation Authority	4		4	4
Municipalities				
Within 1 year	2,920	47,278	50,198	73,193
After 1 to 5 years	13,655	130,935	144,590	144,590

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After 5 to 10 years	20,020	138,187	158,207	158,207
After 10 years	20,325	123,372	143,697	143,697
Total Municipalities	56,920	439,772	496,692	519,687
Total Direct Government Exposure	\$ 80,414	\$ 498,397	\$ 578,811	\$ 634,667

In addition, at September 30, 2015, the Corporation had \$386 million in indirect exposure to loans or securities that are payable by non-governmental entities, but which carry a government guarantee to cover any shortfall in collateral in the event of borrower default (\$370 million at December 31, 2014). These included \$307 million in residential mortgage loans that are guaranteed by the Puerto Rico Housing Finance Authority (December 31, 2014 - \$289 million). These mortgage loans are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default. Also, the Corporation had \$50 million in Puerto Rico pass-through housing bonds backed by FNMA, GNMA or residential loans CMO s, and \$29 million of commercial real estate notes (\$49 million and \$32 million at December 31, 2014, respectively).

Since February 2014, the three principal rating agencies (Moody s, S&P and Fitch) have lowered their ratings on the General Obligation bonds of the Commonwealth and the bonds of several other Commonwealth instrumentalities to non-investment grade ratings. In connection with their rating actions, the rating agencies noted various factors, including high levels of public debt, the lack

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of a clear economic growth catalyst, recurring fiscal budget deficits, the financial condition of the public sector employee pension plans and, more recently, liquidity concerns regarding the Commonwealth and the GDB and their ability to access the capital markets. Currently, the Commonwealth's general obligation ratings are as follows: S&P, CC-, Moody's, Caa3, and Fitch, CC-.

During the second quarter of 2015, the Corporation recognized an other-than-temporary impairment charge of \$14.4 million on its portfolio of investment securities available-for-sale classified as obligations from the Puerto Rico government and its political subdivisions.

Other contingencies

As indicated in Note 13 to the consolidated financial statements, as part of the loss sharing agreements related to the Westernbank FDIC-assisted transaction, the Corporation agreed to make a true-up payment to the FDIC on the date that is 45 days following the last day of the final shared loss month, or upon the final disposition of all covered assets under the loss sharing agreements in the event losses on the loss sharing agreements fail to reach expected levels. The fair value of the true-up payment obligation was estimated at \$ 123 million at September 30, 2015 (December 31, 2014 - \$ 129 million).

Legal Proceedings

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

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

In certain cases, exposure to loss exists in excess of the accrual to the extent such loss is reasonably possible, but not probable. Management believes and estimates that the aggregate range of reasonably possible losses (with respect to those matters where such limits may be determined, in excess of amounts accrued), for current legal proceedings ranges from \$0 to approximately \$27 million as of September 30, 2015. For certain other cases, management cannot reasonably estimate the possible loss at this time. Any estimate involves significant judgment, given the varying stages of the proceedings (including the fact that many of them are currently in preliminary stages), the existence of multiple defendants in several of the current proceedings whose share of liability has yet to be determined, the numerous unresolved issues in many of the proceedings, and the inherent uncertainty of the various potential outcomes of such proceedings. Accordingly, management's estimate will change from time-to-time, and actual losses may be more or less than the current estimate.

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

Corporation's consolidated financial position in a particular period.

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

PCB has been named a defendant in a putative class action complaint captioned *Josefina Valle, et al. v. Popular Community Bank*, filed in November 2012 in the New York State Supreme Court (New York County). Plaintiffs, existing PCB customers, allege among other things that PCB has engaged in unfair and deceptive acts and trade practices in connection with the assessment of overdraft fees and payment processing on consumer deposit accounts. The complaint further alleges that PCB improperly disclosed its consumer overdraft policies and, additionally, that the overdraft rates and fees assessed by PCB violate New York's usury laws. The complaint seeks unspecified damages, including punitive damages, interest, disbursements, and attorneys' fees and costs.

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PCB removed the case to federal court (S.D.N.Y.) and plaintiffs subsequently filed a motion to remand the action to state court, which the Court granted on August 6, 2013. A motion to dismiss was filed on September 9, 2013. On October 25, 2013, plaintiffs filed an amended complaint seeking to limit the putative class to New York account holders. A motion to dismiss the amended complaint was filed in February 2014. In August 2014, the Court entered an order granting in part PCB's motion to dismiss. The sole surviving claim relates to PCB's item processing policy. On September 10, 2014, plaintiffs filed a motion for leave to file a second amended complaint to correct certain deficiencies noted in the court's decision and order. PCB subsequently filed a motion in opposition to plaintiff's motion for leave to amend and further sought to compel arbitration. In June 2015, this matter was reassigned to a new judge and on July 22, 2015, such Court denied PCB's motion to compel arbitration and granted plaintiffs' motion for leave to amend the complaint to replead certain claims based on item processing reordering, misstatement of balance information and failure to notify customers in advance of potential overdrafts. The Court did not, however, allow plaintiffs to replead their claim for the alleged breach of the implied covenant of good faith and fair dealing. On August 12, 2015, the Plaintiffs filed a second amended complaint. On August 24, 2015, PCB filed a Notice of Appeal as to the order granting leave to file the second amended complaint and on September 17, 2015, it filed a motion to dismiss the second amended complaint. On October 7, 2015, PCB renewed its motion to compel arbitration.

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

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

order dated March 30, 2015, the court granted defendants' motion to transfer. On May 8, 2015, plaintiffs filed an amended complaint in the Southern District of New York containing virtually identical allegations with respect to Popular Securities and BPPR. Defendants filed motions to dismiss the amended complaint on June 18, 2015. Such motions remain pending to date.

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

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Popular was a directed trustee, and therefore a fiduciary, of the RadioShack Puerto Rico 1165(e) Plan (P.R. Plan). Even though the P.R. Plan directed Popular to retain RadioShack company stock within the portfolio of investment options, the complaint alleges that a trustee's duty of prudence requires it to disregard plan documents or directives that it knows or reasonably should know would lead to an imprudent result or would otherwise harm plan participants or beneficiaries. It further alleges that Popular breached its fiduciary duties by (i) failing to take any meaningful steps to protect plan participants from losses that it knew would occur; (ii) failing to divest the P.R. Plan of Company Stock; and (iii) participating in the decisions of another trustee (Wells Fargo) to protect the Plans from inevitable losses.

Other Matters

The volatility in prices and declines in value that Puerto Rico municipal bonds and closed-end investment companies that invest primarily in Puerto Rico municipal bonds have experienced since August 2013 have led to regulatory inquiries, customer complaints and arbitrations for most broker-dealers in Puerto Rico, including Popular Securities, a wholly owned subsidiary of the Corporation. Popular Securities has received customer complaints and is named as a respondent (among other broker-dealers) in 46 arbitration proceedings with aggregate claimed damages of approximately \$99 million, including one arbitration with claimed damages of \$78 million in which two other Puerto Rico broker-dealers are co-defendants. The proceedings are in their early stages and it is the view of the Corporation that Popular Securities has meritorious defenses to the claims asserted. The Government's recent announcements regarding its ability to pay its debt and intention to pursue a comprehensive debt restructuring, together with the market reaction to it, may increase the number of customer complaints (and claimed damages) against Popular Securities concerning Puerto Rico municipal bonds and closed-end investment companies that invest primarily in Puerto Rico municipal bonds. An adverse result in the matters described above or a significant increase in customer complaints could have a material and adverse effect on Popular Securities.

Other Significant Proceedings

As described under Note 13 FDIC loss share asset and true-up payment obligation, in connection with the Westernbank FDIC-assisted transaction, on April 30, 2010, BPPR entered into loss share agreements with the FDIC with respect to the covered loans and other real estate owned that it acquired in the transaction. Pursuant to the terms of the loss share agreements, the FDIC's obligation to reimburse BPPR for losses with respect to covered assets begins with the first dollar of loss incurred. The FDIC reimburses BPPR for 80% of losses with respect to covered assets, and BPPR reimburses the FDIC for 80% of recoveries with respect to losses for which the FDIC paid 80% reimbursement under those loss share agreements. The loss share agreements contain specific terms and conditions regarding the management of the covered assets that BPPR must follow in order to receive reimbursement for losses from the FDIC. BPPR believes that it has complied with such terms and conditions. The loss share agreement applicable to the commercial late stage real-estate-collateral-dependent loans described below provides for loss sharing by the FDIC through the quarter ending June 30, 2015 and for reimbursement to the FDIC through the quarter ending June 30, 2018.

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

use a different methodology for those charge-offs. Notwithstanding the FDIC's refusal to reimburse BPPR for certain shared-loss claims, BPPR had continued to calculate shared-loss claims for quarters subsequent to June 30, 2012 in accordance with its charge-off policy for non-covered assets.

BPPR's loss share agreements with the FDIC specify that disputes can be submitted to arbitration before a review board under the commercial arbitration rules of the American Arbitration Association. On July 31, 2013, BPPR filed a statement of claim with the American Arbitration Association requesting that the review board determine certain matters relating to the loss-share claims under

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its commercial loss share agreement with the FDIC, including that the review board award BPPR the amounts owed under its unpaid quarterly certificates. The statement of claim also included requests for reimbursement of certain valuation adjustments for discounts to appraised values, costs to sell troubled assets and other items. The review board was comprised of one arbitrator appointed by BPPR, one arbitrator appointed by the FDIC and a third arbitrator selected by agreement of those arbitrators.

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

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

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

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

BPPR disagrees with the FDIC's characterization of the November and December 2014 portfolio sale proposals and with the FDIC's interpretation of the commercial loss share agreement provision governing portfolio sales. Accordingly, on March 13, 2015, BPPR delivered to the FDIC a notice of dispute under the commercial loss share agreement. On June 8, 2015, BPPR filed a statement of claim with the American Arbitration Association requesting that a review board resolve the disputes concerning those proposed portfolio sales. On June 15, 2015, BPPR amended its statement of claim to include a claim for the FDIC-R's refusal to timely concur in the third sale proposed in March 2015. On June 29, 2015, the FDIC informed BPPR that it would reimburse the Bank for losses arising from the primary portfolio of the third proposed sale, but only subject to conditions to which BPPR objects. The FDIC also informed BPPR that it would not concur in the secondary portfolio of the third proposed sale or in the fourth proposed sale. On September 4, 2015, BPPR filed a second amended statement of claim concerning the FDIC's refusal to concur

in the third and fourth portfolio sales as proposed by BPPR. The review board in the arbitration concerning the proposed portfolio sales is comprised of one arbitrator appointed by BPPR, one arbitrator appointed by the FDIC and a third arbitrator selected by agreement of those arbitrators. The arbitration hearing is scheduled to be held in the fall of 2016.

The shared-loss arrangement described above expired on June 30, 2015. As of September 30, 2015, BPPR had unreimbursed loss claims related to the commercial loss-sharing arrangement amounting to \$232 million, reflected in the FDIC indemnification asset as a receivable from the FDIC, which include approximately \$90 million related to losses claimed during the second quarter of 2015 and approximately \$142 million which are subject to the arbitration proceedings described above. This last figure may continue to increase to the extent that the assets that are the subject of the portfolio sales arbitration further decline in value. Until these disputes are finally resolved, the terms of the commercial loss share agreement will remain in effect with respect to any such items under dispute. No assurance can be given that we will receive reimbursement from the FDIC with respect to the foregoing items, which could require us to make a material adjustment to the value of our loss share asset and the related true up payment obligation to the FDIC and could have a material adverse effect on our financial results for the period in which such adjustment is taken.

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The loss sharing agreement applicable to single-family residential mortgage loans provides for FDIC loss sharing and BPPR reimbursement to the FDIC for ten years (ending on June 30, 2020), and the loss sharing agreement applicable to commercial and other assets provides for FDIC loss sharing and BPPR reimbursement to the FDIC for five years (ending on June 30, 2015), with additional recovery sharing for three years thereafter. As of September 30, 2015, the carrying value of covered loans approximated \$0.7 billion, mainly comprised of single-family residential mortgage loans. To the extent that estimated losses on covered loans are not realized before the expiration of the applicable loss sharing agreement, such losses would not be subject to reimbursement from the FDIC and, accordingly, would require us to make a material adjustment in the value of our loss share asset and the related true up payment obligation to the FDIC and could have a material adverse effect on our financial results for the period in which such adjustment is taken.

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

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

ASU 2009-17 requires that an ongoing primary beneficiary assessment should be made to determine whether the Corporation is the primary beneficiary of any of the VIEs it is involved with. The conclusion on the assessment of these trusts and guaranteed mortgage securitization transactions has not changed since their initial evaluation. The Corporation concluded that it is still not the primary beneficiary of these VIEs, and therefore, these VIEs are not required to be consolidated in the Corporation's financial statements at September 30, 2015.

The Corporation holds variable interests in these VIEs in the form of agency mortgage-backed securities and collateralized mortgage obligations, including those securities originated by the Corporation and those acquired from third parties. Additionally, the Corporation holds agency mortgage-backed securities, agency collateralized mortgage obligations and private label collateralized mortgage obligations issued by third party VIEs in which it has no other form of continuing involvement. Refer to Note 29 to the consolidated financial statements for additional information on the debt securities outstanding at September 30, 2015 and December 31, 2014, which are classified as available-for-sale and trading securities in the Corporation's consolidated statements of financial condition. In addition, the Corporation may retain the right to service the transferred loans in those government-sponsored special purpose entities (SPEs) and may also purchase the right to service loans in other government-sponsored SPEs that were transferred to those SPEs by a third-party. Pursuant to ASC Subtopic 810-10, the servicing fees that the Corporation receives for its servicing role are considered variable interests in the VIEs since the servicing fees are subordinated to the principal and interest that first needs to be paid to the mortgage-backed securities' investors and to the guaranty fees that need to be paid to the federal agencies.

The following table presents the carrying amount and classification of the assets related to the Corporation's variable interests in non-consolidated VIEs and the maximum exposure to loss as a result of the Corporation's involvement as servicer with non-consolidated VIEs at September 30, 2015 and December 31, 2014.

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(In thousands)	September 30, 2015	December 31, 2014
Assets		
Servicing assets:		
Mortgage servicing rights	\$ 160,570	\$ 103,828
Total servicing assets	\$ 160,570	\$ 103,828
Other assets:		
Servicing advances	\$ 33,700	\$ 8,974
Total other assets	\$ 33,700	\$ 8,974
Total assets	\$ 194,270	\$ 112,802
Maximum exposure to loss	\$ 194,270	\$ 112,802

The size of the non-consolidated VIEs, in which the Corporation has a variable interest in the form of servicing fees, measured as the total unpaid principal balance of the loans, amounted to \$12.9 billion at September 30, 2015 (December 31, 2014 - \$9.0 billion).

Maximum exposure to loss represents the maximum loss, under a worst case scenario, that would be incurred by the Corporation, as servicer for the VIEs, assuming all loans serviced are delinquent and that the value of the Corporation's interests and any associated collateral declines to zero, without any consideration of recovery. The Corporation determined that the maximum exposure to loss includes the fair value of the MSRs and the assumption that the servicing advances at September 30, 2015 and December 31, 2014, will not be recovered. The agency debt securities are not included as part of the maximum exposure to loss since they are guaranteed by the related agencies.

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

BPPR provided financing to the joint venture for the acquisition of the loans in an amount equal to the sum of 57 % of the purchase price of the loans, or \$84 million, and \$2 million of closing costs, for a total acquisition loan of \$86 million (the acquisition loan). The acquisition loan has a 5-year maturity and bears a variable interest at 30-day LIBOR plus 300 basis points and is secured by a pledge of all of the acquiring entity's assets. In addition, BPPR provided the joint venture with a non-revolving advance facility (the advance facility) of \$68.5 million to cover unfunded commitments and costs-to-complete related to certain construction projects, and a revolving working capital line (the working capital line) of \$20 million to fund certain operating expenses of the joint venture. Cash proceeds received by the joint venture are first used to cover debt service payments for the acquisition loan, advance facility, and the working capital line described above which must be paid in full before proceeds can be used for other purposes. The distributable cash proceeds are determined based on a pro-rata basis in accordance with the respective equity ownership percentages. BPPR's equity interest in the joint venture ranks pari-passu with those of other parties involved. As part of the transaction executed in September 2011, BPPR received \$48 million in cash and a 24.9 %

equity interest in the joint venture. The Corporation is not required to provide any other financial support to the joint venture.

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

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

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

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The initial fair value of the Corporation's equity interest in the joint venture was determined based on the fair value of the loans and real estate owned transferred to the joint venture of \$148 million which represented the purchase price of the loans agreed by the parties and was an arm's-length transaction between market participants in accordance with ASC Topic 820, reduced by the acquisition loan provided by BPPR to the joint venture, for a total net equity of \$63 million. Accordingly, the 24.9% equity interest held by the Corporation was valued at \$16 million. Thus, the fair value of the equity interest is considered a Level 2 fair value measurement since the inputs were based on observable market inputs.

The following table presents the carrying amount and classification of the assets and liabilities related to the Corporation's variable interests in the non-consolidated VIE, PRLP 2011 Holdings, LLC, and its maximum exposure to loss at September 30, 2015 and December 31, 2014.

(In thousands)	September 30, 2015	December 31, 2014
Assets		
Loans held-in-portfolio:		
Advances under the working capital line	\$ 658	\$ 426
Advances under the advance facility	391	4,226
Total loans held-in-portfolio	\$ 1,049	\$ 4,652
Accrued interest receivable	\$ 11	\$ 22
Other assets:		
Investment in PRLP 2011 Holdings LLC	\$ 21,187	\$ 23,650
Total assets	\$ 22,247	\$ 28,324
Deposits	\$ (13,232)	\$ (2,685)
Total liabilities	\$ (13,232)	\$ (2,685)
Total net assets	\$ 9,015	\$ 25,639
Maximum exposure to loss	\$ 9,015	\$ 25,639

The Corporation determined that the maximum exposure to loss under a worst case scenario at September 30, 2015 would be not recovering the carrying amount of the acquisition loan, the advances on the advance facility and working capital line, if any, and the equity interest held by the Corporation, net of the deposits.

On March 25, 2013, BPPR completed a sale of assets with a book value of \$509.0 million, of which \$500.6 million were in non-performing status, comprised of commercial and construction loans, and commercial and single family real estate owned, with a combined unpaid principal balance on loans and appraised value of other real estate owned of approximately \$987.0 million to a newly created joint venture, PR Asset Portfolio 2013-1 International, LLC. The joint venture is majority owned by Caribbean Property Group LLC (CPG) and certain affiliates of Perella Weinberg Partners Asset Based Value Strategy. The joint venture was created for the limited purpose of acquiring the loans from BPPR; servicing the loans through a third-party servicer; ultimately working out, resolving and/or foreclosing the

loans; and indirectly owning, operating, constructing, developing, leasing and selling any real properties acquired by the joint venture through deed in lieu of foreclosure, foreclosure, or by resolution of any loan.

BPPR provided financing to the joint venture for the acquisition of the assets in an amount equal to the sum of 57 % of the purchase price of the assets, and closing costs, for a total acquisition loan of \$182.4 million (the acquisition loan). The acquisition loan has a 5-year maturity and bears a variable interest at 30-day LIBOR plus 300 basis points and is secured by a pledge of all of the acquiring entity s assets. In addition, BPPR provided the joint venture with a non-revolving advance facility (the advance facility) of \$35.0 million to cover unfunded commitments and costs-to-complete related to certain construction projects, and a revolving working capital line (the working capital line) of \$30.0 million to fund certain operating expenses of the joint venture. Cash proceeds received by the joint venture are first used to cover debt service payments for the acquisition loan, advance facility, and the working capital line described above which must be paid in full before proceeds can be used for other purposes. The distributable cash proceeds are determined based on a pro-rata basis in accordance with the respective equity ownership percentages. BPPR s equity interest in the joint venture ranks pari-passu with those of other parties involved. As part of the transaction executed in March 2013, BPPR received \$92.3 million in cash and a 24.9 % equity interest in the joint venture. The Corporation is not required to provide any other financial support to the joint venture.

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

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

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

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

The following table presents the carrying amount and classification of the assets and liabilities related to the Corporation's variable interests in the non-consolidated VIE, PR Asset Portfolio 2013-1 International, LLC, and its maximum exposure to loss at September 30, 2015 and December 31, 2014.

(In thousands)	September 30, 2015	December 31, 2014
Assets		
Loans held-in-portfolio:		
Acquisition loan	\$ 45,754	\$ 97,193
Advances under the working capital line	944	990
Advances under the advance facility	19,933	12,460
Total loans held-in-portfolio	\$ 66,631	\$ 110,643
Accrued interest receivable	\$ 210	\$ 314
Other assets:		
Investment in PR Asset Portfolio 2013-1 International, LLC	\$ 25,729	\$ 31,374
Total assets	\$ 92,570	\$ 142,331
Deposits	\$ (10,081)	\$ (12,960)

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Total liabilities	\$ (10,081)	\$ (12,960)
Total net assets	\$ 82,489	\$ 129,371
Maximum exposure to loss	\$ 82,489	\$ 129,371

The Corporation determined that the maximum exposure to loss under a worst case scenario at September 30, 2015 would be not recovering the carrying amount of the acquisition loan, the advances on the advance facility and working capital line, if any, and the equity interest held by the Corporation, net of the deposits.

Table of Contents**Note 28 Related party transactions with affiliated company / joint venture****EVERTEC**

The Corporation has an investment in EVERTEC, Inc. (EVERTEC), which provides various processing and information technology services to the Corporation and its subsidiaries and gives BPPR access to the ATH network owned and operated by EVERTEC. As of September 30, 2015, the Corporation's stake in EVERTEC was 15.31%. 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. Refer to Note 34 Related party transactions to the consolidated financial statements included in the Corporation's 2014 Annual Report for details.

The Corporation received \$ 3.5 million in dividend distributions during the nine months ended September 30, 2015 from its investments in EVERTEC's holding company (September 30, 2014 - \$ 3.5 million). The Corporation's equity in EVERTEC is presented in the table which follows and is included as part of other assets in the consolidated statements of financial condition.

(In thousands)	September 30, 2015	December 31, 2014
Equity investment in EVERTEC	\$ 30,941	\$ 25,146

The Corporation had the following financial condition balances outstanding with EVERTEC at September 30, 2015 and December 31, 2014. Items that represent liabilities to the Corporation are presented with parenthesis.

(In thousands)	September 30, 2015	December 31, 2014
Accounts receivable (Other assets)	\$ 2,655	\$ 5,065
Deposits	(25,869)	(15,481)
Accounts payable (Other liabilities)	(17,324)	(15,511)
Net total	\$ (40,538)	\$ (25,927)

The Corporation's proportionate share of income or loss from EVERTEC is included in other operating income in the consolidated statements of operations. The following table presents the Corporation's proportionate share of EVERTEC's income (loss) and changes in stockholders' equity for the quarters and nine months ended September 30, 2015 and 2014.

(In thousands)	Quarter ended September 30, 2015	Nine months ended September 30, 2015
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Share of income from the investment in EVERTEC	\$ 2,162	\$ 8,077
Share of other changes in EVERTEC's stockholders' equity	600	1,165
Share of EVERTEC's changes in equity recognized in income	\$ 2,762	\$ 9,242

(In thousands)	Quarter ended September 30, 2014	Nine months ended September 30, 2014
Share of income from the investment in EVERTEC	\$ 2,772	\$ 8,104
Share of other changes in EVERTEC's stockholders' equity	49	370
Share of EVERTEC's changes in equity recognized in income	\$ 2,821	\$ 8,474

The following tables present the transactions and service payments between the Corporation and EVERTEC (as an affiliate) and their impact on the results of operations for the quarters and nine months ended September 30, 2015 and 2014. Items that represent expenses to the Corporation are presented with parenthesis.

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(In thousands)	Quarter ended September 30, 2015	Nine months ended September 30, 2015	Category
Interest expense on deposits ATH and credit cards	\$ (15)	\$ (41)	Interest expense
interchange income from services to EVERTEC	6,961	20,614	Other service fees
Rental income charged to EVERTEC	1,719	5,166	Net occupancy
Processing fees on services provided by EVERTEC	(41,147)	(122,597)	Professional fees
Other services provided to EVERTEC	144	852	Other operating expenses
Total	\$ (32,338)	\$ (96,006)	

(In thousands)	Quarter ended September 30, 2014	Nine months ended September 30, 2014	Category
Interest expense on deposits ATH and credit cards	\$ (14)	\$ (53)	Interest expense
interchange income from services to EVERTEC	6,596	19,724	Other service fees
Rental income charged to EVERTEC	1,724	5,151	Net occupancy
Processing fees on services provided by EVERTEC	(37,427)	(115,066)	Professional fees
Other services provided to EVERTEC	278	732	Other operating expenses
Total	\$ (28,843)	\$ (89,512)	

EVERTEC has a letter of credit issued by BPPR, for an amount of \$ 4.2 million at September 30, 2015 (December 31, 2014 - \$ 3.6 million). The Corporation agreed to maintain outstanding this letter of credit for a 5-year period that originally expired on September 30, 2015 and was subsequently extended through February 10, 2016. EVERTEC and the Corporation entered into a Reimbursement Agreement, in which EVERTEC will reimburse the Corporation for any losses incurred by the Corporation in connection with the performance bonds and the letter of credit. Possible losses resulting from these agreements are considered insignificant.

PRLP 2011 Holdings 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 currently provides certain financing to the joint venture as well as holds certain deposits from the entity.

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

(In thousands)	September 30, 2015	December 31, 2014
Equity investment in PRLP 2011 Holdings, LLC	\$ 21,187	\$ 23,650

The Corporation had the following financial condition balances outstanding with PRLP 2011 Holdings, LLC at September 30, 2015 and December 31, 2014.

(In thousands)	September 30, 2015	December 31, 2014
Loans	\$ 1,049	\$ 4,652
Accrued interest receivable	11	22
Deposits (non-interest bearing)	(13,232)	(2,685)
Net total	\$ (12,172)	\$ 1,989

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The Corporation's proportionate share of income or loss from PRLP 2011 Holdings, LLC is included in other operating income in the consolidated statements of operations. The following table presents the Corporation's proportionate share of income (loss) from PRLP 2011 Holdings, LLC for the quarters and nine months ended September 30, 2015 and 2014.

(In thousands)	Quarter ended September 30, 2015	Nine months ended September 30, 2015
Share of loss from the equity investment in PRLP 2011 Holdings, LLC	\$ (633)	\$ (2,463)

(In thousands)	Quarter ended September 30, 2014	Nine months ended September 30, 2014
Share of loss from the equity investment in PRLP 2011 Holdings, LLC	\$ (706)	\$ (2,484)

The following table presents transactions between the Corporation and PRLP 2011 Holdings, LLC and their impact on the Corporation's results of operations for the quarters and nine months ended September 30, 2015 and 2014.

(In thousands)	Quarter ended September 30, 2015	Nine months ended September 30, 2015	Category
Interest income on loan to PRLP 2011 Holdings, LLC	\$ 48	\$ 161	Interest income

(In thousands)	Quarter ended September 30, 2014	Nine months ended September 30, 2014	Category
Interest income on loan to PRLP 2011 Holdings, LLC	\$ 84	\$ 355	Interest income

PR Asset Portfolio 2013-1 International, LLC

As indicated in Note 27 to the consolidated financial statements, effective March 2013 the Corporation holds a 24.9 % equity interest in PR Asset Portfolio 2013-1 International, LLC and currently provides certain financing to the joint venture as well as holds certain deposits from the entity.

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

(In thousands)	September 30, 2015	December 31, 2014
Equity investment in PR Asset Portfolio 2013-1 International, LLC	\$ 25,729	\$ 31,374

The Corporation had the following financial condition balances outstanding with PR Asset Portfolio 2013-1 International, LLC, at September 30, 2015 and December 31, 2014.

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(In thousands)	September 30, 2015	December 31, 2014
Loans	\$ 66,631	\$ 110,643
Accrued interest receivable	210	314
Deposits	(10,081)	(12,960)
Net total	\$ 56,760	\$ 97,997

The Corporation's proportionate share of income or loss from PR Asset Portfolio 2013-1 International, LLC is included in other operating income in the consolidated statements of operations. The following table presents the Corporation's proportionate share of income (loss) from PR Asset Portfolio 2013-1 International, LLC for the quarter and nine months ended September 30, 2015 and 2014.

(In thousands)	Quarter ended September 30, 2015	Nine months ended September 30, 2015
Share of loss from the equity investment in PR Asset Portfolio 2013-1 International, LLC	\$ (1,177)	\$ (5,645)

(In thousands)	Quarter ended September 30, 2014	Nine months ended September 30, 2014
Share of (loss) income from the equity investment in PR Asset Portfolio 2013-1 International, LLC	\$ (1,152)	\$ 298

The following table presents transactions between the Corporation and PR Asset Portfolio 2013-1 International, LLC and their impact on the Corporation's results of operations for the quarters and nine months ended September 30, 2015 and 2014.

(In thousands)	Quarter ended September 30, 2015	Nine months ended September 30, 2015	Category
Interest income on loan to PR Asset Portfolio 2013-1 International, LLC	\$ 659	\$ 2,272	Interest income
Interest expense on deposits	(1)	(2)	Interest expense
Total	\$ 658	\$ 2,270	

(In thousands)	Quarter ended September 30, 2014	Nine months ended September 30, 2014	Category
Interest income on loan to PR Asset Portfolio 2013-1 International, LLC	\$ 1,041	\$ 3,385	Interest income
Servicing fee paid by PR Asset Portfolio 2013-1 International, LLC		70	Other service fees
Total	\$ 1,041	\$ 3,455	

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Note 29 Fair value measurement

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

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

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

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

The Corporation maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Fair value is based upon quoted market prices when available. If listed prices or quotes are not available, the Corporation employs internally-developed models that primarily use market-based inputs including yield curves, interest rates, volatilities, and credit curves, among others. Valuation adjustments are limited to those necessary to ensure that the financial instrument's fair value is adequately representative of the price that would be received or paid in the marketplace. These adjustments include amounts that reflect counterparty credit quality, the Corporation's credit standing, constraints on liquidity and unobservable parameters that are applied consistently. There have been no changes in the Corporation's methodologies used to estimate the fair value of assets and liabilities since December 31, 2014. Refer to the Critical Accounting Policies / Estimates in the 2014 Annual Report for additional information on the accounting guidance and the Corporation's policies or procedures related to fair value measurements.

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.

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The following fair value hierarchy tables present information about the Corporation's assets and liabilities measured at fair value on a recurring basis at September 30, 2015 and December 31, 2014 and on a nonrecurring basis in periods subsequent to initial recognition for the nine months ended September 30, 2015 and 2014:

(In thousands)	At September 30, 2015			
	Level 1	Level 2	Level 3	Total
<u>RECURRING FAIR VALUE MEASUREMENTS</u>				
<u>Assets</u>				
<u>Investment securities available-for-sale:</u>				
U.S. Treasury securities	\$	\$ 1,046,173	\$	\$ 1,046,173
Obligations of U.S. Government sponsored entities		1,001,495		1,001,495
Obligations of Puerto Rico, States and political subdivisions		26,433		26,433
Collateralized mortgage obligations - federal agencies		1,656,770		1,656,770
Mortgage-backed securities		1,755,744	1,449	1,757,193
Equity securities	306	2,083		2,389
Other		10,478		10,478
Total investment securities available-for-sale	\$ 306	\$ 5,499,176	\$ 1,449	\$ 5,500,931
<u>Trading account securities, excluding derivatives:</u>				
Obligations of Puerto Rico, States and political subdivisions	\$	\$ 5,395	\$	\$ 5,395
Collateralized mortgage obligations		233	1,440	1,673
Mortgage-backed securities - federal agencies		107,648	5,971	113,619
Other		15,595	1,661	17,256
Total trading account securities	\$	\$ 128,871	\$ 9,072	\$ 137,943
Mortgage servicing rights	\$	\$	\$ 210,851	\$ 210,851
Derivatives		16,750		16,750
Total assets measured at fair value on a recurring basis	\$ 306	\$ 5,644,797	\$ 221,372	\$ 5,866,475
<u>Liabilities</u>				
Derivatives	\$	\$ (15,302)	\$	\$ (15,302)
Contingent consideration			(125,895)	(125,895)
Total liabilities measured at fair value on a recurring basis	\$	\$ (15,302)	\$ (125,895)	\$ (141,197)

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At December 31, 2014

(In thousands)	Level 1	Level 2	Level 3	Total
<u>RECURRING FAIR VALUE MEASUREMENTS</u>				
<u>Assets</u>				
<u>Investment securities available-for-sale:</u>				
U.S. Treasury securities	\$	\$ 700,154	\$	\$ 700,154
Obligations of U.S. Government sponsored entities		1,724,973		1,724,973
Obligations of Puerto Rico, States and political subdivisions		61,712		61,712
Collateralized mortgage obligations - federal agencies		1,910,030		1,910,030
Mortgage-backed securities		903,037	1,325	904,362
Equity securities	323	2,299		2,622
Other		11,306		11,306
Total investment securities available-for-sale	\$ 323	\$ 5,313,511	\$ 1,325	\$ 5,315,159
<u>Trading account securities, excluding derivatives:</u>				
Obligations of Puerto Rico, States and political subdivisions	\$	\$ 7,954	\$	\$ 7,954
Collateralized mortgage obligations		261	1,375	1,636
Mortgage-backed securities - federal agencies		104,463	6,229	110,692
Other		16,682	1,563	18,245
Total trading account securities	\$	\$ 129,360	\$ 9,167	\$ 138,527

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Mortgage servicing rights	\$	\$	\$ 148,694	\$ 148,694
Derivatives			25,362	25,362
Total assets measured at fair value on a recurring basis	\$ 323	\$ 5,468,233	\$ 159,186	\$ 5,627,742
Liabilities				
Derivatives	\$	\$ (23,032)	\$	\$ (23,032)
Contingent consideration			(133,634)	(133,634)
Total liabilities measured at fair value on a recurring basis	\$	\$ (23,032)	\$ (133,634)	\$ (156,666)

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 nine month period ended September 30, 2015 and 2014, and excludes nonrecurring fair value measurements of assets no longer held by the Corporation.

Nine months ended September 30, 2015

(In thousands)	Level 1	Level 2	Level 3	Total	Write-downs
<u>NONRECURRING FAIR VALUE MEASUREMENTS</u>					
Assets					
Loans ^[1]	\$	\$	\$ 114,204	\$ 114,204	\$ (87,260)
Loans held-for-sale ^[2]			47,458	47,458	(18)
Other real estate owned ^[3]		137	55,616	55,753	(40,059)
Other foreclosed assets ^[3]			91	91	(836)
Total assets measured at fair value on a nonrecurring basis	\$	\$ 137	\$ 217,369	\$ 217,506	\$ (128,173)

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

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

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

Nine months ended September 30, 2014

(In thousands)	Level 1	Level 2	Level 3	Total	Write-downs
<u>NONRECURRING FAIR VALUE MEASUREMENTS</u>					
Assets					

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Loans ^[1]	\$	\$	\$ 53,796	\$ 53,796	\$ (31,037)
Loans held-for-sale ^[2]			87,427	87,427	(38)
Other real estate owned ^[3]		4,605	74,631	79,236	(26,895)
Other foreclosed assets ^[3]			1,612	1,612	(1,269)
Total assets measured at fair value on a nonrecurring basis	\$	\$ 4,605	\$ 217,466	\$ 222,071	\$ (59,239)

- [1] Relates mostly to certain impaired collateral dependent loans. The impairment was measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with the provisions of ASC Section 310-10-35. Costs to sell are excluded from the reported fair value amount.
- [2] Relates to lower of cost or fair value adjustments on loans held-for-sale and loans transferred from loans held-in-portfolio to loans held-for-sale. Costs to sell are excluded from the reported fair value amount.
- [3] Represents the fair value of foreclosed real estate and other collateral owned that were written down to their fair value. Costs to sell are excluded from the reported fair value amount.

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The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the quarters and nine months ended September 30, 2015 and 2014.

(In thousands)	Quarter ended September 30, 2015							
	MBS classified as investment securities available- for-sale	CMOs classified as trading account securities	MBS classified as trading account securities	Other securities classified as trading account securities	Mortgage servicing rights	Total assets	Contingent consideration	Total liabilities
Balance at June 30, 2015	\$ 1,445	\$ 1,192	\$ 6,046	\$ 1,619	\$ 206,357	\$ 216,659	\$ (124,837)	\$ (124,837)
Gains (losses) included in earnings	(1)	3	(12)	42	(4,408)	(4,376)	(1,058)	(1,058)
Gains (losses) included in OCI	5					5		
Additions		294	134		8,902	9,330		
Settlements		(49)	(197)			(246)		
Balance at September 30, 2015	\$ 1,449	\$ 1,440	\$ 5,971	\$ 1,661	\$ 210,851	\$ 221,372	\$ (125,895)	\$ (125,895)
Changes in unrealized gains (losses) included in earnings relating to assets still held at September 30, 2015	\$	\$ 4	\$ (4)	\$ 58	\$ (112)	\$ (54)	\$ (1,058)	\$ (1,058)

(In thousands)	Nine months ended September 30, 2015							
	MBS classified as investment securities available- for-sale	CMOs classified as trading account securities	MBS classified as trading account securities	Other securities classified as trading account securities	Mortgage servicing rights	Total assets	Contingent consideration	Total liabilities
Balance at January 1, 2015	\$ 1,325	\$ 1,375	\$ 6,229	\$ 1,563	\$ 148,694	\$ 159,186	\$ (133,634)	\$ (133,634)
Gains (losses) included in earnings	(1)	(1)	2	98	(11,254)	(11,156)	6,777	6,777
Gains (losses) included in OCI	7					7		
Additions	118	332	392		73,411	74,253	962	962
Sales		(44)	(80)			(124)		
Settlements		(222)	(572)			(794)		

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Balance at September 30, 2015	\$ 1,449	\$ 1,440	\$ 5,971	\$ 1,661	\$ 210,851	\$ 221,372	\$ (125,895)	\$ (125,895)
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Changes in unrealized gains (losses) included in earnings relating to assets still held at September 30, 2015	\$	\$ 2	\$ 20	\$ 200	\$ 1,774	\$ 1,996	\$ 6,777	\$ 6,777
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Quarter ended September 30, 2014

(In thousands)	MBS classified as investment securities available- for-sale	CMOs classified as trading account securities	MBS classified as trading account securities	Other securities classified as trading account securities	Mortgage servicing rights	Total assets	Contingent consideration	Total liabilities
Balance at June 30, 2014	\$ 6,169	\$ 1,494	\$ 7,802	\$ 1,283	\$ 151,951	\$ 168,699	\$ (127,551)	\$ (127,551)
Gains (losses) included in earnings	(1)	2	(20)	70	(2,588)	(2,537)	1,078	1,078
Gains (losses) included in OCI	(20)					(20)		
Additions		7	127		2,919	3,053		
Settlements	(222)	(55)	(376)			(653)		

Balance at September 30, 2014	\$ 5,926	\$ 1,448	\$ 7,533	\$ 1,353	\$ 152,282	\$ 168,542	\$ (126,473)	\$ (126,473)
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Changes in unrealized gains (losses) included in earnings relating to assets still held at September 30, 2014	\$	\$ 2	\$ (4)	\$ 107	\$ 2,528	\$ 2,633	\$ 1,078	\$ 1,078
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(In thousands)	Nine months ended September 30, 2014							
	MBS classified as investment securities available- for-sale	CMOs classified as trading account securities	MBS classified as trading account securities	Other securities classified as trading account securities	Mortgage servicing rights	Total assets	Contingent consideration	Total liabilities
Balance at January 1, 2014	\$ 6,523	\$ 1,423	\$ 9,799	\$ 1,929	\$ 161,099	\$ 180,773	\$ (128,299)	\$ (128,299)
Gains (losses) included in earnings	(4)	(9)	(134)	(576)	(18,424)	(19,147)	1,040	1,040
Gains (losses) included in OCI	(100)					(100)		
Additions		270	778		9,611	10,659		
Sales			(1,109)			(1,109)		
Settlements	(493)	(236)	(1,801)		(4)	(2,534)	786	786
Balance at September 30, 2014	\$ 5,926	\$ 1,448	\$ 7,533	\$ 1,353	\$ 152,282	\$ 168,542	\$ (126,473)	\$ (126,473)
Changes in unrealized gains (losses) included in earnings relating to assets still held at September 30, 2014	\$	\$ (5)	\$ (70)	\$ (424)	\$ (3,314)	\$ (3,813)	\$ 1,040	\$ 1,040

There were no transfers in and / or out of Level 1, Level 2, or Level 3 for financial instruments measured at fair value on a recurring basis during the quarters and nine months ended September 30, 2015 and 2014.

Gains and losses (realized and unrealized) included in earnings for the quarter and nine months ended September 30, 2015 and 2014 for Level 3 assets and liabilities included in the previous tables are reported in the consolidated statement of operations as follows:

(In thousands)	Quarter ended September 30, 2015		Nine months ended September 30, 2015	
	Total gains (losses) included in earnings	Changes in unrealized gains (losses) relating to assets still held at reporting date	Total gains (losses) included in earnings	Changes in unrealized gains (losses) relating to assets still held at reporting date
Interest income	\$ (1)	\$	\$ (1)	\$
FDIC loss share (expense) income	(1,058)	(1,058)	6,777	6,777
Mortgage banking activities	(4,408)	(112)	(11,254)	1,774

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Trading account profit (loss)	33	58	99	222
Total	\$ (5,434)	\$ (1,112)	\$ (4,379)	\$ 8,773

(In thousands)	Quarter ended September 30, 2014		Nine months ended September 30, 2014	
	Total gains (losses) included in earnings	Changes in unrealized gains (losses) relating to assets still held at reporting date	Total gains (losses) included in earnings	Changes in unrealized gains (losses) relating to assets still held at reporting date
Interest income	\$ (1)	\$	\$ (4)	\$
FDIC loss share (expense) income	1,078	1,078	1,040	1,040
Mortgage banking activities	(2,588)	2,528	(18,424)	(3,314)
Trading account profit (loss)	52	105	(719)	(499)
Total	\$ (1,459)	\$ 3,711	\$ (18,107)	\$ (2,773)

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

(In thousands)	Fair value at September 30, 2015	Valuation technique	Unobservable inputs	Weighted average (range)
CMO s - trading	\$ 1,440	Discounted cash flow model	Weighted average life Yield Constant prepayment rate	2.4 years (0.5 - 4.8 years) 4.0% (1.1% - 4.7%) 22.2% (18.0% - 23.9%) 5.5 years
Other - trading	\$ 699	Discounted cash flow model	Weighted average life Yield Constant prepayment rate	12.2% 10.8% 7.4% (0.5% - 26.7%)
Mortgage servicing rights	\$ 210,851	Discounted cash flow model	Prepayment speed Weighted average life Discount rate	6.3 years (0.1 - 17.4 years) 11.3% (9.5% - 15.0%) 4.7% (0.0% - 100.0%)
Contingent consideration	\$ (122,527)	Discounted cash flow model	Credit loss rate on covered loans Risk premium component of discount rate	5.7%
Loans held-in-portfolio	\$ 114,159 ^[1]	External appraisal	Haircut applied on external appraisals	41.0% (25.0% - 45.0%)
Other real estate owned	\$ 50,309 ^[2]	External appraisal	Haircut applied on external appraisals	23.8% (12.0% - 45.0%)
Other foreclosed assets	\$ 91 ^[3]	External appraisal	Haircut applied on external appraisals	1.0%

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

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

[3] Other foreclosed assets in which haircuts were not applied to external appraisals were excluded from this table.

The significant unobservable inputs used in the fair value measurement of the Corporation's collateralized mortgage obligations and interest-only collateralized mortgage obligation (reported as other), which are classified in the trading category, are yield, constant prepayment rate, and weighted average life. Significant increases (decreases) in any of those inputs in isolation would result in significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the constant prepayment rate will generate a directionally opposite change in the weighted

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

The significant unobservable inputs used in the fair value measurement of the Corporation's mortgage servicing rights are constant prepayment rates and discount rates. Increases in interest rates may result in lower prepayments. Discount rates vary according to products and / or portfolios depending on the perceived risk. Increases in discount rates result in a lower fair value measurement. The Corporation's Corporate Comptroller's unit is responsible for determining the fair value of MSR's, which is based on discounted cash flow methods based on assumptions developed by an external service provider, except for prepayment speeds, which are adjusted internally for the local market based on historical experience. The Corporation's Corporate Treasury unit validates the economic assumptions developed by the external service provider on a quarterly basis. In addition, an analytical review of prepayment speeds is performed quarterly by the Corporate Comptroller's unit. The Corporation's MSR Committee analyzes changes in fair value measurements of MSR's and approves the valuation assumptions at each reporting period. Changes in valuation assumptions must also be approved by the MSR Committee. The fair value of MSR's are compared with those of the external service provider on a quarterly basis in order to validate if the fair values are within the materiality thresholds established by management to monitor and investigate material deviations. Back-testing is performed to compare projected cash flows with actual historical data to ascertain the reasonability of the projected net cash flow results.

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Note 30 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. Fair value estimates are made at a specific point in time based on the type of financial instrument and relevant market information. Many of these estimates involve various assumptions and may vary significantly from amounts that could be realized in actual transactions.

The information about the estimated fair values of financial instruments presented hereunder excludes all nonfinancial instruments and certain other specific items.

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.

The fair values reflected herein have been determined based on the prevailing interest rate environment at September 30, 2015 and December 31, 2014, 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. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation.

Following is a description of the Corporation's valuation methodologies and inputs used to estimate the fair values for each class of financial assets and liabilities not measured at fair value, but for which the fair value is disclosed. 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. For a description of the valuation methodologies and inputs used to estimate the fair value for each class of financial assets and liabilities measured at fair value, refer to Note 29.

Cash and due from banks

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

Money market investments

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

Investment securities held-to-maturity

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

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

Other: Other securities include foreign and corporate debt. Given that the fair value was based on quoted prices for similar instruments, foreign debt is classified as Level 2. The fair value of corporate debt, which is collateralized by municipal bonds of Puerto Rico, was internally derived from benchmark treasury notes and a credit spread based on comparable Puerto Rico government trades, similar securities, and/or recent issuances. Corporate debt is classified as Level 3.

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

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

Trust preferred securities: These securities represent the equity-method investment in the common stock of these trusts. Book value is the same as fair value for these securities since the fair value of the junior subordinated debentures is the same amount as the fair value of the trust preferred securities issued to the public. The equity-method investment in the common stock of these trusts is classified as Level 2, except for that of Popular Capital Trust III (Troubled Asset Relief Program) which is classified as Level 3. Refer to Note 22 for additional information on these trust preferred securities.

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

Loans held-for-sale

The fair value of certain impaired loans held-for-sale was based on a discounted cash flow model that assumes that no principal payments are received prior to the effective average maturity date, that the outstanding unpaid principal balance is reduced by a monthly net loss rate, and that the remaining unpaid principal balance is received as a lump sum principal payment at the effective average maturity date. The remaining unpaid principal balance expected to be received, which is based on the prior 12-month cash payment experience of these loans and their expected collateral recovery, was discounted using the interest rate currently offered to clients for the origination of comparable loans. These loans were classified as Level 3. As of September 30, 2015, no loans were valued under this methodology. For loans held-for-sale originated with the intent to sell in the secondary market, its fair value was determined using similar characteristics of loans and secondary market prices assuming the conversion to mortgage-backed securities. Given that the valuation methodology uses internal assumptions based on loan level data, these loans are classified as Level 3. The fair value of certain other loans held-for-sale is based on bids received from potential buyers; binding offers; or external appraisals, net of internal adjustments and estimated costs to sell. Loans held-for-sale based on binding offers are classified as Level 2. Loans held-for-sale based on indicative offers and/or external appraisals are classified as Level 3.

Loans held-in-portfolio

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

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FDIC loss share asset

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

Deposits

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

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

Assets sold under agreements to repurchase

Securities sold under agreements to repurchase (structured and non-structured): Securities sold under agreements to repurchase with short-term maturities approximate fair value because of the short-term nature of those instruments. Resell and repurchase agreements with long-term maturities were valued using discounted cash flows based on the three-month LIBOR. In determining the non-performance credit risk valuation adjustment, the collateralization levels of these long-term securities sold under agreements to repurchase were considered. In the case of callable structured repurchase agreements, the callable feature is not considered when determining the fair value of those repurchase agreements, since there is a remote possibility, based on forward rates, that the investor will call back these agreements before maturity since it is not expected that the interest rates would rise more than the specified interest rate of these agreements.

Securities sold under agreements to repurchase (structured and non-structured) are classified as Level 2.

Other short-term borrowings

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

Notes payable

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

Medium-term notes: The fair value of publicly-traded medium-term notes was determined using recent trades of similar transactions. Publicly-traded medium-term notes are classified as Level 2. The fair value of non-publicly traded debt was based on remaining contractual cash outflows, discounted at a rate commensurate with the non-performance credit risk of the Corporation, which is subjective in nature. Non-publicly traded debt is classified as Level 3.

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

Junior subordinated deferrable interest debentures (Troubled Asset Relief Program): The fair value of junior subordinated deferrable interest debentures was based on the discounted value of contractual cash flows over their contractual term. The discount rate was based on the rate at which a similar security was priced in the open market. Thus, these junior subordinated deferrable interest debentures are classified as Level 3.

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

Capital lease obligations are classified as Level 3.

Commitments to extend credit and letters of credit

Commitments to extend credit were valued using the fees currently charged to enter into similar agreements. For those commitments where a future stream of fees is charged, the fair value was estimated by discounting the projected cash flows of fees on commitments. Since the fair value of commitments to extend credit varies depending on the undrawn amount of the credit facility, fees are subject to constant change, and cash flows are dependent on the creditworthiness of borrowers, commitments to extend credit are classified as Level 3. The fair value of letters of credit was based on fees currently charged on similar agreements. Given that the fair value of letters of credit constantly vary due to fees being subject to constant change and whether the fees are received depends on the creditworthiness of the account parties, letters of credit are classified as Level 3.

The following tables present the carrying or notional amounts, as applicable, and estimated fair values for financial instruments with their corresponding level in the fair value hierarchy.

(In thousands)	September 30, 2015				
	Carrying amount	Level 1	Level 2	Level 3	Fair value
Financial Assets:					
Cash and due from banks	\$ 320,555	\$ 320,555	\$	\$	\$ 320,555
Money market investments	2,408,571	2,263,149	145,422		2,408,571
Trading account securities, excluding derivatives ^[1]	137,943		128,871	9,072	137,943
Investment securities available-for-sale ^[1]	5,500,931	306	5,499,176	1,449	5,500,931
Investment securities held-to-maturity:					
Obligations of Puerto Rico, States and political subdivisions	\$ 98,709	\$	\$	\$ 82,467	\$ 82,467
Collateralized mortgage obligation-federal agency	86			91	91
Other	1,500		1,245	233	1,478
Total investment securities held-to-maturity	\$ 100,295	\$	\$ 1,245	\$ 82,791	\$ 84,036
Other investment securities:					
FHLB stock	\$ 61,537	\$	\$ 61,537	\$	\$ 61,537
FRB stock	96,962		96,962		96,962
Trust preferred securities	13,197		12,197	1,000	13,197
Other investments	1,961			4,902	4,902
Total other investment securities	\$ 173,657	\$	\$ 170,696	\$ 5,902	\$ 176,598

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Loans held-for-sale	\$ 171,019	\$	\$ 450	\$ 170,569	\$ 171,019
Loans not covered under loss sharing agreement with the FDIC	21,962,061			19,763,992	19,763,992
Loans covered under loss sharing agreements with the FDIC	630,919			722,413	722,413
FDIC loss share asset	311,946			303,285	303,285
Mortgage servicing rights	210,851			210,851	210,851
Derivatives	16,750		16,750		16,750

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(In thousands)	September 30, 2015				
	Carrying amount	Level 1	Level 2	Level 3	Fair value
Financial Liabilities:					
Deposits:					
Demand deposits	\$ 18,611,932	\$	\$ 18,611,932	\$	\$ 18,611,932
Time deposits	8,101,274		8,071,187		8,071,187
Total deposits	\$ 26,713,206	\$	\$ 26,683,119	\$	\$ 26,683,119
Assets sold under agreements to repurchase:					
Securities sold under agreements to repurchase					
	\$ 1,085,765	\$	\$ 1,089,380	\$	\$ 1,089,380
Total assets sold under agreements to repurchase					
	\$ 1,085,765	\$	\$ 1,089,380	\$	\$ 1,089,380
Other short-term borrowings ^[2]	\$ 1,200	\$	\$ 1,200	\$	\$ 1,200
Notes payable:					
FHLB advances	\$ 765,485	\$	\$ 790,988	\$	\$ 790,988
Unsecured senior debt securities	450,000		437,558		437,558
Junior subordinated deferrable interest debentures (related to trust preferred securities)	439,799		340,151		340,151
Others					
	19,227			19,227	19,227
Total notes payable	\$ 1,674,511	\$	\$ 1,568,697	\$ 19,227	\$ 1,587,924
Derivatives					
	\$ 15,302		\$ 15,302	\$	\$ 15,302
Contingent consideration					
	\$ 125,895	\$	\$	\$ 125,895	\$ 125,895

(In thousands)	Notional amount	Level 1	Level 2	Level 3	Fair value
Commitments to extend credit	\$ 7,026,379	\$	\$	\$ 1,154	\$ 1,154
Letters of credit	49,977			734	734

[1] Refer to Note 29 to the consolidated financial statements for the fair value by class of financial asset and its hierarchy level.

[2] Refer to Note 20 to the consolidated financial statements for the composition of short-term borrowings.

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	December 31, 2014				
(In thousands)	Carrying amount	Level 1	Level 2	Level 3	Fair value
Financial Assets:					
Cash and due from banks	\$ 381,095	\$ 381,095	\$	\$	\$ 381,095
Money market investments	1,822,386	1,671,477	150,909		1,822,386
Trading account securities, excluding derivatives ^[1]	138,527		129,360	9,167	138,527
Investment securities available-for-sale ^[1]	5,315,159	323	5,313,511	1,325	5,315,159
Investment securities held-to-maturity:					
Obligations of Puerto Rico, States and political subdivisions	101,573			92,597	92,597
Collateralized mortgage obligation-federal agency	97			102	102
Other	1,500		1,500		1,500
Total investment securities held-to-maturity	\$ 103,170	\$	\$ 1,500	\$ 92,699	\$ 94,199
Other investment securities:					
FHLB stock	\$ 66,773	\$	\$ 66,773	\$	\$ 66,773
FRB stock	80,025		80,025		80,025
Trust preferred securities	13,197		12,197	1,000	13,197
Other investments	1,911			5,028	5,028
Total other investment securities	\$ 161,906	\$	\$ 158,995	\$ 6,028	\$ 165,023
Loans held-for-sale	\$ 106,104	\$	\$ 27,074	\$ 87,862	\$ 114,936
Loans not covered under loss sharing agreement with the FDIC	18,884,732			18,079,609	18,079,609
Loans covered under loss sharing agreements with the FDIC	2,460,589			2,947,909	2,947,909
FDIC loss share asset	542,454			481,420	481,420
Mortgage servicing rights	148,694			148,694	148,694
Derivatives	25,362		25,362		25,362

	December 31, 2014				
(In thousands)	Carrying amount	Level 1	Level 2	Level 3	Fair value
Financial Liabilities:					
Deposits:					
Demand deposits	\$ 17,333,090	\$	\$ 17,333,090	\$	\$ 17,333,090
Time deposits	7,474,445		7,512,683		7,512,683
Total deposits	\$ 24,807,535	\$	\$ 24,845,773	\$	\$ 24,845,773

Assets sold under agreements to repurchase:

Securities sold under agreements to repurchase	\$ 1,271,657	\$	\$ 1,269,398	\$	\$ 1,269,398
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Total assets sold under agreements to repurchase

\$ 1,271,657	\$	\$ 1,269,398	\$	\$ 1,269,398
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Other short-term borrowings ^[2]	\$ 21,200	\$	\$ 20,200	\$ 1,000	\$ 21,200
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Notes payable:

FHLB advances	802,198		814,877		814,877
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Unsecured senior debt	450,000		460,530		460,530
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Junior subordinated deferrable interest debentures (related to trust preferred securities)	439,800		379,400		379,400
Others	19,830			19,830	19,830
Total notes payable	\$ 1,711,828	\$	\$ 1,654,807	\$ 19,830	\$ 1,674,637
Derivatives	\$ 23,032	\$	\$ 23,032	\$	\$ 23,032
Contingent consideration	\$ 133,634	\$	\$	\$ 133,634	\$ 133,634

(In thousands)	Notional amount	Level 1	Level 2	Level 3	Fair value
Commitments to extend credit	\$ 7,135,352	\$	\$	\$ 1,716	\$ 1,716
Letters of credit	49,182			486	486

[1] Refer to Note 29 to the consolidated financial statements for the fair value by class of financial asset and its hierarchy level.

[2] Refer to Note 20 to the consolidated financial statements for the composition of short-term borrowings.

Table of Contents**Note 31 Net income (loss) per common share**

The following table sets forth the computation of net income (loss) per common share (EPS), basic and diluted, for the quarters and nine months ended September 30, 2015 and 2014:

(In thousands, except per share information)	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net income (loss) from continuing operations	\$ 85,649	\$ 32,815	\$ 756,571	\$ (230,266)
Net (loss) income from discontinued operations	(9)	29,758	1,347	(132,066)
Preferred stock dividends	(931)	(930)	(2,792)	(2,792)
Net income (loss) applicable to common stock	\$ 84,709	\$ 61,643	\$ 755,126	\$ (365,124)
Average common shares outstanding	102,969,214	102,953,328	102,923,018	102,845,402
Average potential dilutive common shares	181,268	199,588	214,744	
Average common shares outstanding - assuming dilution	103,150,482	103,152,916	103,137,762	102,845,402
Basic EPS from continuing operations	\$ 0.82	\$ 0.31	\$ 7.33	\$ (2.27)
Basic EPS from discontinued operations	\$	\$ 0.29	\$ 0.01	\$ (1.28)
Total Basic EPS	\$ 0.82	\$ 0.60	\$ 7.34	\$ (3.55)
Diluted EPS from continuing operations	\$ 0.82	\$ 0.31	\$ 7.31	\$ (2.27)
Diluted EPS from discontinued operations	\$	\$ 0.29	\$ 0.01	\$ (1.28)
Total Diluted EPS	\$ 0.82	\$ 0.60	\$ 7.32	\$ (3.55)

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 that result in lower potential shares issued than shares purchased under the treasury stock method are not included in the computation of dilutive earnings per share since their inclusion would have an antidilutive effect in earnings per common share.

For the quarter and nine months ended September 30, 2015, there were no stock options outstanding (September 30, 2014 44,797 and 45,343).

Table of Contents**Note 32 Other service fees**

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

(In thousands)	Quarters ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Debit card fees	\$ 11,288	\$ 10,673	\$ 34,408	\$ 32,217
Insurance fees	14,517	12,322	40,163	36,447
Credit card fees	16,879	17,078	50,639	50,146
Sale and administration of investment products	5,737	6,605	18,269	20,518
Trust fees	4,403	4,711	13,919	13,740
Other fees	3,291	3,450	11,764	11,057
Total other services fees	\$ 56,115	\$ 54,839	\$ 169,162	\$ 164,125

Table of Contents**Note 33 FDIC loss share income (expense)**

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

(In thousands)	Quarters ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Amortization of loss-share indemnification asset	\$ (3,931)	\$ (42,524)	\$ (62,312)	\$ (163,565)
Reversal of accelerated amortization in prior periods		15,046		15,046
80% mirror accounting on credit impairment losses (reversal) ^[1]	(183)	9,863	15,710	35,325
80% mirror accounting on reimbursable expenses	6,276	15,545	70,551	39,375
80% mirror accounting on recoveries on covered assets, including rental income on OREOs, subject to reimbursement to the FDIC		(2,633)	(7,822)	(10,582)
Change in true-up payment obligation	(1,058)	1,078	6,778	1,040
Other	103	(1,239)	1,516	(970)
Total FDIC loss-share income (expense)	\$ 1,207	\$ (4,864)	\$ 24,421	\$ (84,331)

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

The negative amortization of the FDIC's Indemnification Asset for the nine months ended September 30, 2015 includes a \$10.9 million expense related to losses incurred by the corporation that were not claimed to the FDIC before the expiration of the loss-share portion of the agreement on June 30, 2015, and that are not subject to the ongoing arbitrations.

Table of Contents**Note 34 Pension and postretirement benefits**

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

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

(In thousands)	Pension Plan		Benefit Restoration Plans	
	Quarters ended September 30,			
	2015	2014	2015	2014
Interest cost	\$ 7,403	\$ 7,461	\$ 407	\$ 415
Expected return on plan assets	(11,056)	(11,630)	(589)	(606)
Amortization of net loss	4,465	2,019	311	108
Total net periodic pension cost (benefit)	\$ 812	\$ (2,150)	\$ 129	\$ (83)

(In thousands)	Pension Plans		Benefit Restoration Plans	
	Nine months ended September 30,			
	2015	2014	2015	2014
Interest Cost	\$ 22,209	\$ 22,383	\$ 1,222	\$ 1,244
Expected return on plan assets	(33,168)	(34,891)	(1,768)	(1,816)
Amortization of net loss	13,395	6,056	933	323
Total net periodic pension cost (benefit)	\$ 2,436	\$ (6,452)	\$ 387	\$ (249)

During the quarter ended September 30, 2015 the Corporation made a contribution to the benefit restoration plans of \$43 thousand. The total contributions expected to be paid during the year 2015 for the pension and benefit restoration plans amount to approximately \$173 thousand.

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

(In thousands)	Postretirement Benefit Plan			
	Quarters ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Service cost	\$ 367	\$ 364	\$ 1,103	\$ 1,093
Interest cost	1,589	1,712	4,767	5,135
Amortization of prior service cost	(950)	(950)	(2,850)	(2,850)
Amortization of net loss	249		747	

Total net periodic postretirement benefit cost	\$ 1,255	\$ 1,126	\$ 3,767	\$ 3,378
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Contributions made to the postretirement benefit plan for the quarter ended September 30, 2015 amounted to approximately \$1.4 million. The total contributions expected to be paid during the year 2015 for the postretirement benefit plan amount to approximately \$5.8 million.

Table of Contents**Note 35 - Stock-based compensation**

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

Stock Option Plan

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

There was no intrinsic value of options outstanding and exercisable at September 30, 2015 and 2014. As of September 30, 2015 all options outstanding expired.

The following table summarizes the stock option activity and related information:

(Not in thousands)	Options Outstanding	Weighted-Average Exercise Price
Outstanding at December 31, 2013	100,437	\$ 253.64
Granted		
Exercised		
Forfeited		
Expired	(55,640)	238.85
Outstanding at December 31, 2014	44,797	\$ 272.00
Granted		
Exercised		
Forfeited		
Expired	(44,797)	272.00
Outstanding at September 30, 2015		\$

There was no stock option expense recognized for the quarters and nine months ended September 30, 2015 and 2014.

Incentive Plan

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

Under the Incentive Plan, the Corporation has issued restricted shares, which become vested based on the employees continued service with Popular. Unless otherwise stated in an agreement, the compensation cost associated with the shares of restricted stock is determined based on a two-prong vesting schedule. The first part is vested ratably over five years commencing at the date of

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grant and the second part is vested at termination of employment after attainment of 55 years of age and 10 years of service. The five-year vesting part is accelerated at termination of employment after attaining 55 years of age and 10 years of service. The vesting schedule for restricted shares granted on 2014 and thereafter was modified as follows, the first part ratably over four years commencing at the date of the grant and the second part is vested at termination of employment after attaining the earlier of 55 years of age and 10 years of service or 60 years of age and 5 years of service. The four year vesting part is accelerated at termination of employment after attaining the earlier of 55 years of age and 10 years of service or 60 years of age and 5 years of service. The restricted shares granted consistent with the requirements of the TARP Interim Final Rule vest in two years from grant date.

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

(Not in thousands)	Incentive Plan Stock	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2013	585,247	\$ 21.16
Granted	365,831	29.86
Vested	(311,078)	19.02
Forfeited	(11,991)	29.33
Non-vested at December 31, 2014	628,009	\$ 27.13
Granted	323,814	33.37
Vested	(361,350)	30.40
Forfeited	(24,208)	28.53
Non-vested at September 30, 2015	566,265	\$ 28.56

During the quarter ended September 30, 2015 and 2014 no shares of restricted stock were awarded to management under the Incentive Plan. For the nine-month period ended September 30, 2015, 231,830 shares of restricted stock (September 30, 2014 235,112) were awarded to management under the Incentive Plan, from which no shares (September 30, 2014 162,332) were awarded to management consistent with the requirements of the TARP Interim Final Rule.

Beginning in 2015, the Corporation authorized the issuance of performance shares, in addition to restricted shares, under the Incentive Plan. The performance share awards consist of the opportunity to receive shares of Popular, Inc.'s common stock provided that the Corporation achieves certain goals during a three-year performance cycle. The goals will be based on two metrics weighted equally: the Relative Total Shareholder Return (TSR) and the Absolute Earnings per Share (EPS) goals. The TSR metric is considered to be a market condition under ASC 718. For equity settled awards based on a market condition, the fair value is determined as of the grant date and is not subsequently revised based on actual performance. The EPS performance metric is considered to be a performance condition under ASC 718. The fair value is determined based on the probability of achieving the EPS goal as of each reporting period. The TSR and EPS metrics are equally weighted and work independently. The performance shares vest at the end of the three-year performance cycle. The vesting is accelerated at termination of employment after attaining the earlier of 55 years of age and 10 years of service or 60 years of age and 5 years of service. For the quarter ended September 30, 2015 no performance shares were granted. For the nine-month period ended September 30, 2015, 91,984 performance

shares were granted under this plan.

During the quarter ended September 30, 2015, the Corporation recognized \$ 1.9 million of restricted stock expense related to management incentive awards, with a tax benefit of \$ 0.3 million (September 30, 2014 - \$ 1.6 million, with a tax benefit of \$ 0.2 million). For the nine-month period ended September 30, 2015, the Corporation recognized \$ 9.4 million of restricted stock expense related to management incentive awards, with a tax benefit of \$ 1.4 million (September 30, 2014 - \$ 4.7 million, with a tax benefit of \$ 0.7 million). For the nine-month period ended September 30, 2015, the fair market value of the restricted stock vested was \$5.3 million at grant date and \$6.4 million at vesting date. This triggers a windfall, net of shortfalls, of \$0.4 million of which \$0.2 million was recorded as a windfall pool in additional paid in capital. No windfall pool was recorded for the remaining \$0.2 million due to the

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valuation allowance of the deferred tax asset. During the quarter ended September 30, 2015 the Corporation recognized \$95 thousand of performance shares expense, with a tax benefit of \$6 thousand. For the nine-month period ended September 30, 2015, the Corporation recognized \$2.1 million of performance shares expense, with a tax benefit of \$0.2 million. The total unrecognized compensation cost related to non-vested restricted stock awards and performance shares to members of management at September 30, 2015 was \$ 8.9 million and is expected to be recognized over a weighted-average period of 2.2 years.

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

(Not in thousands)	Restricted Stock	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2013		\$
Granted	23,135	30.43
Vested	(23,135)	30.43
Forfeited		
Non-vested at December 31, 2014		\$
Granted	20,023	32.56
Vested	(20,023)	32.56
Forfeited		
Non-vested at September 30, 2015		\$

During the quarter ended September 30, 2015, the Corporation granted 1,994 shares of restricted stock to members of the Board of Directors of Popular, Inc., which became vested at grant date (September 30, 2014 - 2,318). During this period, the Corporation recognized \$0.1 million of restricted stock expense related to these restricted stock grants, with a tax benefit of \$24 thousand (September 30, 2014 - \$0.1 million, with a tax benefit of \$14 thousand). For the nine-month period ended September 30, 2015, the Corporation granted 20,023 shares of restricted stock to members of the Board of Directors of Popular, Inc., which became vested at grant date (September 30, 2014 - 21,051). During this period, the Corporation recognized \$0.4 million of restricted stock expense related to these restricted stock grants, with a tax benefit of \$59 thousand (September 30, 2014 - \$0.4 million, with a tax benefit of \$43 thousand). The fair value at vesting date of the restricted stock vested during the nine months ended September 30, 2015 for directors was \$ 0.7 million.

Table of Contents**Note 36 Income taxes**

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

(In thousands)	Quarters ended			
	September 30, 2015		September 30, 2014	
	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax expense at statutory rates	\$ 42,225	39%	\$ 23,198	39%
Net benefit of tax exempt interest income	(12,221)	(11)	(12,663)	(21)
Deferred tax asset valuation allowance	(670)	(1)	(3,120)	(5)
Non-deductible expenses			90	
Difference in tax rates due to multiple jurisdictions	(3,523)	(3)	(2,240)	(4)
Initial adjustment in deferred tax due to change in tax rate			20,048	34
Effect of income subject to preferential tax rate	(3,610)	(3)	(3,385)	(6)
Unrecognized tax benefits			(3,601)	(6)
Others	419		8,340	14
Income tax (benefit) expense	\$ 22,620	21%	\$ 26,667	45%

(In thousands)	Nine months ended			
	September 30, 2015		September 30, 2014	
	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax (benefit) expense at statutory rates	\$ 108,508	39%	\$ (71,939)	39%
Net benefit of tax exempt interest income	(39,504)	(14)	(37,607)	21
Deferred tax asset valuation allowance	(537,737)	(193)	(17,303)	9
Non-deductible expenses			178,219	(97)
Difference in tax rates due to multiple jurisdictions	(8,226)	(3)	(12,728)	7
Initial adjustment in deferred tax due to change in tax rate			20,048	(11)
Effect of income subject to preferential tax rate ^[1]	(5,488)	(2)	(21,940)	12
Unrecognized tax benefits			(3,601)	2
Others	4,103	1	12,658	(7)
Income tax (benefit) expense	\$ (478,344)	(172)%	\$ 45,807	(25)%

[1] For 2014, includes the impact of the Closing Agreement with the P.R. Treasury signed in June 2014. Income tax expense for the quarter ended September 30, 2014 was impacted by the recognition of an income tax expense of \$20.0 million, related to the deferred tax liability associated with the portfolio acquired from Westernbank as a result of the increase in the income tax for capital gains from 15% to 20%.

During the second quarter of 2015, the Corporation recorded a partial reversal of the valuation allowance on the deferred tax asset from the U.S. operations amounting to \$544.9 million.

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

(In thousands)	September 30, 2015	December 31, 2014
Deferred tax assets:		
Tax credits available for carryforward	\$ 10,252	\$ 12,056
Net operating loss and other carryforward available	1,259,611	1,261,413
Postretirement and pension benefits	108,799	111,677
Deferred loan origination fees	7,414	7,720
Allowance for loan losses	688,638	710,666
Deferred gains	6,457	7,500
Accelerated depreciation	7,626	7,915
Intercompany deferred gains	2,609	2,988
Other temporary differences	26,027	27,755
Total gross deferred tax assets	2,117,433	2,149,690
Deferred tax liabilities:		
Differences between the assigned values and the tax basis of assets and liabilities recognized in purchase business combinations	42,983	37,804
FDIC-assisted transaction	87,057	81,335
Unrealized net gain on trading and available-for-sale securities	29,960	20,817
Other temporary differences	21,864	18,093
Total gross deferred tax liabilities	181,864	158,049
Valuation allowance	667,392	1,212,748
Net deferred tax asset	\$ 1,268,177	\$ 778,893

The net deferred tax asset shown in the table above at September 30, 2015 is reflected in the consolidated statements of financial condition as \$1.3 billion in net deferred tax assets in the Other assets caption (December 31, 2014 - \$813 million) and \$3.2 million in deferred tax liabilities in the Other liabilities caption (December 31, 2014 - \$34 million), reflecting the aggregate deferred tax assets or liabilities of individual tax-paying subsidiaries of the Corporation.

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

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

During the quarter ended June 30, 2015, after weighting all positive and negative evidence, the Corporation concluded that it is more likely than not that a portion of the total deferred tax asset from the U.S. operations, amounting to \$1.2 billion and comprised mainly of net operating losses, will be realized. The Corporation based this determination on its estimated earnings for the remaining carryforward period of eighteen years beginning with the 2016 fiscal year, available to utilize the deferred tax asset, to reduce its income tax obligations. The recent historical level of book income adjusted by permanent differences, together with the estimated earnings after the reorganization of the U.S. operations and additional estimated earnings from the Doral Bank Transaction were objective positive evidence considered by the Corporation. As of September 30, 2015 the U.S. operations are not in a three year loss cumulative position, taking into account taxable income exclusive of reversing temporary differences. All of these factors lead management to conclude that it is more likely than not that a portion of the deferred tax asset from its U.S. operations will be realized. Accordingly, the Corporation recorded a partial reversal of the valuation allowance on the deferred tax asset from the U.S. operations amounting to \$544.9 million. Management will continue to evaluate the realization of the deferred tax asset each quarter and adjust as deemed necessary.

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At September 30, 2015, the Corporation's net deferred tax assets related to its Puerto Rico operations amounted to \$759 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 September 30, 2015, exclusive of the loss generated on the sales of non performing assets that took place in 2013 which is not a continuing condition of the operations. This is considered a strong piece of objectively verifiable positive evidence that outweighs any negative evidence considered by management in the evaluation of the realization of the deferred tax asset. Based on this evidence and management's estimate of future taxable income, the Corporation has concluded that it is more likely than not that such net deferred tax asset of the Puerto Rico Banking operations will be realized.

The Holding Company operation is not in a cumulative loss position for the three year period ended September 30, 2015. However, after the payment of TARP, the interest expense that is paid on the \$450 million subordinated notes which partially funded the repayment of TARP funds in 2014, bearing interest at 7%, is tax deductible contrary to the interest expense payable on the note issued to the U.S. Treasury under TARP. Based on this fact pattern the Holding Company is expecting to have losses for income tax purposes exclusive of reversing temporary differences. Since as required by ASC 740 the historical information should be supplemented by all currently available information about future years, the expected losses in future years is considered by management a strong negative evidence that will suggest that income in future years will be insufficient to support the realization of all deferred tax asset. After weighting of all positive and negative evidence management concluded, as of the reporting date, that it is more likely than not that the Holding Company will not be able to realize any portion of the deferred tax assets, considering the criteria of ASC Topic 740. Accordingly, a full valuation allowance is recorded on the deferred tax asset at the Holding Company, which amounted to \$32 million as of September 30, 2015.

The reconciliation of unrecognized tax benefits was as follows:

(In millions)	2015	2014
Balance at January 1	\$ 8.0	\$ 9.8
Additions for tax positions - January through March	0.3	0.3
Reduction as a result of settlements - January through March	(0.5)	
Balance at March 31	\$ 7.8	\$ 10.1
Additions for tax positions - April through June	0.3	0.2
Balance at June 30	\$ 8.1	\$ 10.3
Additions for tax positions - July through September	0.6	0.3
Reduction as a result of lapse of statute of limitations - July through September		(2.5)
Balance at September 30	\$ 8.7	\$ 8.1

At September 30, 2015, the total amount of interest recognized in the statement of financial condition approximated \$3.0 million (December 31, 2014 - \$3.1 million). The total interest expense recognized at September 2015 was \$496 thousand (December 31, 2014 - \$540 thousand). Management determined that at September 30, 2015 and December 31, 2014 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 \$10.8 million at September 30, 2015 (December 31, 2014 - \$9.8 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.

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The Corporation and its subsidiaries file income tax returns in Puerto Rico, the U.S. federal jurisdiction, various U.S. states and political subdivisions, and foreign jurisdictions. At September 30, 2015, the following years remain subject to examination in the U.S. Federal jurisdiction: 2011 and thereafter; and in the Puerto Rico jurisdiction, 2010 and thereafter. The Corporation anticipates a reduction in the total amount of unrecognized tax benefits within the next 12 months, which could amount to approximately \$5.9 million.

Table of Contents**Note 37 Supplemental disclosure on the consolidated statements of cash flows**

Additional disclosures on cash flow information and non-cash activities for the nine months ended September 30, 2015 and September 30, 2014 are listed in the following table:

(In thousands)	September 30, 2015	September 30, 2014
Non-cash activities:		
Loans transferred to other real estate	\$ 104,778	\$ 118,098
Loans transferred to other property	29,034	30,062
Total loans transferred to foreclosed assets	133,812	148,160
Transfers from loans held-in-portfolio to loans held-for-sale	72,501	2,114,589
Transfers from loans held-for-sale to loans held-in-portfolio	9,113	3,913
Transfers from trading securities to available-for-sale securities	5,523	
Loans securitized into investment securities ^[1]	825,126	695,416
Trades receivable from brokers and counterparties	125,625	77,618
Trades payable to brokers and counterparties	24,812	654
Recognition of mortgage servicing rights on securitizations or asset transfers	10,798	9,611

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

As previously disclosed in Note 5, Business Combination, on February 27, 2015, the Corporation's Puerto Rico banking subsidiary, BPPR, in an alliance with co-bidders, including the Corporation's U.S. mainland banking subsidiary, PCB, acquired certain assets and all deposits (other than certain brokered deposits) of Doral Bank from the FDIC as receiver. As part of this transaction, BPPR received net cash proceeds of approximately \$ 731 million for consideration of the assets and liabilities acquired.

During the quarter ended September 30, 2014 BPNA completed the sale of its Illinois and Central Florida regional operations. As part of these transactions, BPNA made a net cash disbursement of \$234.0 million for consideration of the assets and liabilities sold, as follows:

(In thousands)	September 30, 2014
Loans held-for-sale	\$ 660,891
Premises and equipment, net	8,440
Other assets	9,021
Deposits	(938,758)

Other liabilities		(1,586)
Net liabilities sold	\$	(261,992)

Table of Contents**Note 38 Segment reporting**

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

As indicated in Note 5 to the consolidated financial statements, Business Combination, on February 27, 2015, Banco Popular de Puerto Rico, in an alliance with co-bidders, including BPNA, acquired certain assets and all deposits of Doral Bank from the FDIC as receiver. The financial results for the quarter and nine months period ended on September 30, 2015 of both reportable segments include the results from the operations acquired as part of the Doral Bank Transaction.

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 September 30, 2015, additional disclosures are provided for the business areas included in this reportable segment, as described below:

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

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

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

Banco Popular North America:

Banco Popular North America's reportable segment consists of the banking operations of BPNA, E-LOAN, Popular Equipment Finance, Inc. and Popular Insurance Agency, U.S.A. BPNA operates through a retail branch network in the U.S. mainland under the name of Popular Community Bank, while E-LOAN supports BPNA's deposit gathering through its online platform. All direct lending activities at E-LOAN were ceased during the fourth quarter of 2008. During the third quarter of 2015, BPNA and E-LOAN completed an asset purchase and sale transaction in which E-LOAN sold to BPNA all of its outstanding loan portfolio, including residential mortgage loans and home equity lines of credit, which had a carrying value of approximately \$213 million. Prior to this transaction, the Corporation provided additional disclosures for the BPNA reportable segment, related to E-LOAN. After the close of the above mentioned asset purchase and sale transaction, additional disclosures with respect to E-LOAN are no longer considered relevant to the financial statements and accordingly are not presented. Popular Equipment Finance, Inc. also holds a running-off loan portfolio as this subsidiary ceased originating loans during 2009. Popular Insurance Agency, U.S.A. offers investment and insurance services across the BPNA branch network.

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

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

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

2015

For the quarter ended September 30, 2015

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	\$ 303,834	\$ 62,415	\$
Provision for loan losses	66,011	813	
Non-interest income	116,765	5,426	
Amortization of intangibles	3,194	318	
Depreciation expense	9,964	1,368	
Other operating expenses	232,211	42,503	
Income tax expense	27,778	1,374	
Net income	\$ 81,441	\$ 21,465	\$
Segment assets	\$ 27,968,091	\$ 7,477,202	\$ (133,472)

For the quarter ended September 30, 2015

(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	\$ 366,249	\$ (15,514)	\$	\$ 350,735
Provision (reversal of provision) for loan losses	66,824	(146)		66,678
Non-interest income	122,191	8,974	(56)	131,109
Amortization of intangibles	3,512			3,512
Depreciation expense	11,332	178		11,510
Other operating expenses	274,714	17,841	(680)	291,875
Income tax expense (benefit)	29,152	(6,775)	243	22,620
Net income (loss)	\$ 102,906	\$ (17,638)	\$ 381	\$ 85,649
Segment assets	\$ 35,311,821	\$ 4,916,194	\$ (4,697,221)	\$ 35,530,794

For the nine months ended September 30, 2015

(In thousands)

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	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	\$ 926,531	\$ 176,447	\$
Provision (reversal of provision) for loan losses	184,317	(1,450)	
Non-interest income	346,030	17,262	125
Amortization of intangibles	7,756	741	
Depreciation expense	30,175	4,731	
Other operating expenses	739,672	145,460	
Income tax expense (benefit)	82,539	(541,522)	
Net income	\$ 228,102	\$ 585,749	\$ 125
Segment assets	\$ 27,968,091	\$ 7,477,202	\$ (133,472)

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For the nine months ended September 30, 2015

(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	\$ 1,102,978	\$ (46,495)	\$	\$ 1,056,483
Provision for loan losses	182,867	80		182,947
Non-interest income	363,417	25,099	(1,413)	387,103
Amortization of intangibles	8,497			8,497
Depreciation expense	34,906	553		35,459
Other operating expenses	885,132	55,434	(2,110)	938,456
Income tax benefit	(458,983)	(19,633)	272	(478,344)
Net income (loss)	\$ 813,976	\$ (57,830)	\$ 425	\$ 756,571
Segment assets	\$ 35,311,821	\$ 4,916,194	(4,697,221)	\$ 35,530,794

2014

For the quarter ended September 30, 2014

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	\$ 315,743	\$ 26,399	\$
Provision for loan losses	74,350	6,298	
Non-interest income	97,592	17,394	
Amortization of intangibles	1,824	202	
Depreciation expense	9,770	1,632	
Other operating expenses	233,797	46,183	
Income tax expense	31,374	847	
Net income (loss)	\$ 62,220	\$ (11,369)	\$

For the quarter ended September 30, 2014

(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	\$ 342,142	\$ (15,721)	\$	\$ 326,421
Provision (reversal of provision) for loan losses	80,648	(19)		80,629
Non-interest income	114,986	9,401	(57)	124,330
Amortization of intangibles	2,026			2,026
Depreciation expense	11,402	165		11,567
Other operating expenses	279,980	17,746	(679)	297,047

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Income tax expense (benefit)	32,221	(5,796)	242	26,667
Net income (loss)	\$ 50,851	\$ (18,416)	\$ 380	\$ 32,815

For the nine months ended September 30, 2014

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	\$ 977,692	\$ 126,518	\$
Provision (reversal of provision) for loan losses	240,619	(18,281)	
Non-interest income	204,186	46,183	
Amortization of intangibles	5,470	607	
Depreciation expense	29,092	5,016	
Other operating expenses	654,842	122,185	
Income tax expense	53,359	2,539	
Net income	\$ 198,496	\$ 60,635	\$

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For the nine months ended September 30, 2014

(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	\$ 1,104,210	\$ (485,999)	\$	\$ 618,211
Provision (reversal of provision) for loan losses	222,338	(195)		222,143
Non-interest income	250,369	34,157	(1,375)	283,151
Amortization of intangibles	6,077			6,077
Depreciation expense	34,108	490		34,598
Other operating expenses	777,027	48,048	(2,072)	823,003
Income tax expense (benefit)	55,898	(10,363)	272	45,807
Net income (loss)	\$ 259,131	\$ (489,822)	\$ 425	\$ (230,266)

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

2015

For the quarter ended September 30, 2015

Banco Popular de Puerto Rico

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	\$ 114,427	\$ 182,398	\$ 2,186	\$ 4,823	\$ 303,834
Provision for loan losses	22,121	43,890			66,011
Non-interest income	30,157	63,207	23,501	(100)	116,765
Amortization of intangibles	7	2,056	1,131		3,194
Depreciation expense	3,669	6,018	277		9,964
Other operating expenses	54,850	159,583	17,878	(100)	232,211
Income tax (benefit) expense	19,845	6,813	1,120		27,778
Net (loss) income	\$ 44,092	\$ 27,245	\$ 5,281	\$ 4,823	\$ 81,441
Segment assets	\$ 9,225,915	\$ 18,596,996	\$ 503,062	\$ (357,882)	\$ 27,968,091

For the nine months ended September 30, 2015

Banco Popular de Puerto Rico

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	\$ 352,108	\$ 563,387	\$ 6,209	\$ 4,827	\$ 926,531
Provision for loan losses	85,358	98,959			184,317

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Non-interest income	93,299	185,647	67,379	(295)	346,030
Amortization of intangibles	13	5,740	2,003		7,756
Depreciation expense	12,692	16,634	849		30,175
Other operating expenses	222,421	465,522	52,024	(295)	739,672
Income tax expense	32,503	44,121	5,915		82,539
Net income	\$ 92,420	\$ 118,058	\$ 12,797	\$ 4,827	\$ 228,102
Segment assets	\$ 9,225,915	\$ 18,596,996	\$ 503,062	\$ (357,882)	\$ 27,968,091

Table of Contents**2014**

For the quarter ended September 30, 2014
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	\$ 126,393	\$ 187,120	\$ 2,230	\$	\$ 315,743
Provision for loan losses	24,811	49,539			74,350
Non-interest (expense) income	(421)	74,999	23,060	(46)	97,592
Amortization of intangibles	1	1,708	115		1,824
Depreciation expense	4,166	5,331	273		9,770
Other operating expenses	69,124	147,557	17,162	(46)	233,797
Income tax expense	8,780	20,174	2,420		31,374
Net income	\$ 19,090	\$ 37,810	\$ 5,320	\$	\$ 62,220

For the nine months ended September 30, 2014
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	\$ 402,759	\$ 567,816	\$ 7,117	\$	\$ 977,692
Provision for loan losses	132,879	107,740			240,619
Non-interest (expense) income	(6,878)	141,393	69,753	(82)	204,186
Amortization of intangibles	3	5,126	341		5,470
Depreciation expense	12,189	16,061	842		29,092
Other operating expenses	183,889	421,777	49,258	(82)	654,842
Income tax expense	10,698	33,776	8,885		53,359
Net income	\$ 56,223	\$ 124,729	\$ 17,544	\$	\$ 198,496

Geographic Information

(in thousands)

Quarter ended

Nine months ended

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	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Revenues:				
Puerto Rico	\$ 395,086	\$ 384,805	\$ 1,196,112	\$ 661,565
United States	67,418	47,519	191,363	174,994
Other	19,340	18,427	56,111	64,803
Total consolidated revenues	\$ 481,844	\$ 450,751	\$ 1,443,586	\$ 901,362

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

Table of Contents**Selected Balance Sheet Information:**

(In thousands)	September 30, 2015	December 31, 2014
Puerto Rico		
Total assets	\$ 26,839,163	\$ 26,276,561
Loans	17,755,485	17,704,170
Deposits	20,571,308	20,365,445
United States		
Total assets	\$ 7,541,889	\$ 5,689,604
Loans	4,763,325	3,568,564
Deposits	5,151,237	3,442,084
Other		
Total assets	\$ 1,149,742	\$ 1,130,530
Loans	815,703	780,483
Deposits ^[1]	990,661	1,000,006

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

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Note 39 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 September 30, 2015 and December 31, 2014, and the results of their operations and cash flows for periods ended September 30, 2015 and 2014.

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

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

A potential source of income for PIHC consists of dividends from BPPR and BPNA. Under existing federal banking regulations any dividend from BPPR or BPNA to the PIHC could be made if the total of all dividends declared by each entity during the calendar year would not exceed the total of its net income for that year, as defined by the Federal Reserve Board, combined with its retained net income for the preceding two years, less any required transfers to surplus or to a fund for the retirement of any preferred stock. At September 30, 2015, BPPR could have declared a dividend of approximately \$498 million (December 31, 2014 - \$542 million).

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

	At September 30, 2015				
(In thousands)	Popular Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Assets:					
Cash and due from banks	\$ 6,260	\$ 602	\$ 320,495	\$ (6,802)	\$ 320,555
Money market investments	1,136	954	2,408,435	(1,954)	2,408,571
Trading account securities, at fair value	1,828		136,115		137,943
Investment securities available-for-sale, at fair value	233		5,500,698		5,500,931
Investment securities held-to-maturity, at amortized cost			100,295		100,295
Other investment securities, at lower of cost or realizable value	9,850	4,492	159,315		173,657
Investment in subsidiaries	5,683,121	1,944,689		(7,627,810)	
Loans held-for-sale, at lower of cost or fair value			171,019		171,019
Loans held-in-portfolio:					
Loans not covered under loss-sharing agreements with the FDIC	44,290		22,600,011	(43,030)	22,601,271
Loans covered under loss-sharing agreements with the FDIC			665,428		665,428
Less - Unearned income			103,205		103,205
Allowance for loan losses	34		570,480		570,514
Total loans held-in-portfolio, net	44,256		22,591,754	(43,030)	22,592,980
FDIC loss share asset			311,946		311,946
Premises and equipment, net	2,764		492,339		495,103
Other real estate not covered under loss-sharing agreements with the FDIC	444		155,382		155,826
Other real estate covered under loss-sharing agreements with the FDIC			35,701		35,701
Accrued income receivable	162	31	117,963	(112)	118,044
Mortgage servicing assets, at fair value			210,851		210,851
Other assets	87,180	26,622	2,142,457	(35,205)	2,221,054
Goodwill			504,926	(1)	504,925
Other intangible assets	554		70,839		71,393

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Total assets	\$ 5,837,788	\$ 1,977,390	\$ 35,430,530	\$ (7,714,914)	\$ 35,530,794
Liabilities and Stockholders Equity					
Liabilities:					
Deposits:					
Non-interest bearing	\$	\$	\$ 6,077,521	\$ (6,802)	\$ 6,070,719
Interest bearing			20,644,441	(1,954)	20,642,487
Total deposits			26,721,962	(8,756)	26,713,206
Federal funds purchased and assets sold under agreements to repurchase			1,085,765		1,085,765
Other short-term borrowings		20,430	23,800	(43,030)	1,200
Notes payable	740,812	148,988	784,711		1,674,511
Other liabilities	47,340	4,132	989,009	(35,805)	1,004,676
Liabilities from discontinued operations			1,800		1,800
Total liabilities	788,152	173,550	29,607,047	(87,591)	30,481,158
Stockholders equity:					
Preferred stock	50,160				50,160

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Common stock	1,037	2	56,307	(56,309)	1,037
Surplus	4,192,278	4,269,208	5,931,332	(10,192,013)	4,200,805
Retained earnings (accumulated deficit)	1,001,836	(2,471,914)	24,845	2,438,542	993,309
Treasury stock, at cost	(5,869)				(5,869)
Accumulated other comprehensive loss, net of tax	(189,806)	6,544	(189,001)	182,457	(189,806)
Total stockholders equity	5,049,636	1,803,840	5,823,483	(7,627,323)	5,049,636
Total liabilities and stockholders equity	\$ 5,837,788	\$ 1,977,390	\$ 35,430,530	\$ (7,714,914)	\$ 35,530,794

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

(In thousands)	At December 31, 2014				
	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Assets:					
Cash and due from banks	\$ 20,448	\$ 608	\$ 380,890	\$ (20,851)	\$ 381,095
Money market investments	19,747	357	1,803,639	(1,357)	1,822,386
Trading account securities, at fair value	1,640		136,887		138,527
Investment securities available-for-sale, at fair value	231		5,314,928		5,315,159
Investment securities held-to-maturity, at amortized cost			103,170		103,170
Other investment securities, at lower of cost or realizable value	9,850	4,492	147,564		161,906
Investment in subsidiaries	4,878,866	1,353,616		(6,232,482)	
Loans held-for-sale, at lower of cost or fair value			106,104		106,104
Loans held-in-portfolio:					
Loans not covered under loss-sharing agreements with the FDIC	55,486		19,496,569	(53,769)	19,498,286
Loans covered under loss-sharing agreements with the FDIC			2,542,662		2,542,662
Less - Unearned income			93,835		93,835
Allowance for loan losses	41		601,751		601,792
Total loans held-in-portfolio, net	55,445		21,343,645	(53,769)	21,345,321
FDIC loss share asset			542,454		542,454
Premises and equipment, net	2,512		492,069		494,581
Other real estate not covered under loss-sharing agreements with the FDIC	90		135,410		135,500
Other real estate covered under loss-sharing agreements with the FDIC			130,266		130,266
Accrued income receivable	75	112	121,657	(26)	121,818
Mortgage servicing assets, at fair value			148,694		148,694
Other assets	67,962	26,514	1,570,094	(18,127)	1,646,443
Goodwill			465,677	(1)	465,676
Other intangible assets	555		37,040		37,595

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Total assets	\$ 5,057,421	\$ 1,385,699	\$ 32,980,188	\$ (6,326,613)	\$ 33,096,695
Liabilities and Stockholders Equity					
Liabilities:					
Deposits:					
Non-interest bearing	\$	\$	\$ 5,804,599	\$ (20,851)	\$ 5,783,748
Interest bearing			19,025,144	(1,357)	19,023,787
Total deposits			24,829,743	(22,208)	24,807,535
Federal funds purchased and assets sold under agreements to repurchase			1,271,657		1,271,657
Other short-term borrowings		8,169	66,800	(53,769)	21,200
Notes payable	740,812	148,988	822,028		1,711,828
Other liabilities	49,226	6,872	974,147	(18,216)	1,012,029
Liabilities from discontinued operations			5,064		5,064
Total liabilities	790,038	164,029	27,969,439	(94,193)	28,829,313
Stockholders equity:					
Preferred stock	50,160				50,160

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Common stock	1,036	2	56,307	(56,309)	1,036
Surplus	4,187,931	4,269,208	5,931,161	(10,191,842)	4,196,458
Retained earnings (accumulated deficit)	262,244	(3,043,476)	(747,702)	3,782,651	253,717
Treasury stock, at cost	(4,116)		(1)		(4,117)
Accumulated other comprehensive loss, net of tax	(229,872)	(4,064)	(229,016)	233,080	(229,872)
Total stockholders equity	4,267,383	1,221,670	5,010,749	(6,232,420)	4,267,382
Total liabilities and stockholders equity	\$ 5,057,421	\$ 1,385,699	\$ 32,980,188	\$ (6,326,613)	\$ 33,096,695

Condensed Consolidating Statement of Operations (Unaudited)

(In thousands)	Quarter ended September 30, 2015				
	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Interest and dividend income:					
Dividend income from subsidiaries	\$ 19,175	\$	\$	\$ (19,175)	\$
Loans	190	1	364,430	(163)	364,458
Money market investments	1	1	2,003	(2)	2,003
Investment securities	143	81	31,447		31,671
Trading account securities			3,150		3,150
Total interest and dividend income	19,509	83	401,030	(19,340)	401,282
Interest expense:					
Deposits			28,359	(2)	28,357
Short-term borrowings		149	2,236	(163)	2,222
Long-term debt	13,118	2,695	4,155		19,968
Total interest expense	13,118	2,844	34,750	(165)	50,547
Net interest income (expense)	6,391	(2,761)	366,280	(19,175)	350,735
Provision (reversal) for loan losses-non-covered loans	(146)		69,714		69,568
Provision (reversal) for loan losses-covered loans			(2,890)		(2,890)
Net interest income (expense) after provision for loan losses	6,537	(2,761)	299,456	(19,175)	284,057
Service charges on deposit accounts			40,960		40,960
Other service fees			56,160	(45)	56,115

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Mortgage banking activities			24,195		24,195
Net gain and valuation adjustments on investment securities			136		136
Trading account loss	(116)		(282)		(398)
Adjustments (expense) to indemnity reserves on loans sold			(5,874)		(5,874)
FDIC loss-share income			1,207		1,207
Other operating income	2,520	416	11,842	(10)	14,768
Total non-interest income	2,404	416	128,344	(55)	131,109
Operating expenses:					
Personnel costs	11,287		109,576		120,863
Net occupancy expenses	894		20,383		21,277
Equipment expenses	520		14,219		14,739
Other taxes	46		9,905		9,951
Professional fees	2,789	33	74,377	(45)	77,154
Communications	137		5,921		6,058

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Business promotion	464		11,861		12,325
FDIC deposit insurance			7,300		7,300
Other real estate owned (OREO) expenses			7,686		7,686
Other operating expenses	(19,896)	109	45,972	(634)	25,551
Amortization of intangibles			3,512		3,512
Restructuring cost			481		481
Total operating expenses	(3,759)	142	311,193	(679)	306,897
Income (loss) before income tax and equity in earnings of subsidiaries	12,700	(2,487)	116,607	(18,551)	108,269
Income tax expense	45		22,332	243	22,620
Income (loss) before equity in earnings of subsidiaries	12,655	(2,487)	94,275	(18,794)	85,649
Equity in undistributed earnings of subsidiaries	72,994	18,824		(91,818)	
Income from continuing operations	85,649	16,337	94,275	(110,612)	85,649
Loss from discontinued operations, net of tax			(9)		(9)
Equity in undistributed losses of discontinued operations	(9)	(9)		18	
Net Income	\$ 85,640	\$ 16,328	\$ 94,266	\$ (110,594)	\$ 85,640
Comprehensive income, net of tax	\$ 114,865	\$ 24,343	\$ 123,544	\$ (147,887)	\$ 114,865

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

(In thousands)	Nine months ended September 30, 2015				
	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Interest and dividend income:					
Dividend income from subsidiaries	\$ 22,175	\$	\$	\$ (22,175)	\$
Loans	499	3	1,094,152	(432)	1,094,222
Money market investments	5	4	5,292	(7)	5,294
Investment securities	476	242	92,551		93,269
Trading account securities			8,872		8,872
Total interest and dividend income	23,155	249	1,200,867	(22,614)	1,201,657
Interest expense:					
Deposits			80,486	(7)	80,479
Short-term borrowings		378	5,873	(432)	5,819
Long-term debt	39,353	8,084	11,439		58,876
Total interest expense	39,353	8,462	97,798	(439)	145,174
Net interest (expense) income	(16,198)	(8,213)	1,103,069	(22,175)	1,056,483
Provision for loan losses- non-covered loans	81		159,666		159,747
Provision for loan losses- covered loans			23,200		23,200
Net interest (expense) income after provision for loan losses	(16,279)	(8,213)	920,203	(22,175)	873,536
Service charges on deposit accounts			120,115		120,115
Other service fees			170,535	(1,373)	169,162
Mortgage banking activities			58,372		58,372
Net loss and valuation adjustments on investment securities			141		141
Other-than-temporary impairment losses on investment securities			(14,445)		(14,445)
Trading account loss	(94)		(2,998)		(3,092)
Net gain on sale of loans, including valuation adjustments on loans held-for-sale			602		602
Adjustments (expense) to indemnity reserves on loans sold			(9,981)		(9,981)
FDIC loss-share income			24,421		24,421
Other operating income	8,911	111	32,826	(40)	41,808

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Total non-interest income	8,817	111	379,588	(1,413)	387,103
Operating expenses:					
Personnel costs	37,665		320,633		358,298
Net occupancy expenses	2,661		63,611		66,272
Equipment expenses	1,538		42,537		44,075
Other taxes	(759)		30,397		29,638
Professional fees	7,885	474	222,966	(194)	231,131
Communications	362		18,025		18,387
Business promotion	1,308		35,606		36,914
FDIC deposit insurance			22,240		22,240
Other real estate owned (OREO) expenses			75,571		75,571
Other operating expenses	(52,016)	328	127,585	(1,916)	73,981
Amortization of intangibles			8,497		8,497
Restructuring costs			17,408		17,408
Total operating expenses	(1,356)	802	985,076	(2,110)	982,412
(Loss) income before income tax and equity in earnings of subsidiaries	(6,106)	(8,904)	314,715	(21,478)	278,227

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Income tax expense (benefit)	45		(478,661)	272	(478,344)
(Loss) income before equity in earnings of subsidiaries	(6,151)	(8,904)	793,376	(21,750)	756,571
Equity in undistributed earnings of subsidiaries	762,722	579,119		(1,341,841)	
Income from continuing operations	756,571	570,215	793,376	(1,363,591)	756,571
Income from discontinued operations, net of tax			1,347		1,347
Equity in undistributed earnings of discontinued operations	1,347	1,347		(2,694)	
Net Income	\$ 757,918	\$ 571,562	\$ 794,723	\$ (1,366,285)	\$ 757,918
Comprehensive income, net of tax	\$ 797,984	\$ 582,170	\$ 834,738	\$ (1,416,908)	\$ 797,984

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

(In thousands)	Quarter ended September 30, 2014				Popular, Inc. Consolidated
	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	
Interest income:					
Loans	\$ 103	\$	\$ 362,569	\$ (80)	\$ 362,592
Money market investments	5	1	1,005	(4)	1,007
Investment securities	144	81	32,929		33,154
Trading account securities			4,446		4,446
Total interest income	252	82	400,949	(84)	401,199
Interest expense:					
Deposits			26,534	(1)	26,533
Short-term borrowings		33	29,005	(83)	28,955
Long-term debt	13,337	2,707	3,246		19,290
Total interest expense	13,337	2,740	58,785	(84)	74,778
Net interest (expense) income	(13,085)	(2,658)	342,164		326,421
Provision (reversal) for loan losses-non-covered loans	(19)		68,185		68,166
Provision for loan losses-covered loans			12,463		12,463
Net interest (expense) income after provision for loan losses	(13,066)	(2,658)	261,516		245,792
Service charges on deposit accounts			40,585		40,585
Other service fees			54,894	(55)	54,839
Mortgage banking activities			14,402		14,402
Net gain and valuation adjustments on investment securities			(1,763)		(1,763)
Trading account (loss) profit	(33)		773		740
Net gain on sale of loans, including valuation adjustments on loans held-for-sale			15,593		15,593
Adjustments (expense) to indemnity reserves on loans sold			(9,480)		(9,480)
FDIC loss-share expense			(4,864)		(4,864)
Other operating income	2,792	1,058	10,430	(2)	14,278
Total non-interest income	2,759	1,058	120,570	(57)	124,330
Operating expenses:					

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Personnel costs	9,151		95,391		104,542
Net occupancy expenses	1,029		20,174		21,203
Equipment expenses	980		11,390		12,370
Other taxes	840		14,529		15,369
Professional fees	3,169	312	64,224	(56)	67,649
Communications	138		6,317		6,455
Business promotion	378		12,684		13,062
FDIC deposit insurance			9,511		9,511
Other real estate owned (OREO) expenses			19,745		19,745
Other operating expenses	(14,976)	109	45,909	(624)	30,418
Amortization of intangibles			2,026		2,026
Restructuring cost			8,290		8,290
Total operating expenses	709	421	310,190	(680)	310,640

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(Loss) income before income tax and equity in earnings of subsidiaries	(11,016)	(2,021)	71,896	623	59,482
Income tax expense	89		26,336	242	26,667
(Loss) income before equity in earnings of subsidiaries	(11,105)	(2,021)	45,560	381	32,815
Equity in undistributed earnings of subsidiaries	43,920	(14,381)		(29,539)	
Income (loss) from continuing operations	32,815	(16,402)	45,560	(29,158)	32,815
Income from discontinued operations, net of tax			29,758		29,758
Equity in undistributed earnings of discontinued operations	29,758	29,758		(59,516)	
Net Income	\$ 62,573	\$ 13,356	\$ 75,318	\$ (88,674)	\$ 62,573
Comprehensive income, net of tax	\$ 42,797	\$ 4,510	\$ 55,418	\$ (59,928)	\$ 42,797

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

(In thousands)	Nine months ended September 30, 2014				
	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Interest income:					
Loans	\$ 1,163	\$	\$ 1,121,116	\$ (1,099)	\$ 1,121,180
Money market investments	17	6	3,108	(20)	3,111
Investment securities	475	242	101,553		102,270
Trading account securities			15,047		15,047
Total interest income	1,655	248	1,240,824	(1,119)	1,241,608
Interest expense:					
Deposits			79,620	(6)	79,614
Short-term borrowings		339	47,661	(1,113)	46,887
Long-term debt	479,524	8,120	9,252		496,896
Total interest expense	479,524	8,459	136,533	(1,119)	623,397
Net interest (expense) income	(477,869)	(8,211)	1,104,291		618,211
Provision (reversal) for loan losses-non-covered loans	(195)		172,557		172,362
Provision for loan losses-covered loans			49,781		49,781
Net interest (expense) income after provision for loan losses	(477,674)	(8,211)	881,953		396,068
Service charges on deposit accounts			119,181		119,181
Other service fees			165,498	(1,373)	164,125
Mortgage banking activities			21,868		21,868
Net gain and valuation adjustments on investment securities			(1,763)		(1,763)
Trading account profit	40		3,732		3,772
Net gain on sale of loans, including valuation adjustments on loans held-for-sale			29,645		29,645
Adjustments (expense) to indemnity reserves on loans sold			(27,281)		(27,281)
FDIC loss-share expense			(84,331)		(84,331)
Other operating income	9,301	371	48,265	(2)	57,935
Total non-interest income	9,341	371	274,814	(1,375)	283,151

Operating expenses:

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Personnel costs	25,661		282,282		307,943
Net occupancy expenses	2,974		59,856		62,830
Equipment expenses	3,000		32,826		35,826
Other taxes	1,200		41,375		42,575
Professional fees	8,481	1,075	192,293	(177)	201,672
Communications	387		19,178		19,565
Business promotion	1,228		39,258		40,486
FDIC deposit insurance			30,969		30,969
Other real estate owned (OREO) expenses			29,595		29,595
Other operating expenses	(43,995)	326	118,840	(1,895)	73,276
Amortization of intangibles			6,077		6,077
Restructuring costs			12,864		12,864
Total operating expenses	(1,064)	1,401	865,413	(2,072)	863,678
(Loss) income before income tax and equity in earnings of subsidiaries	(467,269)	(9,241)	291,354	697	(184,459)
Income tax expense	8,239		37,296	272	45,807

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(Loss) income before equity in earnings of subsidiaries	(475,508)	(9,241)	254,058	425	(230,266)
Equity in undistributed earnings of subsidiaries	245,242	50,910		(296,152)	
(Loss) income from continuing operations	(230,266)	41,669	254,058	(295,727)	(230,266)
Loss from discontinued operations, net of tax			(132,066)		(132,066)
Equity in undistributed losses of discontinued operations	(132,066)	(132,066)		264,132	
Net (Loss) Income	\$ (362,332)	\$ (90,397)	\$ 121,992	\$ (31,595)	\$ (362,332)
Comprehensive (loss) income, net of tax	\$ (323,654)	\$ (75,501)	\$ 161,632	\$ (86,131)	\$ (323,654)

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

(In thousands)	Nine months ended September 30, 2015				
	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Cash flows from operating activities:					
Net income	\$ 757,918	\$ 571,562	\$ 794,723	\$ (1,366,285)	\$ 757,918
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:					
Equity in undistributed earnings of subsidiaries	(764,069)	(580,466)		1,344,535	
Provision for loan losses	81		182,866		182,947
Amortization of intangibles			8,497		8,497
Depreciation and amortization of premises and equipment	553		34,906		35,459
Net accretion of discounts and amortization of premiums and deferred fees			(58,637)		(58,637)
Other-than-temporary impairment on investment securities			14,445		14,445
Fair value adjustments on mortgage servicing rights			5,808		5,808
FDIC loss share income			(24,421)		(24,421)
Adjustments (expense) to indemnity reserves on loans sold			9,981		9,981
Earnings from investments under the equity method	(8,911)	(111)	(8,063)		(17,085)
Deferred income tax benefit			(496,551)	272	(496,279)
(Gain) loss on:					
Disposition of premises and equipment	(2)		(2,937)		(2,939)
Sale and valuation adjustments of investment securities			(141)		(141)
Sale of loans, including valuation adjustments on loans held for sale and mortgage banking activities			(24,657)		(24,657)
Sale of foreclosed assets, including write-downs			56,391		56,391
Acquisitions of loans held-for-sale			(331,860)		(331,860)
Proceeds from sale of loans held-for-sale			71,296		71,296
Net originations on loans held-for-sale			(574,942)		(574,942)

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Net (increase) decrease in:					
Trading securities	(188)		783,492		783,304
Accrued income receivable	(87)	80	11,503	86	11,582
Other assets	(10,258)	3	37,453	33,981	61,179
Net (decrease) increase in:					
Interest payable	(7,875)	(2,599)	(52)	(86)	(10,612)
Pension and other postretirement benefits obligations			2,567		2,567
Other liabilities	(9,545)	(140)	(11,865)	(17,503)	(39,053)
Total adjustments	(800,301)	(583,233)	(314,921)	1,361,285	(337,170)
Net cash (used in) provided by operating activities					
	(42,383)	(11,671)	479,802	(5,000)	420,748
Cash flows from investing activities:					
Net decrease (increase) in money market investments					
	18,611	(596)	(604,796)	596	(586,185)
Purchases of investment securities:					
Available-for-sale			(1,239,962)		(1,239,962)
Held-to-maturity			(250)		(250)
Other			(39,391)		(39,391)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:					
Available-for-sale			1,152,074		1,152,074
Held-to-maturity			4,428		4,428
Other			45,497		45,497
Proceeds from sale of investment securities:					
Available for sale			96,760		96,760
Other			12,928		12,928
Net repayments on loans	10,753	350	318,555	(10,739)	318,919
Proceeds from sale of loans			27,780		27,780
Acquisition of loan portfolios		(350)	(173,155)		(173,505)

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Acquisition of trademark			(50)		(50)
Net payments from FDIC under loss sharing agreements			245,416		245,416
Net cash received and acquired from business combination			731,279		731,279
Acquisition of servicing assets			(61,304)		(61,304)
Cash paid related to business acquisitions			(17,250)		(17,250)
Mortgage servicing rights purchased			(2,400)		(2,400)
Acquisition of premises and equipment	(808)		(40,301)		(41,109)
Proceeds from sale of:					
Premises and equipment	6		10,160		10,166
Foreclosed assets			115,078		115,078
Net cash provided by (used in) investing activities	28,562	(596)	581,096	(10,143)	598,919
Cash flows from financing activities:					
Net (decrease) increase in:					
Deposits			(302,897)	13,453	(289,444)
Federal funds purchased and assets sold under agreements to repurchase			(185,892)		(185,892)
Other short-term borrowings	12,261		(171,215)	10,739	(148,215)
Payments of notes payable			(719,575)		(719,575)
Proceeds from issuance of notes payable			263,286		263,286
Proceeds from issuance of common stock	4,177				4,177
Dividends paid to parent company			(5,000)	5,000	
Dividends paid	(2,792)				(2,792)
Net payments for repurchase of common stock	(1,752)				(1,752)
Net cash (used in) provided by financing activities	(367)	12,261	(1,121,293)	29,192	(1,080,207)
Net decrease in cash and due from banks	(14,188)	(6)	(60,395)	14,049	(60,540)
Cash and due from banks at beginning of period	20,448	608	380,890	(20,851)	381,095
Cash and due from banks at end of period	\$ 6,260	\$ 602	\$ 320,495	\$ (6,802)	\$ 320,555

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

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

(In thousands)	Nine months ended September 30, 2014				
	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Cash flows from operating activities:					
Net (loss) income	\$ (362,332)	\$ (90,397)	\$ 121,992	\$ (31,595)	\$ (362,332)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:					
Equity in undistributed (earnings) losses of subsidiaries	(113,176)	81,156		32,020	
Provision for loan losses	(195)		215,573		215,378
Goodwill impairment losses			186,511		186,511
Amortization of intangibles			7,351		7,351
Depreciation and amortization of premises and equipment	490		34,917		35,407
Net accretion of discounts and amortization of premiums and deferred fees	404,461		(106,143)		298,318
Fair value adjustments on mortgage servicing rights			18,424		18,424
FDIC loss share expense			84,331		84,331
Adjustments (expense) to indemnity reserves on loans sold			27,281		27,281
Earnings from investments under the equity method	(9,301)	(371)	(22,258)		(31,930)
Deferred income tax expense	7,857		26,046	272	34,175
Loss (gain) on:					
Disposition of premises and equipment	1		(2,579)		(2,578)
Sale and valuation adjustments of investment securities			1,763		1,763
Sale of loans, including valuation adjustments on loans held for sale and mortgage banking activities			(69,391)		(69,391)
Sale of foreclosed assets, including write-downs			13,147		13,147
Disposal of discontinued business			(28,025)		(28,025)
Acquisitions of loans held-for-sale			(232,430)		(232,430)
Proceeds from sale of loans held-for-sale			97,638		97,638
Net originations on loans held-for-sale			(512,521)		(512,521)
Net (increase) decrease in:					
Trading securities	(247)		883,282		883,035
Accrued income receivable	9	83	11,349	(4)	11,437

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Other assets	4,554	(7,168)	155,043	(27,760)	124,669
Net (decrease) increase in:					
Interest payable	(809)	(2,669)	(8,273)	4	(11,747)
Pension and other postretirement benefits obligations			(4,478)		(4,478)
Other liabilities	(4,954)	(31,996)	43,708	27,063	33,821
Total adjustments	288,690	39,035	820,266	31,595	1,179,586
Net cash (used in) provided by operating activities	(73,642)	(51,362)	942,258		817,254
Cash flows from investing activities:					
Net (increase) decrease in money market investments	(997)	3,230	(194,671)	(2,230)	(194,668)
Purchases of investment securities:					
Available-for-sale			(1,825,654)		(1,825,654)
Held-to-maturity			(1,000)		(1,000)
Other			(97,301)		(97,301)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:					
Available-for-sale			1,327,672		1,327,672
Held-to-maturity			29,834		29,834
Other	1,000		89,530		90,530
Proceeds from sale of investment securities:					
Available for sale			91,298		91,298
Other			27,356		27,356
Net repayments on loans	448,285		628,860	(448,574)	628,571
Proceeds from sale of loans			233,527		233,527
Acquisition of loan portfolios			(356,710)		(356,710)

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Net payments from FDIC under loss sharing agreements			179,250		179,250
Capital contribution to subsidiary	(100,000)			100,000	
Return of capital from wholly-owned subsidiaries	210,000	250,000		(460,000)	
Net cash disbursed from disposal of discontinued business			(233,967)		(233,967)
Acquisition of premises and equipment	(415)		(39,189)		(39,604)
Proceeds from sale of:					
Premises and equipment	24		12,120		12,144
Foreclosed assets			110,677		110,677
Net cash provided by (used in) investing activities	557,897	253,230	(18,368)	(810,804)	(18,045)
Cash flows from financing activities:					
Net (decrease) increase in:					
Deposits			(220,680)	8,416	(212,264)
Federal funds purchased and assets sold under agreements to repurchase			(8,580)		(8,580)
Other short-term borrowings		8,126	(856,700)	448,574	(400,000)
Payments of notes payable	(936,000)		(111,546)		(1,047,546)
Proceeds from issuance of notes payable	450,000		331,905		781,905
Proceeds from issuance of common stock	4,323				4,323
Dividends paid	(2,792)				(2,792)
Repurchase of TARP-related warrants	(3,000)				(3,000)
Net payments for repurchase of common stock	(3,052)				(3,052)
Return of capital to parent company		(210,000)	(250,000)	460,000	
Capital contribution from parent			100,000	(100,000)	
Net cash used in by financing activities	(490,521)	(201,874)	(1,015,601)	816,990	(891,006)
Net decrease in cash and due from banks	(6,266)	(6)	(91,711)	6,186	(91,797)
Cash and due from banks at beginning of period	10,595	616	422,967	(10,967)	423,211
Cash and due from banks at end of period, including discontinued operations	4,329	610	331,256	(4,781)	331,414
Less: cash from discontinued operations			9,500		9,500
Cash and due from banks at end of period	\$ 4,329	\$ 610	\$ 321,756	\$ (4,781)	\$ 321,914

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

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

The Corporation is a diversified, publicly-owned financial holding company subject to the supervision and regulation of the Board of Governors of the Federal Reserve System. The Corporation has operations in Puerto Rico, the United States (U.S.) mainland, and the U.S. and British Virgin Islands. In Puerto Rico, the Corporation provides retail, including residential mortgage loan originations, and commercial banking services through its principal banking subsidiary, Banco Popular de Puerto Rico (BPPR), as well as investment banking, broker-dealer, auto and equipment leasing and financing, and insurance services through specialized subsidiaries. In the U.S. mainland, the Corporation operates Banco Popular North America (BPNA), including its wholly-owned subsidiary E-LOAN. BPNA focuses efforts and resources on the core community banking business. BPNA, under the name Popular Community Bank (PCB), operates branches in New York, New Jersey and Southern Florida. E-LOAN markets deposit accounts under its name for the benefit of BPNA. Note 38 to the consolidated financial statements presents information about the Corporation's business segments. As of September 30, 2015, the Corporation had a 15.31% interest in the holding company of EVERTEC, which provides transaction processing services throughout the Caribbean and Latin America, including servicing many of the Corporation's system infrastructures and transaction processing businesses. During the quarter ended September 30, 2015, the Corporation recorded \$2.8 million in earnings from its investment in EVERTEC, which had a carrying amount of \$30.9 million as of the end of the quarter. Also, the Corporation had a 15.84% stake in Centro Financiero BHD Leon, S.A. (BHD Leon), one of the largest banking and financial services groups in the Dominican Republic. During the quarter ended September 30, 2015 the Corporation recorded \$6.2 million in earnings from its investment in BHD Leon, which had a carrying amount of \$113.1 million, as of the end of the quarter.

OVERVIEW**Recent significant events**

During the quarter ended September 30, 2015, the Corporation:

Reinstated the quarterly cash dividend on its outstanding common stock. A cash dividend of \$0.15 per share was paid on October 7, 2015 to shareholders of record at the close of business on September 29, 2015. This represents a quarterly payout of approximately \$15.5 million.

Acquired mortgage servicing rights for a portfolio previously serviced by Doral Bank, with approximately \$873 million in unpaid principal balance, in connection with a pre-existing backup servicing agreement. As a result, the fair value of the Corporation's mortgage servicing rights reflected an increase of approximately \$4.4 million during the quarter. The Corporation also purchased the servicing advances related to this portfolio from the FDIC, as receiver of Doral Bank, for a price of \$46.6 million.

Completed the information systems conversion and integration related to the assets and liabilities acquired in the Doral Bank FDIC-assisted transaction (the Doral Bank Transaction). The costs associated with this conversion amounted to approximately \$3.7 million for the quarter.

As discussed in Note 4 to the consolidated financial statements, during the year 2014 the Company completed the sale of its U.S. regional operations in California, Illinois and Central Florida. Current and prior periods financial information covering income and expense amounts presented in this MD&A has been retrospectively adjusted for the impact of the discontinued operations of the U.S. operations for comparative purposes. The financial information for prior periods included in this MD&A does not reflect the reclassification of certain of PCB s assets and liabilities to discontinued operations.

Table of Contents**Adjusted results of operations Non-GAAP financial measure**

The Corporation prepares its Consolidated Financial Statements using accounting principles generally accepted in the U.S. (U.S. GAAP), the (reported basis). In addition to analyzing the Corporation's results on a reported basis, management monitors the performance of the Corporation on an adjusted basis and excludes the impact of certain transactions on the results of its operations. Throughout this MD&A, the Corporation presents a discussion of its financial results excluding the impact of these events to arrive at the adjusted results. Management believes that the adjusted results provide meaningful information about the underlying performance of the Corporation's ongoing operations. The adjusted results are a Non-GAAP financial measure. Refer to tables 53 through 58 for a reconciliation of the reported results for the quarter and nine months ended September 30, 2015 and 2014.

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 quarter ended September 30, 2015

For the quarter ended September 30, 2015, the Corporation recorded net income of \$85.6 million, compared to a net income of \$62.6 million for the same quarter of the previous year. The adjusted net income for the third quarter of 2015 was \$93.4 million, compared to \$81.7 million for the same quarter of the previous year. Refer to tables 53 through 55 for adjustments to arrive at the adjusted net income.

Net interest income from continued operations, on a taxable equivalent basis, for the third quarter of 2015 was \$368.0 million compared to \$345.7 million in the same quarter of 2014. Net interest margin, on a taxable equivalent basis, for the third quarter of 2015 was 4.60% compared to 4.62% in the same quarter of 2014, a decrease of 2 basis points. Excluding the impact of the \$20.7 million in fees related to the structured repo refinancing in BPNA in the third quarter of 2014, adjusted net interest income on a taxable equivalent basis was \$366.4 million and the adjusted net interest margin was 4.90%.

The provision for loan losses for the non-covered portfolio totaled \$69.6 million for the quarter ended September 30, 2015, compared to \$68.2 million for the same quarter of the previous year, an increase of \$1.4 million. The provision for the third quarter of 2015 included \$10.1 million impairment on Westernbank loans that the Corporation has the intent to sell and are subject to the arbitration proceedings with the FDIC. The provision for the third quarter of 2014 included \$12.0 million related to certain classified and legacy loans sold or transferred to loans held-for-sale as part of the U.S. reorganization. Excluding these effects, the provision for non-covered loans for the third quarter amounted to \$59.5 million, compared to \$56.2 million in the third quarter of 2014. For the covered loans portfolio, the Corporation recorded a reserve release of \$2.9 million, compared to a provision of \$12.5 million for the same quarter of the previous year, a decline of \$15.4 million due to lower impairment losses.

Total non-performing assets, including covered, were \$878 million at September 30, 2015, decreasing by \$55 million, or 6%, from December 31, 2014, of which \$74 million were related to OREO reductions. During the second quarter of 2015, the Corporation completed a bulk sale of covered OREOs with a carrying value of \$37 million. Total non-performing non-covered assets were \$838 million at September 30, 2015, increasing by \$54 million, or 7%, from December 31, 2014. Non-covered non-performing loans held-in-portfolio were \$635 million, increasing by \$4,

million, or 1%, from December 31, 2014. The ratio of non-performing loans to loans held-in-portfolio, excluding covered loans, decreased to 2.82% at September 30, 2015 from 3.25% at December 31, 2014, impacted by the reclassification of \$1.5 billion to the non-covered category during the second quarter of 2015, pursuant to the expiration of the commercial and consumer loans loss-sharing agreement with the FDIC.

Refer to the Credit Risk Management and Loan Quality section of this MD&A for an explanation of the main factors impacting the provision for loan losses and a detailed analysis of net charge-offs, non-performing assets, the allowance for loan losses and selected loan losses statistics.

Non-interest income increased by \$6.8 million during the quarter ended September 30, 2015, compared with the same quarter of the previous year. Excluding the impact of the certain events detailed in Tables 53 to 55 Adjusted Results (Non-GAAP), non-interest income increased \$16.6 million. The increase in adjusted non-interest income was principally due to a positive variance in the FDIC loss share income (expense) of \$21.1 million, mostly driven by lower amortization of the indemnification asset.

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

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Operating expenses decreased by \$3.7 million for the quarter ended September 30, 2015, compared with the same quarter of the previous year. Excluding the impact of the certain transactions detailed in Tables 53 through 55, Adjusted Results (Non-GAAP) operating expenses decreased by \$1.6 million mainly due to:

lower OREO expenses by \$12.1 million driven by lower write-downs of commercial, construction and mortgage properties and higher gain on sales;

Lower other taxes by \$5.4 million due to elimination of the Puerto Rico gross revenue tax and lower municipal license tax; and

Lower other operating expenses by \$4.9 million mainly due to lower provision for unused commitments; partially offset by:

Higher personnel cost by \$15.5 million mainly as result of higher salaries and incentive compensation;

Higher professional fees by \$5.9 million due to higher programming, processing and other technology services; and

Higher equipment expense by \$2.4 million mainly due to higher software maintenance expenses at BPPR.

Refer to the Operating Expenses section of this MD&A for additional information.

Income tax expense amounted to \$22.6 million for the quarter ended September 30, 2015, compared to \$26.7 million for the same quarter of 2014. Income tax expense for the quarter ended September 30, 2014 was impacted by the recognition of an income tax expense of \$20.0 million, related to the deferred tax liability associated with the portfolio acquired from Westernbank as a result of the increase in the income tax for capital gains from 15% to 20%. The income tax expense for the third quarter of 2015, reflected the impact of higher taxable income, compared to the same quarter of the previous year. Refer to the Income Taxes section of this MD&A for additional information.

The Corporation's total assets were \$35.5 billion at September 30, 2015, compared to \$33.1 billion at December 31, 2014. The increase in total assets was mainly due to

An increase of \$586 million in money market investments due mostly to increases in liquidity at BPPR of approximately \$356 million and BPNA of \$249 million.

An increase of \$183 million on investment securities available-for-sale and held-to-maturity, mainly attributed to the Doral Bank Transaction, as detailed in Table 10.

An increase of \$80 million in non-covered loans, excluding the \$1.5 billion balance at September 30, 2015 of loans acquired in the Doral Bank Transaction and the reclassification of \$1.5 billion at June 30, 2015 from the covered to the non-covered category, pursuant to the expiration of the commercial and consumer FDIC loss-share agreement. The increase is mainly related to commercial loans in the U.S.

An increase in other assets of \$575 million, mainly due to the partial reversal of the valuation allowance of the deferred tax asset at the U.S. operations amounting to \$545 million during the second quarter of 2015.

These increases were partially offset by:

A decrease of \$362 million in the covered loans portfolio, excluding the impact of the reclassification of \$1.5 billion to the non-covered category as mentioned above, due to the normal run-off and portfolio loan resolutions.

A decrease of approximately \$231 million in the FDIC loss share asset mainly due to amortization and collections from the FDIC.

A decrease of \$74 million in OREOs due to sales, including a bulk sale of \$37 million in covered OREOs, and write-downs, offset by additions due to foreclosure activity.

The Corporation's total liabilities were \$30.5 billion at September 30, 2015, compared to \$28.8 billion at December 31, 2014. The increase in total liabilities was mainly due to:

An increase in total deposits of \$395 million, mainly at BPNA, excluding the balances at September 30, 2015 of \$1.5 billion of deposits acquired in the Doral Bank Transaction; partially offset by

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A decrease of approximately \$243 million in borrowings, mainly related to repurchase agreements

Stockholders' equity totaled \$5.0 billion at September 30, 2015, compared with \$4.3 billion at December 31, 2014. The increase resulted from the Corporation's net income of \$757.9 million for the nine months ended September 30, 2015 and a decrease in accumulated other comprehensive loss of \$40 million, principally due to higher unrealized gains on securities available-for-sale partially offset by common and preferred dividends declared during the nine months period of \$15.5 million and \$2.8 million, respectively. Capital ratios continued to be strong. The Corporation's Common equity Tier 1 Capital ratio stood at 16.21% at September 30, 2015, while the tangible common equity ratio at September 30, 2015 was 12.65%. Refer to Table 20 for capital ratios and Table 21 for Non-GAAP reconciliations.

Table 1 provides selected financial data and performance indicators for the quarters ended September 30, 2015 and 2014.

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

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

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

The description of the Corporation's business contained in Item 1 of the Corporation's 2014 Annual Report, while not all inclusive, discusses additional information about the business of the Corporation and risk factors, many beyond the Corporation's control that, in addition to the other information in this Form 10-Q, readers should consider.

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

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

(In thousands)	Ending balances at			Average for the nine months ended		
	September 30, 2015	December 31, 2014	Variance	September 30, 2015	September 30, 2014	Variance
Money market investments	\$ 2,408,571	\$ 1,822,386	\$ 586,185	\$ 2,370,293	\$ 1,286,914	\$ 1,083,379
Investment and trading securities	5,912,826	5,718,762	194,064	5,969,409	6,348,138	(378,729)
Loans	23,334,513	22,053,217	1,281,296	23,016,530	22,475,397	541,133
Earning assets	31,655,910	29,594,365	2,061,545	31,356,232	30,110,449	1,245,783
Assets from discontinued operations					1,761,808	(1,761,808)
Total assets	35,530,794	33,096,695	2,434,099	35,055,499	35,813,787	(758,288)
Deposits*	26,713,206	24,807,535	1,905,671	26,668,741	24,656,178	2,012,563
Borrowings	2,761,476	3,004,685	(243,209)	2,864,483	3,690,236	(825,753)
Stockholders equity	5,049,636	4,267,382	782,254	4,579,043	4,621,686	(42,643)
Liabilities from discontinued operations	1,800	5,064	(3,264)	2,187	1,956,964	(1,954,777)

* Average deposits exclude average derivatives.

Operating Highlights (In thousands, except per share information)	Quarters ended September 30,			Nine months ended September 30,		
	2015	2014	Variance	2015	2014	Variance
Net interest income	\$ 350,735	\$ 326,421	\$ 24,314	\$ 1,056,483	\$ 618,211	\$ 438,272
Provision for loan losses - non-covered loans	69,568	68,166	1,402	159,747	172,362	(12,615)
Provision (reversal) for loan losses - covered loans	(2,890)	12,463	(15,353)	23,200	49,781	(26,581)
Non-interest income	131,109	124,330	6,779	387,103	283,151	103,952
Operating expenses	306,897	310,640	(3,743)	982,412	863,678	118,734
Income (loss) from continuing operations before income tax	108,269	59,482	48,787	278,227	(184,459)	462,686
Income tax expense (benefit)	22,620	26,667	(4,047)	(478,344)	45,807	(524,151)
Income (loss) from continuing operations	\$ 85,649	\$ 32,815	\$ 52,834	\$ 756,571	\$ (230,266)	\$ 986,837
(Loss) income from discontinued operations, net of tax	(9)	29,758	(29,767)	1,347	(132,066)	133,413

Net income (loss)	\$ 85,640	\$ 62,573	\$ 23,067	\$ 757,918	\$ (362,332)	\$ 1,120,250
Net income (loss) applicable to common stock	\$ 84,709	\$ 61,643	\$ 23,066	\$ 755,126	\$ (365,124)	\$ 1,120,250
Net income (loss) from continuing operations	\$ 0.82	\$ 0.31	\$ 0.51	\$ 7.33	\$ (2.27)	\$ 9.60
Net income (loss) from discontinued operations	\$	\$ 0.29	\$ (0.29)	\$ 0.01	\$ (1.28)	\$ 1.29
Net income (loss) per Common Share Basic	\$ 0.82	\$ 0.60	\$ 0.22	\$ 7.34	\$ (3.55)	\$ 10.89
Net income (loss) from continuing operations	\$ 0.82	\$ 0.31	\$ 0.51	\$ 7.31	\$ (2.27)	\$ 9.58
Net income (loss) from discontinued operations	\$	\$ 0.29	\$ (0.29)	\$ 0.01	\$ (1.28)	\$ 1.29
Net income (loss) per Common Share Diluted	\$ 0.82	\$ 0.60	\$ 0.22	\$ 7.32	\$ (3.55)	\$ 10.87

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Selected Statistical Information	Quarters ended		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Common Stock Data				
Market price				
High	\$ 31.49	\$ 34.64	\$ 35.58	\$ 34.64
Low	27.19	29.44	27.19	25.50
End	30.23	29.44	30.23	29.44
Book value per common share at period end	48.28	41.07	48.28	41.07
Profitability Ratios				
Return on assets	0.95%	0.71%	2.89%	(1.35)%
Return on common equity	6.79	5.75	22.29	(10.68)
Net interest spread (taxable equivalent) - Non-GAAP	4.39	4.68	4.54	4.66
Net interest margin (taxable equivalent) - Non-GAAP	4.60	4.90	4.75	4.92
Capitalization Ratios				
Average equity to average assets	13.96%	12.29%	13.06%	12.90%
Tier I capital	16.21	16.86	16.21	16.86
Total capital	18.78	18.14	18.78	18.14
Tier 1 leverage	11.75	11.14	11.75	11.14

CRITICAL ACCOUNTING POLICIES / ESTIMATES

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

Management has discussed the development and selection of the critical accounting policies and estimates with the Corporation's Audit Committee. The Corporation has identified as critical accounting policies those related to: (i) Fair Value Measurement of Financial Instruments; (ii) Loans and Allowance for Loan Losses; (iii) Acquisition Accounting for Loans and Related Indemnification Asset; (iv) Income Taxes; (v) Goodwill, and (vi) Pension and Postretirement Benefit Obligations. For a summary of these critical accounting policies and estimates, refer to that particular section in the MD&A included in Popular, Inc.'s 2014 Financial Review and Supplementary Information to Stockholders, incorporated by reference in Popular, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2014 (the 2014 Annual Report). Also, refer to Note 2 to the consolidated financial statements included in the 2014 Annual Report for a summary of the Corporation's significant accounting policies.

Business Combination

The Corporation determined that the acquisition of certain assets and assumption of certain liabilities in connection with the Doral Bank Transaction constitutes a business combination as defined by the Financial Accounting Standards Board (FASB) Codification (ASC) Topic 805 Business Combinations. The assets and liabilities, both tangible and intangible, were initially recorded at their estimated fair values. Fair values were determined based on the requirements of FASB Codification Topic 820 Fair Value Measurements. These fair value estimates are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair value becomes available. Acquisition-related costs are expensed as incurred. Refer to

Note 5, Business Combination, for additional information of assets acquired and liabilities assumed in connection with this transaction.

Table of Contents*Loans acquired as part of the Doral Bank Transaction*

Loans acquired in a business acquisition are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan losses is not recorded at the acquisition date.

Certain residential mortgage and commercial loans acquired as part of the Doral Bank Transaction were considered impaired. Accordingly, the Corporation applied the guidance of ASC Subtopic 310-30. Under this guidance, the loans acquired from the FDIC were aggregated into pools based on similar characteristics, including factors such as loan type, interest rate type, accruing status, and amortization type. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Under ASC Subtopic 310-30, the difference between the undiscounted cash flows expected at acquisition and the fair value in the loans, or the accretable yield, is recognized as interest income using the effective yield method over the estimated life of the loan if the timing and amount of the future cash flows of the pool is reasonably estimable. The non-accretable difference represents the difference between contractually required principal and interest and the cash flows expected to be collected. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date are recognized as interest income prospectively. Decreases in expected cash flows after the acquisition date are recognized by recording an allowance for loan losses. Refer to Note 11 to the consolidated financial statements for additional information with respect to the loans acquired as part of the Doral Bank Transaction that were considered impaired.

Allowance for loan losses

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

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

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

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

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

For the period ended September 30, 2015, 18% (September 30, 2014 - 33%) of the ALLL for BPPR non-covered loan portfolios utilized the recent loss trend adjustment instead of the base loss. The effect of replacing the base loss with the recent loss trend adjustment was mainly concentrated in the mortgage and commercial multi-family loan portfolios for 2015, and in the commercial multi-family, commercial and industrial, personal and auto loan portfolios for 2014.

For the period ended September 30, 2015, 17% (September 30, 2014 - 12%) of the ALLL for BPNA loan portfolios utilized the recent loss trend adjustment instead of the base loss. The effect of replacing the base loss with the recent loss trend adjustment was concentrated in the consumer loan portfolio for 2015 and in the commercial multi-family, commercial and industrial and legacy loan portfolios for 2014.

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

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During the second quarter of 2015, management completed the annual review of the components of the ALLL models. As part of this review management updated core metrics and revised certain components related to the estimation process for evaluating the adequacy of the general reserve of the allowance for loan losses. These enhancements to the ALLL methodology, which are described in the paragraphs below, were implemented as of June 30, 2015 and resulted in a net decrease to the allowance for loan losses of \$ 1.9 million for the non-covered portfolio. The effect of the aforementioned enhancements was immaterial for the covered loans portfolio.

Management made the following principal enhancements to the methodology during the second quarter of 2015:

Increased the historical look-back period for determining the base loss rates for commercial and construction loans. The Corporation increased the look-back period for assessing historical loss trends applicable to the determination of commercial and construction loan net charge-offs from 36 months to 60 months. Given the current overall commercial and construction credit quality improvements, including lower loss trends, management concluded that a 60-month look-back period for the base loss rates aligns the Corporation's allowance for loan losses methodology to maintain adequate loss observations in its main general reserve component. .

The combined effect of the aforementioned enhancements to the base loss rates resulted in an increase to the allowance for loan losses of \$19.6 million at June 30, 2015, of which \$17.9 million related to the non-covered BPPR segment and \$1.7 million related to the BPNA segment.

Annual review and recalibration of the environmental factors adjustment. The environmental factor adjustments are developed by performing regression analyses on selected credit and economic indicators for each applicable loan segment. During the second quarter of 2015, 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 combined effect of the aforementioned recalibration and enhancements to the environmental factors adjustment resulted in a decrease to the allowance for loan losses of \$21.5 million at June 30, 2015, of which \$20.5 million related to the non-covered BPPR segment and \$1 million related to the BPNA segment.

Change in non-accrual accounting policy for guaranteed residential mortgage loans

During the quarter ended September 30, 2015, the Corporation changed its policy on interest income recognition for residential mortgage loans guaranteed by the Federal Housing Administration (FHA) or the Veterans Administration (VA). Previously, the Corporation discontinued the recognition of interest income on these loans when they were 18-months delinquent as to principal or interest. The Corporation modified its policy to discontinue the recognition of interest when 15-months delinquent as to principal or interest. This change in estimate was based on an analysis of historical collections from these agencies. This change in policy resulted in the reversal of previously accrued interest amounting to approximately \$1.9 million during the quarter ended September 30, 2015.

NET INTEREST INCOME

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

Net interest income, on a taxable equivalent basis, is presented with its different components on Table 2 for the quarter ended September 30, 2015 as compared with the same period in 2014, segregated by major categories of interest earning assets and interest bearing liabilities.

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

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Average outstanding securities balances are based on amortized cost excluding any unrealized gains or losses on securities available-for-sale. Non-accrual loans have been included in the respective average loans and leases categories. Loan fees collected and costs incurred in the origination of loans are deferred and amortized over the term of the loan as an adjustment to interest yield. Prepayment penalties, late fees collected and the amortization of premiums / discounts on purchased loans are also included as part of the loan yield. Excluding the discount accretion on loans acquired in the Westernbank FDIC-assisted transaction (WB loans) accounted for under Subtopic ASC 310-30, the impact to interest income from these fees and amortizations for the quarter and nine months ended September 30, 2015 were of \$6.9 million and \$13.4 million, respectively, compared with a favorable impact of \$1.5 million and \$4.1 million in the same periods in 2014. The increase in fees and amortizations relates mostly to loans acquired in the Doral transaction.

Net interest income from continued operations, on a taxable equivalent basis, for the third quarter of 2015 was \$368.0 million compared to \$345.7 million in the same quarter of 2014. Net interest margin, on a taxable equivalent basis, for the third quarter of 2015 was 4.60% compared to 4.62% in the same quarter of 2014, a decrease of 2 basis points. Excluding the impact of the \$20.7 million in fees related to the structured repo refinancing in BPNA in the third quarter of 2014, adjusted net interest income on a taxable equivalent basis was \$366.4 million and the adjusted net interest margin was 4.90%.

The most important variances were:

Increase of \$20.9 million in interest income from loans is due to an increase in average volume of \$1.4 billion, mainly attributed to the Doral Acquisition and the sustained organic growth in the U.S, commercial and construction portfolio. Also contributing to this favorable variance is an improved yield from the commercial and construction loan portfolios that accounted for \$4.3 million; partially offset by \$1.2 million lower yield from the mortgage portfolio related to the reversal of \$3.8 million in income from FHA guaranteed loans at BPPR as part of the Corporation's review of its interest income accrual policy and related adjustments during the third quarter of 2015.

Lower short-term borrowings interest expense by \$6.1 million as a result of the refinancing of \$638 million in structured repos with a cost of 4.41% as part of the reorganization of the U.S. operations in the third quarter of 2014.

These positive variances were partially offset by:

Decrease of \$20.3 million in interest income of WB loans due mainly to lower volume, as the portfolio continues its normal run-off, as well as lower yields.

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

Average Volume 2015 2014 Variance (in millions)			Average Yields / Costs 2015 2014 Variance			Interest 2015 2014 Variance (In thousands)			Variance Attributable to Rate Volume		
						Money market					
\$2,642	\$ 1,170	\$ 1,472	0.30%	0.34%	(0.04)%	investments	\$ 2,003	\$ 1,007	\$ 996	\$ 110	\$ 886
5,789	6,018	(229)	2.63	2.68	(0.05)	Investment					
						securities	38,143	40,364	(2,221)	(1,972)	(249)
236	313	(77)	6.31	6.45	(0.14)	Trading					
						securities	3,749	5,084	(1,335)	(102)	(1,233)
						Total money					
						market,					
						investment and					
						trading					
8,667	7,501	1,166	2.02	2.47	(0.45)	securities	43,895	46,455	(2,560)	(1,964)	(596)
						Loans:					
8,769	8,239	530	5.16	5.00	0.16	Commercial	114,123	103,895	10,228	3,405	6,823
681	201	480	6.30	4.86	1.44	Construction	10,811	2,469	8,342	923	7,419
594	545	49	6.75	7.20	(0.45)	Leasing	10,032	9,816	216	(637)	853
7,072	6,646	426	5.22	5.30	(0.08)	Mortgage	92,341	87,993	4,348	(1,228)	5,576
3,811	3,905	(94)	10.34	10.32	0.02	Consumer	99,356	101,610	(2,254)	(79)	(2,175)
20,927	19,536	1,391	6.21	6.23	(0.02)	Sub-total loans	326,663	305,783	20,880	2,384	18,496
2,221	2,727	(506)	8.59	9.95	(1.36)	WB loans	47,982	68,251	(20,269)	(4,032)	(16,237)
23,148	22,263	885	6.44	6.68	(0.24)	Total loans	374,645	374,034	611	(1,648)	2,259
						Total earning					
31,815	\$ 29,764	\$ 2,051	5.23%	5.62%	(0.39)%	assets	\$ 418,540	\$ 420,489	\$ (1,949)	\$ (3,612)	\$ 1,663
						Interest bearing					
						deposits:					
						NOW and					
						money					
\$5,742	\$ 4,876	\$ 866	0.34%	0.32%	0.02%	market [1]	\$ 4,873	\$ 3,914	\$ 959	\$ 293	\$ 666
7,055	6,740	315	0.23	0.22	0.01	Savings	4,093	3,694	399	209	190
8,157	7,569	588	0.94	0.99	(0.05)	Time deposits	19,390	18,925	465	(737)	1,202
20,954	19,185	1,769	0.54	0.55	(0.01)	Total deposits	28,356	26,533	1,823	(235)	2,058

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1,186	1,882	(696)	0.74	1.75	(1.01)	Short-term borrowings [2]	2,222	8,292	(6,070)	(3,765)	(2,305)
	10	(10)		9.20	(9.20)	TARP funds [3]		234	(234)		(234)
1,676	1,699	(23)	4.76	4.48	0.28	Other medium and long-term debt	19,969	19,055	914	1,067	(153)
23,816	22,776	1,040	0.84	0.94	(0.10)	Total interest bearing liabilities	50,547	54,114	(3,567)	(2,933)	(634)
6,144	5,464	680				Non-interest bearing demand deposits					
1,855	1,524	331				Other sources of funds					
31,815	\$ 29,764	\$ 2,051	0.63%	0.72%	(0.09)%	Total source of funds	50,547	54,114	(3,567)	(2,933)	(634)
			4.60%	4.90%	(0.30)%	Adjusted net interest margin/income on a taxable equivalent basis	367,993	366,375	1,618	(679)	2,297
			4.39%	4.68%	(0.29)%	Adjusted net interest spread					
						Impact of fees related to BPNA repo refinancing		20,663	(20,663)		
			4.60%	4.62%	(0.02)%	Net interest margin/income on a taxable equivalent basis	\$ 367,993	\$ 345,712	\$ 22,281		
						Taxable equivalent adjustment	17,258	19,291	(2,033)		
						Net interest income	\$ 350,735	\$ 326,421	\$ 24,314		

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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.
 [2] Cost of short-term borrowings excludes the impact of fees related to BPNA repo refinancing. Cost of short-term borrowings for the third quarter of 2014 including such fees would have been 6.10%.
 [3] Junior subordinated deferrable interest debentures.

Net interest income from continuing operations on a taxable equivalent basis for the nine-month period ended September 30, 2015 was \$1.1 billion compared to \$675.9 million for the same period in 2014. Excluding the impact of the \$20.7 million in fees related to the refinancing of structured repos at BPNA and the \$414.1 million of accelerated amortization of the discount and deferred costs related to the TARP repayment in the second quarter of 2014, the adjusted net interest income on a taxable equivalent basis for the same period in 2014 was \$1.1 billion. The adjusted net interest margin for the nine-month period ended September 30, 2015 was 4.75% compared to 4.92% for the same period in 2014, a decrease of 17 basis points. The most important variances were:

Decrease in interest expense of \$43.5 million is mainly related to the repayment of TARP funds and the refinancing of the structured repos as mentioned above, partially offset by the issuance of \$450 million in senior notes at 7% in July, 2014, which were used to partially fund the repayment of TARP.

Lower interest income from loans of \$26.6 million, mainly related to lower income from the WB loan portfolio by \$71.4 million due to both a lower volume, as the portfolio continues to amortize, and a lower yield that resulted from the recasting process. These negative variances were, partially offset by a higher volume of loans mainly related to the Doral acquisition and organic growth in the U.S mainland, primarily in commercial and construction loans.

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

2015	Average Volume		Average Yields / Costs			2015	Interest		Variance		Attributable to Rate	Volume
	2014	Variance	2015	2014	Variance		2014	Variance	(In thousands)	(In thousands)		
2,371	\$ 1,287	\$ 1,084	0.30%	0.32%	(0.02)%	Money market investments	\$ 5,294	\$ 3,111	\$ 2,183	\$ 268	\$ 1,915	
5,746	5,962	(216)	2.65	2.75	(0.10)	Investment securities	114,378	122,857	(8,479)	(4,318)	(4,100)	
223	386	(163)	6.43	5.92	0.51	Trading securities	10,728	17,107	(6,379)	1,346	(7,033)	
3,340	7,635	705	2.09	2.50	(0.41)		130,400	143,075	(12,675)	(2,704)	(9,900)	

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						Total money market, investment and trading securities						
						Loans:						
3,627	8,390	237	5.18	5.04	0.14	Commercial	334,537	316,067	18,470	9,401	9,000	
600	187	413	6.05	6.93	(0.88)	Construction	27,135	9,722	17,413	(1,395)	18,808	
582	545	37	6.89	7.40	(0.51)	Leasing	30,106	30,271	(165)	(2,153)	1,953	
5,989	6,676	313	5.34	5.36	(0.02)	Mortgage	279,769	268,489	11,280	(1,257)	12,519	
3,826	3,854	(28)	10.39	10.39		Consumer	297,192	299,393	(2,201)	491	(2,690)	
						Sub-total loans	968,739	923,942	44,797	5,087	39,730	
2,392	2,823	(431)	8.99	11.00	(2.01)	WB loans	160,910	232,324	(71,414)	(36,379)	(35,003)	
3,016	22,475	541	6.56	6.87	(0.31)	Total loans	1,129,649	1,156,266	(26,617)	(31,292)	4,727	
						Total earning assets	\$ 1,260,049	\$ 1,299,341	\$ (39,292)	\$ (33,996)	\$ (5,247)	
						Interest bearing deposits:						
						NOW and money market [1]	\$ 14,003	\$ 11,540	\$ 2,463	\$ 1,180	\$ 1,283	
5,413	\$ 4,837	\$ 576	0.35%	0.32%	0.03%	Savings	12,119	10,880	1,239	764	4,455	
5,996	6,715	281	0.23	0.22	0.01	Time deposits	54,357	57,194	(2,837)	(5,445)	2,602	

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556	19,157	1,399	0.52	0.56	(0.04)	Total deposits	80,479	79,614	865	(3,501)	4,356
117	2,094	(977)	0.70	1.67	(0.97)	Short-term borrowings [2]	5,819	26,224	(20,405)	(11,519)	(8,356)
	357	(357)		16.00	(16.00)	TARP funds [3]		42,907	(42,907)		(42,907)
747	1,239	508	4.50	4.30	0.20	Other medium and long-term debt	58,876	39,921	18,955	(575)	19,508
420	22,847	573	0.83	1.10	(0.27)	Total interest bearing liabilities	145,174	188,666	(43,492)	(15,595)	(27,856)
113	5,499	614				Non-interest bearing demand deposits					614
823	1,764	59				Other sources of funds					59
356	\$ 30,110	\$ 1,246	0.62%	0.84%	(0.22)%	Total source of funds	145,174	188,666	(43,492)	(15,595)	(27,856)
			4.75%	4.92%	(0.17)%	Adjusted net interest margin/ income on a taxable equivalent basis	1,114,875	1,110,675	4,200	\$ (18,401)	\$ 22,000
			4.54%	4.66%	(0.12)%	Adjusted net interest spread					
						Accelerated amortization of TARP discount and BPNA repo refinancing fees		434,731	(434,731)		
			4.75%	3.00%	1.75%	Net interest margin/ income on a taxable equivalent basis	\$ 1,114,875	\$ 675,944	\$ 438,931		
							58,392	57,733	659		

Taxable
equivalent
adjustment

Net interest income	\$ 1,056,483	\$ 618,211	\$ 438,272
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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.
- [2] Cost of short-term borrowings excludes the impact of fees related to BPNA repo refinancing. Cost of short-term borrowings for the nine months ended September 30, 2014 including such fees would have been 2.99%.
- [3] Cost of TARP funds excludes the impact of the accelerated amortization. Total cost of TARP funds for the nine months ended September 30, 2014, including the accelerated amortization of TARP discount would have been 170.45%.

Provision for Loan Losses

The Corporation's total provision for loan losses was \$66.7 million for the quarter ended September 30, 2015, compared to \$80.6 million for the same quarter of the previous year, a decrease of \$13.9 million.

The provision for loan losses for the non-covered loan portfolio totaled \$69.6 million, compared to \$68.2 million for the same quarter in 2014. The provision for the third quarter of 2015 included \$10.1 million impairment on Westernbank loans that the Corporation has the intent to sell and are subject to the ongoing arbitration with the FDIC. The provision for the third quarter of 2014 included \$12.0 million related to certain classified and legacy loans sold or transferred to loans held-for-sale as part of the U.S. reorganization. Excluding these effects, the provision for the third quarter amounted to \$59.5 million, relatively flat when compared to \$56.2 million in the third quarter of 2014.

The provision for loan losses for the non-covered loan portfolio at the BPPR segment increased by \$6.9 million, compared to the third quarter of 2014. The provision for the third quarter of 2015 included the \$10.1 million impairment on Westernbank loans stated above. Excluding the impact of the \$10.1 million, the provision for the third quarter amounted to \$58.7 million, a decrease of \$3.2 million when compared to the third quarter of 2014.

The provision for loan losses for the BPNA segment was \$813 thousand, compared to \$6.3 million for the same quarter in 2014, as the provision for the third quarter of 2014 included \$12.0 million related to loan sales, as mentioned above. Notwithstanding, a low provision level is reflective of BPNA's improvements in credit quality and low levels of net charge-offs during 2015.

For the covered portfolio, the Corporation recorded a reserve release of \$2.9 million in the third quarter of 2015, compared to \$12.5 million provision expense for the same quarter in 2014, mostly reflecting the reclassification to non-covered loans of non-single family loans that were previously covered by the commercial loss agreement with the FDIC in the second quarter of 2015.

For the nine months ended September 30, 2015, the Corporation's total provision for loan losses totaled \$182.9 million, compared with \$222.1 million for the same period in 2014, decreasing by \$39.2 million mostly driven by lower provision in the BPPR segment. The provision for the nine months ended September 30, 2015 includes the above mentioned \$10.1 million impairment on

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Westernbank loans, compared to \$12.0 million in the third quarter of 2014 related to BPNA loans sales. In addition, the provision includes a reserve release of \$1.9 million as part of the annual recalibration and enhancements of the allowance for loans losses completed during the second quarter of 2015, compared to a reserve release of \$17.9 million from the 2014 annual recalibration process.

For the nine months period ended September 30, 2015, the provision for loan losses for the non-covered loan portfolio decreased by \$12.6 million when compared to the same period of 2014. The provision for the BPPR segment non-covered loan portfolio decreased by \$29.4 million, as the same period in 2014 included the impact of higher reserves to account for the macroeconomic conditions in Puerto Rico. The nine month period ended September 30, 2015, included the impact of the annual recalibration and enhancements to the allowance for loan losses methodology during the second quarter, as mentioned above. The review of the ALLL methodology resulted in a net decrease of \$2.6 million for the BPPR segment, compared to a reserve release of \$14.9 million in 2014. The BPNA segment reflected a reserve release of \$1.5 million, compared to a reserve release of \$18.3 million for the same period of 2014. The annual review of the ALLL methodology resulted in a net increase of approximately \$0.7 million, compared to a \$3.8 million reserve release in the same quarter in 2014. Refer to the Critical Accounting Policies section of this MD&A for further details of these revisions.

The provision for the covered portfolio was \$23.2 million for the nine month period ended September 30, 2015, compared to \$49.8 million for same period of last year. This decrease was mainly due to lower impairment losses on commercial loan pools accounted for under ASC 310-30 until the second quarter of 2015 and consequently to reclassification of these loans to non-covered loans. In the second quarter of 2015, the effect of the aforementioned enhancements to the allowance for loan losses methodology was immaterial for the covered loans portfolio. The 2014 annual recalibration and enhancements of the ALLL models resulted in an increase of \$0.8 million to the provision for the covered portfolio.

Refer to the Credit Risk Management and Loan Quality sections 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

Refer to Table 4 for a breakdown on non-interest income by major categories for the quarters and nine months ended September 30, 2015 and 2014.

Table 4 - Non-Interest Income

(In thousands)	Quarters ended September 30,			Nine months ended September 30,		
	2015	2014	Variance	2015	2014	Variance
Service charges on deposit accounts	\$ 40,960	\$ 40,585	\$ 375	\$ 120,115	\$ 119,181	\$ 934
Other service fees:						
Debit card fees	11,288	10,673	615	34,408	32,217	2,191
Insurance fees	14,517	12,322	2,195	40,163	36,447	3,716
Credit card fees	16,879	17,078	(199)	50,639	50,146	493
Sale and administration of investment products	5,737	6,605	(868)	18,269	20,518	(2,249)
Trust fees	4,403	4,711	(308)	13,919	13,740	179

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Other fees	3,291	3,450	(159)	11,764	11,057	707
Total other service fees	56,115	54,839	1,276	169,162	164,125	5,037
Mortgage banking activities	24,195	14,402	9,793	58,372	21,868	36,504
Net gain (loss) and valuation adjustments of investment securities	136	(1,763)	1,899	141	(1,763)	1,904
Other-than-temporary impairment losses on investment securities				(14,445)		(14,445)
Trading account (loss) profit	(398)	740	(1,138)	(3,092)	3,772	(6,864)
Net gain on sale of loans, including valuation adjustment on loans held-for-sale		15,593	(15,593)	602	29,645	(29,043)
Adjustment (expense) to indemnity reserves on loans sold	(5,874)	(9,480)	3,606	(9,981)	(27,281)	17,300
FDIC loss share income (expense)	1,207	(4,864)	6,071	24,421	(84,331)	108,752
Other operating income	14,768	14,278	490	41,808	57,935	(16,127)
Total non-interest income	\$ 131,109	\$ 124,330	\$ 6,779	\$ 387,103	\$ 283,151	\$ 103,952

Table of Contents**Table 5 - Mortgage Banking Activities**

(In thousands)	Quarters ended September 30,			Nine months ended September 30,		
	2015	2014	Variance	2015	2014	Variance
Mortgage servicing fees, net of fair value adjustments:						
Mortgage servicing fees	\$ 17,020	\$ 11,091	\$ 5,929	\$ 43,957	\$ 32,397	\$ 11,560
Mortgage servicing rights fair value adjustments	1,038	(2,588)	3,626	(5,808)	(18,424)	12,616
Total mortgage servicing fees, net of fair value adjustments	18,058	8,503	9,555	38,149	13,973	24,176
Net gain on sale of loans, including valuation on loans held-for-sale	9,698	7,466	2,232	24,999	22,831	2,168
Trading account (loss) profit:						
Unrealized (losses) gains on outstanding derivative positions	(69)	13	(82)	(10)	(725)	715
Realized (losses) gains on closed derivative positions	(3,492)	(1,580)	(1,912)	(4,766)	(14,211)	9,445
Total trading account (loss) profit	(3,561)	(1,567)	(1,994)	(4,776)	(14,936)	10,160
Total mortgage banking activities	\$ 24,195	\$ 14,402	\$ 9,793	\$ 58,372	\$ 21,868	\$ 36,504

Non-interest income increased by \$6.8 million during the quarter ended September 30, 2015, compared with the same quarter of the previous year. Excluding the impact of certain events detailed in Tables 53 to 55 Adjusted Results (Non-GAAP), non-interest income increased \$16.6 million. The increase in adjusted non-interest income was principally due to a positive variance in the FDIC loss share income (expense) of \$21.1 million, mostly driven by lower amortization of the indemnification asset, partially offset by lower mirror accounting on credit impairment losses and lower mirror accounting on reimbursable expenses. Refer to Table 6 for a breakdown of FDIC loss share income (expenses) by major categories.

For the nine months ended September 30, 2015, non-interest income increased by \$104.0 million, compared with the same period of the previous year. Excluding the impact of certain events detailed in Tables 56 to 58 Adjusted Results (Non-GAAP), non-interest income increased \$116.9 million. The increase in adjusted non-interest income was principally due to:

Favorable variance in the FDIC loss share income (expense) of \$114.6 million, mostly driven by lower amortization of the indemnification asset and higher mirror accounting on reimbursable expenses, partially offset by lower mirror accounting on credit impairment losses. Refer to Table 6 for a breakdown of FDIC loss share income (expenses) by major categories.

Favorable variance in adjustments (expense) to indemnity reserves by \$17.3 million due to lower provision for loans previously sold with credit recourse by \$13.0 million and the reversal during 2015 of \$5.0 million related to certain specific representation and warranties reserve established in connection with BPPR's bulk sale of commercial and construction loans, and commercial single and single family real estate owned, and

Higher mortgage banking activities by \$31.3 million, mostly due to higher servicing fees by \$11.6 million driven in part by the mortgage servicing rights purchased from Doral, a favorable variance of \$7.4 million in the valuation adjustment on mortgage servicing rights, and lower realized losses of \$9.4 million on closed derivatives positions; partially offset by,

Lower net gain on sale of loans, including valuation adjustments on loans held-for-sale, by \$29.0 million due to last year BPNA segment gains from individual commercial NPL's sales, and

Lower other operating income by \$18.2 million principally due to lower aggregated net earnings from investments under the equity method by \$14.8 million.

The results for the nine months ended September 30, 2015 include an other-than-temporary impairment charge on the portfolio of Puerto Rico government investment securities available-for-sale of \$14.4 million. These securities had an amortized cost of approximately \$41.1 million and a market value of \$26.6 million. Based on the fiscal and economic situation in Puerto Rico, together with the government's announcements regarding its ability to pay its debt and its intention to pursue a comprehensive debt restructuring, the Corporation determined that the unrealized loss, a portion of which had been in an unrealized loss for a period exceeding twelve months, was other-than-temporary.

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The following table provides a summary of the revenues and expenses derived from the assets acquired in the FDIC-assisted transaction during the quarters and nine months period ended September 30, 2015 and 2014.

Table 6 - Financial Information - Westernbank FDIC-Assisted Transaction

(In thousands)	Quarters ended September 30,			Nine months ended September 30,		
	2015	2014	Variance	2015	2014	Variance
Interest income on WB loans	\$ 47,982	\$ 68,251	\$ (20,269)	\$ 160,910	\$ 232,324	\$ (71,414)
FDIC loss-share income (expense) :						
Amortization of loss-share indemnification asset	(3,931)	(42,524)	38,593	(62,312)	(163,565)	101,253
Reversal of accelerated amortization in prior periods		15,046	(15,046)		15,046	(15,046)
80% mirror accounting on credit impairment losses (reversal) ^[1]	(183)	9,863	(10,046)	15,710	35,325	(19,615)
80% mirror accounting on reimbursable expenses	6,276	15,545	(9,269)	70,551	39,375	31,176
80% mirror accounting on recoveries on covered assets, including rental income on OREOs, subject to reimbursement to the FDIC		(2,633)	2,633	(7,822)	(10,582)	2,760
80% mirror accounting on amortization of contingent liability on Change in true-up payment obligation	(1,058)	1,078	(2,136)	6,778	1,040	5,738
Other	103	(1,239)	1,342	1,516	(970)	2,486
Total FDIC loss-share income (expense)	1,207	(4,864)	6,071	24,421	(84,331)	108,752
Total revenues	49,189	63,387	(14,198)	185,331	147,993	37,338
Provision for loan losses ^[2]	20,206	12,463	7,743	46,296	49,781	(3,485)
Total revenues less provision for loan losses	\$ 28,983	\$ 50,924	\$ (21,941)	\$ 139,035	\$ 98,212	\$ 40,823

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

[2] For the quarter ended September 30, 2015, the Corporation recorded a reserve release of \$2.9 million for the covered loans portfolio.

Average balances

(In millions)	Quarters ended September			Nine months ended September 30,		
	2015	30, 2014	Variance	2015	2014	Variance
WB Loans	\$ 2,221	\$ 2,727	\$ (506)	\$ 2,392	\$ 2,823	\$ (431)
FDIC loss-share asset	330	687	(357)	382	792	(410)
Operating Expenses						

Operating expenses decreased by \$3.7 million for the quarter ended September 30, 2015, compared with the same quarter of the previous year. Refer to Table 7 for a breakdown of operating expenses by major categories. Excluding the impact of certain transactions, as detailed in Tables 53 through 55, operating expenses decreased by \$1.6 million due mainly to the following factors:

Lower OREO expenses by \$12.1 million mainly as a result of lower write-downs on commercial, construction and mortgage properties and higher gain on sales;

Lower other taxes by \$5.4 million due to elimination of the Puerto Rico gross revenue tax and lower municipal license tax; and

Lower other operating expenses by \$4.9 million mainly due to lower provision for unused commitments by \$8.1 million, partially offset by an increase in the reserve for mortgage servicing claims.

These decreases were partially offset by:

Higher personnel cost by \$15.5 million mainly as result of higher salaries and incentive compensation;

Higher professional fees by \$5.9 million due to higher programming, processing and other technology services; and

Higher equipment expense by \$2.4 million mainly due to higher software maintenance expenses at BPPR.

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Operating expenses increased by \$118.7 million for the nine months ended September 30, 2015, when compared to the same period in 2014. Excluding the impact of certain transactions, as detailed in Tables 56 through 58; operating expenses increased by \$63.7 million due mainly to the following factors:

Higher personnel cost by \$43.3 million mostly related to higher salaries and incentive compensation, higher share based compensation and higher pension expense at BPPR related to adjustments to the mortality table and discount rate used for actuarial assumptions;

Higher OREO expense by \$24.0 million due to higher write-down of properties by \$13.6 million and higher loss on sales; and

Higher professional fees by \$14.0 million mainly due to higher programming, processing and other technology services and higher legal expenses related to the FDIC arbitration proceedings.

These increases were partially offset by:

Lower other taxes by \$12.9 million due to elimination of the Puerto Rico gross revenue tax and lower municipal license tax.

Table 7 - Operating Expenses

(In thousands)	Quarters ended September 30,			Nine months ended September 30,		
	2015	2014	Variance	2015	2014	Variance
Personnel costs:						
Salaries	\$ 78,193	\$ 71,166	\$ 7,027	\$ 227,040	\$ 209,353	\$ 17,687
Commissions, incentives and other bonuses	18,618	14,738	3,880	61,290	40,699	20,591
Pension, postretirement and medical insurance	12,579	9,282	3,297	33,667	25,515	8,152
Other personnel costs, including payroll taxes	11,473	9,356	2,117	36,301	32,376	3,925
Total personnel costs	120,863	104,542	16,321	358,298	307,943	50,355
Net occupancy expenses	21,277	21,203	74	66,272	62,830	3,442
Equipment expenses	14,739	12,370	2,369	44,075	35,826	8,249
Other taxes	9,951	15,369	(5,418)	29,638	42,575	(12,937)
Professional fees:						
Collections, appraisals and other credit related fees	5,049	6,089	(1,040)	18,660	19,060	(400)
Programming, processing and other technology services	49,134	41,857	7,277	143,700	128,076	15,624

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Other professional fees	22,971	19,703	3,268	68,771	54,536	14,235
Total professional fees	77,154	67,649	9,505	231,131	201,672	29,459
Communications	6,058	6,455	(397)	18,387	19,565	(1,178)
Business promotion	12,325	13,062	(737)	36,914	40,486	(3,572)
FDIC deposit insurance	7,300	9,511	(2,211)	22,240	30,969	(8,729)
Other real estate owned (OREO) expenses	7,686	19,745	(12,059)	75,571	29,595	45,976
Other operating expenses:						
Credit and debit card processing, volume and interchange expenses	6,450	5,659	791	17,032	16,495	537
Transportation and travel	1,933	1,573	360	5,558	4,750	808
Printing and supplies	888	911	(23)	2,766	2,556	210
Operational losses	9,648	5,293	4,355	15,572	12,772	2,800
All other	6,632	16,982	(10,350)	33,053	36,703	(3,650)
Total other operating expenses	25,551	30,418	(4,867)	73,981	73,276	705
Amortization of intangibles	3,512	2,026	1,486	8,497	6,077	2,420
Restructuring costs	481	8,290	(7,809)	17,408	12,864	4,544
Total operating expenses	\$ 306,897	\$ 310,640	\$ (3,743)	\$ 982,412	\$ 863,678	\$ 118,734

INCOME TAXES

Income tax expense amounted to \$22.6 million for the quarter ended September 30, 2015, compared to \$26.7 million for the same quarter of 2014. Income tax expense for the quarter ended September 30, 2014 was impacted by the recognition of an income tax expense of \$20.0 million, related to the deferred tax liability associated with the portfolio acquired from Westernbank as a result of the increase in the income tax for capital gains from 15% to 20%, net of the reversal of \$3.6 million of reserves for uncertain tax positions due to the expiration of the statute of limitation. The income tax expense for the third quarter of 2015, reflected the impact of higher taxable income, compared to the same quarter of the previous year.

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The components of income tax expense for the quarters ended September 30, 2015 and 2014 are included in the following table:

Table 8 Components of Income Tax (Benefit) Expense

(In thousands)	Quarters ended			
	September 30, 2015		September 30, 2014	
	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax expense at statutory rates	\$ 42,225	39%	\$ 23,198	39%
Net benefit of tax exempt interest income	(12,221)	(11)	(12,663)	(21)
Deferred tax asset valuation allowance	(670)	(1)	(3,120)	(5)
Non-deductible expenses			90	
Difference in tax rates due to multiple jurisdictions	(3,523)	(3)	(2,240)	(4)
Initial adjustment in deferred tax due to change in tax rate			20,048	34
Effect of income subject to preferential tax rate	(3,610)	(3)	(3,385)	(6)
Unrecognized tax benefits			(3,601)	(6)
Others	419		8,340	14
Income tax (benefit) expense	\$ 22,620	21%	\$ 26,667	45%

Income tax benefit amounted to \$478.3 million for the nine months ended September 30, 2015, compared with an income tax expense of \$45.8 million for the same period of 2014. The increase in income tax benefit was primarily due to a tax benefit of \$544.9 million recorded during the second quarter of 2015 as a result of the partial reversal of the valuation allowance on the Corporation's deferred tax asset from the U.S. operations.

During the quarter ended June 30, 2015, after weighting all positive and negative evidence, the Corporation concluded that it is more likely than not that a portion of the total deferred tax asset from the U.S. operations, amounting to \$1.2 billion and comprised mainly of net operating losses, will be realized. The Corporation based this determination on its estimated earnings for the remaining carryforward period of eighteen years beginning with the 2016 fiscal year, available to utilize the deferred tax asset, to reduce its income tax obligations. The recent historical level of book income adjusted by permanent differences, together with the estimated earnings after the reorganization of the U.S. operations and additional estimated earnings from the Doral Bank Transaction were objective positive evidence considered by the Corporation. As of September 30, 2015 the U.S. operations are not in a three year loss cumulative position, taking into account taxable income exclusive of reversing temporary differences. All of these factor led management to conclude that it is more likely than not that a portion of the deferred tax asset from its U.S. operations will be realized. Management will continue to evaluate the realization of the deferred tax asset each quarter and adjust as deemed necessary.

Table of Contents**Table 9 Components of Income Tax (Benefit) Expense Year-to-Date**

(In thousands)	Nine months ended			
	September 30, 2015		September 30, 2014	
	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax (benefit) expense at statutory rates	\$ 108,508	39%	\$ (71,939)	39%
Net benefit of tax exempt interest income	(39,504)	(14)	(37,607)	21
Deferred tax asset valuation allowance	(537,737)	(193)	(17,303)	9
Non-deductible expenses			178,219	(97)
Difference in tax rates due to multiple jurisdictions	(8,226)	(3)	(12,728)	7
Initial adjustment in deferred tax due to change in tax rate			20,048	(11)
Effect of income subject to preferential tax rate ^[1]	(5,488)	(2)	(21,940)	12
Unrecognized tax benefits			(3,601)	2
Others	4,103	1	12,658	(7)
Income tax (benefit) expense	\$ (478,344)	(172)%	\$ 45,807	(25)%

[1] For 2014, includes the impact of the Closing Agreement with the P.R. Treasury signed in June 2014. Refer to Note 36 to the consolidated financial statements for a breakdown of the Corporation's deferred tax assets as of September 30, 2015.

REPORTABLE SEGMENT RESULTS

The Corporation's reportable segments for managerial reporting purposes consist of Banco Popular de Puerto Rico and Banco Popular North America. These reportable segments pertain only to the continuing operations of Popular, Inc. As previously indicated in Note 4 to the consolidated financial statements, the regional operations in California, Illinois and Central Florida were classified as discontinued operations in the second quarter of 2014, and the assets and liabilities of these regions were subsequently sold during the third and fourth quarters of 2014.

As indicated in Note 5 to the consolidated financial statements, Business Combination, on February 27, 2015, Banco Popular de Puerto Rico, in an alliance with co-bidders, including BPNA, acquired certain assets and all deposits of Doral Bank from the FDIC as receiver. The financial results for the quarter and nine months period ended on September 30, 2015 of both reportable segments include the results from the operations acquired as part of the Doral Bank Transaction.

A Corporate group has been defined to support the reportable segments. For managerial reporting purposes, the costs incurred by the Corporate group are not allocated to the reportable segments.

For a description of the Corporation's reportable segments, including additional financial information and the underlying management accounting process, refer to Note 38 to the consolidated financial statements.

The Corporate group reported a net loss of \$17.6 million for the quarter and \$57.8 million for the nine months ended September 30, 2015, compared with a net loss of \$18.4 million for the quarter and \$489.8 million for the nine months ended September 30, 2014. The favorable variance for the nine months periods was mostly due to the accelerated amortization recorded in the second quarter of 2014 of \$414.1 million of the discount and deferred costs associated with the TARP funds, which were repaid in July 2, 2014.

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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 \$81.4 million for the quarter ended September 30, 2015, compared with a net income of \$62.2 million for the same quarter of the previous year. The principal factors that contributed to the variance in the financial results included the following:

lower net interest income by \$11.9 million mostly due to:

a decrease \$20.3 million in income from the WB loans portfolio due to lower yields by 136 basis points and lower average balances by \$506 million as part of the normal portfolio run-off and loan resolutions;

an increase of \$0.8 million in interest expense from borrowings due mostly to higher cost of funds by 37 basis points;

partially offset by an increase of \$7.1 million in income from mortgage loans mostly due to higher average balances by \$620 million, which benefited from the portfolio acquired as part of the Doral Bank Transaction; and

an increase of \$1.7 million in income from investment securities mostly due to higher average balances by \$266 million.

The net interest margin was 4.75% for the quarter ended September 30, 2015, compared to 5.25% for the same period in 2014.

provision for loan losses of \$66.0 million, mainly driven by a decrease of \$15.4 million from the covered loans portfolio, which is largely due to the decrease in the carrying amount of covered loans from \$2.7 billion as of September 30, 2014 to \$665 million as of September 30, 2015, partially offset by an increase of \$7.0 million from the non-covered loans portfolio due mostly to a \$10.1 million impairment on Westernbank loans that the Corporation has the intent to sell and are subject to the dispute with the FDIC. Excluding the impact of the \$10.1 million impairment, the provision for the third quarter decreased by \$3.1 million;

higher non-interest income by \$19.2 million mainly due to:

higher mortgage banking activities revenues by \$9.6 million, due mainly to the \$4.4 million positive impact of MSR's acquired as a backup servicer for a portfolio previously serviced by Doral, higher mortgage servicing fees by \$5.9 million and higher gains on sales of MBS by \$2.0 million, partially

offset by negative variances of \$2.0 million in realized losses on closed derivative positions and of \$0.7 million in the MSR valuation adjustments;

positive variance in FDIC loss share income of \$6.1 million. Excluding the positive adjustment of \$15.0 million recorded in the third quarter of 2014 to reverse the impact of accelerated amortization expense recorded in prior periods, the positive variance in the FDIC loss-share income was of \$21.1 million, mostly driven by lower amortization of the indemnification asset, partially offset by lower mirror accounting on credit impairment losses and lower mirror accounting on reimbursable expenses; and

positive variance in the adjustments to indemnity reserves on loans sold by \$3.7 million due to lower provision for loans sold with credit recourse by \$4.8 million, partially offset by higher provision for loans sold with representations and warranties by \$1.2 million.

partially offset by:

an unfavorable variance on gains on sale of loans of \$3.2 million as the BPPR segment did not execute any sale of loans during the third quarter of 2015.

operating expenses were flat at \$245.4 million, but had the following variances by line item:

higher personnel costs by \$15.0 million mostly due to an increase in salaries of \$9.4 million, of which \$3.0 million are related to both retained and temporary employees from the Doral Bank Transaction, and an increase in pension and other benefits of \$5.6 million;

higher professional fees by \$7.8 million, due in part to \$3.9 million in fees related to the Doral Bank Transaction, as well as ongoing support for the operations acquired as part of the transaction, and higher programming, processing and other technology services;

partially offset by:

lower OREO expenses by \$12.6 million, mainly as a result of lower write-downs on commercial, construction and mortgage properties and higher gain on sales;

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lower other operating expenses by \$6.5 million largely due to lower provision for unused commitments by \$8.8 million, partially offset by an increase in the reserve for mortgage servicing claims; and

lower other operating taxes by \$4.4 million mainly due to the elimination of the Puerto Rico gross revenue tax and lower municipal license tax.

lower income tax expense by \$3.6 million. Excluding \$23.1 million in adjustments recorded in the third quarter of 2014 detailed in table 54 and the \$2.9 million tax expense related to the transactions detailed in Table 53, income tax expense increased by \$22.3 million due mainly to higher taxable income.

Net income for the nine months ended September 30, 2015 amounted to \$228.1 million, compared to \$198.5 million for the same period of the previous year. The principal factors that contributed to the variance in the financial results included the following:

lower net interest income by \$51.2 million, or 53 basis points, mostly due to:

a decrease of \$71.4 million on income from the WB loans portfolio due to lower yields by 201 basis points as a result of the quarterly recast process and lower average balances by \$431 million as part of the normal portfolio run-off and loan resolutions;

a decrease of \$6.2 million in income from trading account securities due mainly to lower average balances by \$164 million; and

an increase in interest expense on long term debt of \$1.8 million due to higher average balances by \$187 million; partially offset by

an increase of \$19.6 million in income from mortgage loans mostly due to higher average balances by \$525 million, which benefited from the portfolio acquired as part of the Doral Transaction;

an increase of \$3.3 million from commercial loans due to higher yields;

higher interest income from investment securities by \$2.3 million due to higher average balances by \$333 million;

an increase of \$2.0 million in interest income from money markets due to higher average balances by \$1.0 billion.

The net interest margin was 4.89% for the nine months ended September 30, 2015, compared to 5.42% for the same period in 2014;

lower provision for loan losses by \$56.3 million due to decreases in the provision for loan losses on the non-covered and covered loan portfolios of \$29.7 million and \$26.6 million, respectively, since the 2014 results include the impact of environmental factors to account for the macroeconomic conditions in Puerto Rico and the effect of downgrades in the internal risk ratings of certain large corporate and public sector relationships, partially offset by \$10.1 million provision recorded in the third quarter of 2015 based on the estimated fair value of WB loans for which the Corporation has the intent to sell;

higher non-interest income by \$141.8 million mainly due to:

favorable variance in FDIC loss share income (expense) by \$108.7 million. Excluding the impact of the adjustments detailed in Tables 56 and 57 the favorable variance in the FDIC loss-share income was of \$114.6 million mainly driven by lower amortization of the indemnification asset and higher mirror accounting on reimbursable expenses;

higher income from mortgage banking activities by \$36.4 million, mainly due to the \$4.4 million positive impact of MSRs acquired as a backup servicer for a portfolio previously serviced by Doral, higher mortgage servicing fees of \$11.5 million, and a positive variance of \$9.4 million in realized gains/(losses) on closed derivative positions; and

positive variance in adjustments to indemnity reserves by \$19.1 million mainly due to lower provision for loans previously sold due to decreased representations and warrants repurchase activity, and the reversal during 2015 of \$5.0 million of a reserve established in connection with a bulk sale.

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The positive variances in non-interest income detailed above were partially offset by:

unfavorable variance in trading losses of \$6.7 million due to negative market change on lower volume of MBS outstanding.

Higher operating expenses by \$88.2 million mainly due to:

higher OREO expenses by \$37.3 million, due mostly to higher write-downs of commercial properties by \$10.2 million driven by a \$22.0 million write-down related to the bulk sale of covered OREOs in the second quarter of 2015, and higher losses on sales by \$25.1 million due higher volume of sales during 2015;

higher personnel costs by \$39.6 million due to higher salaries and incentive compensation, which include \$9.0 million related to both retained and temporary employees from the Doral Bank Transaction for 2015, higher share based compensation and higher pension costs related to adjustments recorded during the first quarter of 2015 to the mortality table and discount rate used for actuarial assumptions;

higher professional fees by \$24.8 million due to higher programming, processing and other technology services and higher legal expenses related to the FDIC arbitration proceedings, which include \$16.5 million in fees related to the Doral Bank Transaction, mainly technology related, as well as ongoing support for the operations acquired as part of the transaction; and

Partially offset by:

lower FDIC deposit insurance by \$9.3 million resulting from improvements in assets quality and earnings trends; and

lower other operating taxes by \$10.8 million due to elimination of the Puerto Rico gross revenue tax and lower municipal license tax.

Higher adjusted income tax expense by \$29.2 million due mostly to higher taxable income by \$58.8 million.

Banco Popular North America

For the quarter ended September 30, 2015, the reportable segment of Banco Popular North America reported net income from continuing operations of \$21.5 million, compared to a net loss of \$11.4 million for the same quarter of the previous year. The principal factors that contributed to the variance in the financial results included the following:

Net interest income was \$62.4 million, an increase of \$36.0 compared to the same quarter of the previous year. Excluding \$20.7 million of interest expense related to the repos refinanced during the third quarter of 2014, the net interest income improved by \$15.4 million, mainly due to higher interest income from loans by \$14.2 million and lower interest expense from repos by \$6.5 million due to lower yields, partially offset by lower interest income from investment securities by \$3.2 million due to portfolio sales in 2014 following the sale of the regions classified as discontinued operations in 2014, and higher interest expense from deposits by \$1.7 million due to higher average balances by \$1.0 billion largely due to the deposits acquired in February 2015 as part of the Doral Bank Transaction. Net interest margin was 3.91% compared to 1.82% for the same quarter of the previous year. Excluding the \$20.7 million interest expense recorded in 2014 when refinancing the structured repos, the adjusted net interest margin was 3.23% for the quarter ended September 30, 2014;

provision for loan losses lower by \$5.5 million;

lower non-interest income by \$12.0 million, mostly due to an unfavorable variance in net gains (losses) on sale of loans of \$12.4 million due to lower volume of sales of non-performing commercial loans, partially offset by a positive variance in gains on sale of securities of \$1.8 million; and

lower operating expenses by \$3.8 million. Excluding the positive variance of \$7.8 million in restructuring costs, operating expenses increased by \$4.0 million largely due to increases in professional fees of \$2.5 million and other operating expenses of \$1.0 million, both mainly related to the operations acquired as part of the Doral Bank Transaction.

unfavorable variance in income tax expense of \$0.5 million.

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Net income from continuing operations for the nine months ended September 30, 2015 amounted to \$585.7 million, compared to a net loss of \$60.6 million for the same period of the previous year, largely due to the partial reversal of the valuation allowance of the deferred tax asset of \$544.9 million. Other factors that contributed to the variance in the financial results included the following:

higher net interest income by \$49.9 million, mainly impacted by:

lower interest expense from short-term borrowings by \$41.1 million. Excluding the impact of the \$20.7 million of interest expense related to the repos refinanced during the third quarter of 2014, the interest expense from short-term borrowings improved by \$20.4 million due to lower yields by 353 basis points and lower average balances by \$554 million;

higher interest income from loans by \$21.4 million due mostly to higher average balances by \$521 million mainly from the loans acquired during 2015 as part of the Doral Bank Transaction; partially offset by

lower income from investment securities by \$11.3 million due to lower average balances and lower yields.

The BPNA reportable segment net interest margin was 3.93% for the nine months ended September 30, 2015, compared with 2.83% for the same period in 2014. Excluding the \$20.7 million interest expense recorded in 2014 when refinancing the structured repos, the adjusted net interest margin was 3.29% for the nine months ended September 30, 2014.

a reserve release of \$1.5 million, compared to a reserve release of \$18.3 million for the same period of 2014;

lower non-interest income by \$28.9 million, mostly due to an unfavorable variance of \$26.7 million from gains on sale of loans due to lower volume of sales of non-performing commercial loans;

higher operating expenses by \$23.1 million largely due to the Doral Bank Transaction, which added \$18.6 million in transaction related, as well as ongoing support expenses, for 2015. Also contributing to the variance is a \$4.5 million increase in restructuring costs, most of which was incurred during the first and second quarters of 2015; and

income tax expense higher by \$0.9 million, excluding the impact of the reversal of the valuation allowance on the deferred tax asset of \$544.9 million.

FINANCIAL CONDITION ANALYSIS

Assets

The Corporation's total assets were \$35.5 billion at September 30, 2015 compared to \$33.1 billion at December 31, 2014. Refer to the consolidated financial statements included in this report for the Corporation's consolidated statements of financial condition as of such dates.

Money market investments, trading and investment securities

Money market investments totaled \$2.4 billion at September 30, 2015, compared to \$1.8 billion at December 31, 2014. The increase was mainly at BPPR by \$356 million and at BPNA by \$249 million.

Trading account securities amounted to \$138 million at September 30, 2015, compared to \$139 million at December 31, 2014. Refer to the Market Risk section of this MD&A for a table that provides a breakdown of the trading portfolio by security type.

Investment securities available-for-sale and held-to-maturity amounted to \$5.6 billion at September 30, 2015, compared with \$5.4 billion at December 31, 2014. Excluding the balance as of September 30, 2015 of \$132 million in mortgage backed securities acquired as part of the Doral Bank Transaction, investment securities available-for-sale and held-to-maturity increased by \$51 million.

Table 10 provides a breakdown of the Corporation's portfolio of investment securities available-for-sale (AFS) and held-to-maturity (HTM) on a combined basis. Also, Notes 9 and 10 to the consolidated financial statements provide additional information with respect to the Corporation's investment securities AFS and HTM. The portfolio of obligations of the Puerto Rico Government is

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mainly comprised of securities with specific sources of income or revenues identified for repayments. Based on the fiscal and economic situation in Puerto Rico, together with the government's announcements regarding its ability to pay its debt, the Corporation determined during the second quarter of 2015 that certain PR Government securities with an amortized cost of approximately \$41 million and a market value of \$27 million have unrealized losses that are other than temporary, and accordingly recorded in earnings OTTI of \$14.4 million for the estimated credit loss. These securities, for which an other-than-temporary impairment was recorded, were sold during the third quarter of 2015, resulting in a realized gain of \$0.1 million. The proceeds from this sale were \$26.8 million.

Table 10 - Breakdown of Investment Securities Available-for-Sale and Held-to-Maturity

(In thousands)	September 30, 2015	December 31, 2014	Variance
U.S. Treasury securities	\$ 1,046,173	\$ 700,154	\$ 346,019
Obligations of U.S. Government sponsored entities	1,001,495	1,724,973	(723,478)
Obligations of Puerto Rico, States and political subdivisions	125,142	163,285	(38,143)
Collateralized mortgage obligations	1,656,856	1,910,127	(253,271)
Mortgage-backed securities	1,757,193	904,362	852,831
Equity securities	2,389	2,622	(233)
Others	11,978	12,806	(828)
Total investment securities AFS and HTM	\$ 5,601,226	\$ 5,418,329	\$ 182,897

Loans

Refer to Table 11 for a breakdown of the Corporation's loan portfolio, the principal category of earning assets. Loans covered under the FDIC loss sharing agreements are presented separately in Table 11. The risks on covered loans are significantly different as a result of the loss protection provided by the FDIC. The loss share portion of the loss share agreement applicable to commercial (including construction) and consumer loans expired on June 30, 2015. Accordingly, loans with a carrying amount of \$1.5 billion as of June 30, 2015 were reclassified from covered to non-covered because they are no longer subject to the shared-loss arrangements with the FDIC. As of September 30, 2015, the Corporation's covered loans portfolio amounted to \$665 million, comprised mainly of residential mortgage loans. Refer to Note 11 for detailed information about the Corporation's loan portfolio composition and loan purchases and sales.

The Corporation's total loan portfolio amounted to \$23.3 billion at September 30, 2015, compared to \$22.1 billion at December 31, 2014. Excluding the balance at September 30, 2015 of \$1.5 billion in loans acquired as part of the Doral Bank Transaction, the total loan portfolio decreased by \$282 million mainly in the covered loans portfolio. Excluding the reclassification of \$1.5 billion to the non-covered category, the covered loans portfolio decreased by \$362 million mostly due to the continuation of loan resolutions and the normal portfolio run-off. This decrease was partially offset by an increase in the non-covered loans portfolio of \$80 million, excluding the impact of the Doral Bank Transaction, mainly from the commercial loans portfolio at BPNA.

Table of Contents**Table 11 - Loans Ending Balances**

(In thousands)	September 30, 2015	December 31, 2014	Variance
Loans not covered under FDIC loss sharing agreements:			
Commercial	\$ 10,130,424	\$ 8,134,267	\$ 1,996,157
Construction	692,492	251,820	440,672
Legacy ^[1]	67,974	80,818	(12,844)
Lease financing	606,927	564,389	42,538
Mortgage	7,165,479	6,502,886	662,593
Consumer	3,834,770	3,870,271	(35,501)
Total non-covered loans held-in-portfolio	22,498,066	19,404,451	3,093,615
Loans covered under FDIC loss sharing agreements:			
Commercial		1,614,781	(1,614,781)
Construction		70,336	(70,336)
Mortgage	645,663	822,986	(177,323)
Consumer	19,765	34,559	(14,794)
Total covered loans held-in-portfolio	665,428	2,542,662	(1,877,234)
Total loans held-in-portfolio	23,163,494	21,947,113	1,216,381
Loans held-for-sale:			
Commercial	47,447	309	47,138
Construction	10		10
Legacy ^[1]		319	(319)
Mortgage	123,562	100,166	23,396
Consumer		5,310	(5,310)
Total loans held-for-sale	171,019	106,104	64,915
Total loans	\$ 23,334,513	\$ 22,053,217	\$ 1,281,296

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

Non-covered loans

The non-covered loans held-in-portfolio increased by \$3.1 billion to \$22.5 billion at September 30, 2015. Excluding the balance at September 30, 2015 of \$1.5 billion loans acquired as part of the Doral Bank Transaction and the previously mentioned reclassification to non-covered loans of \$1.5 billion, non-covered loans held-in-portfolio increased by \$80 million, mainly due to commercial loans at BPNA.

The loans held-for-sale portfolio reflected an increase of \$65 million from December 31, 2014 to September 30, 2015, mostly due to the reclassification during the second quarter of a \$45 million public sector credit of BPPR public sector net of the related write-down of \$30 million, for which the sale was subject, among other conditions, to the approval of the syndicate's agent bank. The sale agreement was terminated on July 29, 2015 pursuant to its terms after the parties were not able to obtain the approval of the agent bank on terms acceptable to the assignee. However, at September 30, 2015, the loan remains classified as held-for-sale as the Corporation maintains its ability and its intent to sell the loan. Also contributing to the increase were originations of mortgage loans held-for-sale by branches acquired as part of the Doral Bank Transaction.

Covered loans

The covered loans portfolio amounted to \$665 million at September 30, 2015, compared to \$2.5 billion at December 31, 2014. Excluding the previously mentioned reclassification of \$1.5 billion loans from covered to non-covered, covered loans decreased by \$362 million due to loan resolutions and the normal portfolio run-off. Refer to Table 11 for a breakdown of the covered loans by major loan type categories.

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Tables 12 and 13 provide the activity in the carrying amount and outstanding discount on the Westernbank loans accounted for under ASC 310-30. The outstanding accretable discount is impacted by increases in cash flow expectations on the loan pool based on quarterly revisions of the portfolio. The increase in the accretable discount is recognized as interest income using the effective yield method over the estimated life of each applicable loan pool.

Table 12 - Activity in the Carrying Amount of Westernbank Loans Accounted for Under ASC 310-30

(In thousands)	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Beginning balance	\$ 2,137,078	\$ 2,610,664	\$ 2,444,172	\$ 2,827,947
Accretion	46,693	66,017	156,384	224,998
Collections / charge-offs	(107,759)	(148,248)	(524,544)	(524,512)
Ending balance	\$ 2,076,012	\$ 2,528,433	\$ 2,076,012	\$ 2,528,433
Allowance for loan losses (ALLL)	(64,583)	(85,640)	(64,583)	(85,640)
Ending balance, net of ALLL	\$ 2,011,429	\$ 2,442,793	\$ 2,011,429	\$ 2,442,793

Table 13 - Activity in the Accretable Yield on Westernbank Loans Accounted for Under ASC 310-30

(In thousands)	Quarter ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Beginning balance	\$ 1,245,924	\$ 1,280,758	\$ 1,271,337	\$ 1,309,205
Accretion [1]	(46,693)	(66,017)	(156,384)	(224,998)
Change in expected cash flows	(53,782)	97,780	30,496	228,314
Ending balance	\$ 1,145,449	\$ 1,312,521	\$ 1,145,449	\$ 1,312,521

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

FDIC loss share asset

Table 14 sets forth the activity in the FDIC loss share asset for the quarters and nine months ended September 30, 2015 and 2014.

Table 14 Activity of Loss Share Asset

(In thousands)	Quarters ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014

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Balance at beginning of period	\$ 392,947	\$ 712,869	\$ 542,454	\$ 909,414
Amortization	(3,931)	(42,524)	(62,312)	(163,565)
Reversal of accelerated amortization in prior periods		15,046		15,046
Credit impairment losses (reversal) to be covered under loss-sharing agreements	(183)	9,863	15,710	35,325
Reimbursable expenses	6,276	15,545	70,551	39,375
Net payments from FDIC under loss-sharing agreements	(80,993)	(68,183)	(245,416)	(178,801)
Other adjustments attributable to FDIC loss-sharing agreements	(2,170)	(6,285)	(9,041)	(20,463)
Balance at end of period	\$ 311,946	\$ 636,331	\$ 311,946	\$ 636,331

The FDIC loss share indemnification asset is recognized on the same basis as the assets subject to the loss share protection from the FDIC, except that the amortization / accretion terms differ. Decreases in expected reimbursements from the FDIC due to improvements in expected cash flows to be received from borrowers, as compared with the initial estimates, are recognized as a reduction to non-interest income prospectively over the life of the loss share agreements. This is because the indemnification asset balance is being reduced to the expected reimbursement amount from the FDIC. Table 15 presents the activity associated with the outstanding balance of the FDIC loss share asset amortization (or negative discount) for the periods presented.

Table of Contents**Table 15 - Activity in the Remaining FDIC Loss-Share Asset Discount**

(In thousands)	Quarters ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Balance at beginning of period ^[1]	\$ 28,493	\$ 105,939	\$ 53,095	\$ 103,691
Amortization of negative discount ^[2]	(3,931)	(42,524)	(62,312)	(163,565)
Impact of lower projected losses	2,805	3,147	36,584	126,436
Balance at end of period	\$ 27,367	\$ 66,562	\$ 27,367	\$ 66,562

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

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

The Corporation revises its expected cash flows and estimated credit losses on a quarterly basis. The lowered loss estimates requires the Corporation to amortize the loss share asset to its currently lower expected collectible balance, thus resulting in negative accretion. Due to the shorter life of the indemnity asset compared with the expected life of the covered loans, this negative accretion temporarily offsets the benefit of higher cash flows accounted through the accretable yield on the loans.

Other real estate owned

Other real estate owned represents real estate property received in satisfaction of debt. At September 30, 2015, OREO decreased to \$192 million from \$266 million at December 31, 2014 mainly driven by higher sales, which include a bulk sale of covered commercial properties during the second quarter of 2015 of \$37 million. Refer to Table 16 for the activity in other real estate owned. The amounts included as covered other real estate are subject to the FDIC loss sharing agreements.

Table 16 - Other Real Estate Owned Activity

(In thousands)	For the quarter ended September 30, 2015				Total
	Non-covered OREO	Non-covered OREO	Covered OREO	Covered OREO	
	Commercial/Construction	Mortgage	Commercial/Construction	Mortgage	
Balance at beginning of period	\$ 34,725	\$ 107,530	\$	\$ 33,504	\$ 175,759
Write-downs in value	(668)	(1,843)		(640)	(3,151)
Additions	7,959	24,318		5,759	38,036
Sales	(3,190)	(12,402)		(2,922)	(18,514)
Other adjustments	(510)	(93)			(603)
Ending balance	\$ 38,316	\$ 117,510	\$	\$ 35,701	\$ 191,527

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(In thousands)	For the nine months ended September 30, 2015				Total
	Non-covered OREO Commercial/Construction	Non-covered OREO Mortgage	Covered OREO Commercial/ Construction	Covered OREO Mortgage	
Balance at beginning of period	\$ 38,983	\$ 96,517	\$ 85,394	\$ 44,872	\$ 265,766
Write-downs in value	(10,717)	(5,678)	(20,350)	(3,315)	(40,060)
Additions	12,787	63,925	9,661	20,019	106,392
Sales	(17,485)	(39,731)	(59,749)	(22,550)	(139,515)
Other adjustments	244	(615)	(452)	(233)	(1,056)
Transfer to non-covered status	14,504	3,092	(14,504)	(3,092)	
Ending balance	\$ 38,316	\$ 117,510	\$	\$ 35,701	\$ 191,527

(In thousands)	For the quarter ended September 30, 2014				Total
	Non-covered OREO Commercial/Construction	Non-covered OREO Mortgage	Covered OREO Commercial/ Construction	Covered OREO Mortgage	
Balance at beginning of period	\$ 49,787	\$ 89,633	\$ 107,905	\$ 47,900	\$ 295,225
Write-downs in value	(2,714)	(1,844)	(5,839)	(2,222)	(12,619)
Additions	2,853	15,787	10,693	7,276	36,609
Sales	(5,148)	(13,008)	(7,077)	(7,057)	(32,290)
Other adjustments	(1)	(89)	(812)	615	(287)
Ending balance	\$ 44,777	\$ 90,479	\$ 104,870	\$ 46,512	\$ 286,638

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(In thousands)	For the nine months ended September 30, 2014				Total
	Non-covered OREO Commercial/Construction	Non-covered OREO Mortgage	Covered OREO Commercial/Construction	Covered OREO Mortgage	
Balance at beginning of period	\$ 48,649	\$ 86,852	\$ 120,215	\$ 47,792	\$ 303,508
Write-downs in value	(3,499)	(2,952)	(17,037)	(3,369)	(26,857)
Additions	13,824	46,070	46,147	15,870	121,911
Sales	(15,482)	(37,274)	(40,290)	(13,211)	(106,257)
Other adjustments	1,285	(2,217)	(4,165)	(570)	(5,667)
Ending balance	\$ 44,777	\$ 90,479	\$ 104,870	\$ 46,512	\$ 286,638

Other assets

Table 17 provides a breakdown of the principal categories that comprise the caption of **Other assets** in the consolidated statements of financial condition at September 30, 2015 and December 31, 2014.

Table 17 - Breakdown of Other Assets

(In thousands)	September 30, 2015	December 31, 2014	Variance
Net deferred tax assets (net of valuation allowance)	\$ 1,271,410	\$ 812,819	\$ 458,591
Investments under the equity method	228,214	225,625	2,589
Prepaid taxes	191,913	198,120	(6,207)
Other prepaid expenses	83,873	84,079	(206)
Derivative assets	16,750	25,362	(8,612)
Trades receivable from brokers and counterparties	125,625	66,949	58,676
Others	303,269	233,489	69,780
Total other assets	\$ 2,221,054	\$ 1,646,443	\$ 574,611

Other assets increased by \$575 million from December 31, 2014 to September 30, 2015, due largely to the partial reversal during the second quarter of 2015 of the valuation allowance on its deferred tax assets from its U.S. operations for approximately \$545 million. Refer to Note 36 to the consolidated financial statements for detailed information on the Corporation's income taxes.

Goodwill

Goodwill increased by \$39 million from December 31, 2014 to September 30, 2015, due to \$42 million of goodwill recorded as part of the Doral Bank Transaction, partially offset by a \$2 million purchase accounting adjustment recorded at the Corporation's insurance subsidiary related to the acquisition of an insurance benefits business during the year ended December 31, 2014.

Liabilities

The Corporation's total liabilities were \$30.5 billion at September 30, 2015 compared to \$28.8 billion at December 31, 2014. Refer to the consolidated financial statements included in this Form 10-Q for the Corporation's consolidated statements of financial condition as of such dates.

Deposits and Borrowings

The composition of the Corporation's financing sources to total assets at September 30, 2015 and December 31, 2014 is included in Table 18.

Table of Contents**Table 18 - Financing to Total Assets**

(In millions)	September 30, 2015	December 31, 2014	% increase (decrease) from 2014 to 2015	% of total assets	
				2015	2014
Non-interest bearing deposits	\$ 6,071	\$ 5,784	5.0%	17.1%	17.5%
Interest-bearing core deposits	15,536	14,775	5.2	43.7	44.6
Other interest-bearing deposits	5,106	4,249	20.2	14.4	12.8
Fed funds purchased and repurchase agreements	1,086	1,272	(14.6)	3.1	3.8
Other short-term borrowings	1	21	(95.2)		0.1
Notes payable	1,674	1,712	(2.2)	4.7	5.2
Other liabilities	1,005	1,012	(0.7)	2.8	3.1
Liabilities from discontinued operations	2	5	(60.0)		
Stockholders' equity	5,050	4,267	18.4	14.2	12.9

Deposits

The Corporation's deposits totaled \$26.7 billion at September 30, 2015 compared to \$24.8 billion at December 31, 2014. Excluding the balance at September 30, 2015 of \$1.5 billion in deposits acquired as part of the Doral Bank Transaction, deposits increased by \$395 million due to an increase at BPNA of \$450 million, partially offset by a decrease at BPPR of \$56 million driven by decreases of \$508 million in brokered deposits and \$359 million in time deposits, partially offset by an increase in demand and savings deposits of \$811 million. Refer to Table 19 for a breakdown of the Corporation's deposits at September 30, 2015 and December 31, 2014.

Table 19 - Deposits Ending Balances

(In thousands)	September 30, 2015	December 31, 2014	Variance
Demand deposits [1]	\$ 7,027,672	\$ 6,606,060	\$ 421,612
Savings, NOW and money market deposits (non-brokered)	11,178,357	10,320,782	857,575
Savings, NOW and money market deposits (brokered)	405,903	406,248	(345)
Time deposits (non-brokered)	6,870,816	5,960,401	910,415
Time deposits (brokered CDs)	1,230,458	1,514,044	(283,586)
Total deposits	\$ 26,713,206	\$ 24,807,535	\$ 1,905,671

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

Borrowings

The Corporation's borrowings amounted to \$2.8 billion at September 30, 2015, compared to \$3.0 billion at December 31, 2014. Refer to Note 20 to the consolidated financial statements for detailed information on the Corporation's borrowings. Also, refer to the Liquidity section in this MD&A for additional information on the Corporation's funding sources.

Other liabilities

Other liabilities remained relatively flat at \$1.0 billion as of September 30, 2015, decreasing by \$7 million from December 31, 2014. The decrease is mainly related to decreases of \$31 million in deferred tax liabilities and \$48 million in accrued expenses, including taxes and interests payable, partially offset by increases of \$34 million in the GNMA repurchase option payable, \$23 million in securities trades payable, and \$16 million in dividends payable related to the common dividends declared in September that were paid on October 7, 2015.

Table of Contents**Stockholders Equity**

Stockholders equity totaled \$5.0 billion at September 30, 2015, compared with \$4.3 billion at December 31, 2014. The increase resulted from the Corporation's net income of \$757.9 million for the nine months ended September 30, 2015 and a decrease in accumulated other comprehensive loss of \$40 million, principally due to higher unrealized gains on securities available-for-sale partially offset by common and preferred dividends declared during the quarter of \$15.5 million and \$2.8 million. Refer to the consolidated statements of financial condition, comprehensive income and of changes in stockholders equity for information on the composition of stockholders equity.

REGULATORY CAPITAL

On January 1, 2015, the Corporation, BPPR and BPNA became subject to Basel III capital requirements, including also revised minimum and well capitalized regulatory capital ratios and compliance with the standardized approach for determining risk-weighted assets. As of September 30, 2015, the Corporation continues to exceed the well-capitalized adequacy requirements promulgated by the U.S. federal bank regulatory agencies.

Basel III capital rules require the phase out of non-qualifying Tier 1 capital instruments such as trust preferred securities. At September 30, 2015, the Corporation had \$427 million in trust preferred securities outstanding, of which \$320 million no longer qualify for Tier 1 capital treatment, but instead qualify for Tier 2 capital treatment. By January 1, 2016, all \$427 million of its outstanding trust preferred securities will lose Tier 1 capital treatment, and will be reclassified to Tier 2 capital.

On January 1, 2015, the Corporation, as well as its banking subsidiaries, made the one-time permanent election to exclude the effects on regulatory capital computations of certain accumulated other comprehensive income (loss) (AOCI) items as permitted under the Basel III capital rules.

Risk-based capital ratios presented in Table 20, which include common equity tier 1, Tier 1 capital, total capital and leverage capital as of September 30, 2015, are calculated based on the Basel III regulatory transitional guidance related to the measurement of capital, risk-weighted assets and average assets. Capital ratios for December 31, 2014 were calculated based on the then applicable Basel I rules. Common equity tier 1 capital was not formally codified in the federal banking regulations in effect as of December 31, 2014; thus, common equity tier 1 capital presented in the table below as of year-end 2014 is considered a management internally-defined measurement. Since common equity tier 1 capital was not defined by GAAP or, unlike Tier 1 capital, codified in the Basel I federal banking regulations, it was considered a non-GAAP financial measure as of December 31, 2014.

Table of Contents**Table 20 - Capital Adequacy Data**

(Dollars in thousands)	September 30, 2015	December 31, 2014
Common equity tier 1 capital:		
Common stockholders equity - GAAP basis	\$ 4,999,476	\$ 4,217,222
AOCI related adjustments due to opt-out election	155,270	197,040
Goodwill, net of associated deferred tax liability (DTL)	(447,357)	(412,455)
Intangible assets, net of associated DTLs	(27,645)	(35,315)
Deferred tax assets and other deductions	(606,157)	(593,363)
Common equity tier 1 capital	\$ 4,073,587	\$ 3,373,129
Additional tier 1 capital:		
Preferred stock	50,160	50,160
Trust preferred securities subject to phase out of additional tier 1	106,650	426,602
Other additional tier 1 capital deductions	(156,810)	
Additional tier 1 capital	\$	\$ 476,762
Tier 1 capital	\$ 4,073,587	\$ 3,849,891
Tier 2 capital:		
Trust preferred securities subject to phase in as tier 2	319,952	
Other inclusions (deductions), net	324,872	272,347
Tier 2 capital	\$ 644,824	\$ 272,347
Total risk-based capital	\$ 4,718,411	\$ 4,122,238
Minimum total capital requirement to be well capitalized	\$ 2,513,027	\$ 2,123,390
Excess total capital over minimum well capitalized	\$ 2,205,384	\$ 1,998,848
Total risk-weighted assets	\$ 25,130,272	\$ 21,233,902
Total assets for leverage ratio	\$ 34,671,984	\$ 32,250,173
Risk-based capital ratios:		
Common equity tier 1 capital	16.21%	15.89%
Tier 1 capital	16.21	18.13

Total capital	18.78	19.41
Tier 1 leverage	11.75	11.94

Rules adopted by the federal banking agencies, as applicable to the Corporation's banking subsidiaries as of September 30, 2015, provide that a depository institution will be deemed to be well capitalized under prompt corrective action if it maintains a leverage ratio of at least 5%, a common equity Tier 1 ratio of at least 6.5%, a Tier 1 capital ratio of at least 8% and a total risk-based ratio of at least 10%. Management has determined that as of September 30, 2015, BPPR and BPNA were well-capitalized under the regulatory framework for prompt corrective action.

The regulatory capital ratios except for the common equity tier 1 capital ratio declined despite the increase in regulatory capital mostly because of the increase in risk-weighted assets driven by the Doral Bank acquired assets, the expiration of the commercial loans loss sharing agreement which required a higher risk-weight percentage and to particular assets and off-balance sheet items which are assigned a higher-risk-weight percentage under the Basel III rules, including, for example, certain exposures past due 90 days or more, high volatility commercial real estate loans and unused commitments with an original maturity of one year or less. The increase in the common equity tier 1 capital ratio is mainly due to higher common equity tier I capital driven by the nine months period earnings and to a favorable impact related to the transitional Basel III capital rules applicable to the deferred tax asset capital deduction as compared to the previous Basel I rules, which generally limited the amount allowed as capital for deferred tax assets that were dependable upon future taxable income.

Non-GAAP financial measures

The tangible common equity ratio, tangible assets 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

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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 21 provides a reconciliation of total stockholders' equity to tangible common equity and total assets to tangible assets as of September 30, 2015, and December 31, 2014.

Table 21 - Reconciliation of Tangible Common Equity and Tangible Assets

(In thousands, except share or per share information)	September 30, 2015	December 31, 2014
Total stockholders' equity	\$ 5,049,636	\$ 4,267,382
Less: Preferred stock	(50,160)	(50,160)
Less: Goodwill	(504,925)	(465,676)
Less: Other intangibles	(71,393)	(37,595)
Total tangible common equity	\$ 4,423,158	\$ 3,713,951
Total assets	\$ 35,530,794	\$ 33,096,695
Less: Goodwill	(504,925)	(465,676)
Less: Other intangibles	(71,393)	(37,595)
Total tangible assets	\$ 34,954,476	\$ 32,593,424
Tangible common equity to tangible assets	12.65%	11.39%
Common shares outstanding at end of period	103,556,285	103,476,847
Tangible book value per common share	\$ 42.71	\$ 35.89

Contractual Obligations and Commercial Commitments

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

Purchase obligations include major legal and binding contractual obligations outstanding at September 30, 2015, primarily for services, equipment and real estate construction projects. Services include software licensing and maintenance, facilities maintenance, supplies purchasing, and other goods or services used in the operation of the business. Generally, these contracts are renewable or cancelable at least annually, although in some cases the Corporation has committed to contracts that may extend for several years to secure favorable pricing concessions. Purchase obligations amounted to \$176 million at September 30, 2015 of which approximately 39% mature in 2015,

33% in 2016, 13% in 2017 and 15% thereafter.

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 statement 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.

Refer to Note 20 for a breakdown of long-term borrowings by maturity.

The Corporation 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

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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 may expire without being drawn upon, the total contractual amounts are not representative of the Corporation's actual future credit exposure or liquidity requirements for these commitments.

Table 22 presents the contractual amounts related to the Corporation's off-balance sheet lending and other activities at September 30, 2015.

Table 22 - Off-Balance Sheet Lending and Other Activities

(In millions)	Amount of commitment - Expiration Period				Total
	Remaining 2015	Years 2016 - 2017	Years 2018 - 2019	Years 2020 - thereafter	
Commitments to extend credit	\$ 5,158	\$ 1,544	\$ 233	\$ 91	\$ 7,026
Commercial letters of credit	2				2
Standby letters of credit	19	29			48
Commitments to originate or fund mortgage loans	22	6			28
Unfunded investment obligations		9			9
Total	\$ 5,201	\$ 1,588	\$ 233	\$ 91	\$ 7,113

At September 30, 2015 and December 31, 2014, the Corporation maintained a reserve of approximately \$12 million and \$13 million, respectively, for probable losses associated with unfunded loan commitments related to commercial and consumer lines of credit. The estimated reserve is principally based on the expected draws on these facilities using historical trends and the application of the corresponding reserve factors determined under the Corporation's allowance for loan losses methodology. This reserve for unfunded loan commitments remains separate and distinct from the allowance for loan losses and is reported as part of other liabilities in the consolidated statement of financial condition.

Refer to Note 26 to the consolidated financial statements for additional information on credit commitments and contingencies.

Guarantees associated with loans sold / serviced

At September 30, 2015, the Corporation serviced \$1.9 billion in residential mortgage loans subject to lifetime credit recourse provisions, principally loans associated with FNMA and FHLMC residential mortgage loan securitization programs, compared with \$2.1 billion at December 31, 2014. The Corporation has not sold any mortgage loan subject to credit recourse since 2010.

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. 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.

In the case of Puerto Rico, most claims are settled by repurchases of delinquent loans, the majority of which are greater than 90 days past due. The average time period to prepare an initial response to a repurchase request is from 30 to 120 days from the initial written notice depending on the type of repurchase request. Failure by the Corporation to respond to a request for repurchase on a timely basis could result in a deterioration of the seller/servicer relationship and the seller/servicer's overall standing. In certain instances, investors could require additional collateral to ensure compliance with the servicer's repurchase obligation or cancel the seller/servicer license and exercise their rights to transfer the servicing to an eligible seller/servicer.

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The following table presents the delinquency status of the residential mortgage loans serviced by the Corporation that are subject to lifetime credit recourse provisions.

Table 23 - Delinquency of Residential Mortgage Loans Subject to Lifetime Credit Recourse

(In thousands)	September 30, 2015	December 31, 2014
Total portfolio	\$ 1,940,018	\$ 2,138,705
Days past due:		
30 days and over	\$ 256,690	\$ 302,992
90 days and over	\$ 110,186	\$ 129,590
As a percentage of total portfolio:		
30 days past due or more	13.23%	14.17%
90 days past due or more	5.68%	6.06%

During the quarter and nine months period ended September 30, 2015, the Corporation repurchased approximately \$14 million and \$44 million, respectively, in unpaid principal balance of mortgage loans subject to the credit recourse provisions, compared with \$21 million and \$69 million, respectively, for the same periods of 2014. There are no particular loan characteristics, such as loan vintages, loan type, loan-to-value ratio, or other criteria that denote any specific trend or concentration of repurchases on any particular segment. Based on historical repurchase experience, the loan delinquency status is the main factor which causes the repurchase request. Once the loans are repurchased, they are put through the Corporation's loss mitigation programs.

At September 30, 2015, the Corporation's liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to \$57 million, compared with \$59 million at December 31, 2014.

The following table presents the changes in the Corporation's liability for estimated losses related to loans serviced with credit recourse provisions for the quarters and nine months periods ended September 30, 2015 and 2014.

Table 24 - Changes in Liability of Estimated Losses from Credit Recourse Agreements

(In thousands)	Quarters ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Balance as of beginning of period	\$ 57,589	\$ 47,892	\$ 59,438	\$ 41,463
Provision for recourse liability	4,394	9,189	15,262	28,215
Net charge-offs	(4,927)	(5,885)	(17,644)	(18,482)
Balance as of end of period	\$ 57,056	\$ 51,196	\$ 57,056	\$ 51,196

The provision for credit recourse liability decreased by \$13.0 million during the nine months ended September 30, 2015, when compared with the same period in 2014, due to certain enhancements in the estimated losses for credit

recourse methodology at BPPR during 2014.

The estimated losses to be absorbed under the credit recourse arrangements are recorded as a liability when the loans are sold or credit recourse is assumed as part of acquired servicing rights 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.

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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 September 30, 2015, the Corporation serviced \$20.9 billion in mortgage loans for third-parties, including the loans serviced with credit recourse, compared with \$15.6 billion at December 31, 2014. The Corporation generally recovers funds advanced pursuant to these arrangements from the mortgage borrower, 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 September 30, 2015, the outstanding balance of funds advanced by the Corporation under such mortgage loan servicing agreements was approximately \$102 million, which includes the impact of approximately \$60 million in advances purchased in connection with servicing portfolios acquired, compared with \$33 million at September 30, 2014. 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.

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 conform 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. During the nine months period ended September 30, 2015, the Corporation repurchased \$175 thousand under representation and warranty arrangements. 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.

As discussed on Note 4 – Discontinued operations, on November 8, 2014, the Corporation completed the sale of the California regional operations. In connection with this transaction, the Corporation agreed to provide, subject to certain limitations, customary indemnification to the purchaser, including with respect to certain pre-closing liabilities and violations of representations and warranties. The Corporation also agreed to indemnify the purchaser for up to 1.5% of credit losses on transferred loans for a period of two years after the closing. Pursuant to this indemnification provision, the Corporation's maximum exposure is approximately \$16.0 million. The Corporation recognized a reserve of approximately \$2.2 million, representing its best estimate of the loss that would be incurred in connection with this indemnification. This reserve is included within the liabilities from discontinued operations.

During the quarter ended June 30, 2013, the Corporation established a reserve for certain specific representation and warranties made in connection with BPPR's sale of non-performing mortgage loans. The purchaser's sole remedy under the indemnity clause is to seek monetary damages from BPPR, for a maximum of \$16.3 million. BPPR recognized a reserve of approximately \$3.0 million, representing its best estimate of the loss that would be incurred in connection with this indemnification. BPPR's obligations under this clause end one year after the closing except with respect to any claim asserted prior to such termination date. At September 30, 2015, the Corporation has a reserve balance of \$3.0 million to cover claims received from the purchaser, which are currently being evaluated.

During the quarter ended March 31, 2013, the Corporation established a reserve for certain specific representation and warranties made in connection with BPPR's sale of commercial and construction loans, and commercial and single family real estate owned. The purchaser's sole remedy under the indemnity clause is to seek monetary damages from BPPR, for a maximum of \$18.0 million. BPPR is not required to repurchase any of the assets. BPPR recognized a reserve of approximately \$10.7 million, representing its best estimate of the loss that would be incurred in connection with this indemnification. During the quarter ended March 31, 2015, the Corporation released \$3.2 million. In addition, during the quarter ended June 30, 2015, the Corporation and the purchaser agreed to amend the Portfolio Purchase Agreement and a settlement amount of \$2.3 million was paid, and \$1.8 million of the reserve was released. At September 30, 2015, the Corporation has a reserve balance of \$0.1 million to cover pending claims received from the purchaser.

The following table presents the changes in the Corporation's liability for estimated losses associated with indemnifications and customary representations and warranties related to loans sold by BPPR during the quarters and nine month periods ended September 30, 2015 and 2014.

Table of Contents**Table 25 Changes in Liability of Estimated Losses from Indemnifications and Customary Representations and Warranties Agreements**

(In thousands)	Quarters ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Balance as of beginning of period	\$ 6,062	\$ 15,919	\$ 15,959	\$ 19,277
Additions for new sales				
Provision (reversal) for representation and warranties	1,409	230	(6,199)	(1,235)
Net charge-offs	(14)	(7)	(53)	(1,900)
Settlements paid			(2,250)	
Balance as of end of period	\$ 7,457	\$ 16,142	\$ 7,457	\$ 16,142

In addition, at September 30, 2015, the Corporation has reserves for customary representations and warranties related to loans sold by its U.S. subsidiary E-LOAN prior to 2009. Loans were sold to investors on a servicing released basis subject to certain representations and warranties. Although the risk of loss or default was generally assumed by the investors, the Corporation made certain representations relating to borrower creditworthiness, loan documentation and collateral, which if not correct, may result in requiring the Corporation to repurchase the loans or indemnify investors for any related losses associated with these loans. At September 30, 2015 and December 31, 2014, the Corporation's reserve for estimated losses from such representation and warranty arrangements amounted to \$4 million and \$5 million, respectively. E-LOAN is no longer originating and selling loans since the subsidiary ceased these activities in 2008 and most of the outstanding agreements with major counterparties were settled during 2010 and 2011.

MARKET RISK

The financial results and capital levels of the Corporation are constantly exposed to market risk. Market risk represents the risk of loss due to adverse movements in market rates or financial asset prices, which include interest rates, foreign exchange rates, and bond and equity security prices; the failure to meet financial obligations coming due because of the inability to liquidate assets or obtain adequate funding; and the inability to easily unwind or offset specific exposures without significantly lowering prices because of inadequate market depth or market disruptions.

While the Corporation is exposed to various business risks, the risks relating to interest rate risk and liquidity are major risks that can materially impact future results of operations and financial condition due to their complexity and dynamic nature.

The Asset Liability Management Committee (ALCO) and the Corporate Finance Group are responsible for planning and executing the Corporation's market, interest rate risk, funding activities and strategy, and for implementing the policies and procedures approved by the Corporation's Risk Management Committee. In addition, the Risk Management Group independently monitors and reports adherence with established market and liquidity policies and recommends actions to enhance and strengthen controls surrounding interest, liquidity, and market risks. The ALCO meets mostly on a weekly basis and reviews the Corporation's current and forecasted asset and liability levels as well as desired pricing strategies and other relevant financial management and interest rate and risks topics. Also, on a monthly basis the ALCO reviews various interest rate risk sensitivity metrics, ratios and portfolio information, including but not limited to, the Corporation's liquidity positions, projected sources and uses of funds, interest rate risk positions and economic conditions.

Interest rate risk (IRR), a component of market risk, is considered by management as a predominant market risk in terms of its potential impact on profitability or market value. Management utilizes various tools to assess IRR, including simulation modeling, static gap analysis, and Economic Value of Equity (EVE). The three methodologies complement each other and are used jointly in the evaluation of the Corporation s IRR. Simulation modeling is prepared for a five year period, which in conjunction with the EVE analysis, provides Management a better view of long term IRR.

Net interest income simulation analysis performed by legal entity and on a consolidated basis is a tool used by the Corporation in estimating the potential change in net interest income resulting from hypothetical changes in interest rates. Sensitivity analysis is calculated using a simulation model which incorporates actual balance sheet figures detailed by maturity and interest yields or costs. It is performed under a static balance sheet assumption, and the Corporation also runs scenarios that incorporate assumptions on balance sheet growth and expected changes in its composition, estimated prepayments in accordance with projected interest rates,

pricing and maturity expectations on new volumes and other non-interest related data. It is a dynamic process, emphasizing future performance under diverse economic conditions.

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

The asset and liability management group performs validation procedures on various assumptions used as part of the sensitivity analysis as well as validations of results on a monthly basis. In addition, the model and processes used to assess IRR are subject to third-party validations according to the guidelines established in the Model Governance and Validation policy. Due to the importance of critical assumptions in measuring market risk, the risk models incorporate third-party developed data for critical assumptions such as prepayment speeds on mortgage loans and mortgage-backed securities, estimates on the duration of the Corporation's deposits and interest rate scenarios. These interest rate simulations exclude the impact on loans accounted pursuant to ASC Subtopic 310-30, whose yields are based on management's current expectation of future cash flows.

The Corporation processes net interest income simulations under interest rate scenarios in which the yield curve is assumed to rise and decline instantaneously by the same amount. The rising rate scenarios considered in these market risk simulations reflect parallel changes of 200 and 400 basis points during the twelve-month period ending September 30, 2016. Under a 200 basis points rising rate scenario, projected net interest income increases by \$95 million, while under a 400 basis points rising rate scenario, projected net interest income increases by \$194 million. These scenarios were compared against the Corporation's flat or unchanged interest rates forecast scenario. Simulation analyses are based on many assumptions, including relative levels of market interest rates, interest rate spreads, loan prepayments and deposit decay. 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 Corporation estimates the sensitivity of economic value of equity (EVE) to changes in interest rates. EVE is equal to the estimated present value of the Corporation's assets minus the estimated present value of the liabilities. This sensitivity analysis is a useful tool to measure long-term IRR because it captures the impact of up or down rate changes in expected cash flows, including principal and interest, from all future periods.

EVE sensitivity calculated using interest rate shock scenarios is estimated on a quarterly basis. The shock scenarios consist of a +/- 200 and 400 basis point parallel shocks. Management has defined limits for the increases/decreases in EVE sensitivity resulting from the shock scenarios.

The Corporation maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in net interest income or market value that are caused by interest rate volatility. The market value of these derivatives is subject to interest rate fluctuations and counterparty credit risk adjustments which could have a positive or negative effect in the Corporation's earnings.

The Corporation's loan and investment portfolios are subject to prepayment risk, which results from the ability of a third-party to repay debt obligations prior to maturity. Prepayment risk also could have a significant impact on the duration of mortgage-backed securities and collateralized mortgage obligations, since prepayments could shorten (or lower prepayments could extend) the weighted average life of these portfolios.

Trading

The Corporation engages in trading activities in the ordinary course of business at its subsidiaries, Banco Popular de Puerto Rico (BPPR) and Popular Securities. Popular Securities trading activities consist primarily of market-making activities to meet expected customers needs related to its retail securities 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 is hedged with TBAs that have characteristics similar to that of the forecasted security and its conversion timeline.

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At September 30, 2015, the Corporation held trading securities with a fair value of \$138 million, representing approximately 0.4% of the Corporation's total assets, compared with \$139 million and 0.4% at December 31, 2014. As shown in Table 26, the trading portfolio consists principally of mortgage-backed securities relating to BPPR's mortgage activities described above, which at September 30, 2015 were investment grade securities. As of September 30, 2015, the trading portfolio also included \$6.8 million in Puerto Rico government obligations and shares of Closed-end funds that invest primarily in Puerto Rico government obligations (December 31, 2014 - \$9.9 million). Trading instruments are recognized at fair value, with changes resulting from fluctuations in market prices, interest rates or exchange rates reported in current period earnings. The Corporation recognized a net trading account loss of \$398 thousand for the quarter ended September 30, 2015 and a trading account gain of \$ 740 thousand for the quarter ended September 30, 2014.

Table 26 - Trading Portfolio

(Dollars in thousands)	September 30, 2015		December 31, 2014	
	Amount	Weighted Average Yield [1]	Amount	Weighted Average Yield [1]
Mortgage-backed securities	\$ 113,619	5.83%	\$ 110,692	6.19%
Collateralized mortgage obligations	1,673	5.08	1,636	5.01
Puerto Rico government obligations	5,395	5.43	7,954	5.23
Interest-only strips	699	12.18	769	12.11
Other	16,557	2.14	17,476	3.26
Total	\$ 137,943	5.39%	\$ 138,527	5.78%

[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 \$1.4 million for the last week in September 2015. 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.

FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The Corporation currently measures at fair value on a recurring basis its trading assets, available-for-sale securities, derivatives, mortgage servicing rights and contingent consideration. Occasionally, the Corporation may be required to record at fair value other assets on a nonrecurring basis, such as loans held-for-sale, impaired loans held-in-portfolio

that are collateral dependent and certain other assets. These nonrecurring fair value adjustments typically result from the application of lower of cost or fair value accounting or write-downs of individual assets.

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

Refer to Note 29 to the consolidated financial statements for information on the Corporation's fair value measurement disclosures required by the applicable accounting standard. At September 30, 2015, approximately \$ 5.6 billion, or 96%, of the assets measured at fair value on a recurring basis used market-based or market-derived valuation inputs in their valuation methodology and, therefore, were classified as Level 1 or Level 2. The majority of instruments measured at fair value were classified as Level 2, including U.S. Treasury securities, obligations of U.S. Government sponsored entities, obligations of Puerto Rico, States and political subdivisions, most mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs), and derivative instruments.

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At September 30, 2015, the remaining 4% of assets measured at fair value on a recurring basis were classified as Level 3 since their valuation methodology considered significant unobservable inputs. The financial assets measured as Level 3 included mostly tax-exempt GNMA mortgage-backed securities and mortgage servicing rights (MSRs). Additionally, the Corporation reported \$162 million of financial assets that were measured at fair value on a nonrecurring basis at September 30, 2015, all of which were classified as Level 3 in the hierarchy.

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 \$19 million at September 30, 2015, of which \$ 7 million were Level 3 assets and \$ 12 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 an average of two indicative local broker quotes. The main input used in the matrix pricing was non-binding local broker quotes obtained from limited trade activity. Therefore, these securities were classified as Level 3.

During the quarter and nine months ended September 30, 2015, there were no transfers in and/or out of Level 1, Level 2 and Level 3 for financial instruments measured at fair value on a recurring basis. Refer to the Critical Accounting Policies / Estimates in the 2014 Annual Report for additional information on the accounting guidance and the Corporation's policies or procedures related to fair value measurements.

Trading Account Securities and Investment Securities Available-for-Sale

The majority of the values for trading account securities and investment securities available-for-sale are obtained from third-party pricing services and are validated with alternate pricing sources when available. Securities not priced by a secondary pricing source are documented and validated internally according to their significance to the Corporation's financial statements. Management has established materiality thresholds according to the investment class to monitor and investigate material deviations in prices obtained from the primary pricing service provider and the secondary pricing source used as support for the valuation results. During the quarter and nine months ended September 30, 2015, 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 quarter and nine months ended September 30, 2015, none of the Corporation's investment securities were subject to pricing discontinuance by the pricing service providers. The pricing methodology and approach of our primary pricing service providers is concluded to be consistent with the fair value measurement guidance.

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

Securities are classified in the fair value hierarchy according to product type, characteristics and market liquidity. At the end of each period, management assesses the valuation hierarchy for each asset or liability measured. The fair

value measurement analysis performed by the Corporation includes validation procedures and review of market changes, pricing methodology, assumption and level hierarchy changes, and evaluation of distressed transactions.

At September 30, 2015, the Corporation's portfolio of trading and investment securities available-for-sale amounted to \$ 5.6 billion and represented 96% of the Corporation's assets measured at fair value on a recurring basis. At September 30, 2015, net unrealized gains on the trading portfolios approximated \$3 million and net unrealized gains on available-for-sale investments securities approximated \$45 million. Fair values for most of the Corporation's trading and investment securities available-for-sale were classified as Level 2. Trading and investment securities available-for-sale classified as Level 3, which were the securities that involved the highest degree of judgment, represented less than 1% of the Corporation's total portfolio of trading and investment securities available-for-sale.

Table of Contents*Mortgage Servicing Rights*

Mortgage servicing rights (MSRs), which amounted to \$ 211 million at September 30, 2015, do not trade in an active, open market with readily observable prices. Fair value is estimated based upon discounted net cash flows calculated from a combination of loan level data and market assumptions. The valuation model combines loans with common characteristics that impact servicing cash flows (e.g. investor, remittance cycle, interest rate, product type, etc.) in order to project net cash flows. Market valuation assumptions include prepayment speeds, discount rate, cost to service, escrow account earnings, and contractual servicing fee income, among other considerations. Prepayment speeds are derived from market data that is more relevant to the U.S. mainland loan portfolios and, thus, are adjusted for the Corporation's loan characteristics and portfolio behavior since prepayment rates in Puerto Rico have been historically lower. Other assumptions are, in the most part, directly obtained from third-party providers. Disclosure of two of the key economic assumptions used to measure MSRs, which are prepayment speed and discount rate, and a sensitivity analysis to adverse changes to these assumptions, is included in Note 15 to the consolidated financial statements.

Derivatives

Derivatives, such as interest rate swaps 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 held by the Corporation were classified as Level 2. Valuations of derivative assets and liabilities reflect the values associated with counterparty risk and nonperformance risk, respectively. The non-performance risk, which measures the Corporation's own credit risk, is determined using internally-developed models that consider the net realizable value of the collateral posted, remaining term, and the creditworthiness or credit standing of the Corporation. The counterparty risk is also determined using internally-developed models which incorporate the creditworthiness of the entity that bears the risk, net realizable value of the collateral received, and available public data or internally-developed data to determine their probability of default. To manage the level of credit risk, the Corporation employs procedures for credit approvals and credit limits, monitors the counterparties' credit condition, enters into master netting agreements whenever possible and, when appropriate, requests additional collateral. During the quarter ended September 30, 2015, inclusion of credit risk in the fair value of the derivatives resulted in a net loss of \$465.7 thousand recorded in the other operating income and interest expense captions of the consolidated statement of operations, which consisted of a gain of \$215.1 thousand from the assessment of the counterparties' credit risk and a loss of \$680.8 thousand resulting from the Corporation's own credit standing adjustment. During the nine months ended September 30, 2015, inclusion of credit risk in the fair value of the derivatives resulted in a net loss of \$614.3 thousand recorded in the other operating income and interest expense captions of the consolidated statement of operations, which consisted of a gain of \$272.4 thousand resulting from assessment of the counterparties' credit risk and a loss of \$886.7 thousand resulting from the Corporation's own credit standing adjustment.

Loans held-in-portfolio considered impaired under ASC Section 310-10-35 that are collateral dependent

The impairment is 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, size and supply and demand. Deterioration of the housing markets and the economy in general have adversely impacted and continue to affect the market activity related to real estate properties. These collateral dependent impaired loans are classified as Level 3 and are reported as a nonrecurring fair value measurement.

LIQUIDITY

The objective of effective liquidity management is to ensure that the Corporation has sufficient liquidity to meet all of its financial obligations, finance expected future growth and maintain a reasonable safety margin for cash commitments under both normal and stressed market conditions. The Board is responsible for establishing the Corporation's tolerance for liquidity risk, including approving relevant risk limits and policies. The Board has delegated the monitoring of these risks to the RMC and the ALCO. The management of liquidity risk, on a long-term and day-to-day basis, is the responsibility of the Corporate Treasury Division. The Corporation's Corporate Treasurer is responsible for implementing the policies and procedures approved by the Board and for monitoring the Corporation's liquidity position on an ongoing basis. Also, the Corporate Treasury Division coordinates corporate

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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.

During the quarter ended September 30, 2015, the Corporation reinstated the quarterly cash dividend on its outstanding common stock. A cash dividend of \$0.15 per share was paid on October 7, 2015 to shareholders of record at the close of business on September 29, 2015. This represents a quarterly payout of approximately \$15.5 million.

As discussed in Note 5 - Business Combinations, on February 27, 2015 the Corporation acquired certain assets and all deposits (except brokered deposits) from Doral Bank. This included approximately \$ 1.7 billion in loans, approximately \$ 173 million in securities available for sale and \$ 2.2 billion in deposits.

Deposits, including customer deposits, brokered deposits and public funds deposits, continue to be the most significant source of funds for the Corporation, funding 75% of the Corporation's total assets at September 30, 2015, and December 31, 2014. The ratio of total ending loans to deposits was 87% at September 30, 2015, compared to 89% at December 31, 2014. In addition to traditional deposits, the Corporation maintains borrowing arrangements. At September 30, 2015, these borrowings consisted primarily of \$ 1.1 billion in assets sold under agreement to repurchase, \$765 million in advances with the FHLB, \$440 million in junior subordinated deferrable interest debentures related to trust preferred securities and \$450 million in term notes issued to partially fund the repayment of TARP funds. A detailed description of the Corporation's borrowings, including their terms, is included in Note 20 to the consolidated financial statements. Also, the consolidated statements of cash flows in the accompanying consolidated financial statements provide information on the Corporation's cash inflows and outflows.

The following sections provide further information on the Corporation's major funding activities and needs, as well as the risks involved in these activities. A detailed description of the Corporation's borrowings and available lines of credit, including its terms, is included in Note 20 to the consolidated financial statements. Also, the consolidated statements of cash flows in the accompanying consolidated financial statements provide information on the Corporation's cash inflows and outflows.

Banking Subsidiaries

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

facilities.

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

During the quarter ended September 30, 2015, BPPR declared a cash dividend of \$17.2 million, a portion of which was used by Popular, Inc. for the payment of the cash dividend on its outstanding common stock made on October 7, 2015, as mentioned above.

Note 39 to the consolidated financial statements provides a consolidating statement of cash flows which includes the Corporation's banking subsidiaries as part of the All other subsidiaries and eliminations column.

The banking subsidiaries maintain sufficient funding capacity to address large increases in funding requirements such as deposit outflows. This capacity is comprised mainly of available liquidity derived from secured funding sources, as well as on-balance sheet

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liquidity in the form of cash balances maintained at the Fed and unused secured lines held at the Fed and FHLB, in addition to liquid unpledged securities. The Corporation has established liquidity guidelines that require the banking subsidiaries to have sufficient liquidity to cover all short-term borrowings and a portion of deposits.

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

Deposits are a key source of funding as they tend to be less volatile than institutional borrowings and their cost is less sensitive to changes in market rates. Refer to Table 19 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 \$ 21.6 billion, or 81% of total deposits, at September 30, 2015, compared with \$20.6 billion, or 83% of total deposits, at December 31, 2014. Core deposits financed 68 % of the Corporation's earning assets at September 30, 2015, compared with 69% at December 31, 2014.

Certificates of deposit with denominations of \$100,000 and over at September 30, 2015 totaled \$3.9 billion, or 15% of total deposits (December 31, 2014 - \$3.3 billion, or 13% of total deposits). Their distribution by maturity at September 30, 2015 is presented in the table that follows:

Table 27 - Distribution by Maturity of Certificate of Deposits of \$100,000 and Over

(In thousands)	
3 months or less	\$ 1,350,373
3 to 6 months	568,441
6 to 12 months	742,778
Over 12 months	1,218,233
Total	\$ 3,879,825

At September 30, 2015 approximately 5 % of the Corporation's assets were financed by brokered deposits, as compared to 6% at December 31, 2014. The Corporation had \$ 1.6 billion in brokered deposits at September 30, 2015, compared with \$1.9 billion at December 31, 2014. In the event that any of the Corporation's banking subsidiaries regulatory capital ratios fall below those required by a well-capitalized institution or are subject to capital restrictions by the regulators, that banking subsidiary faces the risk of not being able to raise or maintain brokered deposits and faces limitations on the rate paid on deposits, which may hinder the Corporation's ability to effectively compete in its retail markets and could affect its deposit raising efforts.

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

by selling liquid assets. These measures are subject to availability of collateral.

The Corporation's banking subsidiaries have the ability to borrow funds from the FHLB. At September 30, 2015 and December 31, 2014, the banking subsidiaries had credit facilities authorized with the FHLB aggregating to \$3.6 billion and \$3.7 billion, respectively, based on assets pledged with the FHLB at those dates. Outstanding borrowings under these credit facilities totaled \$765 million at September 30, 2015 and \$822 million at December 31, 2014. Such advances are collateralized by loans held-in-portfolio, do not have restrictive covenants and do not have any callable features. At September 30, 2015 the credit facilities authorized with the FHLB were collateralized by \$ 4.8 billion in loans held-in-portfolio, compared with \$4.5 billion at December 31, 2014. Refer to Note 20 to the consolidated financial statements for additional information on the terms of FHLB advances outstanding.

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At September 30, 2015 and December 31, 2014, the Corporation's borrowing capacity at the Fed's Discount Window amounted to approximately \$1.5 billion and \$2.1 billion, respectively, which remained unused as of both dates. This facility is a collateralized source of credit that is highly reliable even under difficult market conditions. The amount available under this borrowing facility is dependent upon the balance of performing loans, securities pledged as collateral and the haircuts assigned to such collateral. At September 30, 2015 and December 31, 2014, this credit facility with the Fed was collateralized by \$ 2.7 billion and \$4.1 billion, respectively, in loans held-in-portfolio.

At September 30, 2015, 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 if desired, 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.

Westernbank FDIC-assisted Transaction and Impact on Liquidity

The effects of the loss sharing agreements on cash flows and operating results will depend primarily on the ability of the borrowers whose loans are covered by the loss sharing agreements to make payments over time and our ability to receive reimbursements for losses from the FDIC. As the loss sharing agreements are in effect for a period of ten years for one-to-four family loans and five years for commercial, construction and consumer loans (with periods commencing on April 30, 2010), changing economic conditions will likely impact the timing of future charge-offs and the resulting reimbursements from the FDIC. Management believes that any recapture of interest income and recognition of cash flows from the borrowers or received from the FDIC on the claims filed may be recognized unevenly over this period, as management exhausts its collection efforts under the Corporation's normal practices.

BPPR's liquidity may also be impacted by the loan payment performance and timing of claims made and receipt of reimbursements under the FDIC loss sharing agreements. Please refer to the Legal Proceedings section of Note 26 to the consolidated financial statements and to Part II, Item 1A- Risk factors herein for a discussion of the settlement of a contractual dispute between BPPR and the FDIC which has impacted the timing of the payment of claims under the loss share agreements.

Bank Holding Companies

The principal sources of funding for the holding companies include cash on hand, investment securities, dividends received from banking and non-banking subsidiaries (subject to regulatory limits and authorizations) asset sales, credit facilities available from affiliate banking subsidiaries and proceeds from potential securities offerings.

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

During the nine months ended September 30, 2015, PIHC received \$17.1 million in dividends from BPPR and \$ 3.5 million in dividends from EVERTEC s parent company. PIHC also received \$9.3 million in dividends from its investment in BHD and \$5.0 million in dividends from its non-banking subsidiaries.

Another use of liquidity at the parent holding company is the payment of dividends on its outstanding stock. During the quarter ended September 30, 2015, the Corporation reinstated the quarterly cash dividend on its outstanding common stock. A cash dividend of \$0.15 per share was paid on October 7, 2015 to shareholders of record at the close of business on September 29, 2015. This represents a quarterly payout of approximately \$15.5 million. The dividends for the Corporation s Series A and Series B preferred stock amounted to \$2.8 million for the nine months ended September 30, 2015. The preferred stock dividends paid were financed by issuing new shares of common stock to the participants of the Corporation s qualified employee savings plans. The Corporation anticipates that any future preferred stock dividend payments would continue to be financed with the issuance of new common stock in connection with its qualified employee savings plans.

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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.

Note 39 to the consolidated financial statements provides a statement of condition, of operations and of cash flows for the two BHCs. The loans held-in-portfolio in such financial statements is principally associated with intercompany transactions.

The outstanding balance of notes payable at the BHCs amounted to \$890 million at September 30, 2015 and December 31, 2014. The repayment of the BHCs obligations represents a potential cash need which is expected to be met with a combination of internal liquidity resources stemming mainly from future dividend receipts and new borrowings.

The contractual maturities of the BHCs notes payable at September 30, 2015 are presented in Table 28.

Table 28 - Distribution of BHCs Notes Payable by Contractual Maturity

Year	(In thousands)
2015	\$
2016	
2017	
2018	
2019	450,000
Later years	439,800
Total	\$ 889,800

As indicated previously, the BHC did not issue new registered debt in the capital markets during the quarter ended September 30, 2015.

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

Other Funding Sources and Capital

The investment securities portfolio provides an additional source of liquidity, which may be realized through either securities sales or repurchase agreements. The Corporation's investment securities portfolio consists primarily of liquid U.S. government investment securities, sponsored U.S. agency securities, government sponsored mortgage-backed securities, and collateralized mortgage obligations that can be used to raise funds in the repo markets. The availability of the repurchase agreement would be subject to having sufficient unpledged collateral available at the time the transactions are to be consummated, in addition to overall liquidity and risk appetite of the various counterparties. The Corporation's unpledged investment and trading securities, excluding other investment securities, amounted to \$ 2.2 billion at September 30, 2015 and \$2.7 billion at December 31, 2014. A substantial portion of these securities could be used to raise financing quickly in the U.S. money markets or from secured lending sources.

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

Risks to Liquidity

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

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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 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.

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 Fed.

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, the liquidity of the balance sheet, the availability of a significant base of core retail and commercial deposits, and the Corporation's ability to access a broad array of wholesale funding sources, among other factors.

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

Obligations Subject to Rating Triggers or Collateral Requirements

The Corporation's banking subsidiaries currently do not use borrowings that are rated by the major rating agencies, as these banking subsidiaries are funded primarily with deposits and secured borrowings. The banking subsidiaries had \$20 million in deposits at September 30, 2015 that are subject to rating triggers.

Some of the Corporation's derivative instruments include financial covenants tied to the bank's well-capitalized status and certain formal regulatory actions. These agreements could require exposure collateralization, early termination or both. The fair value of derivative instruments in a liability position subject to financial covenants approximated \$6 million at September 30, 2015, with the Corporation providing collateral totaling \$10 million to cover the net liability position with counterparties on these derivative instruments.

In addition, certain mortgage servicing and custodial agreements that BPPR has with third parties include rating covenants. In the event of a credit rating downgrade, the third parties have the right to require the institution to engage a substitute cash custodian for escrow deposits and/or increase collateral levels securing the recourse obligations. Also, as discussed in the Guarantees section of this MD&A, 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 \$75 million at September 30, 2015. 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.

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CREDIT RISK MANAGEMENT AND LOAN QUALITY

Non-Performing Assets

Non-performing assets include primarily past-due loans that are no longer accruing interest, renegotiated loans, and real estate property acquired through foreclosure. A summary, including certain credit quality metrics, is presented in Table 29.

The Corporation's non-accruing and charge-off policies by major categories of loan portfolios are as follows:

Commercial and construction loans - 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 portions of secured loans past due as to principal and interest is charged-off not later than 365 days past due. However, in the case of collateral dependent loans 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. Overdrafts are generally charged-off no later than 60 days past their due date.

Lease financing - recognition of interest income for lease financing is ceased when loans are 90 days or more in arrears. Leases are charged-off when they are 120 days in arrears.

Mortgage loans - 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 income 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.

Consumer loans - 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. Closed-end consumer loans are charged-off when they are 120 days in arrears. Open-end consumer loans are charged-off when they are 180 days in arrears. Overdrafts in excess of 60 days are generally charged-off no later than 60 days past their due date.

Troubled debt restructurings (TDRs) - loans classified as TDRs are 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 (generally 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.

Loans accounted for under ASC Subtopic 310-30 by the Corporation, are not considered non-performing and will continue to have an accretable yield as long as there is a reasonable expectation about the timing and amount of cash flows expected to be collected.

Loans acquired in the Westernbank FDIC-assisted transaction, except for revolving lines of credit, are accounted for by the Corporation in accordance with ASC Subtopic 310-30. Under ASC Subtopic 310-30, the acquired loans were aggregated into pools based on similar characteristics. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. The loans, which are accounted for under ASC Subtopic 310-30 by the Corporation, are not considered non-performing and will continue to have an accretable yield as long as there is a reasonable expectation about the timing and amount of cash flows expected to be collected. Also, loans charged-off against the non-accretable difference established in purchase accounting are not reported as charge-offs. Charge-offs will be recorded only to the extent that losses exceed the purchase accounting estimates.

On June 30, 2015, the shared-loss arrangement under the commercial loss share agreement with the FDIC related to the loans acquired from Westernbank as part of the FDIC assisted transaction in 2010 expired. Accordingly, loans and OREO s with balances of \$1.5 billion in loans and \$18 million, respectively, as of June 30, 2015, were reclassified as non-covered in the accompanying statement of financial condition as of June 30, 2015, because they are no longer subject to the shared-loss payments by the FDIC.

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However, included in these balances were approximately \$248.7 million of loans that are subject to the resolution of several arbitration proceedings currently ongoing with the FDIC. Loans and OREO s that remain covered under the terms of the single-family loss share agreement continue to be presented as covered assets in the accompanying tables and credit metrics as of September 30, 2015.

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

Despite challenging economic and fiscal conditions that persist in Puerto Rico, overall assets quality for non-covered loans remained stable in the third quarter of 2015, with moderate quarter-to-quarter volatility in certain credit metrics mostly associated with a small number of larger commercial loans in BPPR. Consistent with prior periods, credit trends for the US portfolios continued to show stability during the third quarter of 2015.

Table 29 - Non-Performing Assets

(Dollars in thousands)	September 30, 2015	As a % of loans HIP by category [4]	December 31, 2014	As a % of loans HIP by category [4]
Commercial	\$ 239,397	2.4%	\$ 260,225	3.2%
Construction	3,605	0.5	13,812	5.5
Legacy ^[1]	4,059	6.0	1,545	1.9
Leasing	3,091	0.5	3,102	0.5
Mortgage	343,410	4.8	304,913	4.7
Consumer	41,340	1.1	46,886	1.2
Total non-performing loans held-in-portfolio, excluding covered loans	634,902	2.8%	630,483	3.3%
Non-performing loans held-for-sale ^[2]	47,681		18,899	
Other real estate owned (OREO), excluding covered OREO	155,826		135,500	
Total non-performing assets, excluding covered assets	\$ 838,409		\$ 784,882	
Covered loans and OREO ^[3]	39,888		148,099	
Total non-performing assets	\$ 878,297		\$ 932,981	

Accruing loans past due 90 days or more ^[5] ^[6]	\$ 443,497	\$ 447,990
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Ratios excluding covered loans:^[7]

Non-performing loans held-in-portfolio to loans held-in-portfolio	2.82%	3.25%
Allowance for loan losses to loans held-in-portfolio	2.38	2.68
Allowance for loan losses to non-performing loans, excluding held-for-sale	84.42	82.43

Table of Contents**Ratios including covered loans:**

Non-performing assets to total assets	2.47%	2.82%
Non-performing loans held-in-portfolio to loans held-in-portfolio	2.76	2.95
Allowance for loan losses to loans held-in-portfolio	2.46	2.74
Allowance for loan losses to non-performing loans, excluding held-for-sale	89.97	92.82

HIP = held-in-portfolio

- [1] The legacy portfolio is comprised of commercial loans, construction loans and lease financings related to certain lending products exited by the Corporation as part of restructuring efforts carried out in prior years at the BPNA segment.
- [2] Non-performing loans held-for-sale consist \$47 million in commercial loans, \$10 thousand in construction loans and \$224 thousand in mortgage loans as of September 30, 2015 (December 31, 2014 - \$14.0 million in mortgage loans, \$309 thousand in commercial loans and \$4.5 million in consumer loans).
- [3] The amount consists of \$4 million in non-performing covered loans accounted for under ASC Subtopic 310-20 and \$36 million in covered OREO as of September 30, 2015 (December 31, 2014 - \$18 million and \$130 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] Loans held-in-portfolio used in the computation exclude \$665 million in covered loans at September 30, 2015 (December 31, 2014 - \$2.5 billion).
- [5] The carrying value of loans accounted for under ASC Sub-topic 310-30 that are contractually 90 days or more past due was \$0.4 billion at September 30, 2015 (December 31, 2014 - \$0.5 billion). This amount is excluded from the above table as the loans' accretable yield interest recognition is independent from the underlying contractual loan delinquency status.
- [6] 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 \$159 million of residential mortgage loans insured by FHA or guaranteed by the VA that are no longer accruing interest as of September 30, 2015 (December 31, 2014 - \$125 million). Furthermore, the Corporation has approximately \$71 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, 2014 - \$66 million).
- [7] These asset quality ratios have been adjusted to remove the impact of covered loans and covered foreclosed property. 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.

Total non-performing assets, including covered, were \$878 million at September 30, 2015, decreasing by \$55 million, or 6%, from December 31, 2014, of which \$74 million were related to OREO reductions. During the second quarter of 2015, the Corporation completed a bulk sale of covered OREO's with a book value of \$37 million.

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

	For the quarter ended September 30, 2015	For the nine months ended September 30, 2015
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(Dollars in thousands)	BPPR	BPNA	BPPR	BPNA
Beginning balance	\$ 502,928	\$ 28,300	\$ 567,351	\$ 13,144
Plus:				
New non-performing loans	185,161	16,335	423,075	48,588
Advances on existing non-performing loans		95		525
Reclass from covered loans			8,075	
Less:				
Non-performing loans transferred to OREO	(9,303)		(27,082)	(314)
Non-performing loans charged-off	(29,302)	(1,467)	(105,637)	(3,308)
Loans returned to accrual status / loan collections	(78,962)	(15,544)	(250,264)	(32,954)
Loans transferred to held-for-sale			(44,996)	2,038
Other transfers out of non-performing		(7,770)		(7,770)
Ending balance NPLs	\$ 570,522	\$ 19,949	\$ 570,522	\$ 19,949

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

(Dollars in thousands)	For the quarter ended September 30, 2014		For the nine months ended September 30, 2014	
	BPPR	BPNA	BPPR	BPNA
Beginning balance	\$ 537,364	\$ 56,868	\$ 410,594	\$ 139,961
Plus:				
New non-performing loans	118,617	9,195	437,897	46,613
Advances on existing non-performing loans		149		1,160
Less:				
Non-performing loans transferred to OREO	(5,768)	(1,059)	(18,167)	(2,915)
Non-performing loans charged-off	(22,379)	(5,607)	(62,451)	(20,069)
Loans returned to accrual status / loan collections	(74,072)	(4,310)	(214,111)	(52,779)
Loans transferred to held-for-sale		(38,619)		(86,115)
Non-performing loans from discontinued operations		8,629		(610)
Reclassification to consumer loans	(6,756)		(6,756)	
Ending balance NPLs	\$ 547,006	\$ 25,246	\$ 547,006	\$ 25,246

For the quarter ended September 30, 2015, total non-performing loan inflows, excluding consumer loans, increased by \$74 million, or 58%, when compared to the inflows for the same quarter in 2014. Inflows of non-performing loans held-in-portfolio at the BPPR segment increased by \$67 million, or 56%, compared to the inflows for the third quarter of 2014, mostly related to higher commercial inflows of \$68 million in the BPPR segment. Refer to Table 32 for a summary of the activity in the allowance for loan losses and selected loan losses statistics for the quarters ended September 30, 2015 and 2014.

At September 30, 2015, non-performing loans secured by real estate held-in-portfolio, excluding covered loans, amounted to \$535 million in the Puerto Rico operations and \$21 million in the U.S. mainland operations. These figures compare to \$482 million in the Puerto Rico operations and \$35 million in the U.S. mainland operations at December 31, 2014. In addition to the non-performing loans included in Table 29, at September 30, 2015, there were \$160 million of non-covered performing loans, mostly commercial loans, which in management's opinion, are currently subject to potential future classification as non-performing and are considered impaired, compared with \$146 million at December 31, 2014.

Table of Contents**Table 32 - Allowance for Loan Losses and Selected Loan Losses Statistics - Quarterly Activity**

(Dollars in thousands)	Quarters ended September 30,					
	2015 Non-covered loans	2015 Covered loans	2015 Total	2014 Non-covered loans	2014 Covered loans	2014 Total
Balance at beginning of period	\$ 512,739	\$ 38,074	\$ 550,813	\$ 526,246	\$ 98,665	\$ 624,911
Provision for loan losses - Continuing operations	69,568	(2,890)	66,678	68,166	12,463	80,629
	582,307	35,184	617,491	594,412	111,128	705,540
Charged-offs:						
Commercial	17,153		17,153	15,765	16,290	32,055
Construction	451		451	985	5,075	6,060
Leases	1,485		1,485	1,877		1,877
Legacy ^[1]	804		804	2,570		2,570
Mortgage	17,031	790	17,821	14,552	2,164	16,716
Consumer	31,451	76	31,527	34,527	(944)	33,583
	68,375	866	69,241	70,276	22,585	92,861
Recoveries:						
Commercial	9,940		9,940	15,647	(300)	15,347
Construction	3,099		3,099	2,281	1,009	3,290
Leases	591		591	467	1	468
Legacy ^[1]	1,407		1,407	2,349		2,349
Mortgage	720	189	909	1,196	354	1,550
Consumer	6,316	2	6,318	7,867	81	7,948
	22,073	191	22,264	29,807	1,145	30,952
Net loans charged-offs (recovered):						
Commercial	7,213		7,213	118	16,590	16,708
Construction	(2,648)		(2,648)	(1,296)	4,066	2,770
Leases	894		894	1,410	(1)	1,409
Legacy ^[1]	(603)		(603)	221		221
Mortgage	16,311	601	16,912	13,356	1,810	15,166
Consumer	25,135	74	25,209	26,660	(1,025)	25,635
	46,302	675	46,977	40,469	21,440	61,909
Net write-downs ^[2]				(32,256)		(32,256)
Balance at end of period	\$ 536,005	\$ 34,509	\$ 570,514	\$ 521,687	\$ 89,688	\$ 611,375

Ratios:

Annualized net charge-offs to average loans held-in-portfolio ^[3]	0.83%	0.82%	0.83%	1.12%
Provision for loan losses to net charge-offs ^[3]	1.50x	1.42x	1.39x	1.11x

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

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

[3] Excluding provision for loan losses and net write-down related to the BPNA legacy and classified assets sales during the quarter ended September 30, 2014.

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Refer to Table 33 for a summary of the activity in the allowance for loan losses and selected loan losses statistics for the nine months ended September 30, 2015 and 2014.

Table 33 - Allowance for Loan Losses and Selected Loan Losses Statistics - Year-to-date Activity

(Dollars in thousands)	Nine months ended September 30,					
	2015 Non-covered loans	2015 Covered loans	2015 Total	2014 Non-covered loans	2014 Covered loans	2014 Total
Balance at beginning of period	\$ 519,719	\$ 82,073	\$ 601,792	\$ 538,463	\$ 102,092	\$ 640,555
Provision for loan losses - Continuing operations	159,747	23,200	182,947	172,362	49,781	222,143
Provision for loan losses - Discontinued operations				(6,764)		(6,764)
	679,466	105,273	784,739	704,061	151,873	855,934
Charged-offs:						
Commercial	50,930	37,936	88,866	64,763	30,251	95,014
Construction	2,645	25,086	27,731	1,443	34,483	35,926
Leases	4,415		4,415	4,598	2	4,600
Legacy ^[1]	1,758		1,758	6,901		6,901
Mortgage	39,926	4,695	44,621	35,813	6,082	41,895
Consumer	90,825	843	91,668	102,737	(1,916)	100,821
Discontinued operations				4,452		4,452
	190,499	68,560	259,059	220,707	68,902	289,609
Recoveries:						
Commercial	23,214	6,504	29,718	37,266	575	37,841
Construction	6,497	4,700	11,197	4,908	5,625	10,533
Leases	1,779		1,779	1,388	2	1,390
Legacy ^[1]	4,159		4,159	12,094		12,094
Mortgage	2,073	635	2,708	2,752	365	3,117
Consumer	24,147	817	24,964	22,386	150	22,536
Discontinued operations				9,997		9,997
	61,869	12,656	74,525	90,791	6,717	97,508
Net loans charged-off (recovered):						
Commercial	27,716	31,432	59,148	27,497	29,676	57,173
Construction	(3,852)	20,386	16,534	(3,465)	28,858	25,393
Leases	2,636		2,636	3,210		3,210
Legacy ^[1]	(2,401)		(2,401)	(5,193)		(5,193)
Mortgage	37,853	4,060	41,913	33,061	5,717	38,778
Consumer	66,678	26	66,704	80,351	(2,066)	78,285

Discontinued operations				(5,545)		(5,545)
	128,630	55,904	184,534	129,916	62,185	192,101
Allowance transferred from covered to non-covered loans ^[2]	13,037	(13,037)				
Net write-downs ^[3]	(27,868)	(1,823)	(29,691)	(32,256)		(32,256)
Net write-downs related to loans transferred to discontinued operations				(20,202)		(20,202)
Balance at end of period	\$ 536,005	\$ 34,509	\$ 570,514	\$ 521,687	\$ 89,688	\$ 611,375
Ratios:						
Annualized net charge-offs to average loans held-in-portfolio ^[4]	0.78%		1.07%	0.88%		1.14%
Provision for loan losses to net charge-offs ^[4]	1.23x		0.99x	1.23x		1.09x

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

[2] Represents the allowance transfer of covered to non-covered loans at June 30, 2015.

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

[4] Excluding provision for loan losses and net recoveries (write-down) related to loans sold or reclassified to held-for-sale.

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Refer to the Allowance for Loan Losses subsection in this MD&A for tables detailing the composition of the allowance for loan losses between general and specific reserves, and for qualitative information on the main factors driving the variances.

The following table presents annualized net charge-offs to average loans held-in-portfolio (HIP) for the non-covered portfolio by loan category for the quarters and nine months ended September 30, 2015 and 2014.

Table 34 - Annualized Net Charge-offs (Recoveries) to Average Loans Held-in-Portfolio (Non-covered loans)

	Quarters ended		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Commercial	0.29%	0.01%	0.37%	0.33%
Construction	(1.52)	(2.79)	(0.83)	(2.68)
Leases	0.60	1.04	0.60	0.79
Legacy	(3.43)	0.63	(4.53)	(5.75)
Mortgage	0.92	0.81	0.73	0.67
Consumer	2.63	2.73	2.31	2.77
Total annualized net charge-offs to average loans held-in-portfolio	0.83%	0.83%	0.78%	0.86%

Excluding the net write-down related to the asset sales during the third quarter of 2014.

Average loans held-in-portfolio excludes covered loans acquired in the Westernbank FDIC-assisted transaction which were recorded at fair value on date of acquisition, and thus, considered a credit discount component.

Net charge-offs, excluding covered loans, for the quarter ended September 30, 2015, increased by \$5.8 million when compared to the third quarter of 2014, mainly reflective of higher commercial net charge-offs in the BPPR segment, as the third quarter of 2014 included the effect of higher recoveries. The net charge-off ratio for the third quarter includes the impact of loans reclassified from the covered portfolio in the second quarter, as well as Doral Bank's acquired portfolio in the average loan base.

The discussions in the sections that follow assess credit quality performance for the third quarter of 2015 for most of the Corporation's non-covered loan portfolios, including \$1.5 billion in loans transferred from covered to non-covered status upon the expiration of the shared-loss arrangement under the commercial loss share agreement with the FDIC during the second quarter of 2015.

Commercial loans

Non-covered non-performing commercial loans held-in-portfolio decreased by \$21 million, or 8%, from December 31, 2014, largely driven by a \$22 million decline in the BPPR segment. During the second quarter, the Corporation agreed to sell a \$75 million non-accrual public sector credit at BPPR and accordingly transferred it to held-for-sale. The aggregate write-down on loans transferred to held-for-sale during the second quarter was of approximately \$30.5 million, of which \$29.0 million was previously reserved. The sale was subject, among other conditions, to the approval of the syndicate's agent bank. The sale agreement was terminated on July 29, 2015 pursuant

to its terms after the parties were not able to obtain the approval of the agent bank on terms acceptable to the assignee. However, at September 30, 2015, the loan remains classified as held-for-sale as the Corporation maintains its ability and intent to sell the loan. This decrease was offset by the addition to non-accrual of a small number of large commercial loans during the third quarter of 2015, the most significant having a carrying value of \$49 million.

The percentage of non-performing commercial loans held-in-portfolio to commercial loans held-in-portfolio decreased to 2.36% at September 30, 2015 from 3.20% at December 31, 2014.

Tables 35 and 36 present the changes in the non-performing commercial loans held-in-portfolio for the quarters and nine months ended September 30, 2015 and 2014 for the BPPR (excluding covered loans) and BPNA segments.

Table of Contents**Table 35 - Activity in Non-Performing Commercial Loans Held-in-Portfolio (Excluding Covered Loans)**

(Dollars in thousands)	For the quarter ended September 30, 2015		For the nine months ended September 30, 2015	
	BPPR	BPNA	BPPR	BPNA
Beginning balance	\$ 179,399	\$ 10,895	\$ 257,910	\$ 2,315
Plus:				
New non-performing loans	91,393	2,125	135,911	11,541
Advances on existing non-performing loans		6		389
Reclass from covered loans			7,395	
Less:				
Non-performing loans transferred to OREO	(853)		(5,490)	
Non-performing loans charged-off	(13,999)	(229)	(74,178)	(1,054)
Loans returned to accrual status / loan collections	(20,045)	(1,525)	(40,657)	(1,919)
Loans transferred to held-for-sale			(44,996)	
Other transfers out of non-performing		(7,770)		(7,770)
Ending balance NPLs	\$ 235,895	\$ 3,502	\$ 235,895	\$ 3,502

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

(Dollars in thousands)	For the quarter ended September 30, 2014		For the nine months ended September 30, 2014	
	BPPR	BPNA	BPPR	BPNA
Beginning balance	\$ 253,552	\$ 24,581	\$ 186,097	\$ 92,956
Plus:				
New non-performing loans	23,410	4,541	139,523	29,423
Advances on existing non-performing loans				957
Less:				
Non-performing loans transferred to OREO	(2,706)		(10,509)	
Non-performing loans charged-off	(10,085)	(3,103)	(34,740)	(12,665)
Loans returned to accrual status / loan collections	(19,746)	(2,649)	(35,946)	(33,058)
Loans transferred to held-for-sale		(22,967)		(69,191)
Non-performing loans transferred from (to) discontinued operations		7,503		(516)
Ending balance NPLs	\$ 244,425	\$ 7,906	\$ 244,425	\$ 7,906

Table 37 - Non-Performing Commercial Loans and Net Charge-offs (Excluding Covered Loans)

	BPPR	BPNA	Popular, Inc.
(Dollars in thousands)			

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	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Non-performing commercial loans	\$ 235,895	\$ 257,910	\$ 3,502	\$ 2,315	\$ 239,397	\$ 260,225
Non-performing commercial loans to commercial loans HIP	3.14%	4.05%	0.13%	0.13%	2.36%	3.20%
	BPPR		BPNA		Popular, Inc.	
	For the quarters ended		For the quarters ended		For the quarters ended	
	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
(Dollars in thousands)	2015	2014	2015	2014	2015	2014
Commercial loan net charge-offs (recoveries)	\$ 9,172	\$ 1,011	\$ (1,959)	\$ (893)	\$ 7,213	\$ 118
Commercial loan net charge-offs (recoveries) (annualized) to average commercial loans HIP	0.49%	0.07%	(0.31)%	(0.19)%	0.29%	0.01%

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(Dollars in thousands)	BPPR		BPNA		Popular, Inc.	
	For the nine months ended		For the nine months ended		For the nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Commercial loan net charge-offs (recoveries)	\$ 31,033	\$ 25,493	(3,317)	\$ (3,674)	\$ 27,716	\$ 21,819
Commercial loan net charge-offs (recoveries) (annualized) to average commercial loans HIP	0.54%	0.54%	(0.19)%	(0.20)%	0.37%	0.33%

For the quarter ended September 30, 2015, inflows of commercial non-performing loans held-in-portfolio at the BPPR segment increased by \$68 million, when compared to inflows for the same period in 2014, mostly driven by a small number of commercial loans, the largest being the abovementioned \$49 million borrowing relationship. Inflows of commercial non-performing loans held-in-portfolio at the BPNA segment decreased by \$2 million, compared to inflows for the same quarter in 2014. The reduction was driven by improvements in the underlying quality of the loan portfolio.

Table 37 provides information on commercial non-performing loans and net charge-offs for the BPPR (excluding the Westernbank covered loan portfolio) and BPNA segments.

There are two commercial loan relationships greater than \$10 million in non-accrual status at September 30, 2015 with an outstanding aggregate balance of \$61 million, compared with two commercial loan relationships with an outstanding aggregate balance of \$88 million at December 31, 2014.

Commercial loan net charge-offs, excluding net charge-offs for covered loans, increased by \$7.1 million, when compared to the same period in 2014, primarily the effect of higher recoveries in the third quarter of 2014. This increase was mostly driven by higher net charge-offs in the BPPR segment of \$8.2 million for the quarter ended September 30, 2015, when compared with the same period in 2014. For the quarter ended September 30, 2015, the charge-offs associated with collateral dependent impaired commercial loans amounted to approximately \$9.5 million at the BPPR segment. The BPNA segment continued to show low levels of charge-offs reflective of improvements in credit quality.

The Corporation's commercial loan portfolio secured by real estate (CRE), excluding covered loans, amounted to \$6.5 billion at September 30, 2015, of which \$2.1 billion was secured with owner occupied properties, compared with \$4.7 billion and \$1.7 billion, respectively, at December 31, 2014. CRE non-performing loans, excluding covered loans, amounted to \$162 million at September 30, 2015, compared with \$129 million at December 31, 2014. The CRE non-performing loans ratios for the BPPR and BPNA segments were 3.34% and 0.05%, respectively, at September 30, 2015, compared with 3.60% and 0.07%, respectively, at December 31, 2014. The decrease in the ratio was primarily due to the impact of approximately \$1.3 billion in CRE loans transferred from covered category, of which \$7 million are in NPL status.

Construction loans

Non-covered non-performing construction loans held-in-portfolio decreased by \$10 million when compared with December 31, 2014, mostly concentrated in the BPPR segment. This decrease was mostly related to loan resolutions. Stable credit trends in the construction portfolio are the result of de-risking strategies executed by the Corporation over the past several years. The ratio of non-performing construction loans to construction loans held-in-portfolio, excluding covered loans, decreased to 0.52% at September 30, 2015 from 5.48% at December 31, 2014. The decrease

in the ratio was in part due to the impact of the Doral acquired construction portfolio on the total loan base.

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Tables 38 and 39 present changes in non-performing construction loans held-in-portfolio for the quarters and nine months ended September 30, 2015 and 2014 for the BPPR (excluding covered loans) and BPNA segments.

Table 38 - Activity in Non-Performing Construction Loans Held-in-Portfolio (Excluding Covered Loans)

(Dollars in thousands)	For the quarter ended September 30, 2015		For the nine months ended September 30, 2015	
	BPPR	BPNA	BPPR	BPNA
Beginning balance	\$ 4,756	\$ 671	\$ 13,812	\$
Plus:				
New non-performing loans		7,745	456	8,416
Reclass from covered loans			112	
Less:				
Non-performing loans transferred to OREO			(2,194)	
Non-performing loans charged-off	(91)		(91)	
Loans returned to accrual status / loan collections	(1,060)	(8,416)	(8,490)	(8,416)
Ending balance NPLs	\$ 3,605	\$	\$ 3,605	\$

Table 39 - Activity in Non-Performing Construction Loans Held-in-Portfolio (Excluding Covered Loans)

(Dollars in thousands)	For the quarter ended September 30, 2014		For the nine months ended September 30, 2014	
	BPPR	BPNA	BPPR	BPNA
Beginning balance	\$ 21,456	\$	\$ 18,108	\$ 5,663
Plus:				
New non-performing loans			8,912	
Less:				
Non-performing loans charged-off	(985)		(1,443)	
Loans returned to accrual status / loan collections	(1,323)		(6,429)	(5,663)
Ending balance NPLs	\$ 19,148	\$	\$ 19,148	\$

Construction loan net charge-offs (recoveries), excluding net charge-offs for covered loans, amounted to recoveries of \$2.6 million for the quarter ended September 30, 2015, compared to recoveries of \$1.3 million for the quarter ended September 30, 2014. For quarter ended September 30, 2015, charge-offs associated with collateral dependent impaired construction loans were \$91 thousand in the BPPR segment.

Table 40 provides information on construction non-performing loans and net charge-offs for the BPPR and BPNA (excluding the covered loan portfolio) segments.

Table 40 - Non-Performing Construction Loans and Net Charge-offs (Excluding Covered Loans)

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(Dollars in thousands)	BPPR		BPNA		Popular, Inc.	
	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Non-performing construction loans	\$ 3,605	\$ 13,812	\$	\$	\$ 3,605	\$ 13,812
Non-performing construction loans to construction loans HIP	3.32%	8.67%	%	%	0.52%	5.48%

(Dollars in thousands)	BPPR		BPNA		Popular, Inc.	
	For the quarters ended September 30, 2015	For the quarters ended September 30, 2014	For the quarters ended September 30, 2015	For the quarters ended September 30, 2014	For the quarters ended September 30, 2015	For the quarters ended September 30, 2014
Construction loan net charge-offs (recoveries)	\$ (2,648)	\$ (1,237)	\$	\$ (59)	\$ (2,648)	\$ (1,296)
Construction loan net charge-offs (recoveries) (annualized) to average construction loans HIP	(9.84)%	(3.39)%	%	(0.59)%	(1.52)%	(2.79)%

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(Dollars in thousands)	BPPR		BPNA		Popular, Inc.	
	For the nine months ended		For the nine months ended		For the nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Construction loan net charge-offs (recoveries)	\$ (3,852)	\$ (3,230)	\$	\$ (235)	\$ (3,852)	\$ (3,465)
Construction loan net charge-offs (recoveries) (annualized) to average construction loans HIP	(3.75)%	(3.04)%	%	(1.00)%	(0.83)%	(2.68)%

Mortgage loans

Non-covered non-performing mortgage loans held-in-portfolio increased by \$38 million, mainly driven by an increase of \$35 million in the BPPR segment, which included the addition in the first quarter of 2015 of \$17 million of loans previously guaranteed by Doral Bank under servicing agreement that required Doral to advance principal and interest payments irrespective of borrower delinquencies. The percentage of non-performing mortgage loans held-in-portfolio to mortgage loans held-in-portfolio increased to 4.79% at September 30, 2015 from 4.69% at December 31, 2014.

Tables 41 and 42 present changes in non-performing mortgage loans held-in-portfolio for the BPPR (excluding covered loans) and BPNA segments.

Table 41 - Activity in Non-Performing Mortgage Loans Held-in-Portfolio (Excluding Covered Loans)

(Dollars in thousands)	For the quarter ended		For the nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
	BPPR	BPNA	BPPR	BPNA
Beginning balance	\$ 318,773	\$ 12,048	\$ 295,629	\$ 9,284
Plus:				
New non-performing loans	93,768	5,816	286,708	23,905
Reclass from covered loans			568	
Less:				
Non-performing loans transferred to OREO	(8,450)		(19,398)	(314)
Non-performing loans charged-off	(15,212)	(517)	(31,368)	(959)
Loans returned to accrual status / loan collections	(57,857)	(4,959)	(201,117)	(21,566)
Loans transferred to held-for-sale				2,038
Ending balance NPLs	\$ 331,022	\$ 12,388	\$ 331,022	\$ 12,388

Table 42 - Activity in Non-Performing Mortgage loans Held-in-Portfolio (Excluding Covered Loans)

	For the quarter ended	For the nine months ended
	September 30, 2014	ended

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(Dollars in thousands)	September 30, 2014			
	BPPR	BPNA	BPPR	BPNA
Beginning balance	\$ 262,356	\$ 23,964	\$ 206,389	\$ 26,292
Plus:				
New non-performing loans	95,207	2,802	289,462	11,399
Less:				
Non-performing loans transferred to OREO	(3,062)	(870)	(7,658)	(2,726)
Non-performing loans charged-off	(11,309)	(395)	(26,268)	(1,911)
Loans returned to accrual status / loan collections	(53,003)	(686)	(171,736)	(8,239)
Loans transferred to held-for-sale		(13,123)		(13,123)
Reclassification to consumer loans	(6,756)		(6,756)	
Ending balance NPLs	\$ 283,433	\$ 11,692	\$ 283,433	\$ 11,692

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For the quarter ended September 30, 2015, inflows of mortgage non-performing loans held-in-portfolio at the BPPR segment decreased by \$1 million, or 2%, when compared to inflows for the same period in 2014. Inflows of mortgage non-performing loans held-in-portfolio at the BPNA segment increased by \$3 million, when compared to inflows for the same period in 2014.

Mortgage loan net charge-offs, excluding net charge-offs for covered loans, increased by \$3.0 million when compared with the quarter ended September 30, 2014. Net charge-off activity derived mainly from loans in the BPPR segment. The net charge-offs in the BPNA segment continued at low levels, reflective of the improved risk profile of the portfolio, further strengthened by the sale of certain non-performing and classified assets. For the quarter ended September 30, 2015, charge-offs associated with mortgage loans individually evaluated for impairment amounted to \$4.2 million in the BPPR segment.

Table 43 provides information on non-performing mortgage loans and net charge-offs for the BPPR, excluding the covered loan portfolio, and the BPNA segments.

Table 43 - Non-Performing Mortgage Loans and Net Charge-Offs (Excluding Covered Loans)

(Dollars in thousands)	BPPR		BPNA		Popular, Inc.	
	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Non-performing mortgage loans	\$ 331,022	\$ 295,629	\$ 12,388	\$ 9,284	\$ 343,410	\$ 304,913
Non-performing mortgage loans to mortgage loans HIP	5.32%	5.42%	1.31%	0.88%	4.79%	4.69%

(Dollars in thousands)	BPPR		BPNA		Popular, Inc.	
	For the quarters ended		For the quarters ended		For the quarters ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Mortgage loan net charge-offs	\$ 15,524	\$ 13,330	\$ 787	\$ 26	\$ 16,311	\$ 13,356
Mortgage loan net charge-offs (annualized) to average mortgage loans HIP	1.01%	0.98%	0.33%	0.01%	0.92%	0.81%

(Dollars in thousands)	BPPR		BPNA		Popular, Inc.	
	For the nine months ended		For the nine months ended		For the nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Mortgage loan net charge-offs	\$ 36,736	\$ 31,772	1,117	\$ 1,289	\$ 37,853	\$ 33,061
Mortgage loan net charge-offs (annualized) to average mortgage loans HIP	0.82%	0.78%	0.15%	0.14%	0.73%	0.67%

Consumer loans

Non-covered non-performing consumer loans held-in-portfolio decreased by \$6 million when compared to December 31, 2014, primarily as a result of a decrease of \$5 million in the BPPR segment, mainly related to personal loans.

For the quarter ended September 30, 2015, the BPPR segment inflows of consumer non-performing loans held-in-portfolio, decreased by \$4 million, or 14%, when compared to inflows for the same period of 2014, mostly related to auto loans. Inflows of consumer non-performing loans held-in-portfolio at the BPNA segment amounted to \$3 million, a decrease of \$2 million, or 36% compared to inflows for 2014.

The Corporation's consumer net charge-offs remained stable, decreasing by \$1.5 million for the third quarter of 2015, when compared with the same period of 2014. For the quarter ended September 30, 2015, charge-offs associated with consumer loans individually evaluated for impairment amounted to \$3.6 million in the BPPR segment.

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Table 44 provides information on consumer non-performing loans and net charge-offs by segments.

Table 44 - Non-Performing Consumer Loans and Net Charge-Offs (Excluding Covered Loans)

(Dollars in thousands)	BPPR		BPNA		Popular, Inc.	
	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Non-performing consumer loans	\$ 35,856	\$ 40,930	\$ 5,484	\$ 5,956	\$ 41,340	\$ 46,886
Non-performing consumer loans to consumer loans HIP	1.07%	1.21%	1.16%	1.24%	1.08%	1.21%

(Dollars in thousands)	BPPR		BPNA		Popular, Inc.	
	For the quarters ended		For the quarters ended		For the quarters ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Consumer loan net charge-offs	\$ 24,303	\$ 24,168	\$ 832	\$ 2,492	\$ 25,135	\$ 26,660
Consumer loan net charge-offs (annualized) to average consumer loans HIP	2.88%	2.84%	0.74%	1.99%	2.63%	2.73%

(Dollars in thousands)	BPPR		BPNA		Popular, Inc.	
	For the nine months ended		For the nine months ended		For the nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Consumer loan net charge-offs	\$ 62,610	\$ 70,722	\$ 4,068	\$ 10,435	\$ 66,678	\$ 81,157
Consumer loan net charge-offs (annualized) to average consumer loans HIP	2.47%	2.79%	1.18%	2.63%	2.31%	2.77%

Troubled debt restructurings

The Corporation's TDR loans, excluding covered loans, increased by \$59 million, or 5%, from December 31, 2014. TDRs in accruing status increased by \$79 million from December 31, 2014, due to sustained borrower performance, while non-accruing TDRs decreased by \$20 million.

At September 30, 2015, the Corporation's commercial loan TDRs, excluding covered loans, for BPPR amounted to \$289 million of which \$125 million were in non-performing status. This compares with \$303 million of which \$150 million were in non-performing status at December 31, 2014.

At September 30, 2015, the Corporation's construction loan TDRs, excluding covered loans, for the BPPR segment amounted to \$3 million, of which \$2 million were in non-performing status. This compares with \$6 million, of which \$5 million were in non-performing status at December 31, 2014.

At September 30, 2015, the mortgage loan TDRs for the BPPR and BPNA segments amounted to \$748 million (including \$349 million guaranteed by U.S. sponsored entities) and \$5 million, respectively, of which \$126 million and \$1 million, respectively, were in non-performing status. This compares with \$669 million (including \$290 million guaranteed by U.S. sponsored entities) and \$4 million, respectively, of which \$115 million and \$987 thousand were in non-performing status at December 31, 2014.

At September 30, 2015, the consumer loan TDRs for the BPPR and BPNA segments amounted to \$117 million and \$2 million, respectively, of which \$14 million and \$176 thousand, respectively, were in non-performing status, compared with \$120 million and \$2 million, respectively, of which \$15 million and \$35 thousand, respectively, were in non-performing status at December 31, 2014.

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Refer to Note 12 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.

Allowance for Loan Losses

Non-Covered Loan Portfolio

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

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

The following tables set forth information concerning the composition of the Corporation's allowance for loan losses (ALLL) at September 30, 2015 and December 31, 2014 by loan category and by whether the allowance and related provisions were calculated individually pursuant to the requirements for specific impairment or through a general valuation allowance.

Table 45 - Composition of ALLL

(Dollars in thousands)	September 30, 2015						
	Commercial	Construction	Legacy ^[3]	Leasing	Mortgage	Consumer	Total ^[2]
Specific ALLL	\$ 83,615	\$ 358	\$	\$ 634	\$ 47,545	\$ 24,696	\$ 156,848
Impaired loans ^[1]	\$ 391,066	\$ 2,536	\$ 1,188	\$ 2,645	\$ 462,806	\$ 113,865	\$ 974,106
Specific ALLL to impaired loans ^[1]	21.38%	14.12%	%	23.97%	10.27%	21.69%	16.10%
General ALLL	\$ 146,846	\$ 14,393	\$ 2,805	\$ 8,457	\$ 86,955	\$ 119,701	\$ 379,157
Loans held-in-portfolio, excluding impaired loans ^[1]	\$ 9,739,358	\$ 689,956	\$ 66,786	\$ 604,282	\$ 6,702,673	\$ 3,720,905	\$ 21,523,960

General ALLL to loans held-in-portfolio, excluding impaired loans ^[1]		1.51%	2.09%	4.20%	1.40%	1.30%	3.22%	1.76%
Total ALLL	\$	230,461	\$ 14,751	\$ 2,805	\$ 9,091	\$ 134,500	\$ 144,397	\$ 536,005
Total non-covered loans held-in-portfolio ^[1]	\$	10,130,424	\$ 692,492	\$ 67,974	\$ 606,927	\$ 7,165,479	\$ 3,834,770	\$ 22,498,066
ALLL to loans held-in-portfolio ^[1]		2.27%	2.13%	4.13%	1.50%	1.88%	3.77%	2.38%

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

[2] Excludes covered loans acquired on the Westernbank FDIC-assisted transaction. At September 30, 2015, the general allowance on the covered loans amounted to \$34.5 million.

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

Table of Contents**Table 46 - Composition of ALLL**

(Dollars in thousands)	December 31, 2014						
	Commercial	Construction	Legacy ^[3]	Leasing	Mortgage	Consumer	Total ^[2]
Specific ALLL	\$ 64,736	\$ 363	\$	\$ 770	\$ 46,111	\$ 28,161	\$ 140,141
Impaired loans ^[1]	\$ 357,161	\$ 13,268	\$	\$ 3,023	\$ 435,824	\$ 117,732	\$ 927,008
Specific ALLL to impaired loans ^[1]	18.13%	2.74%		25.47%	10.58%	23.92%	15.12%
General ALLL	\$ 146,501	\$ 6,307	\$ 2,944	\$ 6,361	\$ 77,211	\$ 140,254	\$ 379,578
Loans held-in-portfolio, excluding impaired loans ^[1]	\$ 7,777,106	\$ 238,552	\$ 80,818	\$ 561,366	\$ 6,067,062	\$ 3,752,539	\$ 18,477,443
General ALLL to loans held-in-portfolio, excluding impaired loans ^[1]	1.88%	2.64%	3.64%	1.13%	1.27%	3.74%	2.05%
Total ALLL	\$ 211,237	\$ 6,670	\$ 2,944	\$ 7,131	\$ 123,322	\$ 168,415	\$ 519,719
Total non-covered loans held-in-portfolio ^[1]	\$ 8,134,267	\$ 251,820	\$ 80,818	\$ 564,389	\$ 6,502,886	\$ 3,870,271	\$ 19,404,451
ALLL to loans held-in-portfolio ^[1]	2.60%	2.65%	3.64%	1.26%	1.90%	4.35%	2.68%

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

[2] Excludes covered loans acquired on the Westernbank FDIC-assisted transaction. At December 31, 2014, the general allowance on the covered loans amounted to \$82.1 million while the specific reserve amounted to \$5 thousand.

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

At September 30, 2015, the allowance for loan losses, excluding covered loans, increased by \$16 million when compared with December 31, 2014, primarily driven as a result of higher reserves for commercial loans. The ratio of the allowance for loan losses to loans held-in-portfolio decreased to 2.38% of non-covered loans held-in-portfolio at September 30, 2015, compared with 2.68% at December 31, 2014, mostly due to the impact of the Doral Bank portfolio and the loans reclassified from the covered portfolio on the total loan base. The ratio of the allowance to non-performing loans held-in-portfolio was stable at 84.42% at September 30, 2015, compared with 82.43% at December 31, 2014.

At September 30, 2015, the allowance for loan losses for non-covered loans at the BPPR segment totaled \$504 million, or 2.83% of non-covered loans held-in-portfolio, compared with \$489 million, or 3.07% of non-covered loans held-in-portfolio, at December 31, 2014. The increase in the allowance includes a \$37 million allowance related to the

Westernbank's portfolio transferred from covered loans in the second quarter of 2015, offset by a \$29 million write-down in connection with the loans transferred to held-for-sale specifically reserved in prior quarters. The ratio of the allowance to non-performing loans held-in-portfolio was 82.73% at September 30, 2015, compared with 80.00% at December 31, 2014.

The allowance for loan losses at the BPNA segment decreased slightly to \$32 million, or 0.68% of loans held-in-portfolio, compared with \$31 million, or 0.88% of loans held-in-portfolio, at December 31, 2014, driven by strong credit quality. The ratio of the allowance to non-performing loans held-in-portfolio was 125.01% at September 30, 2015, compared with 160.13% at December 31, 2014.

The allowance for loan losses for commercial loans held-in-portfolio, excluding covered loans, increased by \$19 million from December 31, 2014. The allowance for loan losses for the commercial loan portfolio in the BPPR segment, excluding the allowance for covered loans, totaled \$221 million, or 2.94% of non-covered commercial loans held-in-portfolio, at September 30, 2015, compared with \$202 million, or 3.16%, at December 31, 2014. The increase of \$19 million includes \$29 million related to Westernbank's non-covered portfolio. The decrease in the allowance to loans ratio was due to the impact of the reclassified covered loans. At the BPNA segment, the allowance for loan losses for the commercial loan portfolio amounted to \$9 million at September 30, 2015, decreasing slightly by \$1 million when compared to December 31, 2014. The allowance for loan losses for commercial loans held-in-portfolio at the BPNA segment was 0.36% of commercial loans held-in-portfolio, at September 30, 2015, compared with 0.55%, at December 31, 2014. The Corporation's ratio of allowance to non-performing loans held-in-portfolio in the commercial loan category was 96.27% at September 30, 2015, compared with 81.18% at December 31, 2014.

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The allowance for loan losses for construction loans held-in-portfolio, excluding covered loans, increased by \$8 million from December 31, 2014. The allowance for loan losses corresponding to the construction loan portfolio for the BPPR segment, excluding the allowance for covered loans, totaled \$12 million, or 10.66% of non-covered construction loans held-in-portfolio, at September 30, 2015, compared with \$5 million, or 3.44%, at December 31, 2014. This increase of \$7 million includes \$6 million related to loans from the Westernbank non-covered loan portfolio that the Corporation has the intent to sell and are subject to the ongoing dispute with the FDIC. At the BPNA segment, the allowance for loan losses of the construction loan portfolio totaled \$3 million, or 0.54% of construction loans held-in-portfolio, at September 30, 2015, compared with \$1 million, or 1.28%, at December 31, 2014. The Corporation's ratio of allowance to non-performing loans held-in portfolio in the construction loan category was 409.18% at September 30, 2015, compared with 48.29% at December 31, 2014. Stable allowance levels in the construction portfolio result from the de-risking strategies executed by the Corporation over the past several years.

The allowance for loan losses for mortgage loans held-in-portfolio, excluding covered loans, increased by \$11 million from December 31, 2014. The allowance for loan losses corresponding to the mortgage loan portfolio at the BPPR segment totaled \$130 million, or 2.09% of mortgage loans held-in-portfolio, excluding covered loans, at September 30, 2015, compared with \$121 million, or 2.22%, respectively, at December 31, 2014. The increase was consistent with current credit quality trends, including higher non-performing loans. The decrease in the ratio was due to the impact of Doral bank acquired mortgage loans in the loan base. At the BPNA segment, the allowance for loan losses corresponding to the mortgage loan portfolio increased to \$4 million, or 0.47% of mortgage loans held-in-portfolio, at September 30, 2015, compared with \$2 million, or 0.23%, at December 31, 2014. Low allowance levels corresponds the sale of certain classified loans, including mortgage TDRs and non-performing loans during 2014.

The allowance for loan losses for the consumer portfolio, excluding covered loans, decreased to \$144 million, or 3.77% of that portfolio, at September 30, 2015, compared to \$168 million, or 4.35%, at December 31, 2014. The allowance for loan losses of the non-covered consumer loan portfolio in the BPPR segment at \$133 million, or 3.94% of that portfolio, at September 30, 2015, compared with \$154 million, or 4.55%, at December 31, 2014. At the BPNA segment, the allowance for loan losses of the consumer loan portfolio totaled \$12 million, or 2.51% of consumer loans, at September 30, 2015, compared with \$14 million, or 2.98%, at December 31, 2014.

Table 47 - Impaired Loans (Non-Covered Loans) and the Related Valuation Allowance

(In millions)	September 30, 2015		December 31, 2014	
	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
Impaired loans:				
Valuation allowance	\$ 879.8	\$ 156.8	\$ 831.5	\$ 140.1
No valuation allowance required	94.4		95.5	
Total impaired loans	\$ 974.2	\$ 156.8	\$ 927.0	\$ 140.1

The following tables set forth the activity in the specific reserves for non-covered impaired loans for the quarters ended September 30, 2015 and 2014.

Table 48 - Activity in Specific ALLL for the Quarter Ended September 30, 2015

(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Leasing	Total
Beginning balance	\$ 68,456	\$ 725	\$ 44,162	\$ 34	\$ 25,027	\$ 607	\$ 139,011
Provision for impaired loans	24,632	(276)	7,603		3,372	37	35,368
Less: Net charge-offs	(9,473)	(91)	(4,220)	(34)	(3,703)	(10)	(17,531)
Specific allowance for loan losses at September 30, 2015	\$ 83,615	\$ 358	\$ 47,545	\$	\$ 24,696	\$ 634	\$ 156,848

Table of Contents**Table 49 - Activity in Specific ALLL for the Quarter Ended September 30, 2014**

(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Leasing	Total
Beginning balance	\$ 36,597	\$ 883	\$ 53,815	\$	\$ 29,043	\$ 688	\$ 121,026
Provision for impaired loans	31,855	952	1,116		3,777	10	37,710
Less: Net charge-offs	(3,702)	(1,702)	(3,080)		(4,543)		(13,027)
Less: Transferred to LHFS			(13,644)		(111)		(13,755)
Specific allowance for loan losses at September 30, 2014	\$ 64,750	\$ 133	\$ 38,207	\$	\$ 28,166	\$ 698	\$ 131,954

For the quarter ended September 30, 2015, total net charge-offs for individually evaluated impaired loans amounted to approximately \$17.4 million related to the BPPR segment.

The table that follows presents the approximate amount and percentage of non-covered commercial impaired loans for which the Corporation relied on appraisals dated more than one year old for purposes of impairment requirements at September 30, 2015 and December 31, 2014.

Table 50 - Non-Covered Impaired Loans with Appraisals Dated 1 year or Older

(In thousands)	September 30, 2015		
	Loan Count	Total Impaired Loans Held-in-portfolio (HIP)	Outstanding Principal Balance
Commercial	132	\$ 331,220	Impaired Loans with Appraisals Over One-Year Old [1] 44%
Legacy	1	1,188	

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

(In thousands)	December 31, 2014		
	Loan Count	Total Impaired Loans Held-in-portfolio (HIP)	Outstanding Principal Balance
Commercial	140	\$ 303,128	Impaired Loans with Appraisals Over One-Year Old [1] 12%
Construction	6	10,693	79

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

At September 30, 2015, the Corporation accounted for \$3 million impaired construction loans under the as is value. At September 30, 2015, there were no impaired construction loans under the as developed value.

Costs to complete are deducted from the subject as developed collateral value on impaired construction loans. Impairment determinations are calculated following the collateral dependent method, comparing the outstanding principal balance of the respective impaired construction loan against the expected realizable value of the subject collateral. Realizable values of subject collaterals have been defined as the as developed appraised value less costs to complete, costs to sell and discount factors. Costs to complete represent an estimate of the amount of money to be disbursed to complete a particular phase of a construction project. Costs to sell have been determined as a percentage of the subject collateral value, to cover related collateral disposition costs (e.g. legal and commission fees). As discussed previously, discount factors may be applied to the appraised amounts due to age or general market conditions.

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The percentage of the Corporation's impaired construction loans that were relied upon as developed and as is for the periods ended September 30, 2015 and December 31, 2014 are presented in Table 51.

Table 51 - Impaired Construction Loans Relied Upon As is or As Developed

(In thousands)	September 30, 2015							
	As is				As developed			
	Loan Count	Outstanding Principal Balance	As a % Of Total Construction Loans HIP	Loan Count	Outstanding Principal Balance	As a % Of Total Construction Loans HIP	Average % Of Completion	
Loans held-in-portfolio	6	\$ 2,536	100%		\$		%	%

(In thousands)	December 31, 2014							
	As is				As developed			
	Loan Count	Outstanding Principal Balance	As a % Of Total Construction Loans HIP	Loan Count	Outstanding Principal Balance	As a % Of Total Construction Loans HIP	Average % Of Completion	
Loans held-in-portfolio	7	\$ 7,653	58%	2	\$ 5,616	42%	87%	

Allowance for loan losses - Covered loan portfolio

The Corporation's allowance for loan losses for the covered loan portfolio acquired in the Westernbank FDIC-assisted transaction amounted to \$35 million at September 30, 2015, compared to \$82 million at December 31, 2014. As of June 30, 2015, an allowance of \$13 million was transferred from covered to non-covered category. This allowance covers the estimated credit loss exposure related to: (i) acquired loans accounted for under ASC Subtopic 310-30, which required an allowance for loan losses of \$28 million at September 30, 2015, compared with \$79 million at December 31, 2014; and (ii) acquired loans accounted for under ASC Subtopic 310-20, which required an allowance for loan losses of \$7 million at September 30, 2015 and \$3 million at December 31, 2014.

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

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 38 to the consolidated financial statements. A significant portion of our financial activities and credit exposure is concentrated in Puerto Rico, which entered into a recession in the second quarter of 2006. Puerto Rico's gross national product contracted in real terms in every year

between fiscal year 2007 and fiscal year 2011 (inclusive), grew by 0.5% in fiscal year 2012 and decreased by 0.2% and 0.9% in fiscal years 2013 and 2014. The changes in the gross national product in fiscal years 2012, 2013 and 2014 also have to be analyzed in light of the large amount of governmental stimulus and deficit spending in those fiscal years. Although the forecast for fiscal years 2015 and 2016 has not been made public, gross national product for fiscal year 2015 is expected to decrease, based on available monthly economic indicators. The latest Government Development Bank for Puerto Rico (GDB) Economic Activity Index, which is a coincident indicator of ongoing economic activity, reflected a 1.6% reduction in the average for fiscal year 2015 (July 2014 to June 2015), compared to the prior fiscal year. For the first three months of fiscal year 2016, the Economic Activity Index remained flat when compared to the same period of the prior fiscal year.

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The Commonwealth of Puerto Rico (the Commonwealth) has experienced and continues to experience significant budget deficits, which have been historically covered with bond financings, loans from GDB and extraordinary one-time revenue measures. As a result of the downgrades of the Commonwealth and its instrumentalities' obligations to below investment grade ratings and recent liquidity constraints at the Commonwealth central government level and GDB, the Commonwealth's ability to finance future budget deficits is expected to be very limited.

The Government's most recent estimate of the budget deficit for fiscal year 2015 is approximately \$703 million. For fiscal year 2016, the Government recently approved a \$9.8 billion budget, which is \$235 million higher than the approved budget for fiscal year 2015 due primarily to a significant increase in debt service payments and special pension contributions. In October 2015, however, the Government revised its revenue estimate for fiscal year 2016, to \$9.471 billion, which is \$329 million lower than budgeted. In order to address this reduction, the Government will have to implement additional revenue raising and expense reduction measures.

The Commonwealth's public corporations and instrumentalities are also facing financial challenges. On June 28, 2014, Governor Alejandro García Padilla signed into law the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the Recovery Act) which provides a framework for certain public corporations, including the Puerto Rico Electric Power Authority (PREPA), the Puerto Rico Aqueduct and Sewer Authority and the Puerto Rico Highways and Transportation Authority, to restructure their debt obligations in order to ensure that the services they provide to the public are not interrupted.

In July 2014, certain holders of PREPA bonds and an investment manager, on behalf of funds which hold PREPA bonds, filed separate lawsuits in the United States District Court for the District of Puerto Rico (the District Court) seeking a declaratory judgment that the Recovery Act violates several provisions of the United States Constitution. The District Court consolidated the actions. On February 6, 2015, the District Court issued an opinion and order declaring the Recovery Act unconstitutional and stating that it was preempted by the federal Bankruptcy Code. The District Court permanently enjoined the Commonwealth officers from enforcing the Recovery Act. The Commonwealth filed an expedited appeal before the United States Court of Appeals for the First Circuit and, on July 6, 2015, the Court of Appeals affirmed the lower court's decision. The Commonwealth has filed a petition for certiorari in the United States Supreme Court, which is currently pending.

In August 2014, PREPA entered into forbearance agreements with certain bondholders, municipal bond insurers, and lenders (including BPPR) pursuant to which the forbearing creditors agreed to forbear from exercising certain rights and remedies under their applicable debt instruments. On November 5, 2015, PREPA announced that it had entered into a restructuring support agreement with certain creditors setting forth the economic terms of a recovery plan. Execution of the transactions set forth in the restructuring support agreement is subject to a number of material conditions, including the enactment of legislation, and there can be no assurance that those conditions will be met. PREPA's monoline bond insurers are not party to the restructuring support agreement. At September 30, 2015, BPPR's exposure to PREPA was \$45.0 million, as shown in Table 52 below.

On February 11, 2015, the Puerto Rico Resident Commissioner introduced a bill in the U.S. House of Representatives to permit the Government of Puerto Rico to authorize Puerto Rico municipalities and public corporations to restructure their debt obligations under Chapter 9 of the United States Bankruptcy Code. On July 15, 2015, Senator Richard Blumenthal filed a companion bill in the United States Senate. The Commonwealth and GDB have expressed their support for this amendment to the United States Bankruptcy Code. On February 26, 2015, public hearings were held to consider the bill. At this time it is unclear if the bill will be approved and, if it is approved, whether its effects will be retroactive or not.

In response to the continued fiscal and economic challenges, the Government of Puerto Rico engaged a group of former IMF economists to analyze the Commonwealth's economic and financial stability and growth prospects. The group's final report, commonly known as the Krueger Report, was delivered to the Governor of Puerto Rico on June 28, 2015 and states that Puerto Rico faces an acute crisis in the face of faltering economic activity, fiscal solvency and debt sustainability, and institutional credibility. Some of the report's principal conclusions are as follows: (i) the economic problems of Puerto Rico are structural, not cyclical, and are not going away without structural reforms, (ii) fiscal deficits are much larger than assumed and are set to deteriorate, (iii) the central government deficits (as measured in the report) over the coming years imply an unsustainable trajectory of large financing gaps, and (iv) Puerto Rico's public debt cannot be made sustainable without growth, nor can growth occur in the face of structural obstacles and doubts about debt sustainability.

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The report concludes that, even after factoring in a substantial fiscal effort, a large residual financing gap persists into the next decade, implying a need for debt relief. To close the financing gap, the government would need to seek relief from a significant but progressively declining proportion of principal and interest falling due during fiscal years 2016-2024. The report acknowledges that any debt restructuring would be challenging as there is no precedent of this scale and scope, but concludes that, from an economic perspective, the fact remains that the central government faces large financing gaps even with substantial adjustment efforts (as there are limits to how much expenditures can be cut or taxes raised).

On June 29, 2015, the Governor of Puerto Rico issued an Executive Order to create the Puerto Rico Fiscal and Economic Recovery Working Group (the Working Group). The Working Group was created to consider the measures necessary, including the measures recommended in the Krueger Report, to address the fiscal crisis of the Commonwealth and to develop and recommend to the Governor of Puerto Rico a fiscal and economic adjustment plan.

On September 9, 2015, the Working Group presented a draft of the Fiscal and Economic Growth Plan (the FEGP). The FEGP projects that, absent further corrective action, the Commonwealth's cumulative financing gap from fiscal years 2016 to 2020 will be approximately \$27.8 billion, and that this financing gap could be reduced to approximately \$14 billion through a combination of identified revenue increases, expense reduction and economic growth measures. The FEGP concludes that the remaining financing gap would have to be addressed through debt restructuring and that, unless economic growth can be achieved, the Commonwealth's debt is not sustainable. The FEGP also reflects that, absent emergency measures, Puerto Rico's Treasury and single cash account will each exhaust their liquidity before the end of the calendar year. The Working Group recommends that the Commonwealth begin working on a voluntary exchange offer to creditors to seek a consensual debt restructuring. The FEGP is publicly available in GDB's website.

On October 21, 2015, the Obama Administration released a proposal to address Puerto Rico's urgent fiscal crisis. The proposal states that Puerto Rico is in the midst of an economic and fiscal crisis that requires Congressional action and makes the following recommendations: (i) Congress should extend Chapter 9 of the U.S. Bankruptcy Code to Puerto Rico, and also provide a broader legal framework to allow for a comprehensive restructuring of Puerto Rico's liabilities, (ii) Congress should provide independent fiscal oversight to ensure Puerto Rico adheres to its recovery plan and fully implements proposed reforms, (iii) Congress should provide a long-term solution to Puerto Rico's historically inadequate Medicaid treatment, and (iv) Congress should extend to Puerto Rico certain proven measures to reward work and stimulate growth, such as the Earned Income Tax Credit. On October 22, 2015, the United States Senate Committee on Energy and Natural Resources held a hearing on Puerto Rico's economy, debt and options for Congress. A senior adviser to the U.S. Secretary of the Treasury testified before Congress in support of the Obama Administration proposals.

On August 1, 2015, the Puerto Rico Public Finance Corporation (PFC), a subsidiary of GDB, missed substantially all of the debt service payment of \$57.9 million due on such date on approximately \$1.1 billion of bonds payable solely from Commonwealth legislative appropriations. The Puerto Rico Legislative Assembly had not included in the approved budget for fiscal year 2016 the funds necessary to pay principal and interest on these bonds. The Commonwealth has indicated that the non-appropriation of funds reflects serious liquidity concerns.

The Commonwealth has implemented various measures to deal with the liquidity challenges it faces during fiscal year 2016, besides not appropriating for the payment of PFC bonds mentioned above. Some of these measures include: (i) advances to the Treasury Department from the two largest government retirement systems for the payment by the Treasury Department of retirement benefits to participants (instead of the usual reimbursements for payments made by the Treasury Department on behalf of the retirement systems); (ii) placing \$400 million of tax and revenue anticipation notes with certain Commonwealth instrumentalities to fund fiscal year 2016 working capital needs; (iii)

suspending during fiscal year 2016 Commonwealth set-asides required by Act No. 39 of May 13, 1976, as amended, for the payment of its general obligation debt; (iv) delaying the payment of third-party payables or amounts due to public corporations; and (v) delaying the payment of income tax refunds. Some of these measures are unsustainable and have significant negative economic effects. Also, since these measures are not sufficient to address the Commonwealth's liquidity needs, the Commonwealth has indicated it will need to implement additional measures.

On May 29, 2015, the Commonwealth enacted Act No. 72 (Act 72-2015), which, *inter alia*, increased the sales and use tax (SUT) rate and provided for a transition to a value added tax (VAT) to substitute the central government's portion of the SUT, subject to certain conditions. Commencing on July 1, 2015, transactions that were subject to the 7% SUT are subject to an 11.5% SUT (10.5% collected by the Treasury Department, of which 0.5% goes to a special fund for the municipalities, and 1% collected by the municipalities). The SUT will be in effect until March 31, 2016, unless the Secretary of Treasury extends the effectiveness of the SUT for an additional 60 day period.

In addition, from on October 1, 2015 and until March 31, 2016: (i) business-to-business transactions that are currently taxable are subject to an 11.5% SUT, (ii) certain business-to-business services and designated professional services that were previously exempt from SUT are subject to a Commonwealth SUT of 4% (but no municipal SUT will apply to these services), and (iii) specific services are exempt from SUT. After March 31, 2016 (or the extended sunset date provided for the SUT at the discretion of the Secretary of Treasury), all transactions subject to the SUT will be subject to a new VAT of 10.5% plus a 1% municipal SUT.

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The lingering effects of the prolonged recession are still reflected in limited loan demand, an increase in the rate of foreclosures and delinquencies on mortgage loans granted in Puerto Rico. If global or local economic conditions worsen or the Government of Puerto Rico is unable to obtain financing and manage its fiscal crisis, including the restructuring of its debt obligations, in an orderly manner while honoring its debt obligations as they come due, those adverse effects could continue or worsen in ways that we are not able to predict. Any reduction in consumer spending as a result of these issues may also adversely impact our non-interest revenues.

At September 30, 2015, the Corporation's direct exposure to the Puerto Rico government and its instrumentalities and municipalities amounted to \$ 635 million, of which approximately \$ 579 million is outstanding (\$ 1.0 billion and \$ 811 million, respectively, at December 31, 2014). Of the amount outstanding, \$ 498 million consists of loans and \$ 81 million are securities (\$ 689 million and \$ 122 million, respectively, at December 31, 2014). Of the amount outstanding, \$ 82 million represents obligations from the Government of Puerto Rico and public corporations that have a specific source of income or revenues identified for their repayment (\$ 336 million at December 31, 2014). Some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services or products, such as public utilities. Public corporations have varying degrees of independence from the central Government and many receive appropriations or other payments from it. The remaining \$ 497 million represents obligations from various municipalities in Puerto Rico for which, in most cases, the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment (\$ 475 million at December 31, 2014). These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all of its general obligation bonds and loans. These loans have seniority to the payment of operating cost and expenses of the municipality. The Corporation performs periodic credit quality reviews on these issuers. Table 52 has a summary of the Corporation's direct exposure to the Puerto Rico government and its instrumentalities and municipalities.

Table 52 - Direct Exposure to the Puerto Rico Government

(In thousands)	Investment Portfolio	Loans	Total Outstanding	Total Exposure
Central Government				
Within 1 year	\$	\$	\$	\$ 794
After 1 to 5 years	868		868	868
After 5 to 10 years	3,044		3,044	3,044
After 10 years	13,940		13,940	13,940
Total Central Government	17,852		17,852	18,646
Government Development Bank (GDB)				
Within 1 year	2,752		2,752	2,752
After 1 to 5 years	1,812		1,812	1,812
After 5 to 10 years	571		571	571
Total Government Development Bank (GDB)	5,135		5,135	5,135
Public Corporations:				

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Puerto Rico Aqueduct and Sewer Authority				
Within 1 year		15,000	15,000	45,690
After 10 years	480		480	480
Total Puerto Rico Aqueduct and Sewer Authority	480	15,000	15,480	46,170
Puerto Rico Electric Power Authority				
Within 1 year		43,625	43,625	45,002
After 10 years	23		23	23
Total Puerto Rico Electric Power Authority	23	43,625	43,648	45,025
Puerto Rico Highways and Transportation Authority				
After 5 to 10 years	4		4	4
Total Puerto Rico Highways and Transportation Authority	4		4	4

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Municipalities				
Within 1 year	2,920	47,278	50,198	73,193
After 1 to 5 years	13,655	130,935	144,590	144,590
After 5 to 10 years	20,020	138,187	158,207	158,207
After 10 years	20,325	123,372	143,697	143,697
Total Municipalities	56,920	439,772	496,692	519,687
Total Direct Government Exposure	\$ 80,414	\$ 498,397	\$ 578,811	\$ 634,667

In addition, at September 30, 2015, the Corporation had \$386 million in indirect exposure to loans or securities that are payable by non-governmental entities, but which carry a government guarantee to cover any shortfall in collateral in the event of borrower default (\$370 million at December 31, 2014). These included \$307 million in residential mortgage loans that are guaranteed by the Puerto Rico Housing Finance Authority (December 31, 2014 - \$289 million). These mortgage loans are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default. Also, the Corporation had \$50 million in Puerto Rico pass-through housing bonds backed by FNMA, GNMA or residential loans CMOs, and \$29 million of industrial development notes (\$49 million and \$32 million, respectively, at December 31, 2014).

On October 10, 2014, GDB entered into a note purchase, revolving credit and term loan agreement with a syndicate of banks and other financial institutions providing for the issuance of up to \$900 million of GDB short-term senior notes, guaranteed by the Commonwealth, the proceeds of which will be used to fund the purchase of an equal amount of TRANs of the Commonwealth. The TRANs, which also serve as collateral for the GDB notes, provide intra-year financing to the central Government to address timing differences between expected disbursements and receipts of taxes and revenues for fiscal year 2015. The GDB notes and the related Commonwealth's tax and revenue anticipation notes matured on June 30, 2015 and were paid in full. BPPR participated in this credit facility with an aggregate commitment of \$100 million in the term loan and revolving credit facilities.

During the quarter ended June 30, 2015, BPPR agreed to sell to an unaffiliated third party its \$75 million loan part of a syndicated fuel line credit facility to PREPA. Accordingly, the loan was reclassified as held-for-sale and a write down of \$30 million, of which \$29 million was already reserved, was recorded during the second quarter of 2015. The sale was subject, among other conditions, to the approval of the syndicate's agent bank. The sale agreement was terminated on July 29, 2015 pursuant to its terms after the parties were not able to obtain the approval of the agent bank on terms acceptable to the assignee. However, at September 30, 2015, the loan remains classified as held-for-sale as the Corporation maintains its ability and intent to sell the loan.

As further detailed in Notes 9 and 10 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, \$906 million of residential mortgages and \$109 million in commercial loans were insured or guaranteed by the U.S. Government or its agencies at September 30, 2015. The Corporation does not have any exposure to European sovereign debt.

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.

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The Corporation prepares its Consolidated Financial Statements using accounting principles generally accepted in the U.S. (U.S. GAAP), the (reported basis). In addition to analyzing the Corporation's results on a reported basis, management monitors the performance of the Corporation on an adjusted basis and excludes the impact of certain transactions on the results of its operations. Through this MD&A, the Corporations present a discussion of its financial results excluding the impact of these events to arrive at the adjusted results. Management believes that the adjusted basis provides meaningful information about the underlying performance of the Corporation's ongoing operations. The adjusted results are a Non-GAAP financial measure. Refer to the following tables for a reconciliation of the reported results to the adjusted results for the quarters and nine months ended September 30, 2015 and 2014.

Table 53 - Adjusted Consolidated Statement of Operations for the Quarter Ended September 30, 2015 (Non-GAAP)

(Unaudited)	Quarter ended September 30, 2015					
	Actual Results (US GAAP)	BPNA Reorganization [1]	Doral Transaction [3]	MSR s Acquired [4]	Impairment of Loans Under Proposed Portfolio Sale [5]	Adjusted Results (Non-GAAP)
(In thousands)	\$ 350,735	\$	\$	\$	\$	\$ 350,735
Net interest income						
Provision for loan losses non-covered loans	69,568				10,126	59,442
Provision (reversal) for loan losses covered loans [1]	(2,890)					(2,890)
Net interest income after provision for loan losses	284,057				(10,126)	294,183
Mortgage banking activities	24,195		844	4,378		18,973
FDIC loss-share income	1,207					1,207
Other non-interest income	105,707		(10)			105,717
Total non-interest income	131,109		834	4,378		125,897
Personnel costs	120,863		806			120,057
Net occupancy expenses	21,277		1,151			20,126
Equipment expenses	14,739					14,739
Professional fees	77,154		3,599			73,555
Communications	6,058					6,058
Business promotion	12,325		100			12,225
Other real estate owned (OREO) expenses	7,686					7,686
Restructuring costs	481	481				
Other operating expenses	46,314					46,314

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Total operating expenses	306,897	481	5,656			300,760
Income from continuing operations before income tax	108,269	(481)	(4,822)	4,378	(10,126)	119,320
Income tax (benefit) expense	22,620		(1,050)	1,707	(3,949)	25,912
Income from continuing operations	\$ 85,649	\$ (481)	\$ (3,772)	\$ 2,671	\$ (6,177)	\$ 93,408
Loss from discontinued operations, net of tax	\$ (9)	\$ (9)	\$	\$	\$	\$
Net income	\$ 85,640	\$ (490)	\$ (3,772)	\$ 2,671	\$ (6,177)	\$ 93,408

[1] Covered loans represent loans acquired in the Westernbank FDIC-assisted transaction that are covered under an FDIC loss-sharing agreement.

[2] Represents restructuring charges associated with the reorganization of BPNA.

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- [3] Includes approximately \$0.8 million of fees charged for loan servicing cost to the FDIC, personnel costs related to former Doral Bank employees retained on a temporary basis and incentive compensation for an aggregate of \$0.8 million, building rent expense of Doral Bank's administrative offices for \$1.2 million and professional fees and business promotion expenses directly associated with the Doral Transaction and systems conversion for \$3.7 million.
- [4] Represents the fair value of mortgage servicing rights acquired for a portfolio previously serviced by Doral Bank, for which the Corporation acted as a backup servicer, under a pre-existing contract.
- [5] Represents impairment based on the estimated fair value of loans acquired from Westernbank, that the Corporation has the intent to sell and are subject to the ongoing arbitration with the FDIC.

Table 54 - Adjusted Consolidated Statement of Operations for the Quarter Ended September 30, 2014 (Non-GAAP)

(Unaudited)	Quarter ended September 30, 2014				Adjusted Results (Non-GAAP)
	Actual Results (US GAAP)	BPNA Reorganization [2]	Income Tax Adjustments [3]	Indemnification Asset Adjustment [4]	
(In thousands)					
Net interest income (expense)	\$ 326,421	\$ (20,663)	\$	\$	\$ 347,084
Provision for loan losses non-covered loans	68,166	11,950			56,216
Provision for loan losses covered loans [1]	12,463				12,463
Net interest income after provision for loan losses	245,792	(32,613)			278,405
Mortgage banking activities	14,402				14,402
FDIC loss-share income	(4,864)			15,046	(19,910)
Other non-interest income	114,792				114,792
Total non-interest income	124,330			15,046	109,284
Personnel costs	104,542				104,542
Net occupancy expenses	21,203				21,203
Equipment expenses	12,370				12,370
Professional fees	67,649				67,649
Communications	6,455				6,455
Business promotion	13,062				13,062
Other real estate owned (OREO) expenses	19,745				19,745
Restructuring costs	8,290	8,290			
Other operating expenses	57,324				57,324
Total operating expenses	310,640	8,290			302,350
Income from continuing operations before income tax	59,482	(40,903)		15,046	85,339
Income tax (benefit) expense	26,667		20,048	3,009	3,610

Income from continuing operations	\$ 32,815	\$ (40,903)	\$ (20,048)	\$ 12,037	\$ 81,729
Income from discontinued operations, net of tax	\$ 29,758	\$ 29,758	\$	\$	\$
Net income	\$ 62,573	\$ (11,145)	\$ (20,048)	\$ 12,037	\$ 81,729

- [1] Covered loans represent loans acquired in the Westernbank FDIC-assisted transaction that are covered under an FDIC loss-sharing agreement.
- [2] Includes losses on bulk sales and reclassifications to loans held-for-sale of classified and legacy loans for an aggregated net loss \$12.0 million, loss on the refinancing of structured repos for \$20.7 million recorded as interest expense, restructuring cost of \$8.3 million and the net gain of \$25.8 million on the sale of Central Florida and Illinois regional operations, which was offset by cost directly associated with the unwinding of the regions subject to the sales for \$4.8 million.
- [3] On July 1, 2014, the Government of Puerto Rico approved an amendment to the Internal Revenue Code, which , among other things, changed the income tax rate for capital gains for 15% to 20%. As a result, the Corporation recognized an income tax expense of \$20.0 million, mainly related to the deferred tax liability associated with the portfolio acquired from Westernbank.
- [4] The FDIC indemnity asset amortization included a positive adjustment of \$15.0 million to reverse the impact of accelerated amortization expense recorded in prior periods.

Table of Contents**Table 55 - Adjusted Consolidated Statement of Operations (Non-GAAP) - Comparative Quarters**

(Unaudited)	Adjusted Results (Non-GAAP)		
	for the quarters ended		
(In thousands)	September 30,	September 30,	
	2015	2014	Variance
Net interest income	\$ 350,735	\$ 347,084	\$ 3,651
Provision for loan losses non-covered loans	59,442	56,216	3,226
Provision for loan losses covered loans [1]	(2,890)	12,463	(15,353)
Net interest income after provision for loan losses	294,183	278,405	15,778
Mortgage banking activities	18,973	14,402	4,571
FDIC loss-share income	1,207	(19,910)	21,117
Other non-interest income	105,717	114,792	(9,075)
Total non-interest income	125,897	109,284	16,613
Personnel costs	120,057	104,542	15,515
Net occupancy expenses	20,126	21,203	(1,077)
Equipment expenses	14,739	12,370	2,369
Professional fees	73,555	67,649	5,906
Communications	6,058	6,455	(397)
Business promotion	12,225	13,062	(837)
Other real estate owned (OREO) expenses	7,686	19,745	(12,059)
Other operating expenses	46,314	57,324	(11,010)
Total operating expenses	300,760	302,350	(1,590)
Income from continuing operations before income tax	119,320	85,339	33,981
Income tax expense	25,912	3,610	22,302
Income from continuing operations	\$ 93,408	\$ 81,729	\$ 11,679
Net income	\$ 93,408	\$ 81,729	\$ 11,679

[1] Covered loans represent loans acquired in the Westernbank FDIC-assisted transaction that are covered under an FDIC loss-sharing agreement.

Table of Contents**Table 56 - Adjusted Consolidated Statement of Operations for the Nine Months Ended September 30, 2015
(Non-GAAP)**

	For the nine months ended September 30, 2015									Adjusted Results (Non- GAAP)
	Actual Results (US GAAP)	BPNA Reorganization Expense	Doral Transaction [3]	OTTI [4]	Reversal DTA - PNA [5]	Loss on Bulk Sale of Covered OREOs [6]	Adjustment to FDIC Asset [7]	MSR s Acquired [8]	Impairment of Loans Under Proposed Portfolio Sale [9]	
Interest income	\$ 1,056,483	\$	\$	\$	\$	\$	\$	\$	\$	\$ 1,056,483
Provision for loan losses - non-covered loans	159,747								10,126	149,621
Provision for loan losses - covered loans	23,200									23,200
Interest income										
Provision for losses	873,536								(10,126)	883,662
Mortgage banking activities	58,372		844					4,378		53,114
Other-than-temporary impairment losses on investment securities	(14,445)			(14,445)						
Net loss-share income	24,421					17,566	(10,887)			17,700
Other non-interest income	318,755		2,072							316,683
Total non-interest income	387,103		2,916	(14,445)		17,566	(10,887)	4,378		387,551
Personnel costs	358,298		7,103							351,196
Occupancy expenses	66,272		4,103							62,169
Equipment expenses	44,075		725							43,350
Professional fees	231,131		15,481							215,650
Communications	18,387		70							18,317
Business promotion	36,914		501							36,413
Other real estate related (OREO) expenses	75,571					21,957				53,614
Structuring costs	17,408	17,408								
	134,356		509							133,847

er operating enses										
l operating enses	982,412	17,408	28,492			21,957				914,5
me from inuing operations										
re income tax	278,227	(17,408)	(25,576)	(14,445)		(4,391)	(10,887)	4,378	(10,126)	356,6
me tax (benefit) ense	(478,344)		(7,690)	(2,486)	(544,927)	(1,712)	(2,177)	1,707	(3,949)	82,8

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Income from continuing operations	\$ 756,571	\$ (17,408)	\$ (17,886)	\$ (11,959)	\$ 544,927	\$ (2,679)	\$ (8,710)	\$ 2,671	\$ (6,177)	\$ 273,792
Income from discontinued operations, net of tax	\$ 1,347	\$ 1,347	\$	\$	\$	\$	\$	\$	\$	\$
Net income	\$ 757,918	\$ (16,061)	\$ (17,886)	\$ (11,959)	\$ 544,927	\$ (2,679)	\$ (8,710)	\$ 2,671	\$ (6,177)	\$ 273,792

- [1] Covered loans represent loans acquired in the Westernbank FDIC-assisted transaction that are covered under an FDIC loss-sharing agreement.
- [2] Represents restructuring charges associated with the reorganization of BPNA.
- [3] Includes approximately \$0.8 million of fees charged for loan servicing cost to the FDIC, \$2.1 million of fees charged for services provided to the alliance co-bidders, personnel costs related to former Doral Bank employees retained on a temporary basis and incentive compensation for an aggregate of \$7.1 million, building rent expense of Doral Bank's administrative offices for \$4.1 million, professional fees and business promotion expenses directly associated with the Doral Bank Transaction and systems conversion for \$16.0 million and other expenses, including equipment, business promotions and communications, of \$1.3 million.
- [4] Represents an other than temporary impairment (OTTI) recorded on Puerto Rico government investment securities available- for- sale. These securities had an amortized cost of approximately \$41.1 million and a market value of \$26.6 million. Based on the fiscal and economic situation in Puerto Rico, together with the government's announcements regarding its ability to pay its debt, the Corporation determined that the unrealized loss, a portion of which had been in an unrealized loss for a period exceeding twelve months, was other than temporary.
- [5] Represents the partial reversal of the valuation allowance of a portion of the deferred tax asset amounting to approximately \$1.2 billion, at the U.S. operations.
- [6] Represents the loss on a bulk sale of covered OREOs completed in the second quarter and the related mirror accounting of the 80% reimbursable from the FDIC.
- [7] The quarter's negative amortization of the FDIC's Indemnification Asset included a \$10.9 million expense related to losses incurred by the corporation that were not claimed to the FDIC before the expiration of the loss-share portion of the agreement on June 30, 2015, and that are not subject to the ongoing arbitrations.
- [8] Represents the fair value of mortgage servicing rights acquired for a portfolio previously serviced by Doral Bank, for which the Corporation acted as a backup servicer, under a pre-existing contract.
- [9] Represents impairment based on the estimated fair value of loans acquired from Westernbank, that the Corporation has the intent to sell and are subject to the ongoing arbitration with the FDIC.

Table of Contents**Table 57 - Adjusted Consolidated Statement of Operations for the Nine Months Ended September 30, 2014 (Non-GAAP)**

(Unaudited)	For the nine months ended September 30, 2014						Adjusted
	Actual	TARP repayment discount amortization and Income Tax adjustments [2]	Goodwill impairment and Restructuring charges [3]	BPNA Reorganization Adjustments [4]	Income Tax Adjustments [5]	Indemnification Asset Adjustment [6]	Results
(In thousands)	Results (US GAAP)						(Non-GAAP)
Net interest income	\$ 618,211	\$ (414,068)	\$	\$ (20,663)	\$	\$	\$ 1,052,942
Provision for loan losses non-covered loans	172,362			11,950			160,412
Provision for loan losses covered loans [1]	49,781						49,781
Net interest income after provision for loan losses	396,068	(414,068)		(32,613)			842,749
Mortgage banking activities	21,868						21,868
FDIC loss-share income (expense)	(84,331)					12,492	(96,823)
Other non-interest income	345,614						345,614
Total non-interest income	283,151					12,492	270,659
Personnel costs	307,943						307,943
Net occupancy expenses	62,830						62,830
Equipment expenses	35,826						35,826
Professional fees	201,672						201,672
Communications	19,565						19,565
Business promotion	40,486						40,486
Other real estate owned (OREO) expenses	29,595						29,595
Restructuring costs	12,864		4,574	8,290			
Other operating expenses	152,897						152,897
	863,678		4,574	8,290			850,814

Total operating expenses

(Loss) income from continuing operations before income tax	(184,459)	(414,068)	(4,574)	(40,903)		12,492	262,594
Income tax expense	45,807	(15,393)			20,048	2,498	38,654
(Loss) income from continuing operations	\$ (230,266)	\$ (398,675)	\$ (4,574)	\$ (40,903)	\$ (20,048)	\$ 9,994	\$ 223,940
(Loss) income from discontinued operations, net of tax	\$ (132,066)	\$	\$ (161,824)	\$ 29,758	\$	\$	\$
Net (loss)\income	\$ (362,332)	\$ (398,675)	\$ (166,398)	\$ (11,145)	\$ (20,048)	\$ 9,994	\$ 223,940

- [1] Covered loans represent loans acquired in the Westernbank FDIC-assisted transaction that are covered under an FDIC loss-sharing agreement.
- [2] Income tax adjustments include a benefit of approximately \$23.4 million related to a Closing Agreement with the PR Department of Treasury, completed during the second quarter of 2014 and the negative impact of the deferred tax asset valuation allowance of approximately \$8.0 million recorded at the Holding Company, due to the difference in the tax treatment of the interest expense related to the TARP funds and the newly issued \$450 million senior notes.
- [3] Adjustments included within Loss from discontinued operations include approximately \$186.5 million of goodwill impairment charge and \$6.9 million in transaction costs, which include severance payment expenses, legal and other professional services, incurred in connection with the agreements to sell the U.S. regional operations. Adjustments within operating expenses are related to restructuring charges incurred in connection with the reorganization of PCB.
- [4] Includes losses on bulk sales and reclassifications to loans held-for-sale of classified and legacy loans for an aggregated net loss \$12.0 million, loss on the refinancing of structured repos for \$20.7 million recorded as interest expense, restructuring cost of \$8.3 million and the net gain of \$25.8 million on the sale of Central Florida and Illinois regional operations, which was offset by cost directly associated with the unwinding of the regions subject to the sales for \$4.8 million.
- [5] On July 1, 2014, the Government of Puerto Rico approved an amendment to the Internal Revenue Code, which , among other things, changed the income tax rate for capital gains for 15% to 20%. As a result, the Corporation recognized an income tax expense of \$20.0 million, mainly related to the deferred tax liability associated with the portfolio acquired from Westernbank.

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[6] The FDIC indemnity asset amortization included a positive adjustment of \$12.5 million to reverse the impact of accelerated amortization expense recorded in prior periods.

Table 58 - Adjusted Consolidated Statement of Operations (Non-GAAP) - Comparative Nine Months Ended

(Unaudited)	Adjusted Results (Non-GAAP)		
	for the nine months ended		
(In thousands)	September 30,	September 30,	Variance
	2015	2014	
Net interest income	\$ 1,056,483	\$ 1,052,942	\$ 3,541
Provision for loan losses non-covered loans	149,621	160,412	(10,791)
Provision for loan losses covered loans [1]	23,200	49,781	(26,581)
Net interest income after provision for loan losses	883,662	842,749	40,913
Mortgage banking activities	53,150	21,868	31,282
FDIC loss-share income	17,742	(96,823)	114,565
Other non-interest income	316,683	345,614	(28,931)
Total non-interest income	387,575	270,659	116,916
Personnel costs	351,195	307,943	43,252
Net occupancy expenses	62,169	62,830	(661)
Equipment expenses	43,350	35,826	7,524
Professional fees	215,650	201,672	13,978
Communications	18,317	19,565	(1,248)
Business promotion	36,413	40,486	(4,073)
Other real estate owned (OREO) expenses	53,614	29,595	24,019
Other operating expenses	133,847	152,897	(19,050)
Total operating expenses	914,555	850,814	63,741
Income from continuing operations before income tax	356,682	262,594	94,088
Income tax expense (benefit)	82,890	38,654	44,236
Income from continuing operations	\$ 273,792	\$ 223,940	\$ 49,852
Net income	\$ 273,792	\$ 223,940	\$ 49,852

[1] Covered loans represent loans acquired in the Westernbank FDIC-assisted transaction that are covered under an FDIC loss-sharing agreement.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures for the current period can be found in the Market Risk section of this report, which includes changes in market risk exposures from disclosures presented in the Corporation's 2014 Annual Report.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Corporation's management, with the participation of the Corporation's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Corporation's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Corporation's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Corporation in the reports that it files or submits under the Exchange Act and such information is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosures.

Internal Control Over Financial Reporting

There have been no changes in the Corporation's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

For a discussion of Legal Proceedings, see Note 26, Commitments and Contingencies, to the Consolidated Financial Statements.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under Part I - Item 1A - Risk Factors in our 2014 Annual Report. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report. Also refer to the discussion in Part I - Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations in this report for additional information that may supplement or update the discussion of risk factors in our 2014 Annual Report.

There have been no material changes to the risk factors previously disclosed under Item 1A of the Corporation's 2014 Annual Report, except for the risks described below.

The risks described in our 2014 Annual Report and in this report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

RISKS RELATING TO THE BUSINESS ENVIRONMENT AND OUR INDUSTRY

Weakness in the Puerto Rico economy and real estate market, together with the Puerto Rico government's ongoing fiscal crisis, has adversely impacted and may continue to adversely impact us.

Popular is exposed to geographical and government risk. A significant portion of our financial activities and credit exposure is concentrated in Puerto Rico, which entered into a recession in the second quarter of 2006. Puerto Rico's gross national product

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contracted in real terms in every year between fiscal year 2007 and fiscal year 2011 (inclusive), grew by 0.5% in fiscal year 2012 and decreased by 0.2% and 0.9% in fiscal years 2013 and 2014. The changes in the gross national product in fiscal years 2012, 2013 and 2014 also have to be analyzed in light of the large amount of governmental stimulus and deficit spending in those fiscal years. Although the forecast for fiscal years 2015 and 2016 has not been made public, gross national product for fiscal year 2015 is expected to decrease, based on available monthly economic indicators. The latest Government Development Bank for Puerto Rico (GDB) Economic Activity Index, which is a coincident indicator of ongoing economic activity, reflected a 1.6% reduction in the average for fiscal year 2015 (July 2014 to June 2015), compared to the prior fiscal year. For the first three months of fiscal year 2016, the Economic Activity Index remained flat when compared to the same period of the prior fiscal year.

The Commonwealth of Puerto Rico (the Commonwealth) has experienced and continues to experience significant budget deficits, which have been historically covered with bond financings, loans from GDB and extraordinary one-time revenue measures. As a result of the downgrades of the Commonwealth and its instrumentalities obligations to below investment grade ratings and recent liquidity constraints at the Commonwealth central government level and GDB, the Commonwealth s ability to finance future budget deficits is expected to be very limited.

The Government s most recent estimate of the budget deficit for fiscal year 2015 is approximately \$703 million. For fiscal year 2016, the Government recently approved a \$9.8 billion budget, which is \$235 million higher than the approved budget for fiscal year 2015 due primarily to a significant increase in debt service payments and special pension contributions. In October 2015, however, the Government revised its revenue estimate for fiscal year 2016, to \$9.471 billion, which is \$329 million lower than budgeted. In order to address this reduction, the Government will have to implement additional revenue raising and expense reduction measures.

The Commonwealth s public corporations and instrumentalities are also facing financial challenges. On June 28, 2014, Governor Alejandro García Padilla signed into law the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the Recovery Act) which provides a framework for certain public corporations, including the Puerto Rico Electric Power Authority (PREPA), the Puerto Rico Aqueduct and Sewer Authority and the Puerto Rico Highways and Transportation Authority, to restructure their debt obligations in order to ensure that the services they provide to the public are not interrupted.

In July 2014, certain holders of PREPA bonds and an investment manager, on behalf of funds which hold PREPA bonds, filed separate lawsuits in the United States District Court for the District of Puerto Rico (the District Court) seeking a declaratory judgment that the Recovery Act violates several provisions of the United States Constitution. The District Court consolidated the actions. On February 6, 2015, the District Court issued an opinion and order declaring the Recovery Act unconstitutional and stating that it was preempted by the federal Bankruptcy Code. The District Court permanently enjoined the Commonwealth officers from enforcing the Recovery Act. The Commonwealth filed an expedited appeal before the United States Court of Appeals for the First Circuit and, on July 6, 2015, the Court of Appeals affirmed the lower court s decision. The Commonwealth has filed a petition for certiorari in the United States Supreme Court, which is currently pending.

In August 2014, PREPA entered into forbearance agreements with certain bondholders, municipal bond insurers, and lenders (including BPPR) pursuant to which the forbearing creditors agreed to forbear from exercising certain rights and remedies under their applicable debt instruments. On November 5, 2015, PREPA announced that it had entered into a restructuring support agreement with certain creditors setting forth the economic terms of a recovery plan. Execution of the transactions set forth in the restructuring support agreement is subject to a number of material conditions, including the enactment of legislation, and there can be no assurance that those conditions will be met. PREPA s monoline bond insurers are not party to the restructuring support agreement. At September 30, 2015, BPPR s exposure to PREPA was \$45.0 million.

On February 11, 2015, the Puerto Rico Resident Commissioner introduced a bill in the U.S. House of Representatives to permit the Government of Puerto Rico to authorize Puerto Rico municipalities and public corporations to restructure their debt obligations under Chapter 9 of the United States Bankruptcy Code. On July 15, 2015, Senator Richard Blumenthal filed a companion bill in the United States Senate. The Commonwealth and GDB have expressed their support for this amendment to the United States Bankruptcy Code. On February 26, 2015, public hearings were held to consider the bill. At this time it is unclear if the bill will be approved and, if it is approved, whether its effects will be retroactive or not.

In response to the continued fiscal and economic challenges, the Government of Puerto Rico engaged a group of former IMF economists to analyze the Commonwealth's economic and financial stability and growth prospects. The group's final report, commonly known as the Krueger Report, was delivered to the Governor of Puerto Rico on June 28, 2015 and states that Puerto Rico faces an acute crisis in the face of faltering economic activity, fiscal solvency and debt sustainability, and institutional credibility. Some of the report's principal conclusions are as follows: (i) the economic problems of Puerto Rico are structural, not cyclical, and are not going away without structural reforms, (ii) fiscal deficits are much larger than assumed and are set to deteriorate, (iii) the central government deficits (as measured in the report) over the coming years imply an unsustainable trajectory of large financing gaps, and (iv) Puerto Rico's public debt cannot be made sustainable without growth, nor can growth occur in the face of structural obstacles and doubts about debt sustainability.

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The report concludes that, even after factoring in a substantial fiscal effort, a large residual financing gap persists into the next decade, implying a need for debt relief. To close the financing gap, the government would need to seek relief from a significant but progressively declining proportion of principal and interest falling due during fiscal years 2016-2024. The report acknowledges that any debt restructuring would be challenging as there is no precedent of this scale and scope, but concludes that, from an economic perspective, the fact remains that the central government faces large financing gaps even with substantial adjustment efforts (as there are limits to how much expenditures can be cut or taxes raised).

On June 29, 2015, the Governor of Puerto Rico issued an Executive Order to create the Puerto Rico Fiscal and Economic Recovery Working Group (the Working Group). The Working Group was created to consider the measures necessary, including the measures recommended in the Krueger Report, to address the fiscal crisis of the Commonwealth and to develop and recommend to the Governor of Puerto Rico a fiscal and economic adjustment plan.

On September 9, 2015, the Working Group presented a draft of the Fiscal and Economic Growth Plan (the FEGP). The FEGP projects that, absent further corrective action, the Commonwealth's cumulative financing gap from fiscal years 2016 to 2020 will be approximately \$27.8 billion, and that this financing gap could be reduced to approximately \$14 billion through a combination of identified revenue increases, expense reduction and economic growth measures. The FEGP concludes that the remaining financing gap would have to be addressed through debt restructuring and that, unless economic growth can be achieved, the Commonwealth's debt is not sustainable. The FEGP also reflects that, absent emergency measures, Puerto Rico's Treasury and single cash account will each exhaust their liquidity before the end of the calendar year. The Working Group recommends that the Commonwealth begin working on a voluntary exchange offer to creditors to seek a consensual debt restructuring. The FEGP is publicly available in GDB's website.

On October 21, 2015, the Obama Administration released a proposal to address Puerto Rico's urgent fiscal crisis. The proposal states that Puerto Rico is in the midst of an economic and fiscal crisis that requires Congressional action and makes the following recommendations: (i) Congress should extend Chapter 9 of the U.S. Bankruptcy Code to Puerto Rico, and also provide a broader legal framework to allow for a comprehensive restructuring of Puerto Rico's liabilities, (ii) Congress should provide independent fiscal oversight to ensure Puerto Rico adheres to its recovery plan and fully implements proposed reforms, (iii) Congress should provide a long-term solution to Puerto Rico's historically inadequate Medicaid treatment, and (iv) Congress should extend to Puerto Rico certain proven measures to reward work and stimulate growth, such as the Earned Income Tax Credit. On October 22, 2015, the United States Senate Committee on Energy and Natural Resources held a hearing on Puerto Rico's economy, debt and options for Congress. A senior adviser to the U.S. Secretary of the Treasury testified before Congress in support of the Obama Administration proposals.

On August 1, 2015, the Puerto Rico Public Finance Corporation (PFC), a subsidiary of GDB, missed substantially all of the debt service payment of \$57.9 million due on such date on approximately \$1.1 billion of bonds payable solely from Commonwealth legislative appropriations. The Puerto Rico Legislative Assembly had not included in the approved budget for fiscal year 2016 the funds necessary to pay principal and interest on these bonds. The Commonwealth has indicated that the non-appropriation of funds reflects serious liquidity concerns.

The Commonwealth has implemented various measures to deal with the liquidity challenges it faces during fiscal year 2016, besides not appropriating for the payment of PFC bonds mentioned above. Some of these measures include: (i) advances to the Treasury Department from the two largest government retirement systems for the payment by the Treasury Department of retirement benefits to participants (instead of the usual reimbursements for payments made by the Treasury Department on behalf of the retirement systems); (ii) placing \$400 million of tax and revenue anticipation notes with certain Commonwealth instrumentalities to fund fiscal year 2016 working capital needs;

(iii) suspending during fiscal year 2016 Commonwealth set-asides required by Act No. 39 of May 13, 1976, as amended, for the payment of its general obligation debt; (iv) delaying the payment of third-party payables or amounts due to public corporations; and (v) delaying the payment of income tax refunds. Some of these measures are unsustainable and have significant negative economic effects. Also, since these measures are not sufficient to address the Commonwealth's liquidity needs, the Commonwealth has indicated it will need to implement additional measures.

On May 29, 2015, the Commonwealth enacted Act No. 72 (Act 72-2015), which, *inter alia*, increased the sales and use tax (SUT) rate and provided for a transition to a value added tax (VAT) to substitute the central government's portion of the SUT, subject to certain conditions. Commencing on July 1, 2015, transactions that were subject to the 7% SUT are subject to an 11.5% SUT (10.5% collected by the Treasury Department, of which 0.5% goes to a special fund for the municipalities, and 1% collected by the municipalities). The SUT will be in effect until March 31, 2016, unless the Secretary of Treasury extends the effectiveness of the SUT for an additional 60 day period.

In addition, from on October 1, 2015 and until March 31, 2016: (i) business-to-business transactions that are currently taxable are subject to an 11.5% SUT, (ii) certain business-to-business services and designated professional services that were previously exempt from SUT are subject to a Commonwealth SUT of 4% (but no municipal SUT will apply to these services), and (iii) specific services are exempt from SUT. After March 31, 2016 (or the extended sunset date provided for the SUT at the discretion of the Secretary of Treasury), all transactions subject to the SUT will be subject to a new VAT of 10.5% plus a 1% municipal SUT.

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The lingering effects of the prolonged recession are still reflected in limited loan demand, an increase in the rate of foreclosures and delinquencies on mortgage loans granted in Puerto Rico. If global or local economic conditions worsen or the Government of Puerto Rico is unable to obtain financing and manage its fiscal crisis, including the restructuring of its debt obligations, in an orderly manner while honoring its debt obligations as they come due, those adverse effects could continue or worsen in ways that we are not able to predict. Any reduction in consumer spending as a result of these issues may also adversely impact our non-interest revenues.

For additional information regarding the Puerto Rico economy, refer to *Geographical and government risk* in the *Management's Discussion and Analysis of Financial Condition and Results of Operations* section of this Quarterly Report.

RISKS RELATED TO THE FDIC-ASSISTED TRANSACTION

Our ability to obtain reimbursement under the loss sharing agreements on covered assets depends on our compliance with the terms of the loss sharing agreements.

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

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

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

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

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

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

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

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

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

Under the loss share agreements, BPPR is also required to maintain books and records sufficient to ensure and document compliance with the terms of the loss share agreements.

Under the terms of the loss share agreements, BPPR is also required to deliver certain certificates regarding compliance with the terms of each of the loss share agreements and the computations required there under. The required terms of the agreements are extensive and failure to comply with any of the guidelines could result in a specific asset or group of assets permanently losing their

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loss sharing coverage. BPPR believes that it has complied with such terms and conditions. The loss share agreement applicable to the commercial late stage real-estate-collateral-dependent loans described below provides for loss sharing by the FDIC through the quarter ending June 30, 2015 and for reimbursement to the FDIC through the quarter ending June 30, 2018.

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

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

On October 17, 2014, BPPR and the FDIC settled all claims and counterclaims that had been submitted to the review board. The settlement provides for an agreed valuation methodology for reimbursement of charge-offs for late stage real-estate-collateral-dependent loans and resulting OREO. Although the terms of the settlement could delay the timing of reimbursement of certain loss-share claims from the FDIC, the settlement is not expected to have a material adverse impact on BPPR's current estimate of expected reimbursable losses for the covered portfolio through the end of the commercial loss share agreement in the quarter ending June 30, 2015.

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

On March 19, 2015, BPPR filed a statement of claim with the American Arbitration Association requesting that a review board determine BPPR and the FDIC's disputes concerning the Disputed Asset. The statement of claim requests a declaration that the Disputed Asset is a Shared-Loss Asset under the commercial loss share agreement, a declaration that the restructuring is a Permitted Amendment under the commercial loss share agreement, and an order that the FDIC reimburse the Bank for approximately \$53.3 million for the Charge-Off of the Disputed Asset, plus interest at

the applicable rate. On April 1, 2015, the FDIC notified BPPR that it was clawing back approximately \$1.7 million in reimbursable expenses relating to the Disputed Asset that the FDIC had previously paid to BPPR. Thus, on April 13, 2015, BPPR notified the American Arbitration Association and the FDIC of an increase in the amount of its damages by approximately \$1.7 million. The review board in the arbitration concerning the Disputed Asset is comprised of one arbitrator appointed by BPPR, one arbitrator appointed by the FDIC and a third arbitrator selected by agreement of those arbitrators. The arbitration hearing date has been set for August 2016.

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

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

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in the third sale proposed in March 2015. On June 29, 2015, the FDIC informed BPPR that it would reimburse the Bank for losses arising from the primary portfolio of the third proposed sale, but only subject to conditions to which BPPR objects. The FDIC also informed BPPR that it would not concur in the secondary portfolio of the third proposed sale or in the fourth proposed sale. On September 4, 2015, BPPR filed a second amended statement of claim concerning the FDIC's refusal to concur in the third and fourth portfolio sales as proposed by BPPR. The review board in the arbitration concerning the proposed portfolio sales is comprised of one arbitrator appointed by BPPR, one arbitrator appointed by the FDIC and a third arbitrator selected by agreement of those arbitrators. The arbitration hearing is scheduled to be held in the fall of 2016.

The shared-loss arrangement described above expired on June 30, 2015. As of September 30, 2015, BPPR had unreimbursed loss claims related to the commercial loss-sharing arrangement amounting to \$232 million, reflected in the FDIC indemnification asset as a receivable from the FDIC, which include approximately \$90 million related to losses claimed during the second quarter of 2015 and approximately \$142 million which are subject to the arbitration proceedings described above. This last figure may continue to increase to the extent that the assets that are the subject of the portfolio sales arbitration further decline in value. Until these disputes are finally resolved, the terms of the commercial loss share agreement will remain in effect with respect to any such items under dispute. No assurance can be given that we will receive reimbursement from the FDIC with respect to the foregoing items, which could require us to make a material adjustment to the value of our loss share asset and the related true up payment obligation to the FDIC and could have a material adverse effect on our financial results for the period in which such adjustment is taken.

The loss sharing agreement applicable to single-family residential mortgage loans provides for FDIC loss sharing and BPPR reimbursement to the FDIC for ten years (ending on June 30, 2020), and the loss sharing agreement applicable to commercial and other assets provides for FDIC loss sharing and BPPR reimbursement to the FDIC for five years (ending on June 30, 2015), with additional recovery sharing for three years thereafter. As of September 30, 2015, the carrying value of covered loans approximated \$0.7 billion, mainly comprised of single-family residential mortgage loans. To the extent that estimated losses on covered loans are not realized before the expiration of the applicable loss sharing agreement, such losses would not be subject to reimbursement from the FDIC and, accordingly, would require us to make a material adjustment in the value of our loss share asset and the related true up payment obligation to the FDIC and could have a material adverse effect on our financial results for the period in which such adjustment is taken.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Equity Securities**

In April 2004, the Corporation's shareholders adopted the Popular, Inc. 2004 Omnibus Incentive Plan. The Corporation has to date used shares purchased in the market to make grants under the Plan. As of September 30, 2015 the maximum number of shares of common stock that may have been granted under this plan was 3,500,000.

In connection with the Corporation's participation in the Capital Purchase Program under the Troubled Asset Relief Program, the consent of the U.S. Department of the Treasury will be required for the Corporation to repurchase its common stock other than in connection with benefit plans consistent with past practice and certain other specified circumstances. The Corporation terminated its participation in the Troubled Asset Relief Program, after the repurchase on July 23, 2014, of the outstanding warrants issued to the U.S. Treasury.

The following table sets forth the details of purchases of Common Stock during the quarter ended September 30, 2015 under the 2004 Omnibus Incentive Plan.

Not in thousands

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares	
			Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
July 1- July 31				
August 1- August 31	1,994	\$ 30.59		
September 1- September 30				
Total September 30, 2015	1,994	\$ 30.59		

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Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Table of Contents**Item 6. Exhibits**

Exhibit No.	Exhibit Description
12.1	Computation of the ratios of earnings to fixed charges and preferred stock dividends ⁽¹⁾
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 ⁽¹⁾
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 ⁽¹⁾
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ⁽¹⁾
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ⁽¹⁾
101.INS	XBRL Instance Document ⁽¹⁾
101.SCH	XBRL Taxonomy Extension Schema Document ⁽¹⁾
101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document ⁽¹⁾
101.DEF XBRL	Taxonomy Extension Definitions Linkbase Document ⁽¹⁾
101.LAB XBRL	Taxonomy Extension Label Linkbase Document ⁽¹⁾
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document ⁽¹⁾

(1) Included herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

POPULAR, INC.
(Registrant)

Date: November 9, 2015

By: /s/ Carlos J. Vázquez
Carlos J. Vázquez
Executive Vice President & Chief Financial Officer

Date: November 9, 2015

By: /s/ Jorge J. García
Jorge J. García
Senior Vice President & Corporate Comptroller