

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

Form 10-Q

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

Commission File Number: 001-34084

POPULAR, INC.

(Exact name of registrant as specified in its charter)

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

66-0667416
(IRS Employer
Identification Number)

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

00918
(Zip code)

(787) 765-9800
(Registrant's telephone number, including area code)

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, \$0.01 par value, 103,779,136 shares outstanding as of November 4, 2016.

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Forward-Looking Information

The information included in this Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may relate to Popular, Inc.'s (the Corporation, Popular, we, us, our) financial condition, results of operations, plans, objectives, future performance of 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 in the geographic areas we serve;

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

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

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

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

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

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

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

the performance of the stock and bond markets;

competition in the financial services industry;

additional Federal Deposit Insurance Corporation (FDIC) assessments;

possible legislative, tax or regulatory changes; and

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

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

negative economic conditions that adversely affect housing prices, the job market, consumer confidence and spending habits which may affect, among other things, the level of non-performing assets, charge-offs and provision expense;

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

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

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changes in market rates and prices which may adversely impact the value of financial assets and liabilities;

liabilities resulting from litigation and regulatory investigations;

changes in accounting standards, rules and interpretations;

our ability to grow our core businesses;

decisions to downsize, sell or close units or otherwise change our business mix; and

management's ability to identify and manage these and other risks.

Moreover, the outcome of legal proceedings, as discussed in Part II, Item I. Legal Proceedings, is inherently uncertain and depends on judicial interpretations of law and the findings of regulators, judges and juries. Investors should refer to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2015 as well as Part II, Item 1A of this Form 10-Q for a discussion of such factors and certain risks and uncertainties to which the Corporation is subject.

All forward-looking statements included in this Form 10-Q are based upon information available to Popular as of the date of this Form 10-Q, and other than as required by law, including the requirements of applicable securities laws, we assume no obligation to update or revise any such forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

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

(In thousands, except share information)	September 30, 2016	December 31, 2015
Assets:		
Cash and due from banks	\$ 350,545	\$ 363,674
Money market investments:		
Securities purchased under agreements to resell	22,380	96,338
Time deposits with other banks	3,941,115	2,083,754
Total money market investments	3,963,495	2,180,092
Trading account securities, at fair value:		
Pledged securities with creditors right to repledge	22,848	19,506
Other trading securities	49,736	52,153
Investment securities available-for-sale, at fair value:		
Pledged securities with creditors right to repledge	785,124	739,045
Other investment securities available-for-sale	6,843,532	5,323,947
Investment securities held-to-maturity, at amortized cost (fair value 2016 - \$79,410; 2015 - \$82,889)	97,973	100,903
Other investment securities, at lower of cost or realizable value (realizable value 2016 - \$172,077; 2015 - \$175,291)	168,791	172,248
Loans held-for-sale, at lower of cost or fair value	72,076	137,000
Loans held-in-portfolio:		
Loans not covered under loss-sharing agreements with the FDIC	22,714,358	22,453,813
Loans covered under loss-sharing agreements with the FDIC	588,211	646,115
Less Unearned income	118,386	107,698
Allowance for loan losses	555,855	537,111
Total loans held-in-portfolio, net	22,628,328	22,455,119
FDIC loss-share asset	152,467	310,221
Premises and equipment, net	537,975	502,611
Other real estate not covered under loss-sharing agreements with the FDIC	184,828	155,231
Other real estate covered under loss-sharing agreements with the FDIC	37,414	36,685
Accrued income receivable	119,691	124,234
Mortgage servicing assets, at fair value	200,354	211,405
Other assets	2,163,939	2,193,162
Goodwill	627,294	626,388

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Other intangible assets	47,886	58,109
Total assets	\$ 39,054,296	\$ 35,761,733
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 6,950,287	\$ 6,401,515
Interest bearing	23,376,758	20,808,208
Total deposits	30,327,045	27,209,723
Federal funds purchased and assets sold under agreements to repurchase	765,251	762,145
Other short-term borrowings	1,200	1,200
Notes payable	1,598,533	1,662,508
Other liabilities	980,057	1,019,018
Liabilities from discontinued operations (Refer to Note 4)	1,815	1,815
Total liabilities	33,673,901	30,656,409
Commitments and contingencies (Refer to Note 23)		
Stockholders' equity:		
Preferred stock, 30,000,000 shares authorized; 2,006,391 shares issued and outstanding	50,160	50,160
Common stock, \$0.01 par value; 170,000,000 shares authorized; 104,014,381 shares issued (2015 - 103,816,185) and 103,762,596 shares outstanding (2015 - 103,618,976)	1,040	1,038
Surplus	4,234,842	4,229,156
Retained earnings	1,259,295	1,087,957
Treasury stock - at cost, 251,785 shares (2015 - 197,209)	(7,647)	(6,101)
Accumulated other comprehensive loss, net of tax	(157,295)	(256,886)
Total stockholders' equity	5,380,395	5,105,324
Total liabilities and stockholders' equity	\$ 39,054,296	\$ 35,761,733

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

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

(In thousands, except per share information)	Quarters ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Interest income:				
Loans	\$ 363,550	\$ 364,458	\$ 1,096,468	\$ 1,094,222
Money market investments	4,568	2,003	11,320	5,294
Investment securities	37,732	31,671	110,728	93,269
Trading account securities	1,449	3,150	5,013	8,872
Total interest income	407,299	401,282	1,223,529	1,201,657
Interest expense:				
Deposits	32,362	28,357	92,835	80,479
Short-term borrowings	2,132	2,222	6,051	5,819
Long-term debt	19,118	19,968	57,993	58,876
Total interest expense	53,612	50,547	156,879	145,174
Net interest income	353,687	350,735	1,066,650	1,056,483
Provision for loan losses - non-covered loans	42,594	69,568	130,202	159,747
Provision (reversal) for loan losses - covered loans	750	(2,890)	(1,551)	23,200
Net interest income after provision for loan losses	310,343	284,057	937,999	873,536
Service charges on deposit accounts	40,776	40,960	120,934	120,115
Other service fees (Refer to Note 29)	59,169	56,115	169,496	169,162
Mortgage banking activities (Refer to Note 12)	15,272	24,195	42,050	58,372
Net gain on sale of investment securities	349	136	1,932	141
Other-than-temporary impairment losses on investment securities			(209)	(14,445)
Trading account (loss) profit	(113)	(398)	842	(3,092)
Net gain on sale of loans, including valuation adjustments on loans held-for-sale	8,549		8,245	602
Adjustments (expense) to indemnity reserves on loans sold	(4,390)	(5,874)	(14,234)	(9,981)
FDIC loss-share (expense) income (Refer to Note 30)	(61,723)	1,207	(77,445)	24,421
Other operating income	18,089	14,768	46,500	41,808
Total non-interest income	75,978	131,109	298,111	387,103
Operating expenses:				
Personnel costs	121,224	120,863	365,023	358,298
Net occupancy expenses	21,626	21,277	63,770	66,272

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Equipment expenses	15,922	14,739	45,731	44,075
Other taxes	11,324	9,951	31,689	29,638
Professional fees	81,266	77,154	237,350	231,131
Communications	5,785	6,058	18,117	18,387
Business promotion	12,726	12,325	37,541	36,914
FDIC deposit insurance	5,854	7,300	18,586	22,240
Other real estate owned (OREO) expenses	11,295	7,686	33,416	75,571
Other operating expenses	29,752	25,551	70,432	73,981
Amortization of intangibles	3,097	3,512	9,308	8,497
Goodwill impairment charge	3,801		3,801	
Restructuring costs (Refer to Note 4)		481		17,408
Total operating expenses	323,672	306,897	934,764	982,412
Income from continuing operations before income tax	62,649	108,269	301,346	278,227
Income tax expense (benefit)	15,839	22,620	80,550	(478,344)
Income from continuing operations	46,810	85,649	220,796	756,571
(Loss) income from discontinued operations, net of tax (Refer to Note 4)		(9)		1,347
Net Income	\$ 46,810	\$ 85,640	\$ 220,796	\$ 757,918

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Net Income Applicable to Common Stock	\$ 45,880	\$ 84,709	\$ 218,004	\$ 755,126
Net Income per Common Share Basic				
Net income from continuing operations	\$ 0.44	\$ 0.82	\$ 2.11	\$ 7.33
Net income from discontinued operations				0.01
Net Income per Common Share Basic	\$ 0.44	\$ 0.82	\$ 2.11	\$ 7.34
Net Income per Common Share Diluted				
Net income from continuing operations	\$ 0.44	\$ 0.82	\$ 2.11	\$ 7.31
Net income from discontinued operations				0.01
Net Income per Common Share Diluted	\$ 0.44	\$ 0.82	\$ 2.11	\$ 7.32
Dividends Declared per Common Share	\$ 0.15	\$ 0.15	\$ 0.45	\$ 0.15

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

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

(In thousands)	Quarters ended, September 30,		Nine months ended, September 30,	
	2016	2015	2016	2015
Net income	\$ 46,810	\$ 85,640	\$ 220,796	\$ 757,918
Other comprehensive (loss) income before tax:				
Foreign currency translation adjustment	(325)	(31)	(2,465)	(1,704)
Amortization of net losses of pension and postretirement benefit plans	5,488	5,025	16,461	15,075
Amortization of prior service cost of pension and postretirement benefit plans	(950)	(950)	(2,850)	(2,850)
Unrealized holding (losses) gains on investments arising during the period	(15,428)	28,669	98,900	22,820
Other-than-temporary impairment included in net income			209	14,445
Reclassification adjustment for gains included in net income	(349)	(136)	(349)	(141)
Unrealized net losses on cash flow hedges	(1,123)	(2,575)	(4,662)	(4,106)
Reclassification adjustment for net losses included in net income	1,650	1,664	4,466	3,973
Other comprehensive (loss) income before tax	(11,037)	31,666	109,710	47,512
Income tax expense	(646)	(2,441)	(10,119)	(7,446)
Total other comprehensive (loss) income, net of tax	(11,683)	29,225	99,591	40,066
Comprehensive income, net of tax	\$ 35,127	\$ 114,865	\$ 320,387	\$ 797,984

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

(In thousands)	Quarters ended September 30,		Nine months ended, September 30,	
	2016	2015	2016	2015
Amortization of net losses of pension and postretirement benefit plans	\$ (2,140)	\$ (1,961)	\$ (6,420)	\$ (5,880)
Amortization of prior service cost of pension and postretirement benefit plans	370	371	1,110	1,112
Unrealized holding (losses) gains on investments arising during the period	1,297	(1,234)	(4,877)	(272)
Other-than-temporary impairment included in net income			(42)	(2,486)
Reclassification adjustment for gains included in net income	33	27	33	28
Unrealized net losses on cash flow hedges	438	1,004	1,819	1,601

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Reclassification adjustment for net losses included in net income	(644)	(648)	(1,742)	(1,549)
Income tax expense	\$ (646)	\$ (2,441)	\$ (10,119)	\$ (7,446)

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, 2014	\$ 1,036	\$ 50,160	\$ 4,196,458	\$ 253,717	\$ (4,117)	\$ (229,872)	\$ 4,267,386
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
Other comprehensive income, net of tax						40,066	40,066
Balance at September 30, 2015	\$ 1,037	\$ 50,160	\$ 4,200,805	\$ 993,309	\$ (5,869)	\$ (189,806)	\$ 5,049,636
Balance at December 31, 2015	\$ 1,038	\$ 50,160	\$ 4,229,156	\$ 1,087,957	\$ (6,101)	\$ (256,886)	\$ 5,105,324
Net income				220,796			220,796
Issuance of stock	2		5,716				5,718
Tax windfall shortfall on vesting of restricted stock			(30)				(30)
Dividends declared:							
Common stock				(46,666)			(46,666)
Preferred stock				(2,792)			(2,792)
Common stock purchases					(1,563)		(1,563)
Common stock reissuance					17		17
Other comprehensive income, net of tax						99,591	99,591
Balance at September 30, 2016	\$ 1,040	\$ 50,160	\$ 4,234,842	\$ 1,259,295	\$ (7,647)	\$ (157,295)	\$ 5,380,395

Disclosure of changes in number of shares:

	September 30, 2016	September 30, 2015
Preferred Stock:		
Balance at beginning and end of period	2,006,391	2,006,391
Common Stock Issued:		
Balance at beginning of period	103,816,185	103,614,553

Balance of stock	198,196	131,400
Balance at end of the period	104,014,381	103,745,950
Treasury stock	(251,785)	(189,670)
Common Stock Outstanding	103,762,596	103,556,280

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,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 220,796	\$ 757,918
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	128,651	182,947
Goodwill impairment losses	3,801	
Amortization of intangibles	9,308	8,497
Depreciation and amortization of premises and equipment	34,725	35,459
Net accretion of discounts and amortization of premiums and deferred fees	(36,753)	(58,637)
Other-than-temporary impairment on investment securities	209	14,445
Fair value adjustments on mortgage servicing rights	18,879	5,808
FDIC loss share expense (income)	77,445	(24,421)
Adjustments (expense) to indemnity reserves on loans sold	14,234	9,981
Earnings from investments under the equity method	(23,812)	(17,085)
Deferred income tax expense (benefit)	61,918	(496,279)
Loss (gain) on:		
Disposition of premises and equipment and other productive assets	3,603	(2,939)
Sale and valuation adjustments of investment securities	(1,932)	(141)
Sale of loans, including valuation adjustments on loans held-for-sale and mortgage banking activities	(32,982)	(24,657)
Sale of foreclosed assets, including write-downs	13,160	56,391
Acquisitions of loans held-for-sale	(223,189)	(331,860)
Proceeds from sale of loans held-for-sale	58,003	71,296
Net originations on loans held-for-sale	(365,353)	(574,942)
Net decrease (increase) in:		
Trading securities	578,133	783,304
Accrued income receivable	4,543	11,582
Other assets	(28,201)	61,179
Net (decrease) increase in:		
Interest payable	(11,553)	(10,612)
Pension and other postretirement benefits obligation	(56,537)	2,567
Other liabilities	(5,292)	(39,053)
Total adjustments	221,008	(337,170)
Net cash provided by operating activities	441,804	420,748

Cash flows from investing activities:		
Net increase in money market investments	(1,783,402)	(586,185)
Purchases of investment securities:		
Available-for-sale	(2,408,514)	(1,239,962)
Held-to-maturity		(250)
Other	(14,017)	(39,391)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:		
Available-for-sale	951,447	1,152,074
Held-to-maturity	4,182	4,428
Other	11,051	45,497
Proceeds from sale of investment securities:		
Available-for-sale	1,556	96,760
Other	8,006	12,928
Net (disbursements) repayments on loans	(93,354)	318,919
Proceeds from sale of loans	134,114	27,780
Acquisition of loan portfolios	(355,507)	(173,505)
Acquisition of trademark		(50)
Net payments from FDIC under loss sharing agreements	95,407	245,416
Net cash received and acquired from business combination		731,279
Acquisition of servicing advances		(61,304)
Cash paid related to business acquisition		(17,250)
Return of capital from equity method investments	324	
Mortgage servicing rights purchased		(2,400)
Acquisition of premises and equipment	(78,297)	(41,109)
Proceeds from sale of:		
Premises and equipment and other productive assets	5,519	10,166
Foreclosed assets	54,600	115,078
Net cash (used in) provided by investing activities	(3,466,885)	598,919

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Net increase (decrease) in:		
Deposits	3,119,674	(289,444)
Federal funds purchased and assets sold under agreements to repurchase	3,106	(185,892)
Other short-term borrowings		(148,215)
Payments of notes payable	(230,608)	(719,575)
Proceeds from issuance of notes payable	165,047	263,286
Proceeds from issuance of common stock	5,718	4,177
Dividends paid	(49,438)	(2,792)
Net payments for repurchase of common stock	(1,547)	(1,752)
Net cash provided by (used in) financing activities	3,011,952	(1,080,207)
Net decrease in cash and due from banks	(13,129)	(60,540)
Cash and due from banks at beginning of period	363,674	381,095
Cash and due from banks at the end of the period	\$ 350,545	\$ 320,555

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

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

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Note 1 Nature of Operations

Popular, Inc. (the Corporation) is a diversified, publicly-owned financial holding company subject to the supervision and regulation of the Board of Governors of the Federal Reserve System. The Corporation has operations in Puerto Rico, the United States and the Caribbean. In Puerto Rico, the Corporation provides retail, mortgage, and commercial banking services through its principal banking subsidiary, Banco Popular de Puerto Rico (BPPR), as well as investment banking, broker-dealer, auto and equipment leasing and financing, and insurance services through specialized subsidiaries. In the U.S. mainland, the Corporation operates Banco Popular North America (BPNA). BPNA focuses efforts and resources on the core community banking business. BPNA operates branches in New York, New Jersey and South Florida under the name of Popular Community Bank. Refer to Note 4 for discussion of the sales of the California, Illinois and Central Florida regional operations during 2014. Note 35 to the consolidated financial statements presents information about the Corporation s business segments.

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

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Note 2 Basis of Presentation and Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated interim financial statements have been prepared without audit. The consolidated statement of financial condition data at December 31, 2015 was derived from audited financial statements. The unaudited interim financial statements are, in the opinion of management, a fair statement of the results for the periods reported and include all necessary adjustments, all of a normal recurring nature, for a fair statement of such results.

Certain reclassifications have been made to the 2015 consolidated financial statements and notes to the financial statements to conform with the 2016 presentation.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted from the unaudited financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, these financial statements should be read in conjunction with the audited consolidated financial statements of the Corporation for the year ended December 31, 2015, included in the Corporation's 2015 Form 10-K. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

Use of Estimates in the Preparation of Financial Statements

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

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Note 3 New accounting pronouncements

Recently Issued Accounting Standards Updates

FASB Accounting Standards Update (ASU) 2016-17, Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control

The FASB issued ASU 2016-17 in October 2016, which changes how a reporting entity that is a single decision maker of a VIE treats indirect interests in the entity held through related parties that are under common control. Under the new guidance, if a decision maker is required to evaluate whether it is the primary beneficiary of a VIE, it will need to consider only its proportionate indirect interest in the VIE held through a common control party.

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

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

FASB Accounting Standards Update (ASU) 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory

The FASB issued ASU 2016-16 in October 2016, which eliminates the exception for all intra-entity sales of assets other than inventory that requires deferral of the tax effects until the transferred asset is sold to a third party or otherwise recovered through use. The new guidance requires a reporting entity to recognize the tax expense from the sale of the asset in the seller's tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. Any deferred tax asset that arises in the buyer's jurisdiction would also be recognized at the time of the transfer.

The amendments of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted, but the guidance can only be adopted in the first interim period of a fiscal year. The modified retrospective approach will be required for transition to the new guidance, with a cumulative-effect adjustment recorded in retained earnings as of the beginning of the period of adoption.

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

FASB Accounting Standards Update (ASU) 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments

The FASB issued ASU 2016-15 in August 2016, which addresses specific cash flow issues with the objective of reducing existing diversity in practice, which may lead to a difference in the classification of transactions between operating, financing or investing activities. Among other things, the guidance provides an accounting policy election for classifying distributions received from equity method investees and clarifies the application of the predominance principle.

The amendments of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. Entities will be required to apply the guidance retrospectively to all periods presented, unless it is impracticable to do so.

The Corporation does not anticipate that the adoption of this accounting pronouncement will have a material effect on its consolidated statements of cash flows.

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

The FASB issued ASU 2016-13 in June 2016, which replaces the incurred loss model with a current expected credit loss (CECL) model. The CECL model applies to financial assets subject to credit losses and measured at amortized cost and certain off-balance sheet exposures. Under current U.S. GAAP, an entity reflects credit losses on financial assets measured on an amortized cost basis

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The FASB issued ASU 2016-06 in March 2016, which clarifies that in assessing whether an embedded contingent put or call option is not clearly and closely related to the debt instrument, which is part of the assessment made to determine whether an embedded derivative must be bifurcated from the host contract, an entity is required to perform only the four step decision sequence. The four-step decision sequence requires an entity to consider whether (1) the payoff is adjusted based on changes in an index, (2) the payoff is indexed to an underlying other than interest rates or credit risk, (3) the debt involves a substantial premium or discount and (4) the put or call option is contingently exercisable. It does not have to separately assess whether the event that triggers its ability to exercise the contingent option itself is indexed only to interest rates and credit risk.

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

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

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

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

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

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

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

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

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

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

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

There were no activities from the discontinued operations during the nine month period ended September 30, 2016. Net income from the discontinued operations amounted to \$1.3 million for the nine months ended September 30, 2015.

Also, in connection with the sale, the Corporation has undertaken a restructuring plan (the PCB Restructuring Plan) which has been completed by December 31, 2015, for which the Corporation incurred restructuring charges of \$45.1 million. During the nine month period ended September 30, 2015, the Corporation incurred \$17.4 million in restructuring costs, mostly comprised of \$12.7 million in personnel costs.

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

(In thousands)	Nine months ended September 30,	
	2016	2015
Beginning balance	\$ 620	\$ 13,536
Charges expensed during the period		7,725
Payments made during the period	(430)	(20,469)
Ending balance	\$ 190	\$ 792

Table of Contents**Note 5 Business combination**

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

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

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

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

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

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

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

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

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

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

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

The impact in the results of operations for the quarter and the nine months ended September 30, 2015 as a result of the recasting was an increase in net income of approximately \$0.1 million and \$3.4 million, respectively, as detailed in the following table:

(In thousands)	Quarter ended September 30, 2015			Nine months ended September 30, 2015		
	As recasted	As reported	Difference	As recasted	As reported	Difference
Net Interest Income	\$ 23,927	\$ 24,978	\$ (1,051)	\$ 63,863	\$ 61,910	\$ 1,953
Non-Interest Income	6,745	5,912	833	18,217	17,384	833
Operating Expenses	18,809	19,078	(269)	59,714	60,341	(627)
Income Before Taxes	\$ 11,863	\$ 11,812	\$ 51	\$ 22,366	\$ 18,953	\$ 3,413

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

The Corporation's banking subsidiaries, BPPR and BPNA, are required by federal and state regulatory agencies to maintain average reserve balances with the Federal Reserve Bank of New York (the "Fed") or other banks. Those required average reserve balances amounted to \$ 1.2 billion at September 30, 2016 (December 31, 2015 - \$ 1.1 billion). Cash and due from banks, as well as other highly liquid securities, are used to cover the required average reserve balances.

At September 30, 2016, the Corporation held \$24 million in restricted assets in the form of funds deposited in money market accounts, trading account securities and investment securities available for sale (December 31, 2015 - \$44 million). The amounts held in trading account securities and investment securities available for sale consist primarily of restricted assets held for the Corporation's non-qualified retirement plans and fund deposits guaranteeing possible liens or encumbrances over the title of insured properties.

Table of Contents**Note 7 Investment securities available-for-sale**

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

(In thousands)	At September 30, 2016				Weighted average yield
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	
U.S. Treasury securities					
Within 1 year	\$ 689,259	\$ 2,033	\$	\$ 691,292	0.99%
After 1 to 5 years	913,013	4,782		917,795	1.09
After 5 to 10 years	9,944	385		10,329	1.99
Total U.S. Treasury securities	1,612,216	7,200		1,619,416	1.05
Obligations of U.S. Government sponsored entities					
Within 1 year	100,062	298		100,360	0.98
After 1 to 5 years	593,257	4,616	125	597,748	1.39
After 5 to 10 years	200	1		201	5.64
Total obligations of U.S. Government sponsored entities	693,519	4,915	125	698,309	1.33
Obligations of Puerto Rico, States and political subdivisions					
After 1 to 5 years	7,210		34	7,176	4.19
After 5 to 10 years	5,915	6	1,287	4,634	4.02
After 10 years	18,634	8	3,476	15,166	6.99
Total obligations of Puerto Rico, States and political subdivisions	31,759	14	4,797	26,976	5.80
Collateralized mortgage obligations - federal agencies					
Within 1 year	69			69	1.03
After 1 to 5 years	19,151	754		19,905	2.88
After 5 to 10 years	33,067	642		33,709	2.86
After 10 years	1,279,354	13,663	7,449	1,285,568	1.97
Total collateralized mortgage obligations - federal agencies	1,331,641	15,059	7,449	1,339,251	2.01

Mortgage-backed securities

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Within 1 year	11			11	4.18
After 1 to 5 years	21,926	816	7	22,735	3.92
After 5 to 10 years	261,441	6,876	25	268,292	2.39
After 10 years	3,576,704	66,941	1,954	3,641,691	2.53
Total mortgage-backed securities	3,860,082	74,633	1,986	3,932,729	2.53
Equity securities (without contractual maturity)	1,245	960		2,205	8.21
Other					
Within 1 year	8,633	20		8,653	1.75
After 5 to 10 years	1,080	37		1,117	3.62
Total other	9,713	57		9,770	1.96
Total investment securities available-for-sale^[1]	\$ 7,540,175	\$ 102,838	\$ 14,357	\$ 7,628,656	2.03%

[1] Includes \$4.2 billion pledged to secure public and trust deposits, assets sold under agreements to repurchase, credit facilities and loan servicing agreements that the secured parties are not permitted to sell or repledge the collateral, of which \$3.3 billion serve as collateral for public funds.

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

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Other					
After 1 to 5 years	8,911		28	8,883	1.71
After 5 to 10 years	1,311	39		1,350	3.62
Total other	10,222	39	28	10,233	1.95
Total investment securities available-for-sale ^[1]	\$ 6,073,005	\$ 53,350	\$ 63,363	\$ 6,062,992	2.07%

[1] Includes \$2.4 billion pledged to secure public and trust deposits, assets sold under agreements to repurchase, credit facilities and loan servicing agreements that the secured parties are not permitted to sell or repledge the collateral, of which \$1.5 billion serve as collateral for public funds.

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

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

During the nine months ended September 30, 2016, the Corporation sold mortgage backed securities and equity securities available for sale. The proceeds from these sales were \$ 1.6 million. 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 following table present the Corporation's gross realized gains and losses on the sale of investment securities available-for-sale for the quarters and nine months ended September 30, 2016 and 2015.

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(In thousands)	For the quarter ended September 30, 2016		For the quarter ended September 30, 2015	
	2016	2015	2016	2015
Gross realized gains	\$ 348	\$ 221	\$ 348	\$ 226
Gross realized losses		(85)		(85)
Net realized gains on sale of investment securities available-for-sale	\$ 348	\$ 136	\$ 348	\$ 141

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

(In thousands)	At September 30, 2016					
	Less than 12 months		12 months or more		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Obligations of U.S. Government sponsored entities	\$ 24,011	\$ 107	\$ 1,180	\$ 18	\$ 25,191	\$ 125
Obligations of Puerto Rico, States and political subdivisions	7,176	34	17,821	4,763	24,997	4,797
Collateralized mortgage obligations - federal agencies	112,432	241	367,488	7,208	479,920	7,449
Mortgage-backed securities	478,854	1,977	589	9	479,443	1,986
Total investment securities available-for-sale in an unrealized loss position	\$ 622,473	\$ 2,359	\$ 387,078	\$ 11,998	\$ 1,009,551	\$ 14,357

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

Total investment securities available-for-sale in an unrealized loss position	\$ 2,962,984	\$ 21,762	\$ 1,037,791	\$ 41,601	\$ 4,000,775	\$ 63,363
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As of September 30, 2016, the available-for-sale investment portfolio reflects gross unrealized losses of approximately \$14 million, driven by U.S. Agency collateralized mortgage obligations and Obligations of the Puerto Rico Government and its political subdivisions. As part of its analysis for all U.S. Agencies securities, management considers the U.S. Agency guarantee. The portfolio of obligations of the Puerto Rico Government is mostly comprised of securities with specific sources of income or revenues identified for repayments. The Corporation performs periodic credit quality reviews on these issuers.

Management evaluates investment securities for other-than-temporary (OTTI) declines in fair value on a quarterly basis. Once a decline in value is determined to be other-than-temporary, the value of a debt security is reduced and a corresponding charge to earnings is recognized for anticipated credit losses. Also, for equity securities that are considered other-than-temporarily impaired, the excess of the security s carrying value over its fair value at the evaluation date is accounted for as a loss in the results of operations. The OTTI analysis requires management to consider various factors, which include, but are not limited to: (1) the length of time and the extent to which fair value has been less than the amortized cost basis, (2) the financial condition of the issuer or issuers, (3) actual collateral attributes, (4) the payment structure of the debt security and the likelihood of the issuer being able to

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

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

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

(In thousands)	September 30, 2016		December 31, 2015	
	Amortized cost	Fair value	Amortized cost	Fair value
FNMA	\$ 3,080,757	\$ 3,118,968	\$ 2,649,860	\$ 2,633,899
Freddie Mac	1,324,336	1,335,953	1,088,691	1,079,956

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

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

(In thousands)	At September 30, 2016				Weighted average yield
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	\$ 3,105	\$	\$ 1,218	\$ 1,887	5.92%
After 1 to 5 years	14,540		5,865	8,675	6.02
After 5 to 10 years	18,635		7,642	10,993	6.20
After 10 years	59,615	3,723	7,527	55,811	1.92
Total obligations of Puerto Rico, States and political subdivisions	95,895	3,723	22,252	77,366	3.50
Collateralized mortgage obligations - federal agencies					
After 5 to 10 years	78	5		83	5.45
Total collateralized mortgage obligations - federal agencies	78	5		83	5.45
Other					
Within 1 year	1,000		4	996	1.34
After 1 to 5 years	1,000		35	965	2.28
Total other	2,000		39	1,961	3.62
Total investment securities held-to-maturity^[1]	\$ 97,973	\$ 3,728	\$ 22,291	\$ 79,410	3.47%

[1] Includes \$96.2 million pledged to secure public and trust deposits that the secured parties are not permitted to sell or repledge the collateral.

(In thousands)	At December 31, 2015				Weighted average yield
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	
Obligations of Puerto Rico, States and political subdivisions					

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Within 1 year	\$ 2,920	\$	\$ 291	\$ 2,629	5.90%
After 1 to 5 years	13,655		5,015	8,640	5.98
After 5 to 10 years	20,020		8,020	12,000	6.14
After 10 years	62,222	3,604	8,280	57,546	2.08
Total obligations of Puerto Rico, States and political subdivisions	98,817	3,604	21,606	80,815	3.55
Collateralized mortgage obligations - federal agencies					
After 5 to 10 years	86	5		91	5.45
Total collateralized mortgage obligations - federal agencies	86	5		91	5.45
Other					
After 1 to 5 years	2,000		17	1,983	1.81
Total other	2,000		17	1,983	1.81
Total investment securities held-to-maturity ^[1]	\$ 100,903	\$ 3,609	\$ 21,623	\$ 82,889	3.52%

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

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

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, 2016 and December 31, 2015.

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(In thousands)	Less than 12 months		At September 30, 2016		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Obligations of Puerto Rico, States and political subdivisions	\$	\$	\$ 30,848	\$ 22,252	\$ 30,848	\$ 22,252
Other			1,211	39	1,211	39
Total investment securities held-to-maturity in an unrealized loss position	\$	\$	\$ 32,059	\$ 22,291	\$ 32,059	\$ 22,291

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

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

The Obligations of Puerto Rico, States and political subdivisions classified as held-to-maturity at September 30, 2016 are primarily associated with securities issued by municipalities of Puerto Rico and are generally not rated by a credit rating agency. This includes \$53 million of securities issued by three municipalities of Puerto Rico that are payable from the real and personal property taxes collected within such municipalities. These bonds have seniority to the payment of operating cost and expenses of the municipality. The portfolio also includes approximately \$43 million in securities for which the underlying source of payment is not the central government, but in which it provides a guarantee in the event of default.

The Corporation performs periodic credit quality reviews on these issuers. Based on the quarterly analysis performed, management concluded that no individual debt security was other-than-temporarily impaired at September 30, 2016. Further deterioration of the fiscal crisis of the Government of Puerto Rico could further affect the value of these securities, resulting in losses to the Corporation. The Corporation does not have the intent to sell securities held-to-maturity and it is more likely than not that the Corporation will not have to sell these investment securities prior to recovery of their amortized cost basis.

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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 accretible yield as long as there is a reasonable expectation about the timing and amount of cash flows expected to be collected. The Corporation measures additional losses for this portfolio when it is probable the Corporation will be unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition. Lines of credit with revolving privileges that were acquired as part of the Westernbank FDIC-assisted transaction are accounted for under the guidance of ASC Subtopic 310-20, which requires that any differences between the contractually required loan payment receivable in excess of the Corporation's initial investment in the loans be accreted into interest income. Loans accounted for under ASC Subtopic 310-20 are placed in non-accrual status when past due in accordance with the Corporation's non-accruing policy and any accretion of discount is discontinued.

The risks on loans acquired in the FDIC-assisted transaction are significantly different from the risks on loans not covered under the FDIC loss sharing agreements because of the loss protection provided by the FDIC. Accordingly, the Corporation presents loans subject to the loss sharing agreements as covered loans in the information below and loans that are not subject to the FDIC loss sharing agreements as non-covered loans. The FDIC loss sharing agreements expired on June 30, 2015 for commercial (including construction) and consumer loans, and expires on June 30, 2020 for single-family residential mortgage loans, as explained in Note 11.

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

During the quarter and nine months ended September 30, 2016, the Corporation recorded purchases (including repurchases) of mortgage loans amounting to \$118 million and \$358 million, respectively; consumer loans of \$164 million and commercial loans amounting to \$51 million during the nine months ended September 30, 2016. 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.

Excluding the bulk sale of Westernbank loans with a carrying value of approximately \$100 million, the Corporation sold commercial and construction loans with a carrying value of approximately \$38 million and \$39 million during the quarter and nine months ended September 30, 2016, respectively, (during the quarter and nine months ended September 30, 2015 - \$9 million). The Corporation sold approximately \$13 million and \$53 million of residential mortgage loans (on a whole loan basis) during the quarter and nine months ended September 30, 2016, respectively (September 30, 2015 - \$19 million and \$82 million, respectively). Also, the Corporation securitized approximately \$161 million and \$465 million of mortgage loans into Government National Mortgage Association (GNMA) mortgage-backed securities during the quarter and nine months ended September 30, 2016, respectively (September 30, 2015 - \$251 million and \$651 million, respectively). Furthermore, the Corporation securitized approximately \$50 million and \$129 million of mortgage loans into Federal National Mortgage Association (FNMA) mortgage-backed securities during the quarter and nine months ended September 30, 2016, respectively (September 30, 2015 - \$57 million and \$174 million, respectively).

Non-covered loans

The following table presents the composition of non-covered loans held-in-portfolio (HIP), net of unearned income, by past due status at September 30, 2016 and December 31, 2015, including loans previously covered by the commercial FDIC loss sharing agreements.

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(In thousands)	September 30, 2016					
	Puerto Rico					
	Past due			Total past due	Current	Non-covered loans HIP Puerto Rico
30-59 days	60-89 days	90 days or more				
Commercial multi-family	\$ 229	\$	\$ 932	\$ 1,161	\$ 175,340	\$ 176,501
Commercial real estate non-owner occupied	6,544	81,988	53,722	142,254	2,456,197	2,598,451
Commercial real estate owner occupied	10,643	5,896	126,449	142,988	1,699,209	1,842,197
Commercial and industrial	18,841	2,809	33,778	55,428	2,581,592	2,637,020
Construction			1,720	1,720	79,334	81,054
Mortgage	286,097	154,588	813,015	1,253,700	4,711,138	5,964,838
Leasing	6,257	2,017	2,878	11,152	671,658	682,810
Consumer:						
Credit cards	11,806	8,379	18,186	38,371	1,067,386	1,105,757
Home equity lines of credit	238	102	102	442	8,178	8,620
Personal	12,997	7,799	21,034	41,830	1,130,726	1,172,556
Auto	33,586	7,450	12,209	53,245	775,579	828,824
Other	554	281	17,453	18,288	159,785	178,073
Total	\$ 387,792	\$ 271,309	\$ 1,101,478	\$ 1,760,579	\$ 15,516,122	\$ 17,276,701

(In thousands)	September 30, 2016					
	U.S. mainland					
	Past due			Total past due	Current	Loans HIP U.S. mainland
30-59 days	60-89 days	90 days or more				
Commercial multi-family	\$	\$	\$ 207	\$ 207	\$ 945,991	\$ 946,198
Commercial real estate non-owner occupied			807	807	1,225,191	1,225,998
Commercial real estate owner occupied		1,676	1,081	2,757	234,724	237,481
Commercial and industrial	167	1,117	87,860	89,144	784,201	873,345
Construction		22,275		22,275	628,023	650,298
Mortgage	1,475	4,890	14,430	20,795	788,864	809,659
Legacy	96	509	3,450	4,055	43,859	47,914
Consumer:						
Credit cards	28	14	82	124	149	273
Home equity lines of credit	3,016	962	4,629	8,607	254,606	263,213
Personal	2,004	1,668	1,972	5,644	258,970	264,614
Auto					12	12
Other	8			8	258	266
Total	\$ 6,794	\$ 33,111	\$ 114,518	\$ 154,423	\$ 5,164,848	\$ 5,319,271

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(In thousands)	September 30, 2016 Popular, Inc. Past due					Current	Non-covered loans HIP Popular, Inc. ^{[1] [2]}
	30-59 days	60-89 days	90 days or more	Total past due			
Commercial multi-family	\$ 229	\$	\$ 1,139	\$ 1,368	\$ 1,121,331	\$ 1,122,699	
Commercial real estate non-owner occupied	6,544	81,988	54,529	143,061	3,681,388	3,824,449	
Commercial real estate owner occupied	10,643	7,572	127,530	145,745	1,933,933	2,079,678	
Commercial and industrial	19,008	3,926	121,638	144,572	3,365,793	3,510,365	
Construction		22,275	1,720	23,995	707,357	731,352	
Mortgage	287,572	159,478	827,445	1,274,495	5,500,002	6,774,497	
Leasing	6,257	2,017	2,878	11,152	671,658	682,810	
Legacy ^[3]	96	509	3,450	4,055	43,859	47,914	
Consumer:							
Credit cards	11,834	8,393	18,268	38,495	1,067,535	1,106,030	
Home equity lines of credit	3,254	1,064	4,731	9,049	262,784	271,833	
Personal	15,001	9,467	23,006	47,474	1,389,696	1,437,170	
Auto	33,586	7,450	12,209	53,245	775,591	828,836	
Other	562	281	17,453	18,296	160,043	178,339	
Total	\$ 394,586	\$ 304,420	\$ 1,215,996	\$ 1,915,002	\$ 20,680,970	\$ 22,595,972	

[1] Non-covered loans held-in-portfolio are net of \$118 million in unearned income and exclude \$72 million in loans held-for-sale.

[2] Includes \$7.4 billion pledged to secure credit facilities and public funds that the secured parties are not permitted to sell or repledge the collateral, of which \$4.6 billion were pledged at the FHLB as collateral for borrowings, \$2.3 billion at the FRB for discount window borrowings and \$0.5 billion serve as collateral for public funds.

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

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

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Construction	238	253	13,738	14,229	86,719	100,948
Mortgage	344,858	162,341	863,869	1,371,068	4,756,423	6,127,491
Leasing	7,844	1,630	3,009	12,483	615,167	627,650
Consumer:						
Credit cards	11,078	9,414	19,098	39,590	1,088,755	1,128,345
Home equity lines of credit	186	292	394	872	9,816	10,688
Personal	13,756	7,889	22,625	44,270	1,158,565	1,202,835
Auto	33,554	7,500	11,640	52,694	763,256	815,950
Other	1,069	298	19,232	20,599	167,885	188,484
Total	\$ 600,029	\$ 214,037	\$ 1,217,145	\$ 2,031,211	\$ 15,539,399	\$ 17,570,610

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

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

- [1] Non-covered loans held-in-portfolio are net of \$108 million in unearned income and exclude \$137 million in loans held-for-sale.
- [2] Includes \$7.3 billion pledged to secure credit facilities and public funds that the secured parties are not permitted to sell or repledge the collateral, of which \$4.3 billion were pledged at the FHLB as collateral for borrowings, \$2.5 billion at the FRB for discount window borrowings and \$0.5 billion serve as collateral for public funds.
- [3] The legacy portfolio is comprised of commercial loans, construction loans and lease financings related to certain lending products exited by the Corporation as part of restructuring efforts carried out in prior years at the BPNA segment.

The following tables present non-covered loans held-in-portfolio by loan class that are in non-performing status or are accruing interest but are past due 90 days or more at September 30, 2016 and December 31, 2015. Accruing loans past due 90 days or more consist primarily of credit cards, FHA / VA and other insured mortgage loans, and delinquent mortgage loans which are included in the Corporation's financial statements pursuant to GNMA's buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option.

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(In thousands)	At September 30, 2016					
	Puerto Rico		U.S. mainland		Popular, Inc.	
	Non-accrual loans	Accruing loans past-due 90 days or more [1]	Non-accrual loans	Accruing loans past-due 90 days or more [1]	Non-accrual loans	Accruing loans past-due 90 days or more [1]
Commercial multi-family	\$ 932	\$	\$ 207	\$	\$ 1,139	\$
Commercial real estate non-owner occupied	24,684		807		25,491	
Commercial real estate owner occupied	108,132		1,081		109,213	
Commercial and industrial	33,299	479	1,429		34,728	479
Mortgage ^[3]	331,346	399,218	14,430		345,776	399,218
Leasing	2,878				2,878	
Legacy			3,450		3,450	
Consumer:						
Credit cards		18,186	82		82	18,186
Home equity lines of credit		102	4,629		4,629	102
Personal	20,947	25	1,972		22,919	25
Auto	12,209				12,209	
Other	16,811	642			16,811	642
Total ^[2]	\$ 551,238	\$ 418,652	\$ 28,087	\$	\$ 579,325	\$ 418,652

[1] Non-covered loans of \$218 million accounted for under ASC Subtopic 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.

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

[3] It is the Corporation's policy to report delinquent residential mortgage loans insured by FHA or guaranteed by the VA as accruing loans past due 90 days or more as opposed to non-performing since the principal repayment is insured. These balances include \$174 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, 2016. Furthermore, the Corporation has approximately \$72 million in reverse mortgage loans in Puerto Rico which are guaranteed by FHA, but which are currently not accruing interest. Due to the guaranteed nature of the loans, it is the Corporation's policy to exclude these balances from non-performing assets.

(In thousands)	At December 31, 2015					
	Puerto Rico		U.S. mainland		Popular, Inc.	
	Non-accrual loans	Accruing loans past-due 90 days or more [1]	Non-accrual loans	Accruing loans past-due 90 days or more [1]	Non-accrual loans	Accruing loans past-due 90 days or more [1]
Commercial multi-family	\$ 1,062	\$	\$	\$	\$ 1,062	\$
Commercial real estate non-owner occupied	33,720		253		33,973	

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

- [1] Non-covered loans by \$268 million accounted for under ASC Subtopic 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.
- [2] For purposes of this table non-performing loans exclude \$ 45 million in non-performing loans held-for-sale.
- [3] It is the Corporation's policy to report delinquent residential mortgage loans insured by FHA or guaranteed by the VA as accruing loans past due 90 days or more as opposed to non-performing since the principal repayment is insured. These balances include \$164 million of residential mortgage loans in Puerto Rico insured by FHA or guaranteed by the VA that are no longer accruing interest as of December 31, 2015. Furthermore, the Corporation has approximately \$70 million in reverse mortgage loans in Puerto Rico which are guaranteed by FHA, but which are currently not accruing interest. Due to the guaranteed nature of the loans, it is the Corporation's policy to exclude these balances from non-performing assets.

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

(In thousands)	September 30, 2016	December 31, 2015
Commercial	\$	\$ 45,074
Construction		95
Mortgage	72,076	91,831
Total loans held-for-sale	\$ 72,076	\$ 137,000

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

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

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

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

Covered loans

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

(In thousands)	September 30, 2016 Past due	Current	Covered loans HIP [1]
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	30-59 days	60-89 days	90 days or more	Total past due		
Mortgage	\$ 29,769	\$ 13,433	\$ 73,193	\$ 116,395	\$ 454,954	\$ 571,349
Consumer	958	372	1,126	2,456	14,406	16,862
Total covered loans	\$ 30,727	\$ 13,805	\$ 74,319	\$ 118,851	\$ 469,360	\$ 588,211

[1] Includes \$349 million pledged to secure credit facilities at the FHLB which are not permitted to sell or repledge the collateral.

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

[1] Includes \$386 million pledged to secure credit facilities at the FHLB which are not permitted to sell or repledge the collateral.

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The following table presents covered loans in non-performing status and accruing loans past-due 90 days or more by loan class at September 30, 2016 and December 31, 2015.

(In thousands)	September 30, 2016		December 31, 2015	
	Non-accrual loans	Accruing loans past due 90 days or more	Non-accrual loans	Accruing loans past due 90 days or more
Mortgage	\$ 3,659	\$	\$ 3,790	\$
Consumer	138		97	
Total ^[1]	\$ 3,797	\$	\$ 3,887	\$

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

The Corporation accounts for lines of credit with revolving privileges under the accounting guidance of ASC Subtopic 310-20, which requires that any differences between the contractually required loans payment receivable in excess of the initial investment in the loans be accreted into interest income over the life of the loans, if the loan is accruing interest. Covered loans accounted for under ASC Subtopic 310-20 amounted to \$10 million at September 30, 2016 (December 31, 2015 \$10 million).

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

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

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

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

(In thousands)	September 30, 2016			December 31, 2015		
	Carrying amount		Total	Carrying amount		Total
	Non-credit impaired loans	Credit impaired loans		Non-credit impaired loans	Credit impaired loans	
Commercial real estate	\$ 1,023,047	\$ 14,587	\$ 1,037,634	\$ 1,114,368	\$ 35,393	\$ 1,149,761
Commercial and industrial	78,983		78,983	84,765	519	85,284
Construction		1,720	1,720	8,943	6,027	14,970
Mortgage	602,697	25,953	628,650	667,023	33,090	700,113
Consumer	19,453	1,099	20,552	23,047	1,326	24,373

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Carrying amount [1]	1,724,180	43,359	1,767,539	1,898,146	76,355	1,974,501
Allowance for loan losses	(62,114)	(7,457)	(69,571)	(59,753)	(3,810)	(63,563)
Carrying amount, net of allowance	\$ 1,662,066	\$ 35,902	\$ 1,697,968	\$ 1,838,393	\$ 72,545	\$ 1,910,938

[1] The carrying amount of loans acquired from Westernbank and accounted for under ASC 310-30 which remains subject to the loss sharing agreement with the FDIC amounted to approximately \$578 million as of September 30, 2016 and \$636 million as of December 31, 2015.

The outstanding principal balance of Westernbank loans accounted pursuant to ASC Subtopic 310-30, amounted to \$2.2 billion at September 30, 2016 (December 31, 2015 \$2.4 billion). At September 30, 2016, none of the acquired loans from the Westernbank FDIC-assisted transaction accounted for under ASC Subtopic 310-30 were considered non-performing loans. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, was recognized on all acquired loans.

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Changes in the carrying amount and the accretible yield for the Westernbank loans accounted pursuant to the ASC Subtopic 310-30, for the quarters and nine months ended September 30, 2016 and 2015, were as follows:

(In thousands)	Activity in the accretible yield Westernbank loans ASC 310-30 For the quarters ended					
	September 30, 2016			September 30, 2015		
	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	\$ 1,061,971	\$ 9,709	\$ 1,071,680	\$ 1,239,776	\$ 6,148	\$ 1,245,924
Accretion	(38,597)	(993)	(39,590)	(44,568)	(2,125)	(46,693)
Change in expected cash flows	6,992	(390)	6,602	(56,526)	2,744	(53,782)
Ending balance	\$ 1,030,366	\$ 8,326	\$ 1,038,692	\$ 1,138,682	\$ 6,767	\$ 1,145,449

(In thousands)	Activity in the accretible yield Westernbank loans ASC 310-30 For the nine months ended					
	September 30, 2016			September 30, 2015		
	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	\$ 1,105,732	\$ 6,726	\$ 1,112,458	\$ 1,265,752	\$ 5,585	\$ 1,271,337
Accretion	(125,734)	(5,865)	(131,599)	(148,572)	(7,812)	(156,384)
Change in expected cash flows	50,368	7,465	57,833	21,502	8,994	30,496
Ending balance	\$ 1,030,366	\$ 8,326	\$ 1,038,692	\$ 1,138,682	\$ 6,767	\$ 1,145,449

(In thousands)	Carrying amount of Westernbank loans accounted for pursuant to ASC 310-30 For the quarters ended					
	September 30, 2016			September 30, 2015		
	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	\$ 1,754,613	\$ 45,330	\$ 1,799,943	\$ 2,022,493	\$ 114,585	\$ 2,137,078
Accretion	38,597	993	39,590	44,568	2,125	46,693
Collections / loan sales / charge-offs	(69,030)	(2,964)	(71,994)	(94,320)	(13,439)	(107,759)
Ending balance ^[1]	\$ 1,724,180	\$ 43,359	\$ 1,767,539	\$ 1,972,741	\$ 103,271	\$ 2,076,012
Allowance for loan losses ASC 310-30 Westernbank	(62,114)	(7,457)	(69,571)	(54,027)	(10,556)	(64,583)

loans

Ending balance, net of ALLL	\$ 1,662,066	\$ 35,902	\$ 1,697,968	\$ 1,918,714	\$ 92,715	\$ 2,011,429
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[1] The carrying amount of loans acquired from Westernbank and accounted for under ASC 310-30 which remain subject to the loss sharing agreement with the FDIC amounted to approximately \$ 578 million as of September 30, 2016 (September 30, 2015- \$655 million).

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(In thousands)	Carrying amount of Westernbank loans accounted for pursuant to ASC 310-30					
	For the nine months ended					
	September 30, 2016			September 30, 2015		
	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	\$ 1,898,146	\$ 76,355	\$ 1,974,501	\$ 2,272,142	\$ 172,030	\$ 2,444,172
Accretion	125,734	5,865	131,599	148,572	7,812	156,384
Collections / loan sales / charge-offs ^[1]	(299,700)	(38,861)	(338,561)	(447,973)	(76,571)	(524,544)
Ending balance ^[2]	\$ 1,724,180	\$ 43,359	\$ 1,767,539	\$ 1,972,741	\$ 103,271	\$ 2,076,012
Allowance for loan losses ASC 310-30 Westernbank loans	(62,114)	(7,457)	(69,571)	(54,027)	(10,556)	(64,583)
Ending balance, net of ALLL	\$ 1,662,066	\$ 35,902	\$ 1,697,968	\$ 1,918,714	\$ 92,715	\$ 2,011,429

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

[2] The carrying amount of loans acquired from Westernbank and accounted for under ASC 310-30 which remain subject to the loss sharing agreement with the FDIC amounted to approximately \$578 million as of September 30, 2016 (September 30, 2015- \$655 million).

Other loans acquired with deteriorated credit quality

The outstanding principal balance of other acquired loans accounted pursuant to ASC Subtopic 310-30, amounted to \$707 million at September 30, 2016 (December 31, 2015 \$710 million). At September 30, 2016, none of the other acquired loans accounted under ASC Subtopic 310-30 were considered non-performing loans. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, was recognized on all acquired loans.

Changes in the carrying amount and the accretable yield for the other acquired loans accounted pursuant to the ASC Subtopic 310-30, for the quarters and nine months ended September 30, 2016 and 2015 were as follows:

(In thousands)	Activity in the accretable yield - other acquired loans ASC 310-30	
	For the quarter ended	For the quarter ended
	September 30, 2016	September 30, 2015
Beginning balance	\$ 272,609	\$ 162,159
Additions	3,809	25,978
Accretion	(8,689)	(4,543)
Change in expected cash flows	8,672	1,402
Ending balance	\$ 276,401	\$ 184,996

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

(In thousands)	For the nine months ended September 30, 2016	For the nine months ended September 30, 2015
Beginning balance	\$ 221,128	\$ 116,304
Additions	12,320	82,046
Accretion	(25,974)	(12,399)
Change in expected cash flows	68,927	(955)
Ending balance	\$ 276,401	\$ 184,996

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Carrying amount of other acquired loans accounted for pursuant to ASC 310-30		
	For the quarter ended September 30, 2016	For the quarter ended September 30, 2015
(In thousands)		
Beginning balance	\$ 562,745	368,287
Additions	8,349	281,911
Accretion	8,689	4,543
Collections and charge-offs	(17,861)	(13,655)
Ending balance	\$ 561,922	\$ 641,086
Allowance for loan losses ASC 310-30 other acquired loans	(18,550)	(18,561)
Ending balance, net of ALLL	\$ 543,372	\$ 622,525

Carrying amount of other acquired loans accounted for pursuant to ASC 310-30		
	For the nine months ended September 30, 2016	For the nine months ended September 30, 2015
(In thousands)		
Beginning balance	\$ 564,050	\$ 212,763
Purchase accounting adjustments related to the Doral Bank Transaction (Refer to Note 5)	(4,707)	
Additions	26,754	456,091
Accretion	25,974	12,399
Collections and charge-offs	(50,149)	(40,167)
Ending balance	\$ 561,922	\$ 641,086
Allowance for loan losses ASC 310-30 other acquired loans	(18,550)	(18,561)
Ending balance, net of ALLL	\$ 543,372	\$ 622,525

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

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

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Note 10 Allowance for loan losses

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

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

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

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

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

For the period ended September 30, 2016, 49% (September 30, 2015 18%) of the ALLL for non-covered BPPR segment loan portfolios utilized the recent loss trend adjustment instead of the base loss. The effect of replacing the base loss with the recent loss trend adjustment was mainly concentrated in the leasing, auto, revolving and mortgage loan portfolios for 2016, and in the commercial multi-family, commercial and industrial, personal and auto loan portfolios for 2015.

For the period ended September 30, 2016, 4% (September 30, 2015 17%) of the ALLL for BPNA segment loan portfolios utilized the recent loss trend adjustment instead of the base loss. The effect of replacing the base loss with the recent loss trend adjustment was concentrated in the consumer loan portfolio for 2016 and in the commercial and industrial loan portfolios for 2015.

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

During the third quarter of 2016, management completed the annual review of the components of the ALLL models. As part of this review management updated core metrics related to the estimation process for evaluating the adequacy of the general reserve of the allowance for loan losses. These updates to the ALLL models, which are described in the paragraph below, were implemented as of September 30, 2016 and resulted in a net increase to the allowance for loan losses of \$ 9.4 million for the non-covered portfolio. The effect of the aforementioned updates was immaterial for the covered loans portfolio.

Management made the following revisions to the ALLL models during the third quarter of 2016:

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 third quarter of 2016, the environmental factor models used to account for changes in current credit and macroeconomic conditions were reviewed and recalibrated based on the latest applicable trends.

The effect of the recalibration to the environmental factors adjustment resulted in an increase to the allowance for loan losses of \$9.4 million at September 30, 2016, related to the non-covered BPPR segment. The effect of the recalibration was immaterial for the BPNA segment.

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

(In thousands)	For the quarter ended September 30, 2016					
	Puerto Rico - Non-covered loans					
	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 199,827	\$ 3,605	\$ 136,724	\$ 10,094	\$ 130,471	\$ 480,721
Provision (reversal of provision)	13,746	(605)	13,841	(1,363)	10,662	36,281
Charge-offs	(13,799)	(951)	(16,002)	(1,429)	(25,470)	(57,651)
Recoveries	10,600	65	765	613	12,649	24,692
Ending balance	\$ 210,374	\$ 2,114	\$ 135,328	\$ 7,915	\$ 128,312	\$ 484,043
Specific ALLL	\$ 58,527	\$	\$ 43,567	\$ 540	\$ 23,708	\$ 126,342
General ALLL	\$ 151,847	\$ 2,114	\$ 91,761	\$ 7,375	\$ 104,604	\$ 357,701
Loans held-in-portfolio:						
Impaired non-covered loans	\$ 328,868	\$	\$ 487,972	\$ 1,899	\$ 108,341	\$ 927,080
Non-covered loans held-in-portfolio excluding impaired loans	6,925,290	81,054	5,476,876	680,911	3,185,490	16,349,621
Total non-covered loans held-in-portfolio	\$ 7,254,158	\$ 81,054	\$ 5,964,848	\$ 682,810	\$ 3,293,831	\$ 17,276,701

(In thousands)	For the quarter ended September 30, 2016					
	Puerto Rico - Covered loans					
	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$	\$	\$ 29,951	\$	\$ 630	\$ 30,581
Provision (reversal of provision)			845		(95)	750
Charge-offs			(973)		(411)	(1,384)
Recoveries			312		3	315
Ending balance	\$	\$	\$ 30,135	\$	\$ 127	\$ 30,262
Specific ALLL	\$	\$	\$	\$	\$	\$
General ALLL	\$	\$	\$ 30,135	\$	\$ 127	\$ 30,262

Loans held-in-portfolio:						
Impaired covered loans	\$		\$		\$	
Covered loans held-in-portfolio excluding impaired loans			571,349		16,862	588,211
Total covered loans held-in-portfolio	\$		\$ 571,349	\$	\$ 16,862	\$ 588,211

For the quarter ended September 30, 2016

U.S. Mainland

(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 9,854	\$ 7,460	\$ 4,762	\$ 1,852	\$ 13,490	\$ 37,418
Provision (reversal of provision)	2,765	368	1,380	(690)	2,490	6,313
Charge-offs	(155)		(2,022)	(145)	(2,884)	(5,206)
Recoveries	1,328		80	665	952	3,025
Ending balance	\$ 13,792	\$ 7,828	\$ 4,200	\$ 1,682	\$ 14,048	\$ 41,550
Specific ALLL	\$	\$	\$ 1,990	\$	\$ 725	\$ 2,715
General ALLL	\$ 13,792	\$ 7,828	\$ 2,210	\$ 1,682	\$ 13,323	\$ 38,835
Loans held-in-portfolio:						
Impaired loans	\$	\$	\$ 8,896	\$	\$ 2,588	\$ 11,484
Loans held-in-portfolio excluding impaired loans	3,283,022	650,298	800,763	47,914	525,790	5,307,787
Total loans held-in-portfolio	\$ 3,283,022	\$ 650,298	\$ 809,659	\$ 47,914	\$ 528,378	\$ 5,319,271

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For the quarter ended September 30, 2016

Popular, Inc.

(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Beginning balance	\$ 209,681	\$ 11,065	\$ 171,437	\$ 1,852	\$ 10,094	\$ 144,591	\$ 548,720
Provision (reversal of provision)	16,511	(237)	16,066	(690)	(1,363)	13,057	43,344
Charge-offs	(13,954)	(951)	(18,997)	(145)	(1,429)	(28,765)	(64,241)
Recoveries	11,928	65	1,157	665	613	13,604	28,032
Ending balance	\$ 224,166	\$ 9,942	\$ 169,663	\$ 1,682	\$ 7,915	\$ 142,487	\$ 555,855
Specific ALLL	\$ 58,527	\$	\$ 45,557	\$	\$ 540	\$ 24,433	\$ 129,057
General ALLL	\$ 165,639	\$ 9,942	\$ 124,106	\$ 1,682	\$ 7,375	\$ 118,054	\$ 426,798
Loans held-in-portfolio:							
Impaired loans	\$ 328,868	\$	\$ 496,868	\$	\$ 1,899	\$ 110,929	\$ 938,564
Loans held-in-portfolio excluding impaired loans	10,208,312	731,352	6,848,988	47,914	680,911	3,728,142	22,245,619
Total loans held-in-portfolio	\$ 10,537,180	\$ 731,352	\$ 7,345,856	\$ 47,914	\$ 682,810	\$ 3,839,071	\$ 23,184,183

For the nine months ended September 30, 2016

Puerto Rico - Non-covered loans

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 186,925	\$ 4,957	\$ 128,327	\$ 10,993	\$ 138,721	\$ 469,923
Provision (reversal of provision)	30,630	(5,786)	50,398	(190)	43,451	118,503
Charge-offs	(47,256)	(3,026)	(45,924)	(4,435)	(78,860)	(179,501)
Recoveries	35,706	5,055	2,527	1,547	24,838	69,673
Net recoveries	4,369	914			162	5,445
Ending balance	\$ 210,374	\$ 2,114	\$ 135,328	\$ 7,915	\$ 128,312	\$ 484,043
Specific ALLL	\$ 58,527	\$	\$ 43,567	\$ 540	\$ 23,708	\$ 126,342
General ALLL	\$ 151,847	\$ 2,114	\$ 91,761	\$ 7,375	\$ 104,604	\$ 357,701

Loans held-in-portfolio:

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Impaired non-covered loans	\$ 328,868	\$	\$ 487,972	\$ 1,899	\$ 108,341	\$ 927,080
Non-covered loans held-in-portfolio excluding impaired loans	6,925,290	81,054	5,476,876	680,911	3,185,490	16,349,621
Total non-covered loans held-in-portfolio	\$ 7,254,158	\$ 81,054	\$ 5,964,848	\$ 682,810	\$ 3,293,831	\$ 17,276,701

For the nine months ended September 30, 2016

Puerto Rico - Covered loans

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$	\$	\$ 33,967	\$	\$ 209	\$ 34,176
Provision (reversal of provision)			(1,476)		(75)	(1,551)
Charge-offs			(3,078)		(17)	(3,095)
Recoveries			722		10	732
Ending balance	\$	\$	\$ 30,135	\$	\$ 127	\$ 30,262
Specific ALLL	\$	\$	\$	\$	\$	\$
General ALLL	\$	\$	\$ 30,135	\$	\$ 127	\$ 30,262
Loans held-in-portfolio:						
Impaired covered loans	\$	\$	\$	\$	\$	\$
Covered loans held-in-portfolio excluding impaired loans			571,349		16,862	588,211
Total covered loans held-in-portfolio	\$	\$	\$ 571,349	\$	\$ 16,862	\$ 588,211

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For the nine months ended September 30, 2016

U.S. Mainland - Continuing Operations

(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 9,908	\$ 3,912	\$ 4,985	\$ 2,687	\$ 11,520	\$ 33,012
Provision (reversal of provision)	1,651	3,916	1,403	(2,665)	7,394	11,699
Charge-offs	(1,040)		(2,595)	(388)	(8,194)	(12,217)
Recoveries	3,273		407	2,048	3,328	9,056
Ending balance	\$ 13,792	\$ 7,828	\$ 4,200	\$ 1,682	\$ 14,048	\$ 41,550
Specific ALLL	\$	\$	\$ 1,990	\$	\$ 725	\$ 2,715
General ALLL	\$ 13,792	\$ 7,828	\$ 2,210	\$ 1,682	\$ 13,323	\$ 38,835
Loans held-in-portfolio:						
Impaired loans	\$	\$	\$ 8,896	\$	\$ 2,588	\$ 11,484
Loans held-in-portfolio excluding impaired loans	3,283,022	650,298	800,763	47,914	525,790	5,307,787
Total loans held-in-portfolio	\$ 3,283,022	\$ 650,298	\$ 809,659	\$ 47,914	\$ 528,378	\$ 5,319,271

For the nine months ended September 30, 2016

Popular, Inc.

(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Beginning balance	\$ 196,833	\$ 8,869	\$ 167,279	\$ 2,687	\$ 10,993	\$ 150,450	\$ 537,111
Provision (reversal of provision)	32,281	(1,870)	50,325	(2,665)	(190)	50,770	128,651
Charge-offs	(48,296)	(3,026)	(51,597)	(388)	(4,435)	(87,071)	(194,813)
Recoveries	38,979	5,055	3,656	2,048	1,547	28,176	79,461
Net recoveries	4,369	914				162	5,445
Ending balance	\$ 224,166	\$ 9,942	\$ 169,663	\$ 1,682	\$ 7,915	\$ 142,487	\$ 555,855
Specific ALLL	\$ 58,527	\$	\$ 45,557	\$	\$ 540	\$ 24,433	\$ 129,057
General ALLL	\$ 165,639	\$ 9,942	\$ 124,106	\$ 1,682	\$ 7,375	\$ 118,054	\$ 426,798
Loans held-in-portfolio:							
Impaired loans	\$ 328,868	\$	\$ 496,868	\$	\$ 1,899	\$ 110,929	\$ 938,564
Loans held-in-portfolio excluding impaired	10,208,312	731,352	6,848,988	47,914	680,911	3,728,142	22,245,619

loans

Total loans held-in-portfolio	\$ 10,537,180	\$ 731,352	\$ 7,345,856	\$ 47,914	\$ 682,810	\$ 3,839,071	\$ 23,184,183
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For the quarter ended September 30, 2015

Puerto Rico - Non-covered loans

(In thousands)	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
Specific ALLL	\$ 83,615	\$ 358	\$ 46,956	\$ 634	\$ 24,221	\$ 155,784
General ALLL	\$ 137,352	\$ 11,223	\$ 83,109	\$ 8,457	\$ 108,285	\$ 348,426
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
Total non-covered loans held-in-portfolio	\$ 7,521,744	\$ 108,678	\$ 6,220,395	\$ 606,927	\$ 3,360,896	\$ 17,818,640

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For the quarter ended September 30, 2015
Puerto Rico - Covered Loans

(In thousands)	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
Specific ALLL	\$	\$	\$	\$	\$	\$
General ALLL	\$	\$	\$ 34,334	\$	\$ 175	\$ 34,509
Loans held-in-portfolio:						
Impaired covered loans	\$	\$	\$	\$	\$	\$
Covered loans held-in-portfolio excluding impaired loans			645,663		19,765	665,428
Total covered loans held-in-portfolio	\$	\$	\$ 645,663	\$	\$ 19,765	\$ 665,428

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

(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
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
Specific ALLL	\$	\$	\$ 589	\$	\$ 475	\$ 1,064
General ALLL	\$ 9,494	\$ 3,170	\$ 3,846	\$ 2,805	\$ 11,416	\$ 30,731
Loans held-in-portfolio:						
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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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
Specific ALLL	\$ 83,615	\$ 358	\$ 47,545	\$	\$ 634	\$ 24,696	\$ 156,848
General ALLL	\$ 146,846	\$ 14,393	\$ 121,289	\$ 2,805	\$ 8,457	\$ 119,876	\$ 413,666
Loans held-in-portfolio:							
Impaired loans	\$ 391,066	\$ 2,536	\$ 462,806	\$ 1,188	\$ 2,645	\$ 113,865	\$ 974,106
Loans held-in-portfolio excluding impaired loans	9,739,358	689,956	7,348,336	66,786	604,282	3,740,670	22,189,388
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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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 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
Specific ALLL	\$ 83,615	\$ 358	\$ 46,956	\$ 634	\$ 24,221	\$ 155,784
General ALLL	\$ 137,352	\$ 11,223	\$ 83,109	\$ 8,457	\$ 108,285	\$ 348,426
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
Total non-covered loans held-in-portfolio	\$ 7,521,744	\$ 108,678	\$ 6,220,395	\$ 606,927	\$ 3,360,896	\$ 17,818,640

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-down related to loans transferred to held-for-sale	(1,101)	(542)	(160)		(20)	(1,823)
Allowance transferred to non-covered loans	(8,453)	(1,424)	(582)		(2,578)	(13,037)
Ending balance	\$	\$	\$ 34,334	\$	\$ 175	\$ 34,509
Specific ALLL	\$	\$	\$	\$	\$	\$

General ALLL	\$	\$	\$ 34,334	\$	\$ 175	\$ 34,509
Loans held-in-portfolio:						
Impaired covered loans	\$	\$	\$	\$	\$	\$
Covered loans held-in-portfolio excluding impaired loans			645,663		19,765	665,428
Total covered loans held-in-portfolio	\$	\$	\$ 645,663	\$	\$ 19,765	\$ 665,428

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For the nine months ended September 30, 2015

U.S. Mainland - Continuing Operations

(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	\$ 9,648	\$ 1,187	\$ 2,462	\$ 2,944	\$ 14,343	\$ 30,584
Provision (reversal of provision)	(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 (write-down) recovery 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
Specific ALLL	\$	\$	\$ 589	\$	\$ 475	\$ 1,064
General ALLL	\$ 9,494	\$ 3,170	\$ 3,846	\$ 2,805	\$ 11,416	\$ 30,731
Loans held-in-portfolio:						
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

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 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
Specific ALLL	\$ 83,615	\$ 358	\$ 47,545	\$	\$ 634	\$ 24,696	\$ 156,848
General ALLL	\$ 146,846	\$ 14,393	\$ 121,289	\$ 2,805	\$ 8,457	\$ 119,876	\$ 413,666

Loans**held-in-portfolio:**

Impaired loans	\$ 391,066	\$ 2,536	\$ 462,806	\$ 1,188	\$ 2,645	\$ 113,865	\$ 974,106
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Loans

held-in-portfolio

excluding impaired

loans	9,739,358	689,956	7,348,336	66,786	604,282	3,740,670	22,189,388
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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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The following table provides the activity in the allowance for loan losses related to Westernbank loans accounted for pursuant to ASC Subtopic 310-30.

(In thousands)	ASC 310-30			
	For the quarters ended		For the nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Balance at beginning of period	\$ 66,995	\$ 47,049	\$ 63,563	\$ 78,846
Provision (reversal of provision)	6,710	17,201	2,640	38,071
Net recoveries (charge-offs)	(4,134)	333	3,368	(52,334)
Balance at end of period	\$ 69,571	\$ 64,583	\$ 69,571	\$ 64,583

Table of Contents***Impaired loans***

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

(In thousands)	September 30, 2016 Puerto Rico								
	Impaired Loans			With an		Impaired Loans		Impaired Loans - Total	
	Recorded investment	Allowance Unpaid principal balance	Related allowance	Recorded investment	Allowance Unpaid principal balance	Recorded investment	Allowance Unpaid principal balance	Related allowance	
Commercial multi-family	\$ 85	\$ 85	\$ 46	\$	\$	\$ 85	\$ 85	\$ 46	
Commercial real estate non-owner occupied	110,625	115,037	36,192	11,063	20,294	121,688	135,331	36,192	
Commercial real estate owner occupied	134,733	171,882	16,239	17,837	27,259	152,570	199,141	16,239	
Commercial and industrial	46,710	47,996	6,050	7,815	11,466	54,525	59,462	6,050	
Mortgage	431,074	473,535	43,567	56,898	67,478	487,972	541,013	43,567	
Leasing	1,899	1,899	540			1,899	1,899	540	
Consumer:									
Credit cards	38,485	38,485	5,862			38,485	38,485	5,862	
Personal	66,704	66,704	17,201			66,704	66,704	17,201	
Auto	2,122	2,122	356			2,122	2,122	356	
Other	1,030	1,030	289			1,030	1,030	289	
Total Puerto Rico	\$ 833,467	\$ 918,775	\$ 126,342	\$ 93,613	\$ 126,497	\$ 927,080	\$ 1,045,272	\$ 126,342	

(In thousands)	September 30, 2016 U.S. mainland								
	Impaired Loans			With an		Impaired Loans		Impaired Loans - Total	
	Recorded investment	Allowance Unpaid principal balance	Related allowance	Recorded investment	Allowance Unpaid principal balance	Recorded investment	Allowance Unpaid principal balance	Related allowance	
Mortgage	\$ 6,361	\$ 7,309	\$ 1,990	\$ 2,535	\$ 2,535	\$ 8,896	\$ 9,844	\$ 1,990	
Consumer:									

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HELOCs	1,879	1,879	464		1,879	1,879	464
Personal	709	709	261		709	709	261
Total U.S. mainland	\$ 8,949	\$ 9,897	\$ 2,715	\$ 2,535	\$ 2,535	\$ 11,484	\$ 12,432 \$ 2,715

September 30, 2016

Popular, Inc.

Impaired Loans With an Impaired Loans

(In thousands)	Recorded investment	Allowance	Related allowance	With No Allowance	Unpaid	Impaired Loans - Total		
		Unpaid principal balance		Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial multi-family	\$ 85	\$ 85	\$ 46	\$	\$	\$ 85	\$ 85	\$ 46
Commercial real estate non-owner occupied	110,625	115,037	36,192	11,063	20,294	121,688	135,331	36,192
Commercial real estate owner occupied	134,733	171,882	16,239	17,837	27,259	152,570	199,141	16,239
Commercial and industrial	46,710	47,996	6,050	7,815	11,466	54,525	59,462	6,050
Mortgage	437,435	480,844	45,557	59,433	70,013	496,868	550,857	45,557
Leasing	1,899	1,899	540			1,899	1,899	540
Consumer:								
Credit Cards	38,485	38,485	5,862			38,485	38,485	5,862
HELOCs	1,879	1,879	464			1,879	1,879	464
Personal	67,413	67,413	17,462			67,413	67,413	17,462
Auto	2,122	2,122	356			2,122	2,122	356
Other	1,030	1,030	289			1,030	1,030	289
Total Popular, Inc.	\$ 842,416	\$ 928,672	\$ 129,057	\$ 96,148	\$ 129,032	\$ 938,564	\$ 1,057,704	\$ 129,057

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December 31, 2015								
Puerto Rico								
(In thousands)	Impaired Loans		With an Related allowance	Impaired Loans		Impaired Loans - Total		
	Recorded investment	Allowance Unpaid principal balance		Recorded investment	With No Allowance Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial real estate non-owner occupied	\$ 102,199	\$ 106,466	\$ 30,980	\$ 13,779	\$ 23,896	\$ 115,978	\$ 130,362	\$ 30,980
Commercial real estate owner occupied	118,253	137,193	12,564	38,955	63,383	157,208	200,576	12,564
Commercial and industrial	42,043	43,629	5,699	21,904	32,922	63,947	76,551	5,699
Construction	2,481	7,878	264			2,481	7,878	264
Mortgage	424,885	468,240	42,965	40,232	45,881	465,117	514,121	42,965
Leasing	2,404	2,404	573			2,404	2,404	573
Consumer:								
Credit cards	38,734	38,734	6,675			38,734	38,734	6,675
Personal	68,509	68,509	16,365			68,509	68,509	16,365
Auto	1,893	1,893	338			1,893	1,893	338
Other	524	525	100			524	525	100
Total Puerto Rico	\$ 801,925	\$ 875,471	\$ 116,523	\$ 114,870	\$ 166,082	\$ 916,795	\$ 1,041,553	\$ 116,523

December 31, 2015								
U.S. mainland								
(In thousands)	Impaired Loans		With an Related allowance	Impaired Loans		Impaired Loans - Total		
	Recorded investment	Allowance Unpaid principal balance		Recorded investment	With No Allowance Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Mortgage	\$ 4,143	\$ 5,018	\$ 1,064	\$ 2,672	\$ 3,574	\$ 6,815	\$ 8,592	\$ 1,064
Consumer:								
HELOCs	778	796	259	783	783	1,561	1,579	259
Personal	534	534	226	81	81	615	615	226
Total U.S. mainland	\$ 5,455	\$ 6,348	\$ 1,549	\$ 3,536	\$ 4,438	\$ 8,991	\$ 10,786	\$ 1,549

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December 31, 2015

Popular, Inc.

	Impaired Loans	With an	Impaired Loans		Impaired Loans - Total			
	Recorded	Allowance	Related	Recorded	Allowance	Recorded	Unpaid	Related
(In thousands)	investment	Unpaid	allowance	investment	Unpaid	investment	principal	allowance
		principal			principal		balance	
Commercial real estate non-owner occupied	\$ 102,199	\$ 106,466	\$ 30,980	\$ 13,779	\$ 23,896	\$ 115,978	\$ 130,362	\$ 30,980
Commercial real estate owner occupied	118,253	137,193	12,564	38,955	63,383	157,208	200,576	12,564
Commercial and industrial	42,043	43,629	5,699	21,904	32,922	63,947	76,551	5,699
Construction	2,481	7,878	264			2,481	7,878	264
Mortgage	429,028	473,258	44,029	42,904	49,455	471,932	522,713	44,029
Leasing	2,404	2,404	573			2,404	2,404	573
Consumer:								
Credit Cards	38,734	38,734	6,675			38,734	38,734	6,675
HELOCs	778	796	259	783	783	1,561	1,579	259
Personal	69,043	69,043	16,591	81	81	69,124	69,124	16,591
Auto	1,893	1,893	338			1,893	1,893	338
Other	524	525	100			524	525	100
Total Popular, Inc.	\$ 807,380	\$ 881,819	\$ 118,072	\$ 118,406	\$ 170,520	\$ 925,786	\$ 1,052,339	\$ 118,072

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

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(In thousands)	For the quarter ended September 30, 2016					
	Puerto Rico		U.S. Mainland		Popular, Inc.	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial multi-family	\$ 43	\$ 1	\$	\$	\$ 43	\$ 1
Commercial real estate non-owner occupied	140,083	1,345			140,083	1,345
Commercial real estate owner occupied	136,565	1,408			136,565	1,408
Commercial and industrial	55,685	483			55,685	483
Construction	518				518	
Mortgage	482,067	3,538	8,730	68	490,797	3,606
Leasing	2,005				2,005	
Consumer:						
Credit cards	38,431				38,431	
Helocs			1,883		1,883	
Personal	67,077		651		67,728	
Auto	2,501				2,501	
Other	728				728	
Total Popular, Inc.	\$ 925,703	\$ 6,775	\$ 11,264	\$ 68	\$ 936,967	\$ 6,843

(In thousands)	For the quarter ended September 30, 2015					
	Puerto Rico		U.S. Mainland		Popular, Inc.	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
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 nine months ended September 30, 2016

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(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	\$ 21	\$ 4	\$	\$	\$ 21	\$ 4
Commercial real estate non-owner occupied	129,372	3,971			129,372	3,971
Commercial real estate owner occupied	147,305	4,349			147,305	4,349
Commercial and industrial	58,518	1,466			58,518	1,466
Construction	1,384				1,384	
Mortgage	475,108	10,311	8,046	133	483,154	10,444
Leasing	2,201				2,201	
Consumer:						
Credit cards	38,344				38,344	
HELOCs			1,741		1,741	
Personal	67,624		632		68,256	
Auto	2,689				2,689	
Other	606				606	
Total Popular, Inc.	\$ 923,172	\$ 20,101	\$ 10,419	\$ 133	\$ 933,591	\$ 20,234

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(In thousands)	For the nine months ended September 30, 2015					
	Puerto Rico		U.S. Mainland		Popular, Inc.	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
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	253			4,409	253
Total Popular, Inc.	\$ 950,268	\$ 22,371	\$ 7,681	\$ 63	\$ 957,949	\$ 22,434

Modifications

Troubled debt restructurings related to non-covered loan portfolios amounted to \$ 1.2 billion at September 30, 2016 (December 31, 2015 \$ 1.2 billion). The amount of outstanding commitments to lend additional funds to debtors owing receivables whose terms have been modified in troubled debt restructurings amounted \$8 million related to the commercial loan portfolio at September 30, 2016 (December 31, 2015 \$11 million).

At September 30, 2016, the mortgage loan TDRs include \$395 million guaranteed by U.S. sponsored entities at BPPR, this compares with \$359 million at December 31, 2015.

A modification of a loan constitutes a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulty and the modification constitutes a concession. For a summary of the accounting policy related to TDRs, refer to the summary of significant accounting policies included in Note 2 of the 2015 Form 10-K.

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

Popular, Inc.
Non-Covered Loans

(In thousands)	September 30, 2016			December 31, 2015		
	Accruing	Non-Accruing	Total	Accruing	Non-Accruing	Total

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				Related Allowance				Related Allowance
Commercial	\$ 163,381	\$ 84,872	\$ 248,253	\$ 56,444	\$ 166,415	\$ 88,117	\$ 254,532	\$ 37,355
Construction					221	2,259	2,480	264
Mortgage	722,450	122,225	844,675	45,557	644,013	130,483	774,496	44,029
Leases	1,296	603	1,899	540	1,791	609	2,400	573
Consumer	101,476	12,818	114,294	24,433	104,630	12,805	117,435	23,963
Total	\$ 988,603	\$ 220,518	\$ 1,209,121	\$ 126,974	\$ 917,070	\$ 234,273	\$ 1,151,343	\$ 106,184

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(In thousands)	Popular, Inc. Covered Loans							
	September 30, 2016				December 31, 2015			
	Accruing	Non-Accruing	Total	Related Allowance	Accruing	Non-Accruing	Total	Related Allowance
Mortgage	\$ 3,033	\$ 2,336	\$ 5,369	\$	\$ 3,328	\$ 3,268	\$ 6,596	\$
Total	\$ 3,033	\$ 2,336	\$ 5,369	\$	\$ 3,328	\$ 3,268	\$ 6,596	\$

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

	Puerto Rico							
	For the quarter ended September 30, 2016				For the nine months ended September 30, 2016			
	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				5	1		
Commercial real estate owner occupied	9				38	5		
Commercial and industrial	8				22	1		
Mortgage	17	22	129	43	55	56	353	132
Leasing		1				1		
Consumer:								
Credit cards	218		1	158	603		1	531
Personal	241	4			761	14		1
Auto		4	4	2		11	8	2
Other	6				27			
Total	502	31	134	203	1,511	89	362	666

	U.S. Mainland							
	For the quarter ended September 30, 2016				For the nine months ended September 30, 2016			
	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

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	in interest rate and extension of maturity date		in interest rate and extension of maturity date		
Mortgage Consumer:	2	5	2	23	1
HELOCs				2	1
Personal	2	1	2	1	
Total	4	6	4	26	2

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	Popular, Inc.								
	For the quarter ended September 30, 2016					For the nine months ended September 30, 2016			
	Combination of reduction in interest rate and extension of maturity date				Combination of reduction in interest rate and extension of maturity date				
	Reduction in interest rate	Extension of maturity date	Other		Reduction in interest rate	Extension of maturity date	Other		
Commercial real estate non-owner occupied	3				5	1			
Commercial real estate owner occupied	9				38	5			
Commercial and industrial	8				22	1			
Mortgage	17	24	134	43	55	58	376	133	
Leasing		1				1			
Consumer:									
Credit cards	218		1	158	603		1	531	
HELOCs							2	1	
Personal	241	6	1		761	16	1	1	
Auto		4	4	2		11	8	2	
Other	6				27				
Total	502	35	140	203	1,511	93	388	668	

	Puerto Rico								
	For the quarter ended September 30, 2015					For the nine months ended September 30, 2015			
	Combination of reduction in interest rate and extension of maturity date				Combination of reduction in interest rate and extension of maturity date				
	Reduction in interest rate	Extension of maturity date	Other		Reduction in interest rate	Extension of maturity date	Other		
Commercial multi-family						2			
Commercial real estate non-owner occupied	1	2			6	10			
Commercial real estate owner occupied	12	5			22	14			
Commercial and industrial	7	4			18	15			

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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

U.S. Mainland

For the quarter ended September 30, 2015 For the nine months ended September 30, 2015

	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
Mortgage			4	1		1	14	1
Consumer:								
HELOCs			1			1	1	2
Personal						2		
Total			5	1		4	15	3

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	Popular, Inc.								
	For the quarter ended September 30, 2015					For the nine months ended September 30, 2015			
	Combination of reduction in interest rate and extension of maturity date				Combination of reduction in interest rate and extension of maturity date				
	Reduction in interest rate	Extension of maturity date	Other		Reduction in interest rate	Extension of maturity date	Other		
Commercial multi-family						2			
Commercial real estate non-owner occupied	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	

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

(Dollars in thousands)	Puerto Rico			
	For the quarter ended September 30, 2016			
	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	\$ 469	\$ 3,085	\$ 860
Commercial real estate owner occupied	9	773	1,874	136
Commercial and industrial	8	246	301	21
Mortgage	211	24,718	24,054	1,646
Leasing	1	15	15	3

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Consumer:				
Credit cards	377	3,321	3,715	450
Personal	245	4,367	4,428	832
Auto	10	123	134	27
Other	6	23	23	4
Total	870	\$ 34,055	\$ 37,629	\$ 3,979

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

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Mortgage	7	\$ 537	\$ 627	\$ 134
Consumer:				
Personal	3	114	119	21
Total	10	\$ 651	\$ 746	\$ 155

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

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	3	\$ 469	\$ 3,085	\$ 860
Commercial real estate owner occupied	9	773	1,874	136
Commercial and industrial	8	246	301	21
Mortgage	218	25,255	24,681	1,780
Leasing	1	15	15	3
Consumer:				
Credit cards	377	3,321	3,715	450
Personal	248	4,481	4,547	853
Auto	10	123	134	27
Other	6	23	23	4
Total	880	\$ 34,706	\$ 38,375	\$ 4,134

Puerto Rico
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	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

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Total	905	\$	37,788	\$	38,775	\$	3,148
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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 nine months ended September 30, 2016

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	6	\$ 6,989	\$ 9,589	\$ 5,029
Commercial real estate owner occupied	43	11,623	11,648	473
Commercial and industrial	23	3,832	3,884	1
Mortgage	596	67,093	65,012	4,640
Leasing	1	15	15	3
Consumer:				
Credit cards	1,135	10,352	11,768	1,677
Personal	776	12,975	13,076	2,763
Auto	21	256	274	52
Other	27	78	80	14

Total	2,628	\$ 113,213	\$ 115,346	\$ 14,652
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U.S. mainland
For the nine months ended September 30, 2016

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Mortgage	26	\$ 2,498	\$ 2,690	\$ 767
Consumer:				
HELOCs	3	355	398	216
Personal	3	114	119	21
Total	32	\$ 2,967	\$ 3,207	\$ 1,004

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Popular, Inc.
For the nine months ended September 30, 2016

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	6	\$ 6,989	\$ 9,589	\$ 5,029
Commercial real estate owner occupied	43	11,623	11,648	473
Commercial and industrial	23	3,832	3,884	1
Mortgage	622	69,591	67,702	5,407
Leasing	1	15	15	3
Consumer:				
Credit cards	1,135	10,352	11,768	1,677
HELOCs	3	355	398	216
Personal	779	13,089	13,195	2,784
Auto	21	256	274	52
Other	27	78	80	14
Total	2,660	\$ 116,180	\$ 118,553	\$ 15,656

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

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, 2016 is inclusive of all partial paydowns and charge-offs since the modification date. Loans modified as a TDR that were fully paid down, charged-off or foreclosed upon by period end are not reported.

(Dollars in thousands)	Puerto Rico			
	Defaulted during the quarter ended September 30, 2016		Defaulted during the nine months ended September 30, 2016	
	Loan count	Recorded investment as of first default date	Loan count	Recorded investment as of first default date
Commercial real estate non-owner occupied		\$	2	\$ 327
Commercial real estate owner occupied	3	773	10	3,276
Commercial and industrial	3	758	5	785
Mortgage	52	5,409	132	14,132
Leasing			4	29

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Consumer:

Credit cards	109		1,084		221		2,259
Personal	34		623		93		2,375
Auto	3		63		6		111
Other	5		10		5		10
Total	209	\$	8,720		478	\$	23,304

During the quarter and nine months ended September 30, 2016, there were no U.S. mainland TDRs that were subject to payment default and that had been modified as a TDR during the twelve months preceding the default date.

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Popular, Inc.				
(Dollars in thousands)	Defaulted during the quarter ended September 30, 2016		Defaulted during the nine months ended September 30, 2016	
	Loan count	Recorded investment as of first default date	Loan count	Recorded investment as of first default date
Commercial real estate non-owner occupied		\$	2	\$ 327
Commercial real estate owner occupied	3	773	10	3,276
Commercial and industrial	3	758	5	785
Mortgage	52	5,409	132	14,132
Leasing			4	29
Consumer:				
Credit cards	109	1,084	221	2,259
Personal	34	623	93	2,375
Auto	3	63	6	111
Other	5	10	5	10
Total	209	\$ 8,720	478	\$ 23,304

Puerto Rico				
(Dollars in thousands)	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	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

U.S. Mainland

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(Dollars in thousands)	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

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(Dollars in thousands)	Popular, Inc. Defaulted during the quarter ended		Defaulted during the nine months ended	
	September 30, 2015		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
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	211	\$ 7,037	466	\$ 18,411

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, 2016 and December 31, 2015.

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September 30, 2016

(In thousands)	Watch	Special Mention	Substandard	Doubtful	Loss	Sub-total	Pass/ Unrated	Total
Puerto Rico^[1]								
Commercial multi-family	\$ 2,751	\$ 992	\$ 6,445	\$	\$	\$ 10,188	\$ 166,313	\$ 176,501
Commercial real estate non-owner occupied	317,867	392,113	369,350	210		1,079,540	1,518,911	2,598,451
Commercial real estate owner occupied	315,009	138,969	379,828	1,600		835,406	1,006,791	1,842,197
Commercial and industrial	148,672	121,248	239,447	794	14	510,175	2,126,845	2,637,020
Total								
Commercial	784,299	653,322	995,070	2,604	14	2,435,309	4,818,860	7,254,169
Construction	25	1,229	2,208			3,462	77,592	81,054
Mortgage	3,769	2,923	212,834			219,526	5,745,312	5,964,838
Leasing			2,878			2,878	679,932	682,810
Consumer:								
Credit cards			18,186			18,186	1,087,571	1,105,757
HELOCs			102			102	8,518	8,620
Personal	1,106	889	21,957			23,952	1,148,604	1,172,556
Auto			12,073		136	12,209	816,615	828,824
Other			17,239		152	17,391	160,682	178,073
Total Consumer	1,106	889	69,557		288	71,840	3,221,990	3,293,830
Total Puerto Rico	\$ 789,199	\$ 658,363	\$ 1,282,547	\$ 2,604	\$ 302	\$ 2,733,015	\$ 14,543,686	\$ 17,276,701
U.S. mainland								
Commercial multi-family	\$ 3,990	\$ 6,553	\$ 695	\$	\$	\$ 11,238	\$ 934,960	\$ 946,198
Commercial real estate non-owner occupied	59,157	197	4,887			64,241	1,161,757	1,225,998
Commercial real estate owner occupied	6,784		9,803			16,587	220,894	237,481
	4,035	560	152,385			156,980	716,365	873,345

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Commercial
and industrial

Total								
Commercial	73,966	7,310	167,770		249,046	3,033,976	3,283,022	
Construction		8,038	43,962		52,000	598,298	650,298	
Mortgage			14,429		14,429	795,230	809,659	
Legacy	981	837	4,768		6,586	41,328	47,914	
Consumer:								
Credit cards			82		82	191	273	
HELOCs			1,831	2,798	4,629	258,584	263,213	
Personal			1,398	569	1,967	262,647	264,614	
Auto						12	12	
Other						266	266	

Total								
Consumer			3,311	3,367	6,678	521,700	528,378	

Total U.S. mainland	\$ 74,947	\$ 16,185	\$ 234,240	\$	\$ 3,367	\$ 328,739	\$ 4,990,532	\$ 5,319,271
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Popular, Inc.

Commercial multi-family	\$ 6,741	\$ 7,545	\$ 7,140	\$	\$	\$ 21,426	\$ 1,101,273	\$ 1,122,699
Commercial real estate non-owner occupied	377,024	392,310	374,237	210		1,143,781	2,680,668	3,824,449
Commercial real estate owner occupied	321,793	138,969	389,631	1,600		851,993	1,227,685	2,079,678
Commercial and industrial	152,707	121,808	391,832	794	14	667,155	2,843,210	3,510,365

Total								
Commercial	858,265	660,632	1,162,840	2,604	14	2,684,355	7,852,836	10,537,191
Construction	25	9,267	46,170			55,462	675,890	731,352
Mortgage	3,769	2,923	227,263			233,955	6,540,542	6,774,497
Legacy	981	837	4,768			6,586	41,328	47,914
Leasing			2,878			2,878	679,932	682,810
Consumer:								
Credit cards			18,268			18,268	1,087,762	1,106,030
HELOCs			1,933	2,798	4,731	267,102	271,833	
Personal	1,106	889	23,355	569	25,919	1,411,251	1,437,170	
Auto			12,073	136	12,209	816,627	828,836	
Other			17,239	152	17,391	160,948	178,339	

Total								
Consumer	1,106	889	72,868		3,655	78,518	3,743,690	3,822,208

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Total Popular, Inc.	\$ 864,146	\$ 674,548	\$ 1,516,787	\$ 2,604	\$ 3,669	\$ 3,061,754	\$ 19,534,218	\$ 22,595,972
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The following table presents the weighted average obligor risk rating at September 30, 2016 for those classifications that consider a range of rating scales.

Weighted average obligor risk rating	(Scales 11 and 12)	(Scales 1 through 8)
Puerto Rico:^[1]	Substandard	Pass
Commercial multi-family	11.14	5.91
Commercial real estate non-owner occupied	11.07	6.89
Commercial real estate owner occupied	11.27	7.13
Commercial and industrial	11.14	7.16
Total Commercial	11.16	7.05
Construction	11.00	7.71
U.S. mainland:	Substandard	Pass
Commercial multi-family	11.30	7.26
Commercial real estate non-owner occupied	11.17	6.72
Commercial real estate owner occupied	11.11	7.32
Commercial and industrial	11.57	6.09
Total Commercial	11.53	6.78
Construction	11.00	7.71
Legacy	11.11	7.87

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

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December 31, 2015

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

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Commercial
and industrial

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

Total								
Consumer			2,187	3,234	5,421		485,956	491,377

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

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

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

Total								
Consumer	1,606	1,448	75,060		3,839	81,953	3,755,726	3,837,679

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Total Popular, Inc.	\$ 949,996	\$ 782,019	\$ 1,626,819	\$ 2,605	\$ 3,868	\$ 3,365,307	\$ 18,980,808	\$ 22,346,115
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The following table presents the weighted average obligor risk rating at December 31, 2015 for those classifications that consider a range of rating scales.

Weighted average obligor risk rating	(Scales 11 and 12)	(Scales 1 through 8)
Puerto Rico:[1]	Substandard	Pass
Commercial multi-family	11.13	6.04
Commercial real estate non-owner occupied	11.09	6.67
Commercial real estate owner occupied	11.23	7.08
Commercial and industrial	11.15	7.13
Total Commercial	11.16	6.95
Construction	11.18	7.56
U.S. mainland:	Substandard	Pass
Commercial multi-family	11.00	7.15
Commercial real estate non-owner occupied	11.02	6.92
Commercial real estate owner occupied	11.07	7.23
Commercial and industrial	11.57	6.24
Total Commercial	11.50	6.81
Construction	11.00	7.79
Legacy	11.11	7.78

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

Table of Contents**Note 11 FDIC loss-share asset and true-up payment obligation**

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

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

(In thousands)	Quarters ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Balance at beginning of period	\$ 214,029	\$ 392,947	\$ 310,221	\$ 542,454
Amortization of loss-share indemnification asset	(1,259)	(3,931)	(9,337)	(62,312)
Credit impairment losses (reversal) to be covered under loss-sharing agreements	659	(183)	(959)	15,710
Reimbursable expenses	853	6,276	7,038	70,551
Recoveries reimbursable to the FDIC			(4,093)	
Net payments from FDIC under loss-sharing agreements	(6,819)	(80,993)	(95,407)	(245,416)
Arbitration award expense	(54,924)		(54,924)	
Other adjustments attributable to FDIC loss-sharing agreements	(72)	(2,170)	(72)	(9,041)
Balance at end of period	\$ 152,467	\$ 311,946	\$ 152,467	\$ 311,946

The loss-share component of the arrangements applicable to commercial (including construction) loans expired during the quarter ended June 30, 2015. The agreement provides for reimbursement to the FDIC to continue through the quarter ending June 30, 2018, and for the single family mortgage loss-share component of such agreement to expire on April 30, 2020.

As of September 30, 2016, BPPR had unreimbursed loss claims related to the commercial loss-sharing arrangement amounting to \$87 million, reflected in the FDIC indemnification asset as a receivable from the FDIC. The \$87 million in unreimbursed loss claims, are the subject of certain arbitration proceedings described on Note 23, Commitments and Contingencies, and take into consideration the arbitration award issued by a review board on October 3, 2016, denying BPPR's request for reimbursement of approximately \$55 million in shared loss claims under the commercial loss share agreement. As a result of this award, the Corporation also recognized a pre-tax charge of \$54.9 million and a corresponding reduction to its FDIC indemnification asset for the quarter ended September 30, 2016.

The weighted average life of the single family loan portfolio accounted for under ASC 310-30 subject to the FDIC loss-sharing agreement at September 30, 2016 is 7.07 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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Of the four components used to estimate the true-up payment obligation (intrinsic loss estimate, asset discount, cumulative shared-loss payments, and period servicing amounts) only the cumulative shared-loss payments and the period servicing amounts will change on a quarterly basis. These two variables are the main drivers of changes in the undiscounted true-up payment obligation. In order to estimate the true-up obligation, actual and expected portfolio performance for loans under both the commercial and residential loss sharing agreement are contemplated. The cumulative shared loss payments and cumulative servicing amounts are derived from our quarterly loss reassessment process for covered loans accounted for under ASC 310-30.

Once the undiscounted true-up payment obligation is determined, the fair value is estimated based on the contractual remaining term to settle the obligation and a discount rate that is composed of the sum of the interpolated U.S. Treasury Note (T Note), defined by the remaining term of the true-up payment obligation, and a risk premium determined by the spread of the Corporation's outstanding senior unsecured debt over the equivalent T Note.

The following table provides the fair value and the undiscounted amount of the true-up payment obligation at September 30, 2016 and December 31, 2015.

(In thousands)	September 30, 2016	December 31, 2015
Carrying amount (fair value)	\$ 134,487	\$ 119,745
Undiscounted amount	\$ 166,453	\$ 168,692

The increase in the fair value of the true-up payment obligation was principally driven by a decrease in the discount rate, from 7.64% in 2015 to 5.70% in 2016. A lower risk premium was the driver of the decrease in the discount rate.

As described above, the estimate of the true up payment obligation is determined by applying the provisions of the loss sharing agreements and will change on a quarterly basis. The amount of the estimate of the true up payment obligation is expected to change in future periods and may be subject to the interpretation of provision of the loss sharing agreements.

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

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

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

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

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

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

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

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

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

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

Table of Contents**Note 12 Mortgage banking activities**

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

The following table presents the components of mortgage banking activities:

(In thousands)	Quarters ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Mortgage servicing fees, net of fair value adjustments:				
Mortgage servicing fees	\$ 14,520	\$ 17,020	\$ 43,997	\$ 43,957
Mortgage servicing rights fair value adjustments	(6,062)	1,038	(18,879)	(5,808)
Total mortgage servicing fees, net of fair value adjustments	8,458	18,058	25,118	38,149
Net gain on sale of loans, including valuation on loans held-for-sale	8,857	9,698	24,441	24,999
Trading account (loss) profit:				
Unrealized (losses) gains on outstanding derivative positions	95	(69)	(44)	(10)
Realized (losses) gains on closed derivative positions	(2,138)	(3,492)	(7,465)	(4,766)
Total trading account (loss) profit	(2,043)	(3,561)	(7,509)	(4,776)
Total mortgage banking activities	\$ 15,272	\$ 24,195	\$ 42,050	\$ 58,372

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

The Corporation typically transfers conforming residential mortgage loans in conjunction with GNMA and FNMA securitization transactions whereby the loans are exchanged for cash or securities and servicing rights. As seller, the Corporation has made certain representations and warranties with respect to the originally transferred loans and, in the past, has sold certain loans with credit recourse to a government-sponsored entity, namely FNMA. Refer to Note 22 to the consolidated financial statements for a description of such arrangements.

No liabilities were incurred as a result of these securitizations during the quarters and nine months ended September 30, 2016 and 2015 because they did not contain any credit recourse arrangements. During the quarter ended September 30, 2016, the Corporation recorded a net gain of \$8.4 million (September 30, 2015 \$9.1 million) related to the residential mortgage loans securitized. During the nine months ended September 30, 2016, the Corporation recorded a net gain of \$22.6 million (September 30, 2015 \$22.8 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, 2016 and 2015:

(In thousands)	Proceeds Obtained During the Quarter Ended September 30, 2016			Initial Fair Value
	Level 1	Level 2	Level 3	
Assets				
Investments securities available for sale:				
Mortgage-backed securities - GNMA	\$	\$ 20,686	\$	\$ 20,686
Mortgage-backed securities - FNMA		5,138		5,138
Total investment securities available-for-sale	\$	\$ 25,824	\$	\$ 25,824
Trading account securities:				
Mortgage-backed securities - GNMA	\$	\$ 140,255	\$	\$ 140,255
Mortgage-backed securities - FNMA		44,574		44,574
Total trading account securities	\$	\$ 184,829	\$	\$ 184,829
Mortgage servicing rights	\$	\$	\$ 2,695	\$ 2,695
Total	\$	\$ 210,653	\$ 2,695	\$ 213,348

(In thousands)	Proceeds Obtained During the Nine Months Ended September 30, 2016			Initial Fair Value
	Level 1	Level 2	Level 3	
Assets				
Investments securities available for sale:				
Mortgage-backed securities - GNMA	\$	\$ 20,686	\$	\$ 20,686
Mortgage-backed securities - FNMA		5,138		5,138

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Total investment securities available-for-sale	\$	\$ 25,824	\$	\$ 25,824
Trading account securities:				
Mortgage-backed securities - GNMA	\$	\$ 444,382	\$	\$ 444,382
Mortgage-backed securities - FNMA		123,888		123,888
Total trading account securities	\$	\$ 568,270	\$	\$ 568,270
Mortgage servicing rights	\$	\$	\$ 7,235	\$ 7,235
Total	\$	\$ 594,094	\$ 7,235	\$ 601,329

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(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	
Assets				
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	\$ 10,078	\$ 835,204

During the nine months ended September 30, 2016, the Corporation retained servicing rights on whole loan sales involving approximately \$46 million in principal balance outstanding (September 30, 2015 - \$56 million), with realized gains of approximately \$1.9 million (September 30, 2015 - gains of \$2.2 million). All loan sales performed during the nine months ended September 30, 2016 and 2015 were without credit recourse agreements.

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

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

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

	Residential MSRs	
(In thousands)	September 30, 2016	September 30, 2015
Fair value at beginning of period	\$ 211,405	\$ 148,694
Additions	7,843	73,411
Changes due to payments on loans ^[1]	(13,381)	(12,891)
Reduction due to loan repurchases	(1,183)	(1,576)
Changes in fair value due to changes in valuation model inputs or assumptions	(4,315)	3,213
Other disposals	(15)	
Fair value at end of period	\$ 200,354	\$ 210,851

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

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Additions to mortgage servicing rights for the nine months ended September 30, 2015 include those acquired as part of the Doral Bank Transaction and those assumed for a portfolio previously serviced by Doral Bank in connection with a pre-existing backup servicing agreement.

Residential mortgage loans serviced for others were \$18.4 billion at September 30, 2016 (December 31, 2015 \$20.6 billion).

Net mortgage servicing fees, a component of mortgage banking activities in the consolidated statements of operations, include the changes from period to period in the fair value of the MSR, including changes due to collection / realization of expected cash flows. The banking subsidiaries receive servicing fees based on a percentage of the outstanding loan balance. At September 30, 2016, those weighted average mortgage servicing fees were 0.29% (September 30, 2015 0.28%). 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, 2016 and 2015 were as follows:

	Quarters ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Prepayment speed	4.6%	7.0%	5.2%	7.0%
Weighted average life	10.6 years	8.8 years	10.1 years	7.1 years
Discount rate (annual rate)	11.0%	11.1%	11.0%	11.0%

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 servicing rights purchased from other financial institutions, and the sensitivity to immediate changes in those assumptions, were as follows as of the end of the periods reported:

(In thousands)	Originated MSR		Purchased MSR	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Fair value of servicing rights	\$ 91,628	\$ 98,648	\$ 108,726	\$ 112,757
Weighted average life (in years)	7.4	7.3	6.5	6.2
Weighted average prepayment speed (annual rate)	5.5%	6.0%	5.9%	6.9%
Impact on fair value of 10% adverse change	\$ (2,074)	\$ (2,488)	\$ (2,475)	\$ (2,871)
Impact on fair value of 20% adverse change	\$ (4,307)	\$ (5,241)	\$ (5,118)	\$ (6,034)
Weighted average discount rate (annual rate)	11.5%	11.5%	11.0%	11.0%
	\$ (3,741)	\$ (4,083)	\$ (4,085)	\$ (4,211)

Impact on fair value of 10%
adverse change

Impact on fair value of 20%

adverse change \$ (7,431) \$ (8,206) \$ (8,134) \$ (8,525)

The sensitivity analyses presented in the tables above for servicing rights are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 and 20 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in the sensitivity tables included herein, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments and increased credit losses), which might magnify or counteract the sensitivities.

At September 30, 2016, the Corporation serviced \$1.7 billion (December 31, 2015 - \$1.9 billion) in residential mortgage loans with credit recourse to the Corporation.

Under the GNMA securitizations, the Corporation, as servicer, has the right to repurchase (but not the obligation), at its option and without GNMA's prior authorization, any loan that is collateral for a GNMA guaranteed mortgage-backed security when certain delinquency criteria are met. At the time that individual loans meet GNMA's specified delinquency criteria and are eligible for repurchase, the Corporation is deemed to have regained effective control over these loans if the Corporation was the pool issuer. At

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September 30, 2016, the Corporation had recorded \$160 million in mortgage loans on its consolidated statements of financial condition related to this buy-back option program (December 31, 2015 - \$140 million). As long as the Corporation continues to service the loans that continue to be collateral in a GNMA guaranteed mortgage-backed security, the MSR is recognized by the Corporation. During the nine months ended September 30, 2016, the Corporation repurchased approximately \$ 67 million (September 30, 2015 - \$68 million) of mortgage loans under the GNMA buy-back option program. The determination to repurchase these loans was based on the economic benefits of the transaction, which results in a reduction of the servicing costs for these severely delinquent loans, mostly related to principal and interest advances. Furthermore, due to their guaranteed nature, the risk associated with the loans is minimal. The Corporation places these loans under its loss mitigation programs and once brought back to current status, these may be either retained in portfolio or re-sold in the secondary market.

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

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

(In thousands)	For the quarter ended September 30, 2016			
	Non-covered OREO	Non-covered OREO	Covered OREO	Total
	Commercial/Construction	Mortgage	Mortgage	
Balance at beginning of period	\$ 24,110	\$ 152,915	\$ 37,984	\$ 215,009
Write-downs in value	(255)	(2,859)	(667)	(3,781)
Additions	2,388	27,355	4,212	33,955
Sales	(5,052)	(13,866)	(3,803)	(22,721)
Other adjustments		92	(312)	(220)
Ending balance	\$ 21,191	\$ 163,637	\$ 37,414	\$ 222,242

(In thousands)	For the nine months ended September 30, 2016			
	Non-covered OREO	Non-covered OREO	Covered OREO	Total
	Commercial/Construction	Mortgage	Mortgage	
Balance at beginning of period	\$ 32,471	\$ 122,760	\$ 36,685	\$ 191,916
Write-downs in value	(2,533)	(6,489)	(1,533)	(10,555)
Additions	5,500	83,255	13,935	102,690
Sales	(13,632)	(34,769)	(10,759)	(59,160)
Other adjustments	(615)	(1,120)	(914)	(2,649)
Ending balance	\$ 21,191	\$ 163,637	\$ 37,414	\$ 222,242

(In thousands)	For the quarter ended September 30, 2015			
	Non-covered OREO	Non-covered OREO	Covered OREO	Total
	Commercial/Construction	Mortgage	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	Non-covered OREO	Covered OREO	Covered OREO	
	Commercial/Construction	Mortgage	Commercial/Construction	Mortgage	
Balance at beginning of period	\$ 38,983	\$ 96,517	\$ 85,394	\$ 44,872	\$ 265,766
Write-downs in value	(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	\$ 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.

Table of Contents**Note 15 Other assets**

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

(In thousands)	September 30, 2016	December 31, 2015
Net deferred tax assets (net of valuation allowance)	\$ 1,231,356	\$ 1,302,452
Investments under the equity method	214,797	212,838
Prepaid taxes	175,400	180,969
Other prepaid expenses	88,071	79,215
Derivative assets	13,427	16,959
Trades receivable from brokers and counterparties	80,125	78,759
Principal, interest and escrow servicing advances	74,475	79,862
Guaranteed mortgage loan claims receivable	151,478	101,628
Others	134,810	140,480
Total other assets	\$ 2,163,939	\$ 2,193,162

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

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

(In thousands)	2016				
	Balance at January 1, 2016	Goodwill on acquisition	Purchase accounting adjustments	Goodwill impairment	Balance at September 30, 2016
Banco Popular de Puerto Rico	\$ 280,221	\$	\$	\$ (3,801)	\$ 276,420
Banco Popular North America	346,167		4,707		350,874
Total Popular, Inc.	\$ 626,388	\$	\$ 4,707	\$ (3,801)	\$ 627,294

(In thousands)	2015				
	Balance at January 1, 2015	Goodwill on acquisition	Purchase accounting adjustments	Goodwill impairment	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

During the third quarter of 2016, the Corporation recorded a goodwill impairment charge of \$3.8 million at the securities subsidiary as part of its annual goodwill impairment test.

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

The goodwill recorded during 2015 was related to the Doral Bank Transaction. The Corporation recorded purchase accounting adjustments during 2015 of \$1.0 million related to the Doral Bank Transaction and of \$2.4 million related to the acquisition of an insurance benefits business during 2014.

Other Intangible Assets

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

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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, 2016			
Core deposits	\$ 63,539	\$ 43,467	\$ 20,072
Other customer relationships	36,449	14,748	21,701
Total other intangible assets	\$ 99,988	\$ 58,215	\$ 41,773
December 31, 2015			
Core deposits	\$ 63,539	\$ 38,464	\$ 25,075
Other customer relationships	37,665	10,745	26,920
Total other intangible assets	\$ 101,204	\$ 49,209	\$ 51,995

During the quarter ended September 30, 2016, the Corporation recognized \$ 3.1 million in amortization expense related to other intangible assets with definite useful lives (September 30, 2015 - \$ 3.5 million). During the nine months ended September 30, 2016, the Corporation recognized \$ 9.3 million in amortization related to other intangible assets with definite useful lives (September 30, 2015 - \$ 8.5 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 2016	\$ 2,836
Year 2017	9,378
Year 2018	9,286
Year 2019	9,042
Year 2020	4,967
Year 2021	2,157

Results of the Annual Goodwill Impairment Test

The Corporation's goodwill and other identifiable intangible assets having an indefinite useful life are tested for impairment, at least annually and on a more frequent basis if events or circumstances indicate impairment could have taken place. Such events could include, among others, a significant adverse change in the business climate, an adverse action by a regulator, an unanticipated change in the competitive environment and a decision to change the operations or dispose of a reporting unit.

Under applicable accounting standards, goodwill impairment analysis is a two-step test. The first step of the goodwill impairment test involves comparing the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, the second step must be

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

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The Corporation performed the annual goodwill impairment evaluation for the entire organization during the third quarter of 2016 using July 31, 2016 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 9.47% to 13.72% for the 2016 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.

Popular Securities failed Step 1 of the annual goodwill impairment evaluation as of July 31, 2016 requiring the completion of Step 2. To complete Step 2, the Corporation subtracted from Popular Securities' Step 1 fair value the determined fair value of the net assets to arrive at the implied fair value of goodwill. The results of the Step 2 indicated that the implied fair value of goodwill was below the carrying value resulting in an impairment charge of \$3.8 million at July 31, 2016.

BPPR passed Step 1 in the annual test as of July 31, 2016. The results indicated that the average estimated fair value calculated in Step 1 using all valuation methodologies exceeded BPPR's equity value by approximately \$549 million or 16%. Accordingly, there was no indication of impairment on the goodwill recorded in BPPR at July 31, 2016 and there was no need for a Step 2 analysis.

BPNA failed Step 1 in the annual test as of July 31, 2016 requiring the completion of Step 2. To complete Step 2, the Corporation subtracted from BPNA's Step 1 fair value the determined fair value of the net assets to arrive at the implied fair value of goodwill. The results of the Step 2 indicated that the implied fair value of goodwill exceeded the goodwill carrying value by \$166 million at July

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31, 2016 resulting in no goodwill impairment. If the fair value of BPNA, which is principally impacted by its expected level of profitability, declines further in the future without a corresponding decrease in the fair value of its net assets or if loan discounts improve without a corresponding increase in fair value of the BPNA reporting unit, the Corporation may be required to record a goodwill impairment charge.

The goodwill balance of BPPR and BPNA, as legal entities, represented approximately 98% of the Corporation's total goodwill balance as of the July 31, 2016 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, 2016 annual assessment were reasonable.

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

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

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

(In thousands)	September 30, 2016					
	Balance at January 1, 2016 (gross amounts)	Accumulated impairment losses	Balance at January 1, 2016 (net amounts)	Balance at September 30, 2016 (gross amounts)	Accumulated impairment losses	Balance at September 30, 2016 (net amounts)
Banco Popular de Puerto Rico	\$ 280,221	\$	\$ 280,221	\$ 280,221	\$ 3,801	\$ 276,420
Banco Popular North America	510,578	164,411	346,167	515,285	164,411	350,874
Total Popular, Inc.	\$ 790,799	\$ 164,411	\$ 626,388	\$ 795,506	\$ 168,212	\$ 627,294

(In thousands)	December 31, 2015					
	Balance at January 1, 2015 (gross amounts)	Accumulated impairment losses	Balance at January 1, 2015 (net amounts)	Balance at December 31, 2015 (gross amounts)	Accumulated impairment losses	Balance at December 31, 2015 (net amounts)
Banco Popular de Puerto Rico	\$ 250,109	\$	\$ 250,109	\$ 280,221	\$	\$ 280,221
	379,978	164,411	215,567	510,578	164,411	346,167

Banco Popular North
America

Total Popular, Inc.	\$ 630,087	\$ 164,411	\$ 465,676	\$ 790,799	\$ 164,411	\$ 626,388
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Total interest bearing deposits as of the end of the periods presented consisted of:

(In thousands)	September 30, 2016	December 31, 2015
Savings accounts	\$ 7,467,000	\$ 7,010,391
NOW, money market and other interest bearing demand deposits	8,007,752	5,632,449
Total savings, NOW, money market and other interest bearing demand deposits	15,474,752	12,642,840
Certificates of deposit:		
Under \$100,000	3,668,667	4,014,359
\$100,000 and over	4,233,339	4,151,009
Total certificates of deposit	7,902,006	8,165,368
Total interest bearing deposits	\$ 23,376,758	\$ 20,808,208

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

(In thousands)	
2016	\$ 2,153,326
2017	2,331,194
2018	1,122,454
2019	641,676
2020	924,486
2021 and thereafter	728,870
Total certificates of deposit	\$ 7,902,006

At September 30, 2016, the Corporation had brokered deposits amounting to \$ 0.7 billion (December 31, 2015 - \$ 1.3 billion).

The aggregate amount of overdrafts in demand deposit accounts that were reclassified to loans was \$20 million at September 30, 2016 (December 31, 2015 - \$11 million).

Table of Contents**Note 18 Borrowings**

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

(In thousands)	September 30, 2016	December 31, 2015
Federal funds purchased	\$	\$ 50,000
Assets sold under agreements to repurchase	765,251	712,145
Total federal funds purchased and assets sold under agreements to repurchase	\$ 765,251	\$ 762,145

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

Repurchase agreements accounted for as secured borrowings

(In thousands)	September 30, 2016 Repurchase liability	December 31, 2015 Repurchase liability
U.S. Treasury Securities		
Within 30 days	\$ 19,260	\$
After 30 to 90 days	34,793	
After 90 days	32,700	
Total U.S. Treasury Securities	86,753	
Obligations of U.S. government sponsored entities		
Within 30 days	81,832	243,708
After 30 to 90 days	72,900	
After 90 days	149,409	23,366
Total obligations of U.S. government sponsored entities	304,141	267,074
Mortgage-backed securities		
Within 30 days	51,456	124,878
After 30 to 90 days	149,665	154,582
After 90 days	147,330	142,441

Total mortgage-backed securities	348,451	421,901
Collateralized mortgage obligations		
Within 30 days	25,906	10,298
After 30 to 90 days		12,872
Total collateralized mortgage obligations	25,906	23,170
Total	\$ 765,251	\$ 712,145

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

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

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(In thousands)	September 30, 2016	December 31, 2015
Others	\$ 1,200	\$ 1,200
Total other short-term borrowings	\$ 1,200	\$ 1,200

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

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

(In thousands)	September 30, 2016	December 31, 2015
Advances with the FHLB with maturities ranging from 2016 through 2029 paying interest at monthly fixed rates ranging from 0.71% to 4.19 %	\$ 632,151	\$ 747,072
Advances with the FHLB with maturities ranging from 2018 through 2019 paying interest monthly at a floating rates ranging from 0.22% to 0.34% over the 1 month LIBOR	34,164	
Advances with the FHLB with maturities ranging from 2017 through 2019 paying interest quarterly at a floating rate from (0.01)% to 0.24% over the 3 month LIBOR	30,313	14,429
Unsecured senior debt securities maturing on 2019 paying interest semiannually at a fixed rate of 7.00%, net of debt issuance costs of \$5,733 (2015 - \$7,296)	444,268	442,704
Junior subordinated deferrable interest debentures (related to trust preferred securities) with maturities ranging from 2027 to 2034 with fixed interest rates ranging from 6.125% to 8.327%, net of debt issuance costs of \$483 (2015 - \$505)	439,316	439,295
Others	18,321	19,008
Total notes payable	\$ 1,598,533	\$ 1,662,508

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

At September 30, 2016, the Corporation's banking subsidiaries had credit facilities authorized with the FHLB and the Federal Reserve discount window aggregating to \$3.9 billion and \$1.2 billion (December 31, 2015 - \$3.9 billion and \$1.3 billion, respectively), which were collateralized by loans held-in-portfolio. At September 30, 2016, the Corporation used \$897 million of the available credit facility with the FHLB (December 31, 2015 - \$762 million),

which includes \$200 million used for a municipal letter of credit to secure deposits, while the borrowing capacity at the discount window remains unused.

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

(In thousands)	Fed funds purchased and assets sold under agreements to repurchase	Short-term borrowings	Notes payable	Total
Year				
2016	\$ 484,812	\$ 1,200	\$ 23,886	\$ 509,898
2017	280,439		95,939	376,378
2018			210,475	210,475
2019			597,055	597,055
2020			112,383	112,383
Later years			558,795	558,795
Total borrowings	\$ 765,251	\$ 1,200	\$ 1,598,533	\$ 2,364,984

Table of Contents**Note 19 Offsetting of financial assets and liabilities**

The following tables present the potential effect of rights of setoff associated with the Corporation's recognized financial assets and liabilities at September 30, 2016 and December 31, 2015.

(In thousands)	As of September 30, 2016						
	Gross Amount of Recognized Assets	Net Amounts of		Gross Amounts Not Offset in the Statement of			Net Amount
		Gross Amount Offset in the Statement of Financial Position	Assets Presented in the Statement of Financial Position	Financial Instruments	Securities Collateral Received	Cash Collateral Received	
Derivatives	\$ 13,427	\$	\$ 13,427	\$ 336	\$	\$	\$ 13,091
Reverse repurchase agreements	22,380		22,380		22,380		
Total	\$ 35,807	\$	\$ 35,807	\$ 336	\$ 22,380	\$	\$ 13,091

(In thousands)	As of September 30, 2016						
	Gross Amount of Recognized Liabilities	Net		Gross Amounts Not Offset in the Statement of			Net Amount
		Gross Amount Offset in the Statement of Financial Position	Liabilities Presented in the Statement of Financial Position	Financial Instruments	Securities Collateral Pledged	Cash Collateral Pledged	
Derivatives	\$ 11,214	\$	\$ 11,214	\$ 336	\$ 1,546	\$	\$ 9,332
Repurchase agreements	765,251		765,251		765,251		
Total	\$ 776,465	\$	\$ 776,465	\$ 336	\$ 766,797	\$	\$ 9,332

(In thousands)	As of December 31, 2015						
	Gross Amount	Gross Amounts Offset	Net Amounts of Assets	Financial Instruments	Securities Collateral	Cash Collateral	Net Amount

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	of Recognized Assets	in the Statement of Financial Position	Presented in the Statement of Financial Position		Received	Received	
Derivatives	\$ 16,959	\$	\$ 16,959	\$ 114	\$	\$	\$ 16,845
Reverse repurchase agreements	96,338		96,338		96,338		
Total	\$ 113,297	\$	\$ 113,297	\$ 114	\$ 96,338	\$	\$ 16,845

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

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

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Note 20 Stockholders equity

During the nine months ended September 30, 2016, the Corporation declared quarterly dividends on its common stock of \$0.15 per share, for a total of \$ 46.7 million. The quarterly dividend declared to shareholders of record as of the close of business on September 9, 2016, which amounted to \$15.6 million, was paid on October 3, 2016.

BPPR statutory reserve

The Banking Act of the Commonwealth of Puerto Rico requires that a minimum of 10% of BPPR's net income for the year be transferred to a statutory reserve account until such statutory reserve equals the total of paid-in capital on common and preferred stock. Any losses incurred by a bank must first be charged to retained earnings and then to the reserve fund. Amounts credited to the reserve fund may not be used to pay dividends without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The failure to maintain sufficient statutory reserves would preclude BPPR from paying dividends. BPPR's statutory reserve fund amounted to \$495 million at September 30, 2016 (December 31, 2015 \$495 million). There were no transfers between the statutory reserve account and the retained earnings account during the quarters and nine months ended September 30, 2016 and September 30, 2015.

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

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

		Changes in Accumulated Other Comprehensive Loss by Component [1]			
		Quarters ended September 30,		Nine months ended September 30,	
(In thousands)		2016	2015	2016	2015
Foreign currency translation	Beginning Balance	\$ (38,070)	\$ (34,505)	\$ (35,930)	\$ (32,832)
	Other comprehensive loss	(325)	(31)	(2,465)	(1,704)
	Net change	(325)	(31)	(2,465)	(1,704)
	Ending balance	\$ (38,395)	\$ (34,536)	\$ (38,395)	\$ (34,536)
Adjustment of pension and postretirement benefit plans	Beginning Balance	\$ (205,743)	\$ (200,215)	\$ (211,276)	\$ (205,187)
	Amounts reclassified from accumulated other comprehensive loss for amortization of net losses	3,348	3,064	10,041	9,195
	Amounts reclassified from accumulated other comprehensive loss for amortization of prior service cost	(580)	(579)	(1,740)	(1,738)
	Net change	2,768	2,485	8,301	7,457
	Ending balance	\$ (202,975)	\$ (197,730)	\$ (202,975)	\$ (197,730)
Unrealized holding (losses) gains on investments	Beginning Balance	\$ 98,761	\$ 15,533	\$ (9,560)	\$ 8,465
	Other comprehensive (loss) income before reclassifications	(14,131)	27,435	94,023	22,548
	Other-than-temporary impairment amount reclassified from accumulated other comprehensive income			167	11,959
	Amounts reclassified from accumulated other comprehensive income for gains on securities	(316)	(109)	(316)	(113)

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Net change		(14,447)	27,326	93,874	34,394
Ending balance		\$ 84,314	\$ 42,859	\$ 84,314	\$ 42,859
Unrealized net losses on cash flow hedges					
Beginning Balance		\$ (560)	\$ 156	\$ (120)	\$ (318)
Other comprehensive loss before reclassifications		(685)	(1,571)	(2,843)	(2,505)
Amounts reclassified from accumulated other comprehensive loss		1,006	1,016	2,724	2,424
Net change		321	(555)	(119)	(81)
Ending balance		\$ (239)	\$ (399)	\$ (239)	\$ (399)
Total		\$ (157,295)	\$ (189,806)	\$ (157,295)	\$ (189,806)

[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, 2016 and 2015.

		Reclassifications Out of Accumulated Other Comprehensive Loss			
		Quarters ended		Nine months ended	
(In thousands)	Affected Line Item in the Consolidated Statements of Operations	September 30, 2016	2015	September 30, 2016	2015
Adjustment of pension and postretirement benefit plans					
Amortization of net losses	Personnel costs	\$ (5,488)	\$ (5,025)	\$ (16,461)	\$ (15,075)
Amortization of prior service cost	Personnel costs	950	950	2,850	2,850
	Total before tax	(4,538)	(4,075)	(13,611)	(12,225)
	Income tax benefit	1,770	1,590	5,310	4,768
	Total net of tax	\$ (2,768)	\$ (2,485)	\$ (8,301)	\$ (7,457)
Unrealized holding (losses) gains on investments					
Other-than-temporary impairment	Other-than-temporary impairment losses on available-for-sale debt securities	\$	\$	\$ (209)	\$ (14,445)
Realized gains on sale of securities	Net gain on sale of investment securities	349	136	349	141
	Total before tax	349	136	140	(14,304)
	Income tax (expense) benefit	(33)	(27)	9	2,458
	Total net of tax	\$ 316	\$ 109	\$ 149	\$ (11,846)
Unrealized net losses on cash flow hedges					
Forward contracts	Mortgage banking activities	\$ (1,650)	\$ (1,664)	\$ (4,466)	\$ (3,973)
	Total before tax	(1,650)	(1,664)	(4,466)	(3,973)
	Income tax benefit	644	648	1,742	1,549
	Total net of tax	\$ (1,006)	\$ (1,016)	\$ (2,724)	\$ (2,424)
	Total reclassification adjustments, net of tax	\$ (3,458)	\$ (3,392)	\$ (10,876)	\$ (21,727)

Table of Contents**Note 22 Guarantees**

At September 30, 2016, the Corporation recorded a liability of \$0.4 million (December 31, 2015 \$0.5 million), which represents the unamortized balance of the obligations undertaken in issuing the guarantees under the standby letters of credit. Management does not anticipate any material losses related to these instruments.

From time to time, the Corporation securitized mortgage loans into guaranteed mortgage-backed securities subject to limited, and in certain instances, lifetime credit recourse on the loans that serve as collateral for the mortgage-backed securities. The Corporation has not sold any mortgage loans subject to credit recourse since 2009. At September 30, 2016, the Corporation serviced \$ 1.7 billion (December 31, 2015 - \$ 1.9 billion) in residential mortgage loans subject to credit recourse provisions, principally loans associated with FNMA and FHLMC residential mortgage loan securitization programs. In the event of any customer default, pursuant to the credit recourse provided, the Corporation is required to repurchase the loan or reimburse the third party investor for the incurred loss. The maximum potential amount of future payments that the Corporation would be required to make under the recourse arrangements in the event of nonperformance by the borrowers is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. During the quarter and nine months ended September 30, 2016, the Corporation repurchased approximately \$ 11 million and \$ 34 million, respectively, of unpaid principal balance in mortgage loans subject to the credit recourse provisions (September 30, 2015 - \$ 14 million and \$ 44 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, 2016, the Corporation's liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to \$ 56 million (December 31, 2015 - \$ 59 million).

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

(In thousands)	Quarters ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Balance as of beginning of period	\$ 56,931	\$ 57,589	\$ 58,663	\$ 59,438
Provision for recourse liability	4,086	4,394	11,613	15,262
Net charge-offs	(4,737)	(4,927)	(13,996)	(17,644)
Balance as of end of period	\$ 56,280	\$ 57,056	\$ 56,280	\$ 57,056

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

From time to time, the Corporation sells loans and agrees to indemnify the purchaser for credit losses or any breach of certain representations and warranties made in connection with the sale. The following table presents the changes in

the Corporation's liability for estimated losses associated with indemnifications and representations and warranties related to loans sold by BPPR for the quarters and nine months ended September 30, 2016 and 2015.

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(In thousands)	Quarters ended September 30		Nine months ended September 30,	
	2016	2015	2016	2015
Balance as of beginning of period	\$ 10,702	\$ 6,062	\$ 8,087	\$ 15,959
Provision (reversal) for representation and warranties	(34)	1,409	2,767	(6,199)
Net charge-offs	(27)	(14)	(213)	(53)
Settlements paid				(2,250)
Balance as of end of period	\$ 10,641	\$ 7,457	\$ 10,641	\$ 7,457

In addition, the Corporation has reserves for customary representations and warranties related to loans sold by its U.S. subsidiary E-LOAN prior to 2009, which amounted to \$ 2 million at September 30, 2016 (December 31, 2015 - \$ 4 million). E-LOAN is no longer originating and selling loans.

Servicing agreements relating to the mortgage-backed securities programs of FNMA and GNMA, and to mortgage loans sold or serviced to certain other investors, including FHLMC, require the Corporation to advance funds to make scheduled payments of principal, interest, taxes and insurance, if such payments have not been received from the borrowers. At September 30, 2016, the Corporation serviced \$18.4 billion in mortgage loans for third-parties, including the loans serviced with credit recourse (December 31, 2015 - \$20.6 billion). The Corporation generally recovers funds advanced pursuant to these arrangements from the mortgage owner, from liquidation proceeds when the mortgage loan is foreclosed or, in the case of FHA/VA loans, under the applicable FHA and VA insurance and guarantees programs. However, in the meantime, the Corporation must absorb the cost of the funds it advances during the time the advance is outstanding. The Corporation must also bear the costs of attempting to collect on delinquent and defaulted mortgage loans. In addition, if a defaulted loan is not cured, the mortgage loan would be canceled as part of the foreclosure proceedings and the Corporation would not receive any future servicing income with respect to that loan. At September 30, 2016, the outstanding balance of funds advanced by the Corporation under such mortgage loan servicing agreements was approximately \$74 million, including advances on the portfolio acquired from Doral Bank (December 31, 2015 - \$80 million). To the extent the mortgage loans underlying the Corporation's servicing portfolio experience increased delinquencies, the Corporation would be required to dedicate additional cash resources to comply with its obligation to advance funds as well as incur additional administrative costs related to increases in collection efforts.

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

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

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

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

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

(In thousands)	September 30, 2016	December 31, 2015
Commitments to extend credit:		
Credit card lines	\$ 4,542,246	\$ 4,552,331
Commercial and construction lines of credit	2,813,109	2,619,092
Other consumer unused credit commitments	266,780	262,685
Commercial letters of credit	5,723	2,040
Standby letters of credit	37,097	49,670
Commitments to originate or fund mortgage loans	29,195	21,311

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

Other commitments

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

Business concentration

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

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

PROMESA and the Commonwealth's Fiscal Plan

On June 30, 2016, President Obama signed the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) into law. PROMESA established a seven-member oversight board with broad powers over the finances of the Commonwealth and its instrumentalities (the Oversight Board).

Among other things, PROMESA provides for: (i) a stay on litigation to enforce remedies or rights related to outstanding liabilities of the Commonwealth, its political subdivisions, including municipalities, instrumentalities and public corporations and (ii) two separate processes for the restructuring of the debt obligations of such entities. PROMESA also includes other miscellaneous provisions, including relief from certain wage and hour laws and regulations and provisions for identification and expedited permitting of critical infrastructure projects.

During the first meeting of the Oversight Board, held on September 30, 2016, the Oversight Board announced the designation of a number of entities as covered entities under PROMESA, including the Commonwealth, all of its public corporations and retirement systems, UPR, and all affiliates and subsidiaries of the foregoing. While the Oversight Board has the power to designate any of the Commonwealth's municipalities as covered entities under PROMESA, it has not done so as of the date hereof.

The designation of an entity as a covered entity has various implications under PROMESA. First, it means that the Governor will have to submit such entity's annual budgets and, if the Oversight Board so requests, its fiscal plans, to the Oversight Board for its review and approval. Second, covered territorial instrumentalities may not issue debt or guarantee, exchange, modify, repurchase, redeem, or enter into similar transactions with respect to their debts without the prior approval of the Oversight Board. Third, pursuant to certain contracting guidelines approved by the Oversight Board, prior Oversight Board approval is required in connection with any transaction undertaken by a covered entity that (i) is outside the ordinary course of business or (ii) has a material financial impact. Finally, covered entities could also potentially be eligible to use the restructuring procedures provided by PROMESA. The first, Title VI, is a largely out-of-court process through which a government entity and its financial creditors can agree on terms to restructure such entity's debt. If a supermajority of creditors of a certain category agree, that agreement can bind all other creditors in such category. The second, Title III, draws on the federal bankruptcy code and provides a court-supervised process for a comprehensive restructuring led by the Oversight Board.

At September 30, 2016, the Corporation's direct exposure to the Puerto Rico government and its instrumentalities and municipalities amounted to \$ 557 million, of which approximately \$ 524 million is outstanding (\$669 million and \$ 578 million, respectively, at December 31, 2015). Of the amount outstanding, \$ 448 million consists of loans and \$ 76 million are securities (\$ 502 million and \$ 76 million at December 31, 2015). Also, of the amount outstanding, \$ 23 million represents obligations from the Government of Puerto Rico and public corporations that have a specific source of income or revenues identified for their repayment (\$ 76 million at December 31, 2015). Some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services or products, such as public utilities. Public corporations have varying degrees of

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independence from the central Government and many receive appropriations or other payments from it. During the quarter ended September 30, 2016, BPPR sold its \$40 million credit facility to the Puerto Rico Electric Power Authority (PREPA). The remaining \$ 501 million outstanding represents obligations from various municipalities in Puerto Rico for which, in most cases, the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment (\$ 502 million at December 31, 2015). These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all of its general obligation bonds and loans. These loans have seniority to the payment of operating cost and expenses of the municipality. Further deterioration of the fiscal crisis of the Government of Puerto Rico could further affect the value of these loans and securities, resulting in losses to us. The following table details the loans and investments representing the Corporation's direct exposure to the Puerto Rico government according to their maturities:

(In thousands)	Investment Portfolio	Loans	Total Outstanding	Total Exposure
Central Government				
After 1 to 5 years	\$ 851	\$	\$ 851	\$ 851
After 5 to 10 years	3,748		3,748	3,748
After 10 years	16,435		16,435	16,435
Total Central Government	21,034		21,034	21,034
Government Development Bank (GDB)				
Within 1 year	2		2	2
After 1 to 5 years	1,352		1,352	1,352
After 5 to 10 years	39		39	39
Total Government Development Bank (GDB)	1,393		1,393	1,393
Public Corporations:				
Puerto Rico Aqueduct and Sewer Authority				
Within 1 year				27,186
After 10 years	503		503	503
Total Puerto Rico Aqueduct and Sewer Authority	503		503	27,689
Puerto Rico Electric Power Authority				
After 10 years	23		23	23
Total Puerto Rico Electric Power Authority	23		23	23
Puerto Rico Highways and Transportation Authority				

After 5 to 10 years	4		4	4
Total Puerto Rico Highways and Transportation Authority	4		4	4
Municipalities				
Within 1 year	3,105	26,631	29,736	31,798
After 1 to 5 years	14,540	128,039	142,579	146,278
After 5 to 10 years	18,635	145,005	163,640	163,640
After 10 years	16,820	148,160	164,980	164,980
Total Municipalities	53,100	447,835	500,935	506,696
Total Direct Government Exposure	\$ 76,057	\$ 447,835	\$ 523,892	\$ 556,839

In addition, at September 30, 2016, the Corporation had \$413 million in indirect exposure to loans or securities that are payable by non-governmental entities, but which carry a government guarantee to cover any shortfall in collateral in the event of borrower default (\$394 million at December 31, 2015). These included \$330 million in residential mortgage loans that are guaranteed by the Puerto Rico Housing Finance Authority (December 31, 2015 \$316 million). These mortgage loans are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default. Under recently enacted legislation, the Governor is authorized to impose a temporary moratorium on the financial obligations of Puerto Housing Finance Authority. Also, the Corporation had \$51 million in Puerto Rico pass-through housing bonds backed by FNMA, GNMA or residential loans CMO s, and \$32 million of commercial real estate notes (\$50 million and \$28 million at December 31, 2015, respectively).

Other contingencies

As indicated in Note 11 to the consolidated financial statements, as part of the loss sharing agreements related to the Westernbank FDIC-assisted transaction, the Corporation agreed to make a true-up payment to the FDIC on the date that is 45 days following the

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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 \$ 134 million at September 30, 2016 (December 31, 2015 \$ 120 million). For additional information refer to Note 11.

Legal Proceedings

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

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

In certain cases, exposure to loss exists in excess of the accrual to the extent such loss is reasonably possible, but not probable. Management believes and estimates that the aggregate range of reasonably possible losses (with respect to those matters where such limits may be determined, in excess of amounts accrued), for current legal proceedings ranges from \$0 to approximately \$27.25 million as of September 30, 2016. For certain other cases, management cannot reasonably estimate the possible loss at this time. Any estimate involves significant judgment, given the varying stages of the proceedings (including the fact that many of them are currently in preliminary stages), the existence of multiple defendants in several of the current proceedings whose share of liability has yet to be determined, the numerous unresolved issues in many of the proceedings, and the inherent uncertainty of the various potential outcomes of such proceedings. Accordingly, management's estimate will change from time-to-time, and actual losses may be more or less than the current estimate.

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

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

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

A motion to dismiss was filed on September 9, 2013. On October 25, 2013, plaintiffs filed an amended complaint seeking to limit the putative class to New York account holders. A motion to dismiss the amended complaint was filed in February 2014. In August 2014, the Court entered an order granting in part PCB's motion to dismiss. The sole surviving claim relates to PCB's item processing policy. On September 10, 2014, plaintiffs filed a motion for leave to file a second amended complaint to correct certain deficiencies noted in the court's decision and order. PCB subsequently filed a motion in opposition to plaintiff's motion for leave to amend and further sought to compel arbitration. In June 2015, this matter was reassigned to a new judge and on July 22, 2015, such Court denied PCB's motion to compel arbitration and granted plaintiffs' motion for leave to amend the complaint to replead certain claims based on item processing reordering, misstatement of balance information and failure to notify customers in advance of potential overdrafts. The Court did not, however, allow plaintiffs to replead their claim for the alleged breach of the implied covenant of good faith and fair dealing. On August 12, 2015, the Plaintiffs filed a second amended complaint. On August 24, 2015, PCB filed a Notice of Appeal as to the order granting leave to file the second amended complaint and on September 17, 2015, it filed a motion to dismiss the second amended complaint. On February 18, 2016, the Court granted in part and denied in part PCB's

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pending motion to dismiss. The Court dismissed plaintiffs' unfair and deceptive acts and trade practices claim to the extent it sought to recover overdraft fees incurred prior to September 2011. On March 28, 2016, PCB filed an answer to second amended complaint and on April 7, 2016, it filed a notice of appeal on the partial denial of PCB's motion to dismiss. A mediation session held on September 21, 2016 proved unsuccessful. Discovery is ongoing.

PCB has also been named a defendant in a complaint for breach of contract regarding certain alleged repurchase obligations in connection with the origination and sale of residential mortgage loans sold by E-LOAN to plaintiff. In January 2015, the court consolidated this action with the matter of *In re: RFC and RESCAP Liquidating Trust Litigation*, which is composed of approximately 70 other matters involving repurchase obligation claims filed by RFC, for pretrial purposes. A joint mediation hearing was held on September 21, 2016 but did not result in the settlement of this matter. The case is currently in discovery.

BPPR has been named a defendant in a putative class action complaint captioned *Neysha Quiles et al. v. Banco Popular de Puerto Rico et al.*, filed in December 2013 in the United States District Court for the District of Puerto Rico (USDC-PR). Plaintiffs essentially allege that they and others, who have been employed by the Defendants as bank tellers and other similarly titled positions, have been paid only for scheduled work time, rather than time actually worked. The complaint seeks to maintain a collective action under the Fair Labor Standards Act (FLSA) on behalf of all individuals formerly or currently employed by BPPR in Puerto Rico and the Virgin Islands as hourly paid, non-exempt, bank tellers or other similarly titled positions at any time during the past three years. Specifically, the complaint alleges that BPPR violated FLSA by willfully failing to pay overtime premiums. Similar claims were brought under Puerto Rico law. On January 31, 2014, the Popular defendants filed an answer to the complaint. On January 9, 2015, plaintiffs submitted a motion for conditional class certification, which BPPR opposed. On February 18, 2015, the Court entered an order whereby it granted plaintiffs' request for conditional certification of the FLSA action. Following the Court's order, plaintiffs sent out notices to all purported class members with instructions for opting into the class. Approximately sixty potential class members opted into the class prior to the expiration of the opt-in period. On June 25, 2015, the Court denied with prejudice plaintiffs' motion for class certification under Rule 23 of the Federal Rules of Civil Procedure. On October 20, 2015, the parties reached an agreement in principle to resolve the referenced action for an immaterial amount, subject to their reaching an agreement on the payment of reasonable attorneys' fees. The parties submitted briefing to the Court on this issue and on September 20, 2016, the Court dismissed plaintiffs' request without prejudice.

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

were held on the motions to dismiss in front of Judge Stein of the SDNY on October 14, 2016. Those motions are pending the Court's determination.

Other Matters

The volatility in prices and declines in value that Puerto Rico municipal bonds and closed-end investment companies that invest primarily in Puerto Rico municipal bonds have experienced since August 2013 have led to regulatory inquiries, customer complaints and arbitrations for most broker-dealers in Puerto Rico, including Popular Securities. Popular Securities has received customer complaints and is named as a respondent (among other broker-dealers) in 63 arbitration proceedings with aggregate claimed damages of approximately \$165 million, including one arbitration with claimed damages of \$78 million in which one other Puerto Rico broker-dealer is a co-defendant. It is the view of the Corporation that Popular Securities has meritorious defenses to the claims asserted. The Government's defaults on its debt, its intention to pursue a comprehensive debt restructuring, including specifically its

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decisions to declare a moratorium on certain principal payments on bonds including those issued by Government Development Bank for Puerto Rico (the GDB), may increase the number of customer complaints (and claimed damages) against Popular Securities concerning Puerto Rico bonds, including bonds issued by GDB, and closed-end investment companies that invest primarily in Puerto Rico bonds. An adverse result in the matters described above or a significant increase in customer complaints could have a material adverse effect on Popular.

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

Other Significant Proceedings

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

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 disagreed 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.

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 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 requested 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 was 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 was held in August 2016.

On October 3, 2016, the review board in the arbitration described above issued a final award denying BPPR's request for reimbursement on the Disputed Asset. As a result, for the quarter ended September 30, 2016, the Corporation recognized a pre-tax charge of approximately \$55 million and a corresponding reduction to its FDIC indemnification asset.

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.

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

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

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

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

The commercial shared-loss arrangement described above expired on June 30, 2015, when the three year recovery period commenced. As of September 30, 2016, BPPR had unreimbursed loss claims related to this arrangement amounting to approximately \$87 million, reflected in the FDIC indemnification asset as a receivable from the FDIC, which are subject to the arbitration proceedings described above. Until these disputes are finally resolved, the terms of the commercial loss share agreement will remain in effect with respect to any such items under dispute. No assurance can be given that we will receive reimbursement from the FDIC with respect to the foregoing items, which could

require us to make a material adjustment to the value of our loss share asset and the related true-up payment obligation to the FDIC and could have a material adverse effect on our financial results for the period in which such adjustment is taken.

The loss sharing agreement applicable to single-family residential mortgage loans provides for FDIC loss sharing and BPPR reimbursement to the FDIC for ten years (ending on June 30, 2020). As of September 30, 2016, the carrying value of covered loans approximated \$588 million, mainly comprised of single-family residential mortgage loans. To the extent that estimated losses on covered loans are not realized before the expiration of the applicable loss sharing agreement, such losses would not be subject to reimbursement from the FDIC and, accordingly, would require us to make a material adjustment in the value of our loss share asset and the related true up payment obligation to the FDIC and could have a material adverse effect on our financial results for the period in which such adjustment is taken.

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

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

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

The Corporation holds variable interests in these VIEs in the form of agency mortgage-backed securities and collateralized mortgage obligations, including those securities originated by the Corporation and those acquired from third parties. Additionally, the Corporation holds agency mortgage-backed securities, agency collateralized mortgage obligations and private label collateralized mortgage obligations issued by third party VIEs in which it has no other form of continuing involvement. Refer to Note 26 to the consolidated financial statements for additional information on the debt securities outstanding at September 30, 2016 and December 31, 2015, which are classified as available-for-sale and trading securities in the Corporation's consolidated statements of financial condition. In addition, the Corporation holds variable interests in the form of servicing fees, since it retains the right to service the transferred loans in those government-sponsored special purpose entities (SPEs) and may also purchase the right to service loans in other government-sponsored SPEs that were transferred to those SPEs by a third-party.

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

(In thousands)	September 30, 2016	December 31, 2015
Assets		
Servicing assets:		
Mortgage servicing rights	\$ 154,740	\$ 163,224
Total servicing assets	\$ 154,740	\$ 163,224
Other assets:		
Servicing advances	\$ 23,689	\$ 24,431

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Total other assets	\$	23,689	\$	24,431
Total assets	\$	178,429	\$	187,655
Maximum exposure to loss	\$	178,429	\$	187,655

The size of the non-consolidated VIEs, in which the Corporation has a variable interest in the form of servicing fees, measured as the total unpaid principal balance of the loans, amounted to \$12.5 billion at September 30, 2016 (December 31, 2015 - \$12.8 billion).

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The Corporation determined that the maximum exposure to loss includes the fair value of the MSR's and the assumption that the servicing advances at September 30, 2016 and December 31, 2015, will not be recovered. The agency debt securities are not included as part of the maximum exposure to loss since they are guaranteed by the related agencies.

In September of 2011, BPPR sold construction and commercial real estate loans to a newly created joint venture, PRLP 2011 Holdings, LLC. In March of 2013, BPPR completed a sale of commercial and construction loans, and commercial and single family real estate owned to a newly created joint venture, PR Asset Portfolio 2013-1 International, LLC.

These joint ventures were created for the limited purpose of acquiring the loans from BPPR; servicing the loans through a third-party servicer; ultimately working out, resolving and/or foreclosing the loans; and indirectly owning, operating, constructing, developing, leasing and selling any real properties acquired by the joint ventures through deed in lieu of foreclosure, foreclosure, or by resolution of any loan.

BPPR provided financing to PRLP 2011 Holdings, LLC and PR Asset Portfolio 2013-1 International, LLC for the acquisition of the assets in an amount equal to the acquisition loan of \$86 million and \$182 million, respectively. The acquisition loans have a 5-year maturity and bear a variable interest at 30-day LIBOR plus 300 basis points and are secured by a pledge of all of the acquiring entity's assets. In addition, BPPR provided these joint ventures with a non-revolving advance facility (the advance facility) of \$69 million and \$35 million, respectively, to cover unfunded commitments and costs-to-complete related to certain construction projects, and a revolving working capital line (the working capital line) of \$20 million and \$30 million, respectively, to fund certain operating expenses of the joint venture. As part of these transactions, BPPR received \$48 million and \$92 million, respectively, in cash and a 24.9% equity interest in each joint venture. The Corporation is not required to provide any other financial support to these joint ventures.

BPPR accounted for both transactions as a true sale pursuant to ASC Subtopic 860-10.

The Corporation has determined that PRLP 2011 Holdings, LLC and PR Asset Portfolio 2013-1 International, LLC are VIEs but it is not the primary beneficiary. All decisions are made by Caribbean Property Group (CPG) (or an affiliate thereof) (the Manager), except for certain limited material decisions which would require the unanimous consent of all members. The Manager is authorized to execute and deliver on behalf of the joint ventures any and all documents, contracts, certificates, agreements and instruments, and to take any action deemed necessary in the benefit of the joint ventures.

The Corporation holds variable interests in these VIEs in the form of the 24.9% equity interests and the financing provided to these joint ventures. The equity interest is accounted for under the equity method of accounting pursuant to ASC Subtopic 323-10.

The following tables present the carrying amount and classification of the assets and liabilities related to the Corporation's variable interests in the non-consolidated VIEs, PRLP 2011 Holdings, LLC and PR Asset Portfolio 2013- International, LLC, and their maximum exposure to loss at September 30, 2016 and December 31, 2015.

PRLP 2011 Holdings, LLC

(In thousands)

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	September 30, 2016	December 31, 2015
Assets		
Loans held-in-portfolio:		
Advances under the working capital line	\$	\$ 579
Advances under the advance facility		401
Total loans held-in-portfolio	\$	\$ 980
Accrued interest receivable	\$	\$ 10
Other assets:		
Investment in PRLP 2011 Holdings LLC	\$ 9,586	\$ 13,069
Total assets	\$ 9,586	\$ 14,059
Deposits	\$ (3,603)	\$ (18,808)
Total liabilities	\$ (3,603)	\$ (18,808)
Total net assets (liabilities)	\$ 5,983	\$ (4,749)
Maximum exposure to loss	\$ 5,983	\$

Table of Contents**PR Asset Portfolio 2013-1 International, LLC**

(In thousands)	September 30, 2016	December 31, 2015
Assets		
Loans held-in-portfolio:		
Acquisition loan	\$	\$ 35,121
Advances under the working capital line	762	885
Advances under the advance facility	11,393	22,296
 Total loans held-in-portfolio	 \$ 12,155	 \$ 58,302
Accrued interest receivable	\$ 48	\$ 169
Other assets:		
Investment in PR Asset Portfolio 2013-1 International, LLC	\$ 24,184	\$ 25,094
 Total assets	 \$ 36,387	 \$ 83,565
Deposits	\$ (8,380)	\$ (11,772)
 Total liabilities	 \$ (8,380)	 \$ (11,772)
 Total net assets	 \$ 28,007	 \$ 71,793
 Maximum exposure to loss	 \$ 28,007	 \$ 71,793

The Corporation determined that the maximum exposure to loss under a worst case scenario at September 30, 2016 would be not recovering the net assets held by the Corporation as of the reporting date.

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

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

The Corporation has an investment in EVERTEC, Inc. (EVERTEC), which provides various processing and information technology services to the Corporation and its subsidiaries and gives BPPR access to the ATH network owned and operated by EVERTEC. As of September 30, 2016, the Corporation's stake in EVERTEC was 15.91%. The Corporation continues to have significant influence over EVERTEC. Accordingly, the investment in EVERTEC is accounted for under the equity method and is evaluated for impairment if events or circumstances indicate that a decrease in value of the investment has occurred that is other than temporary.

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

The Corporation received \$ 3.5 million in dividend distributions during the nine months ended September 30, 2016 from its investments in EVERTEC's holding company (September 30, 2015 - \$ 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, 2016	December 31, 2015
Equity investment in EVERTEC	\$ 37,357	\$ 33,590

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

(In thousands)	September 30, 2016	December 31, 2015
Accounts receivable (Other assets)	\$ 5,901	\$ 3,148
Deposits	(21,231)	(23,973)
Accounts payable (Other liabilities)	(18,330)	(16,192)
Net total	\$ (33,660)	\$ (37,017)

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

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(In thousands)	Quarter ended September 30, 2016	Nine months ended September 30, 2016
Share of income from the investment in EVERTEC	\$ 3,198	\$ 9,397
Share of other changes in EVERTEC's stockholders' equity	426	(899)
Share of EVERTEC's changes in equity recognized in income	\$ 3,624	\$ 8,498

(In thousands)	Quarter ended September 30, 2015	Nine months ended September 30, 2015
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

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, 2016 and 2015. Items that represent expenses to the Corporation are presented with parenthesis.

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(In thousands)	Quarter ended September 30, 2016	Nine months ended September 30, 2016	Category
Interest expense on deposits ATH and credit cards	\$ (15)	\$ (51)	Interest expense
interchange income from services to EVERTEC	7,533	21,948	Other service fees
Rental income charged to EVERTEC	1,760	5,232	Net occupancy
Processing fees on services provided by EVERTEC	(44,923)	(131,701)	Professional fees
Other services provided to EVERTEC	269	783	Other operating expenses
Total	\$ (35,376)	\$ (103,789)	

(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)	

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

PRLP 2011 Holdings LLC

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

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

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(In thousands)	September 30, 2016	December 31, 2015
Equity investment in PRLP 2011 Holdings, LLC	\$ 9,586	\$ 13,069

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

(In thousands)	September 30, 2016	December 31, 2015
Loans	\$	\$ 980
Accrued interest receivable		10
Deposits (non-interest bearing)	(3,603)	(18,808)
Net total	\$ (3,603)	\$ (17,818)

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

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(In thousands)	Quarter ended September 30, 2016	Nine months ended September 30, 2016
Share of income (loss) from the equity investment in PRLP 2011 Holdings, LLC	\$ 511	\$ (83)

(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)

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, 2016 and 2015.

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

(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

PR Asset Portfolio 2013-1 International, LLC

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

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

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(In thousands)	September 30, 2016	December 31, 2015
Equity investment in PR Asset Portfolio 2013-1 International, LLC	\$ 24,184	\$ 25,094

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

(In thousands)	September 30, 2016	December 31, 2015
Loans	\$ 12,155	\$ 58,302
Accrued interest receivable	48	169
Deposits	(8,380)	(11,772)
Net total	\$ 3,823	\$ 46,699

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

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(In thousands)	Quarter ended September 30, 2016	Nine months ended September 30, 2016
Share of loss from the equity investment in PR Asset Portfolio 2013-1 International, LLC	\$ (587)	\$ (910)

(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)

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, 2016 and 2015.

(In thousands)	Quarter ended September 30, 2016	Nine months ended September 30, 2016	Category
Interest income on loan to PR Asset Portfolio 2013-1 International, LLC	\$ 189	\$ 923	Interest income
Interest expense on deposits	(1)	(3)	Interest expense
Total	\$ 188	\$ 920	

(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	

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

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

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

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

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

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

Fair Value on a Recurring and Nonrecurring Basis

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

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	At September 30, 2016			
(In thousands)	Level 1	Level 2	Level 3	Total
RECURRING FAIR VALUE MEASUREMENTS				
Assets				
Investment securities available-for-sale:				
U.S. Treasury securities	\$	\$ 1,619,416	\$	\$ 1,619,416
Obligations of U.S. Government sponsored entities		698,309		698,309
Obligations of Puerto Rico, States and political subdivisions		26,976		26,976
Collateralized mortgage obligations - federal agencies		1,339,251		1,339,251
Mortgage-backed securities		3,931,332	1,397	3,932,729
Equity securities		2,205		2,205
Other		9,770		9,770
Total investment securities available-for-sale	\$	\$ 7,627,259	\$ 1,397	\$ 7,628,656
Trading account securities, excluding derivatives:				
Obligations of Puerto Rico, States and political subdivisions	\$	\$ 4,523	\$	\$ 4,523
Collateralized mortgage obligations			1,371	1,371
Mortgage-backed securities - federal agencies		47,154	5,250	52,404
Other		13,663	623	14,286
Total trading account securities	\$	\$ 65,340	\$ 7,244	\$ 72,584
Mortgage servicing rights	\$	\$	\$ 200,354	\$ 200,354
Derivatives		13,427		13,427
Total assets measured at fair value on a recurring basis	\$	\$ 7,706,026	\$ 208,995	\$ 7,915,021
Liabilities				
Derivatives	\$	\$ (11,214)	\$	\$ (11,214)
Contingent consideration			(135,122)	(135,122)
Total liabilities measured at fair value on a recurring basis	\$	\$ (11,214)	\$ (135,122)	\$ (146,336)

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

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

	Nine months ended September 30, 2016			
(In thousands)	Level 1	Level 2	Level 3	Total
NONRECURRING FAIR VALUE MEASUREMENTS				

Assets					Write-downs
Loans ^[1]	\$	\$	\$ 61,309	\$ 61,309	\$(31,097)
Other real estate owned ^[2]			39,996	39,996	(8,482)
Other foreclosed assets ^[2]			46	46	(2)
Total assets measured at fair value on a nonrecurring basis	\$	\$	\$ 101,351	\$ 101,351	\$(39,581)

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

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

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Nine months ended September 30, 2015					
(In thousands)	Level 1	Level 2	Level 3	Total	Write-downs
NONRECURRING FAIR VALUE MEASUREMENTS					
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.

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, 2016 and 2015.

Quarter ended September 30, 2016								
(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, 2016	\$ 1,398	\$ 1,399	\$ 5,364	\$ 640	\$ 203,577	\$ 212,378	\$ (128,511)	\$ (128,511)
Gains (losses) included in earnings		10	(32)	(17)	(6,062)	(6,101)	(6,611)	(6,611)
Gains (losses) included in OCI	(1)					(1)		
Additions		5	128		2,854	2,987		
Sales			(110)			(110)		
Settlements		(43)	(100)		(15)	(158)		
Balance at September 30, 2016	\$ 1,397	\$ 1,371	\$ 5,250	\$ 623	\$ 200,354	\$ 208,995	\$ (135,122)	\$ (135,122)

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Changes in unrealized gains (losses) included in earnings relating to assets still held at September 30, 2016	\$	\$	10	\$	(29)	\$	8	\$	(1,082)	\$	(1,093)	\$	(6,611)	\$	(6,611)
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Nine months ended September 30, 2016

(In thousands)	MBS classified as investment securities available- for-sale	CMOs as trading account securities	MBS classified as trading account securities	Other securities classified as trading account securities	Mortgage servicing rights	Total assets	Contingent consideration	Total liabilities
Balance at January 1, 2016	\$ 1,434	\$ 1,831	\$ 6,454	\$ 687	\$ 211,405	\$ 221,811	\$ (120,380)	\$ (120,380)
Gains (losses) included in earnings	(2)	(3)	85	(64)	(18,879)	(18,863)	(14,742)	(14,742)
Gains (losses) included in OCI	15					15		
Additions		214	1,076		7,843	9,133		
Sales		(308)	(1,826)			(2,134)		
Settlements	(50)	(363)	(539)		(15)	(967)		
Balance at September 30, 2016	\$ 1,397	\$ 1,371	\$ 5,250	\$ 623	\$ 200,354	\$ 208,995	\$ (135,122)	\$ (135,122)

Changes in unrealized gains (losses) included in earnings relating to assets still held at September 30, 2016	\$	\$	4	\$	74	\$	29	\$	(4,315)	\$	(4,208)	\$	(14,742)	\$	(14,742)
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(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		
Sales		(44)	(80)			(124)		
Settlements		(222)	(572)			(794)		
Adjustments							962	962

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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)

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

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, 2016 and 2015.

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

(In thousands)	Quarter ended September 30, 2016		Nine months ended September 30, 2016	
	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	\$	\$	\$ (2)	\$
FDIC loss share (expense) income	(6,611)	(6,611)	(14,742)	(14,742)
Mortgage banking activities	(6,062)	(1,082)	(18,879)	(4,315)
Trading account (loss) profit	(39)	(11)	18	107
Total	\$(12,712)	\$(7,704)	\$(33,605)	\$(18,950)

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

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, 2016	Valuation technique	Unobservable inputs	Weighted average (range)
CMO s - trading		Discounted cash flow model	Weighted average life	3.0 years (0.3 - 4.4 years)
			Yield	3.4% (0.7% - 4.2%)
	\$ 1,371		Prepayment speed	20.6% (18.0% - 26.9%)
Other - trading		Discounted cash flow model	Weighted average life	5.4 years
			Yield	12.3%
	\$ 623		Prepayment speed	10.8%
Mortgage servicing rights		Discounted cash flow model	Prepayment speed	5.7% (0.2% - 13.8%)
			Weighted average life	6.9 years (0.1 - 15.7 years)
	\$ 200,354		Discount rate	11.2% (9.5% - 15.0%)
Contingent consideration		Discounted cash flow model	Credit loss rate on covered loans	
			Risk premium component	3.6% (0.0% - 100.0%)
	\$ (134,487)		of discount rate	4.7%
Loans held-in-portfolio		External appraisal	Haircut applied on	
	\$ 61,257 ^[1]		external appraisals	40.0% (39.5% - 40.0%)

Other real estate owned	External appraisal	Haircut applied on external appraisals	
	\$ 39,424 ^[2]		18.6% (10.0% - 40.0%)

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

[2] Other real estate owned in which haircuts were not applied to external appraisals were excluded from this table. The significant unobservable inputs used in the fair value measurement of the Corporation's collateralized mortgage obligations and interest-only collateralized mortgage obligation (reported as other), which are classified in the trading category, are yield, constant prepayment rate, and weighted average life. Significant increases (decreases) in any of those inputs in isolation would result in significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the constant prepayment rate will generate a directionally opposite change in the weighted average life. For example, as the average life is reduced by a higher constant prepayment rate, a lower yield will be realized, and when there is a reduction in the constant prepayment rate, the average life of these collateralized mortgage obligations will extend, thus resulting in a higher yield. These particular financial instruments are valued internally by the Corporation's investment banking and broker-dealer unit utilizing internal valuation techniques. The unobservable inputs incorporated into the internal discounted cash flow models used to derive the fair value of collateralized mortgage obligations and interest-only collateralized mortgage obligation (reported as other), which are classified in the trading category, are reviewed by the Corporation's Corporate Treasury unit on a quarterly basis. In the case of Level 3 financial instruments which fair value is based on broker quotes, the Corporation's Corporate Treasury unit reviews the inputs used by the broker-dealers for reasonableness utilizing information available from other published sources and validates that the fair value measurements were developed in accordance with ASC Topic 820. The Corporate Treasury unit also substantiates the inputs used by validating the prices with other broker-dealers, whenever possible.

The significant unobservable inputs used in the fair value measurement of the Corporation's mortgage servicing rights are constant prepayment rates and discount rates. Increases in interest rates may result in lower prepayments. Discount rates vary according to products and / or portfolios depending on the perceived risk. Increases in discount rates result in a lower fair value measurement.

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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.

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

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

The fair values reflected herein have been determined based on the prevailing rate environment at September 30, 2016 and December 31, 2015, as applicable. In different interest rate environments, fair value estimates can differ significantly, especially for certain fixed rate financial instruments. In addition, the fair values presented do not attempt to estimate the value of the Corporation's fee generating businesses and anticipated future business activities, that is, they do not represent the Corporation's value as a going concern. There have been no changes in 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 from those disclosed in the 2015 Form 10-K.

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

(In thousands)	Carrying amount	September 30, 2016			Fair value
		Level 1	Level 2	Level 3	
Financial Assets:					
Cash and due from banks	\$ 350,545	\$ 350,545	\$	\$	\$ 350,545
Money market investments	3,963,495	3,929,352	34,143		3,963,495
Trading account securities, excluding derivatives ^[1]	72,584		65,340	7,244	72,584
Investment securities available-for-sale ^[1]	7,628,656		7,627,259	1,397	7,628,656
Investment securities held-to-maturity:					
Obligations of Puerto Rico, States and political subdivisions	\$ 95,895	\$	\$	\$ 77,366	\$ 77,366
Collateralized mortgage obligation-federal agency	78			83	83
Other	2,000		1,746	215	1,961
Total investment securities held-to-maturity	\$ 97,973	\$	\$ 1,746	\$ 77,664	\$ 79,410
Other investment securities:					
FHLB stock	\$ 59,111	\$	\$ 59,111	\$	\$ 59,111
FRB stock	94,559		94,559		94,559
Trust preferred securities	13,198		13,198		13,198
Other investments	1,923			5,209	5,209
Total other investment securities	\$ 168,791	\$	\$ 166,868	\$ 5,209	\$ 172,077

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Loans held-for-sale	\$ 72,076	\$	\$ 530	\$ 73,726	\$ 74,256
Loans not covered under loss sharing agreement with the FDIC	22,070,379			20,416,444	20,416,444
Loans covered under loss sharing agreements with the FDIC	557,949			553,431	553,431
FDIC loss share asset	152,467			144,674	144,674
Mortgage servicing rights	200,354			200,354	200,354
Derivatives	13,427		13,427		13,427

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(In thousands)	September 30, 2016				
	Carrying amount	Level 1	Level 2	Level 3	Fair value
Financial Liabilities:					
Deposits:					
Demand deposits	\$ 22,425,039	\$	\$ 22,425,039	\$	\$ 22,425,039
Time deposits	7,902,006		7,891,718		7,891,718
Total deposits	\$ 30,327,045	\$	\$ 30,316,757	\$	\$ 30,316,757
Federal funds purchased and assets sold under agreements to repurchase					
	\$ 765,251	\$	\$ 764,738	\$	\$ 764,738
Other short-term borrowings ^[2]	\$ 1,200	\$	\$ 1,200	\$	\$ 1,200
Notes payable:					
FHLB advances	\$ 696,628	\$	\$ 707,420	\$	\$ 707,420
Unsecured senior debt securities	444,268		464,589		464,589
Junior subordinated deferrable interest debentures (related to trust preferred securities)	439,316		401,796		401,796
Others	18,321			18,321	18,321
Total notes payable	\$ 1,598,533	\$	\$ 1,573,805	\$ 18,321	\$ 1,592,126
Derivatives	\$ 11,214	\$	\$ 11,214	\$	\$ 11,214
Contingent consideration	\$ 135,122	\$	\$	\$ 135,122	\$ 135,122

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

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

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

(In thousands)	December 31, 2015				
	Carrying amount	Level 1	Level 2	Level 3	Fair value
Financial Liabilities:					
Deposits:					
Demand deposits	\$ 19,044,355	\$	\$ 19,044,355	\$	\$ 19,044,355
Time deposits	8,165,368		8,134,029		8,134,029
Total deposits	\$ 27,209,723	\$	\$ 27,178,384	\$	\$ 27,178,384

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Federal funds purchased and assets sold under agreements to repurchase	\$ 762,145	\$	\$ 764,599	\$	\$ 764,599
Other short-term borrowings ^[2]	\$ 1,200	\$	\$ 1,200	\$	\$ 1,200
Notes payable:					
FHLB advances	\$ 761,501	\$	\$ 780,411	\$	\$ 780,411
Unsecured senior debt	442,704		435,186		435,186
Junior subordinated deferrable interest debentures (related to trust preferred securities)	439,295		352,673		352,673
Others	19,008			19,008	19,008
Total notes payable	\$ 1,662,508	\$	\$ 1,568,270	\$ 19,008	\$ 1,587,278
Derivatives	\$ 14,343	\$	\$ 14,343	\$	\$ 14,343
Contingent consideration	\$ 120,380	\$	\$	\$ 120,380	\$ 120,380

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

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

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The notional amount of commitments to extend credit at September 30, 2016 and December 31, 2015 is \$7.6 billion and \$7.4 billion, respectively, and represents the unused portion of credit facilities granted to customers. The notional amount of letters of credit at September 30, 2016 and December 31, 2015 is \$ 43 million and \$ 52 million, respectively, and represents the contractual amount that is required to be paid in the event of nonperformance. The fair value of commitments to extend credit and letters of credit, which are based on the fees charged to enter into those agreements, are not material to Popular's financial statements.

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

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

(In thousands, except per share information)	Quarters ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net income from continuing operations	\$ 46,810	\$ 85,649	\$ 220,796	\$ 756,571
Net income from discontinued operations		(9)		1,347
Preferred stock dividends	(930)	(931)	(2,792)	(2,792)
Net income applicable to common stock	\$ 45,880	\$ 84,709	\$ 218,004	\$ 755,126
Average common shares outstanding	103,296,443	102,969,214	103,243,851	102,923,018
Average potential dilutive common shares	168,942	181,268	140,098	214,744
Average common shares outstanding - assuming dilution	103,465,385	103,150,482	103,383,949	103,137,762
Basic EPS from continuing operations	\$ 0.44	\$ 0.82	\$ 2.11	\$ 7.33
Basic EPS from discontinued operations	\$	\$	\$	\$ 0.01
Total Basic EPS	\$ 0.44	\$ 0.82	\$ 2.11	\$ 7.34
Diluted EPS from continuing operations	\$ 0.44	\$ 0.82	\$ 2.11	\$ 7.31
Diluted EPS from discontinued operations	\$	\$	\$	\$ 0.01
Total Diluted EPS	\$ 0.44	\$ 0.82	\$ 2.11	\$ 7.32

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

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

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

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

(In thousands)	Quarters ended September 30		Nine months ended September 30,	
	2016	2015	2016	2015
Debit card fees	\$ 11,483	\$ 11,288	\$ 34,153	\$ 34,408
Insurance fees	15,943	14,517	42,678	40,163
Credit card fees	17,644	16,879	52,202	50,639
Sale and administration of investment products	5,542	5,737	15,798	18,269
Trust fees	4,968	4,403	14,029	13,919
Other fees	3,589	3,291	10,636	11,764
Total other services fees	\$ 59,169	\$ 56,115	\$ 169,496	\$ 169,162

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

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

(In thousands)	Quarters ended September 30		Nine months ended September 30,	
	2016	2015	2016	2015
Amortization of loss-share indemnification asset	\$ (1,259)	\$ (3,931)	\$ (9,337)	\$ (62,312)
80% mirror accounting on credit impairment losses (reversal) ^[1]	659	(183)	(959)	15,710
80% mirror accounting on reimbursable expenses	853	6,276	7,038	70,551
80% mirror accounting on recoveries on covered assets, including rental income on OREOs, subject to reimbursement to the FDIC	(522)		(5,123)	(7,822)
Change in true-up payment obligation	(6,611)	(1,058)	(14,742)	6,778
Arbitration award expense ^[2]	(54,924)		(54,924)	
Other	81	103	602	1,516
Total FDIC loss-share (expense) income	\$ (61,723)	\$ 1,207	\$ (77,445)	\$ 24,421

[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] Refer to Note 23, Commitments and Contingencies, for additional information on the FDIC arbitration award.

Table of Contents**Note 31 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,		Quarters ended September 30,	
	2016	2015	2016	2015
Interest cost	\$ 6,291	\$ 7,403	\$ 348	\$ 407
Expected return on plan assets	(9,623)	(11,056)	(538)	(589)
Amortization of net loss	4,881	4,465	332	311
Total net periodic pension cost (benefit)	\$ 1,549	\$ 812	\$ 142	\$ 129

(In thousands)	Pension Plans		Benefit Restoration Plans	
	Nine months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Interest Cost	\$ 18,873	\$ 22,209	\$ 1,044	\$ 1,222
Expected return on plan assets	(28,869)	(33,168)	(1,614)	(1,768)
Amortization of net loss	14,640	13,395	996	933
Total net periodic pension cost (benefit)	\$ 4,644	\$ 2,436	\$ 426	\$ 387

During the quarter ended September 30, 2016 the Corporation made a contribution to the pension and benefit restoration plans of \$60 million. The total contributions expected to be paid during the year 2016 for the pension and benefit restoration plans amount to approximately \$60.2 million.

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

(In thousands)	Postretirement Benefit Plan			
	Quarters ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Service cost	\$ 289	\$ 367	\$ 867	\$ 1,103
Interest cost	1,505	1,589	4,515	4,767
Amortization of prior service cost	(950)	(950)	(2,850)	(2,850)
Amortization of net loss	275	249	825	747
Total net periodic postretirement benefit cost	\$ 1,119	\$ 1,255	\$ 3,357	\$ 3,767

Contributions made to the postretirement benefit plan for the quarter ended September 30, 2016 amounted to approximately \$1.6 million. The total contributions expected to be paid during the year 2016 for the postretirement benefit plan amount to approximately \$6.4 million.

Table of Contents**Note 32 Stock-based compensation**

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

Stock Option Plan

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

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

Incentive Plan

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

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

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

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(Not in thousands)	Shares	Weighted-Average Grant Date Fair Value	
Non-vested at December 31, 2014	628,009	\$	27.13
Granted	323,814		33.37
Vested	(430,646)		30.45
Forfeited	(25,446)		28.65
Non-vested at December 31, 2015	495,731	\$	28.25
Granted	344,488		25.86
Quantity adjusted by TSR factor	51,340		26.13
Vested	(429,984)		27.39
Forfeited	(1,991)		31.50
Non-vested at September 30, 2016	459,584	\$	27.01

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

Beginning in 2015, the Corporation authorized the issuance of performance shares, in addition to restricted shares, under the Incentive Plan. The performance share awards consist of the opportunity to receive shares of Popular, Inc.'s common stock provided that the Corporation achieves certain goals during a three-year performance cycle. The goals will be based on two metrics weighted equally: the Relative Total Shareholder Return (TSR) and the Absolute Earnings per Share (EPS) goals. The TSR metric is considered to be a market condition under ASC 718. For equity settled awards based on a market condition, the fair value is determined as of the grant date and is not subsequently revised based on actual performance. The EPS performance metric is considered to be a performance condition under ASC 718. The fair value is determined based on the probability of achieving the EPS goal as of each reporting period. The TSR and EPS metrics are equally weighted and work independently. The number of shares that will ultimately vest ranges from 50% to a 150% of target based on both market (TSR) and performance (EPS) conditions. The performance shares vest at the end of the three-year performance cycle. The vesting is accelerated at termination of employment after attaining the earlier of 55 years of age and 10 years of service or 60 years of age and 5 years of service. During the quarter ended September 30, 2016 and 2015 no performance shares were granted. For the nine-month period ended September 30, 2016, 64,598 (September 30, 2015 91,984) performance shares were granted under this plan.

During the quarter ended September 30, 2016, the Corporation recognized \$ 1.0 million of restricted stock expense related to management incentive awards, with a tax benefit of \$ 0.2 million (September 30, 2015 - \$ 1.9 million, with a tax benefit of \$ 0.3 million). For the nine-month period ended September 30, 2016, the Corporation recognized \$ 6.6 million of restricted stock expense related to management incentive awards, with a tax benefit of \$ 1.2 million (September 30, 2015 - \$ 9.4 million, with a tax benefit of \$ 1.4 million). For the nine-month period ended September 30, 2016, the fair market value of the restricted stock vested was \$6.8 million at grant date and \$6.5 million at vesting date. This triggers a shortfall of \$0.1 million of which \$30 thousand was recorded as a windfall pool in additional paid in capital. No windfall pool was recorded for the remaining \$87 thousand due to the valuation allowance of the deferred tax asset at the Holding Company. During the quarter ended September 30, 2016 the Corporation recognized \$0.1 million of performance shares expense, with a tax benefit of \$11 thousand (September 30, 2015 - \$95 thousand, with a tax benefit of \$6 thousand). For the nine-month period ended September 30, 2016, the Corporation recognized \$1.3 million of performance shares expense, with a tax benefit of \$0.1 million (September 30, 2015 - \$2.1 million,

with a tax benefit of \$0.2 million). The total unrecognized compensation cost related to non-vested restricted stock awards and performance shares to members of management at September 30, 2016 was \$ 8.5 million and is expected to be recognized over a weighted-average period of 2.4 years.

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

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

During the quarter ended September 30, 2016, the Corporation granted no shares of restricted stock to members of the Board of Directors of Popular, Inc. (September 30, 2015 1,994). During this period, the Corporation recognized \$0.3 million of restricted stock expense related to these restricted stock grants, with a tax benefit of \$31 thousand (September 30, 2015 \$0.1 million, with a tax benefit of \$24 thousand). For the nine-month period ended September 30, 2016, the Corporation granted 40,517 shares of restricted stock to members of the Board of Directors of Popular, Inc., which became vested at grant date (September 30, 2015 20,023). During this period, the Corporation recognized \$0.8 million of restricted stock expense related to these restricted stock grants, with a tax benefit of \$84 thousand (September 30, 2015 \$0.4 million, with a tax benefit of \$59 thousand). The fair value at vesting date of the restricted stock vested during the nine months ended September 30, 2016 for directors was \$ 1.2 million.

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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, 2016		September 30, 2015	
	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax expense at statutory rates	\$ 24,434	39%	\$ 42,225	39%
Net benefit of tax exempt interest income	(15,620)	(25)	(14,615)	(13)
Deferred tax asset valuation allowance	5,698	9	(670)	(1)
Difference in tax rates due to multiple jurisdictions	(897)	(1)	(1,129)	(1)
Effect of income subject to preferential tax rate	6,364	10	(3,610)	(3)
Unrecognized tax benefits	(4,442)	(7)		
State and local taxes	1,557	2	586	
Others	(1,255)	(2)	(167)	
Income tax expense (benefit)	\$ 15,839	25%	\$ 22,620	21%

(In thousands)	Nine months ended			
	September 30, 2016		September 30, 2015	
	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax expense at statutory rates	\$ 117,525	39%	\$ 108,508	39%
Net benefit of tax exempt interest income	(47,094)	(16)	(45,784)	(16)
Deferred tax asset valuation allowance	14,407	5	(537,737)	(193)
Difference in tax rates due to multiple jurisdictions	(2,874)	(1)	(1,946)	(1)
Effect of income subject to preferential tax rate	(1,772)	(1)	(5,488)	(2)
Unrecognized tax benefits	(4,442)	(1)		
State and local taxes	6,642	2	3,305	1
Others	(1,842)	(1)	798	
Income tax expense (benefit)	\$ 80,550	26%	\$ (478,344)	(172)%

Income tax expense amounted to \$15.8 million for the quarter ended September 30, 2016, compared with an income tax expense of \$22.6 million for the same quarter of 2015. The reduction in income tax expense was primarily due to lower income before tax mainly in the Corporation's Puerto Rico operations. Additionally, during the third quarter of

2016 a reversal of \$4.4 million in the reserve for uncertain tax positions, including interests, was recognized due to the expiration of the statute of limitation in the P.R. operations.

For the nine months period ended September 30, 2016, the increase in income tax expense as compared to the same period of 2015 was mainly due to recognition during 2015 of a partial reversal of the valuation allowance on the deferred tax asset from the U.S. operations amounting to \$544.9 million.

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

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(In thousands)	September 30, 2016	December 31, 2015
Deferred tax assets:		
Tax credits available for carryforward	\$ 18,569	\$ 13,651
Net operating loss and other carryforward available	1,244,901	1,262,197
Postretirement and pension benefits	88,679	116,036
Deferred loan origination fees	5,657	6,420
Allowance for loan losses	659,312	670,592
Deferred gains	5,131	5,966
Accelerated depreciation	9,345	8,335
Intercompany deferred gains	2,229	2,743
Difference in outside basis from pass-through entities	13,186	12,684
Other temporary differences	32,482	29,208
Total gross deferred tax assets	2,079,491	2,127,832
Deferred tax liabilities:		
FDIC-assisted transaction	80,947	90,778
Indefinite-lived intangibles	71,375	63,573
Unrealized net gain on trading and available-for-sale securities	42,268	22,281
Other temporary differences	8,343	6,670
Total gross deferred tax liabilities	202,933	183,302
Valuation allowance	646,606	642,727
Net deferred tax asset	\$ 1,229,952	\$ 1,301,803

The net deferred tax asset shown in the table above at September 30, 2016 is reflected in the consolidated statements of financial condition as \$1.2 billion in net deferred tax assets in the Other assets caption (December 31, 2015 \$1.3 billion) and \$1.4 million in deferred tax liabilities in the Other liabilities caption (December 31, 2015 \$649 thousand), reflecting the aggregate deferred tax assets or liabilities of individual tax-paying subsidiaries of the Corporation.

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

During the year ended December 31, 2015, after weighting all positive and negative evidence, the Corporation concluded that it is more likely than not that a portion of the total deferred tax asset from the U.S. operations,

amounting to \$1.1 billion and comprised mainly of net operating losses, will be realized. The Corporation based this determination on its estimated earnings for the remaining carryforward period of eighteen years beginning with the 2016 fiscal year, available to utilize the deferred tax asset, to reduce its income tax obligations. The recent historical level of book income adjusted by permanent differences, together with the estimated earnings after the reorganization of the U.S. operations and additional estimated earnings from the Doral Bank Transaction were objective positive evidence considered by the Corporation. As of September 30, 2016 the U.S. operations are not in a three year cumulative loss position, taking into account taxable income exclusive of reversing temporary differences. All of these factors lead management to conclude that it is more likely than not that a portion of the deferred tax asset from its U.S. operations will be realized. Management will continue to evaluate the realization of the deferred tax asset each quarter and adjust as deemed necessary. At September 30, 2016 a valuation allowance is recorded on the deferred tax asset of the U.S. operation in the amount of \$602 million.

At September 30, 2016, the Corporation's net deferred tax assets related to its Puerto Rico operations amounted to \$697 million.

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

The Holding Company operation is not in a cumulative loss taking into account taxable income exclusive of reversing temporary differences, for the three year period ended September 30, 2016. However, it has sustained losses for year ended December 31, 2015 and the period ended September 30, 2016. Management expect these losses will be a trend in future years. The losses in recent periods together with the expected losses in future years is considered by management a strong negative evidence that will suggest that income in future years will be insufficient to support the realization of all deferred tax asset. After weighting of all positive and negative evidence management concluded, as of the reporting date, that it is more likely than not that the Holding Company will not be able to realize any portion of the deferred tax assets, considering the criteria of ASC Topic 740. Accordingly, a full valuation allowance is recorded on the deferred tax asset at the Holding Company, which amounted to \$45 million as of September 30, 2016.

The reconciliation of unrecognized tax benefits was as follows:

(In millions)	2016	2015
Balance at January 1	\$ 9.0	\$ 8.0
Additions for tax positions - January through March	0.2	0.3
Additions for tax positions taken in prior years - January through March	0.2	
Reduction as a result of settlements - January through March		(0.5)
Balance at March 31	\$ 9.4	\$ 7.8
Additions for tax positions - April through June	0.3	0.3
Balance at June 30	\$ 9.7	\$ 8.1
Additions for tax positions - July through September	0.3	0.6
Additions for tax positions taken in prior years - July through September	0.1	
Reduction as a result of lapse of statute of limitations - July through September	(3.0)	
Balance at September 30	\$ 7.1	\$ 8.7

At September 30, 2016, the total amount of interest recognized in the statement of financial condition approximated \$2.8 million (December 31, 2015 - \$3.2 million). The total interest expense recognized during the nine months ended September 30, 2016 was \$1.0 million (December 31, 2015 - \$57 thousand), which is net of the reversal of \$1.4 million due to the expiration of the statute of limitations. Management determined that at September 30, 2016 and December 31, 2015 there was no need to accrue for the payment of penalties. The Corporation's policy is to report interest related to unrecognized tax benefits in income tax expense, whiles 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 \$8.6 million at September 30, 2016 (December 31, 2015 - \$11.2 million).

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

The Corporation and its subsidiaries file income tax returns in Puerto Rico, the U.S. federal jurisdiction, various U.S. states and political subdivisions, and foreign jurisdictions. At September 30, 2016, the following years remain subject to examination in the U.S. Federal jurisdiction: 2013 and thereafter; and in the Puerto Rico jurisdiction, 2012 and thereafter. The Corporation anticipates a reduction in the total amount of unrecognized tax benefits within the next 12 months, which could amount to approximately \$4.8 million.

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

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

(In thousands)	September 30, 2016	September 30, 2015
Non-cash activities:		
Loans transferred to other real estate	\$ 93,412	\$ 104,778
Loans transferred to other property	22,408	29,034
Total loans transferred to foreclosed assets	115,820	133,812
Financed sales of other real estate assets	11,861	19,469
Financed sales of other foreclosed assets	13,426	19,516
Total financed sales of foreclosed assets	25,287	38,985
Transfers from loans held-in-portfolio to loans held-for-sale		72,501
Transfers from loans held-for-sale to loans held-in-portfolio	5,947	9,113
Transfers from trading securities to available-for-sale securities		5,523
Loans securitized into investment securities ^[1]	594,094	825,126
Trades receivable from brokers and counterparties	80,125	125,625
Trades payable to brokers and counterparties	22,174	24,812
Recognition of mortgage servicing rights on securitizations or asset transfers	7,886	10,798

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

As previously disclosed in Note 5, Business Combination, on February 27, 2015, the Corporation's Puerto Rico banking subsidiary, BPPR, in an alliance with co-bidders, including the Corporation's U.S. mainland banking subsidiary, BPNA, acquired certain assets and all deposits (other than certain brokered deposits) of Doral Bank from the FDIC as receiver. As part of this transaction, BPPR received as of June 30, 2015 net cash proceeds of approximately \$ 731 million for consideration of the assets and liabilities acquired.

Table of Contents**Note 35 Segment reporting**

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

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

Banco Popular de Puerto Rico:

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

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

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

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

Banco Popular North America:

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

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

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

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

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

2016			
For the quarter ended September 30, 2016			
(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	\$ 303,656	\$ 65,339	\$ (281)
Provision for loan losses	37,064	6,313	
Non-interest income	60,453	5,381	28
Amortization of intangibles	2,931	166	
Goodwill impairment charge	3,801		
Depreciation expense	9,774	1,666	
Other operating expenses	246,451	47,374	(639)
Income tax expense	14,479	6,037	162
Net income	\$ 49,609	\$ 9,164	\$ 224
Segment assets	\$ 30,403,259	\$ 8,450,901	\$ (16,818)

For the quarter ended September 30, 2016				
(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	\$ 368,714	\$ (15,140)	\$ 113	\$ 353,687
Provision for loan losses	43,377	(33)		43,344
Non-interest income	65,862	10,468	(352)	75,978
Amortization of intangibles	3,097			3,097
Goodwill impairment charge	3,801			3,801
Depreciation expense	11,440	144		11,584
Other operating expenses	293,186	12,164	(160)	305,190
Income tax expense (benefit)	20,678	(4,807)	(32)	15,839
Net income (loss)	\$ 58,997	\$ (12,140)	\$ (47)	\$ 46,810
Segment assets	\$ 38,837,342	\$ 4,949,819	\$ (4,732,865)	\$ 39,054,296

For the nine months ended September 30, 2016			
(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	\$ 919,366	\$ 193,102	\$ (281)
Provision for loan losses	116,987	11,699	

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Non-interest income	257,260	15,581	28
Amortization of intangibles	8,809	499	
Goodwill impairment charge	3,801		
Depreciation expense	29,885	4,343	
Other operating expenses	705,825	133,101	(639)
Income tax expense	77,651	25,597	162
Net income	\$ 233,668	\$ 33,444	\$ 224
Segment assets	\$ 30,403,259	\$ 8,450,901	\$ (16,818)

For the nine months ended September 30, 2016

(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	\$ 1,112,187	\$ (45,537)	\$	\$ 1,066,650
Provision (reversal of provision) for loan losses	128,686	(35)		128,651
Non-interest income	272,869	26,707	(1,465)	298,111
Amortization of intangibles	9,308			9,308
Goodwill impairment charge	3,801			3,801
Depreciation expense	34,228	497		34,725
Other operating expenses	838,287	50,613	(1,970)	886,930
Income tax expense (benefit)	103,410	(23,068)	208	80,550
Net income (loss)	\$ 267,336	\$ (46,837)	\$ 297	\$ 220,796
Segment assets	\$ 38,837,342	\$ 4,949,819	\$ (4,732,865)	\$ 39,054,296

Table of Contents**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)	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	

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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)

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

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

Table of Contents**2016**

For the quarter ended September 30, 2016

Banco Popular de Puerto Rico

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	\$ 116,362	\$ 186,445	\$ 1,379	\$ (530)	\$ 303,656
Provision for loan losses	13,213	23,851			37,064
Non-interest income	(24,191)	59,284	25,444	(84)	60,453
Amortization of intangibles	22	1,838	1,071		2,931
Goodwill impairment charge			3,801		3,801
Depreciation expense	4,188	5,380	206		9,774
Other operating expenses	60,630	165,124	20,781	(84)	246,451
Income tax expense	7,542	6,894	43		14,479
Net income	\$ 6,576	\$ 42,642	\$ 921	\$ (530)	\$ 49,609
Segment assets	\$ 16,032,323	\$ 17,753,118	\$ 371,027	\$ (3,753,209)	\$ 30,403,259

For the nine months ended September 30, 2016

Banco Popular de Puerto Rico

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	\$ 355,061	\$ 557,489	\$ 4,674	\$ 2,142	\$ 919,366
Provision for loan losses	26,969	90,018			116,987
Non-interest income	16,776	168,860	71,883	(259)	257,260
Amortization of intangibles	92	5,484	3,233		8,809
Goodwill impairment charge			3,801		3,801
Depreciation expense	12,735	16,491	659		29,885
Other operating expenses	183,706	467,448	54,930	(259)	705,825
Income tax expense	48,939	24,410	4,302		77,651
Net income	\$ 99,396	\$ 122,498	\$ 9,632	\$ 2,142	\$ 233,668
Segment assets	\$ 16,032,323	\$ 17,753,118	\$ 371,027	\$ (3,753,209)	\$ 30,403,259

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	\$ 111,605	\$ 185,220	\$ 2,186	\$ 4,823	\$ 303,834

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Provision for loan losses	21,285	44,726			66,011
Non-interest income	30,997	62,367	23,501	(100)	116,765
Amortization of intangibles	7	2,056	1,131		3,194
Depreciation expense	3,682	6,005	277		9,964
Other operating expenses	55,591	158,842	17,878	(100)	232,211
Income tax expense	19,845	6,813	1,120		27,778
Net income	\$ 42,192	\$ 29,145	\$ 5,281	\$ 4,823	\$ 81,441
Segment assets	\$ 11,523,460	\$ 16,299,451	\$ 503,062	\$ (357,882)	\$ 27,968,091

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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	\$ 346,189	\$ 569,306	\$ 6,209	\$ 4,827	\$ 926,531
Provision for loan losses	86,422	97,895			184,317
Non-interest income	95,584	183,362	67,379	(295)	346,030
Amortization of intangibles	13	5,740	2,003		7,756
Depreciation expense	12,727	16,599	849		30,175
Other operating expenses	224,719	463,224	52,024	(295)	739,672
Income tax expense	32,503	44,121	5,915		82,539
Net income	\$ 85,389	\$ 125,089	\$ 12,797	\$ 4,827	\$ 228,102
Segment assets	\$ 11,523,460	\$ 16,299,451	\$ 503,062	\$ (357,882)	\$ 27,968,091

Geographic Information

(in thousands)	Quarter ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Revenues:				
Puerto Rico	\$ 333,006	\$ 395,086	\$ 1,097,944	\$ 1,196,112
United States	77,816	67,418	209,999	191,363
Other	18,843	19,340	56,818	56,111
Total consolidated revenues	\$ 429,665	\$ 481,844	\$ 1,364,761	\$ 1,443,586

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

Selected Balance Sheet Information:

(In thousands)	September 30, 2016	December 31, 2015
Puerto Rico		
Total assets	\$ 29,405,343	\$ 26,764,184
Loans	16,990,595	17,477,070
Deposits	23,410,341	20,893,232
United States		
Total assets	\$ 8,738,087	\$ 7,859,217
Loans	5,515,849	4,873,504

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Deposits	5,857,025	5,288,886
Other		
Total assets	\$ 910,866	\$ 1,138,332
Loans	749,815	778,656
Deposits ^[1]	1,059,679	1,027,605

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

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

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

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

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

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

(In thousands)	At September 30, 2016				
	Popular Inc. Holding Co.	PNA Holding Co.	subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Assets:					
Cash and due from banks	\$ 7,979	\$ 593	\$ 350,244	\$ (8,271)	\$ 350,545
Money market investments	284,315	13,096	3,964,980	(298,896)	3,963,495
Trading account securities, at fair value	2,495		70,210	(121)	72,584
Investment securities available-for-sale, at fair value			7,628,656		7,628,656
Investment securities held-to-maturity, at amortized cost			97,973		97,973
Other investment securities, at lower of cost or realizable value	9,850	4,492	154,449		168,791
Investment in subsidiaries	5,791,238	1,843,518		(7,634,756)	
Loans held-for-sale, at lower of cost or fair value			72,076		72,076
Loans held-in-portfolio:					
Loans not covered under loss-sharing agreements with the FDIC	1,152		22,713,206		22,714,358
Loans covered under loss-sharing agreements with the FDIC			588,211		588,211
Less Unearned income			118,386		118,386
Allowance for loan losses	1		555,854		555,855
Total loans held-in-portfolio, net	1,151		22,627,177		22,628,328
FDIC loss-share asset			152,467		152,467
Premises and equipment, net	3,065		534,910		537,975
Other real estate not covered under loss-sharing agreements with the FDIC	81		184,747		184,828
Other real estate covered under loss-sharing agreements with the FDIC			37,414		37,414
Accrued income receivable	91	35	119,611	(46)	119,691
Mortgage servicing assets, at fair value			200,354		200,354
Other assets	60,326	24,368	2,093,102	(13,857)	2,163,939
Goodwill			627,294		627,294

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Other intangible assets		553		47,333		47,886
Total assets	\$ 6,161,144	\$ 1,886,102	\$ 38,962,997	\$ (7,955,947)	\$ 39,054,296	
Liabilities and Stockholders' Equity						
Liabilities:						
Deposits:						
Non-interest bearing	\$	\$	\$ 6,958,558	\$ (8,271)	\$ 6,950,287	
Interest bearing			23,675,654	(298,896)	23,376,758	
Total deposits			30,634,212	(307,167)	30,327,045	
Federal funds purchased and assets sold under agreements to repurchase			765,251		765,251	
Other short-term borrowings			1,200		1,200	
Notes payable	735,079	148,505	714,949		1,598,533	
Other liabilities	45,577	3,431	945,500	(14,451)	980,057	
Liabilities from discontinued operations			1,815		1,815	
Total liabilities	780,656	151,936	33,062,927	(321,618)	33,673,901	
Stockholders' equity:						
Preferred stock		50,160			50,160	

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Common stock	1,040	2	56,307	(56,309)	1,040
Surplus	4,226,315	4,111,207	5,698,605	(9,801,285)	4,234,842
Retained earnings (accumulated deficit)	1,267,822	(2,392,906)	300,102	2,084,277	1,259,295
Treasury stock, at cost	(7,554)			(93)	(7,647)
Accumulated other comprehensive loss, net of tax	(157,295)	15,863	(154,944)	139,081	(157,295)
Total stockholders equity	5,380,488	1,734,166	5,900,070	(7,634,329)	5,380,395
Total liabilities and stockholders equity	\$ 6,161,144	\$ 1,886,102	\$ 38,962,997	\$ (7,955,947)	\$ 39,054,296

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

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

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Other intangible assets		554		57,555		58,109
Total assets		\$ 5,897,988	\$ 1,842,246	\$ 35,679,104	\$ (7,657,605)	\$ 35,761,733
Liabilities and Stockholders' Equity						
Liabilities:						
Deposits:						
Non-interest bearing	\$	\$	\$	6,426,359	\$ (24,844)	\$ 6,401,515
Interest bearing				21,094,138	(285,930)	20,808,208
Total deposits				27,520,497	(310,774)	27,209,723
Federal funds purchased and assets sold under agreements to repurchase				762,145		762,145
Other short-term borrowings				1,200		1,200
Notes payable		733,516	148,483	780,509		1,662,508
Other liabilities		59,148	6,659	971,429	(18,218)	1,019,018
Liabilities from discontinued operations				1,815		1,815
Total liabilities		792,664	155,142	30,037,595	(328,992)	30,656,409
Stockholders' equity:						
Preferred stock		50,160				50,160

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Common stock	1,038	2	56,307	(56,309)	1,038
Surplus	4,220,629	4,111,208	5,712,635	(9,815,316)	4,229,156
Retained earnings (accumulated deficit)	1,096,484	(2,416,251)	128,459	2,279,265	1,087,957
Treasury stock, at cost	(6,101)				(6,101)
Accumulated other comprehensive loss, net of tax	(256,886)	(7,855)	(255,892)	263,747	(256,886)
Total stockholders equity	5,105,324	1,687,104	5,641,509	(7,328,613)	5,105,324
Total liabilities and stockholders equity	\$ 5,897,988	\$ 1,842,246	\$ 35,679,104	\$ (7,657,605)	\$ 35,761,733

Condensed Consolidating Statement of Operations (Unaudited)

Quarter ended September 30, 2016

All other

(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Interest and dividend income:					
Dividend income from subsidiaries	\$ 24,200	\$	\$	\$ (24,200)	\$
Loans	21		363,529		363,550
Money market investments	398	27	4,568	(425)	4,568
Investment securities	141	81	37,510		37,732
Trading account securities			1,449		1,449
Total interest and dividend income	24,760	108	407,056	(24,625)	407,299
Interest expense:					
Deposits			32,787	(425)	32,362
Short-term borrowings			2,132		2,132
Long-term debt	13,118	2,692	3,308		19,118
Total interest expense	13,118	2,692	38,227	(425)	53,612
Net interest income (expense)	11,642	(2,584)	368,829	(24,200)	353,687
Provision (reversal) for loan losses- non-covered loans	(33)		42,627		42,594
Provision for loan losses- covered loans			750		750
Net interest income (expense) after provision for loan losses	11,675	(2,584)	325,452	(24,200)	310,343
Service charges on deposit accounts			40,776		40,776

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Other service fees			59,233	(64)	59,169
Mortgage banking activities			15,272		15,272
Net gain on sale of investment securities	184		165		349
Trading account profit (loss)	77		(163)	(27)	(113)
Net gain on sale of loans, including valuation adjustments on loans held-for-sale			8,549		8,549
Adjustments (expense) to indemnity reserves on loans sold			(4,390)		(4,390)
FDIC loss-share expense			(61,723)		(61,723)
Other operating income	4,002	152	13,955	(20)	18,089
Total non-interest income	4,263	152	71,674	(111)	75,978
Operating expenses:					
Personnel costs	11,137		110,087		121,224
Net occupancy expenses	939		20,687		21,626
Equipment expenses	776	1	15,145		15,922
Other taxes	46		11,278		11,324
Professional fees	2,642	31	78,658	(65)	81,266

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Communications	140		5,645		5,785
Business promotion	516		12,210		12,726
FDIC deposit insurance			5,854		5,854
Other real estate owned (OREO) expenses	(16)		11,311		11,295
Other operating expenses	(19,795)	3	50,077	(533)	29,752
Amortization of intangibles			3,097		3,097
Goodwill impairment charge			3,801		3,801
Total operating expenses	(3,615)	35	327,850	(598)	323,672
Income (loss) before income tax and equity in earnings of subsidiaries	19,553	(2,467)	69,276	(23,713)	62,649
Income tax (benefit) expense	(2)	(864)	16,504	201	15,839
Income (loss) before equity in earnings of subsidiaries	19,555	(1,603)	52,772	(23,914)	46,810
Equity in undistributed earnings of subsidiaries	27,255	9,190		(36,445)	
Net Income	\$ 46,810	\$ 7,587	\$ 52,772	\$ (60,359)	\$ 46,810
Comprehensive income, net of tax	\$ 35,127	\$ 3,426	\$ 41,429	\$ (44,855)	\$ 35,127

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

(In thousands)	Nine months ended September 30, 2016					Popular, Inc. Consolidated
	Popular, Inc. Holding Co.	PNA Holding Co.	subsidaries and eliminations	Elimination entries	All other	
Interest and dividend income:						
Dividend income from subsidiaries	\$ 78,100	\$	\$	\$ (78,100)	\$	\$
Loans	60		1,096,408			1,096,468
Money market investments	976	78	11,320	(1,054)		11,320
Investment securities	522	242	109,964			110,728
Trading account securities			5,013			5,013
Total interest and dividend income	79,658	320	1,222,705	(79,154)		1,223,529
Interest expense:						
Deposits			93,889	(1,054)		92,835
Short-term borrowings			6,051			6,051
Long-term debt	39,353	8,077	10,563			57,993
Total interest expense	39,353	8,077	110,503	(1,054)		156,879
Net interest income (expense)	40,305	(7,757)	1,112,202	(78,100)		1,066,650
Provision (reversal) for loan losses- non-covered loans	(36)		130,238			130,202
Provision (reversal) for loan losses- covered loans			(1,551)			(1,551)
Net interest income (expense) after provision for loan losses	40,341	(7,757)	983,515	(78,100)		937,999
Service charges on deposit accounts			120,934			120,934
Other service fees			170,896	(1,400)		169,496
Mortgage banking activities			42,050			42,050
Net gain on sale of investment securities	1,767		165			1,932
Other-than-temporary impairment losses on investment securities			(209)			(209)
Trading account profit	136		733	(27)		842
Net loss on sale of loans, including valuation adjustments on loans held-for-sale			8,245			8,245
Adjustments (expense) to indemnity reserves on loans sold			(14,234)			(14,234)
FDIC loss-share expense			(77,445)			(77,445)

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Other operating income	9,070	(2,787)	40,255	(38)	46,500
Total non-interest income	10,973	(2,787)	291,390	(1,465)	298,111
Operating expenses:					
Personnel costs	37,192		327,831		365,023
Net occupancy expenses	2,700		61,070		63,770
Equipment expenses	1,864	1	43,866		45,731
Other taxes	140		31,549		31,689
Professional fees	7,854	91	229,754	(349)	237,350
Communications	417		17,700		18,117
Business promotion	1,467		36,074		37,541
FDIC deposit insurance			18,586		18,586
Other real estate owned (OREO) expenses	52		33,364		33,416
Other operating expenses	(56,173)	46	128,181	(1,622)	70,432
Amortization of intangibles			9,308		9,308
Goodwill impairment charge			3,801		3,801
Total operating expenses	(4,487)	138	941,084	(1,971)	934,764
Income (loss) before income tax and equity in earnings of subsidiaries	55,801	(10,682)	333,821	(77,594)	301,346
Income tax expense (benefit)	1	(3,739)	84,080	208	80,550

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Income (loss) before equity in earnings of subsidiaries	55,800	(6,943)	249,741	(77,802)	220,796
Equity in undistributed earnings of subsidiaries	164,996	30,289		(195,285)	
Net Income	\$ 220,796	\$ 23,346	\$ 249,741	\$ (273,087)	\$ 220,796
Comprehensive income, net of tax	\$ 320,387	\$ 47,064	\$ 350,689	(397,753)	\$ 320,387

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

Quarter ended September 30, 2015

All other

	Popular, Inc. Holding Co.	PNA Holding Co.	subsidaries and eliminations	Elimination entries	Popular, Inc. Consolidated
(In thousands)					
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
Mortgage banking activities			24,195		24,195
Net gain on sale of 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:					

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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
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

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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. Consolidated
	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries		
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 gain on sale of 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
Income tax expense (benefit)	45		(478,661)	272	(478,344)

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(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 Cash Flows (Unaudited)**

(In thousands)	Nine months ended September 30, 2016				
	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Cash flows from operating activities:					
Net income	\$ 220,796	\$ 23,346	\$ 249,741	\$ (273,087)	\$ 220,796
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Equity in undistributed earnings of subsidiaries	(164,996)	(30,289)		195,285	
Provision (reversal) for loan losses	(36)		128,687		128,651
Goodwill impairment losses			3,801		3,801
Amortization of intangibles			9,308		9,308
Depreciation and amortization of premises and equipment	497		34,228		34,725
Net accretion of discounts and amortization of premiums and deferred fees	1,565	21	(38,339)		(36,753)
Other-than-temporary impairment on investment securities			209		209
Fair value adjustments on mortgage servicing rights			18,879		18,879
FDIC loss-share expense			77,445		77,445
Adjustments (expense) to indemnity reserves on loans sold			14,234		14,234
(Earnings) losses from investments under the equity method	(9,070)	2,787	(17,529)		(23,812)
Deferred income tax expense (benefit)	1	(3,739)	65,448	208	61,918
(Gain) loss on:					
Disposition of premises and equipment and other productive assets	(1)		3,604		3,603
Sale and valuation adjustments of investment securities	(1,767)		(165)		(1,932)
Sale of loans, including valuation adjustments on loans held for sale and mortgage banking activities			(32,982)		(32,982)
Sale of foreclosed assets, including write-downs	52		13,108		13,160
Acquisitions of loans held-for-sale			(223,189)		(223,189)
Proceeds from sale of loans held-for-sale			58,003		58,003
Net originations on loans held-for-sale			(365,353)		(365,353)

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Net (increase) decrease in:					
Trading securities	(475)		578,487	121	578,133
Accrued income receivable	(6)	80	4,459	10	4,543
Other assets	2,304	(26)	(26,170)	(4,309)	(28,201)
Net decrease in:					
Interest payable	(7,875)	(2,685)	(983)	(10)	(11,553)
Pension and other postretirement benefits obligations			(56,537)		(56,537)
Other liabilities	(5,724)	(543)	(2,801)	3,776	(5,292)
Total adjustments	(185,531)	(34,394)	245,852	195,081	221,008
Net cash provided by (used in) operating activities					
	35,265	(11,048)	495,593	(78,006)	441,804
Cash flows from investing activities:					
Net (increase) decrease in money market investments					
	(22,111)	10,835	(1,785,091)	12,965	(1,783,402)
Purchases of investment securities:					
Available-for-sale			(2,408,514)		(2,408,514)
Other			(14,017)		(14,017)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:					
Available-for-sale			951,447		951,447
Held-to-maturity			4,182		4,182
Other			11,051		11,051
Proceeds from sale of investment securities:					
Available for sale	278		1,278		1,556
Other	1,583		6,423		8,006
Net repayments (disbursements) on loans					
	25		(93,379)		(93,354)
Proceeds from sale of loans					
			134,114		134,114
Acquisition of loan portfolios					
			(355,507)		(355,507)
Net payments from FDIC under loss-sharing agreements					
			95,407		95,407
Return of capital from equity method investments					
	118	206			324
Return of capital from wholly-owned subsidiaries					
	14,000			(14,000)	
Acquisition of premises and equipment					
	(794)		(77,503)		(78,297)
Proceeds from sale of:					
Premises and equipment and other productive assets	56		5,463		5,519
Foreclosed assets	434		54,166		54,600
Net cash (used in) provided by investing activities					
	(6,411)	11,041	(3,470,480)	(1,035)	(3,466,885)

Cash flows from financing activities:

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Net increase (decrease) in:					
Deposits			3,116,067	3,607	3,119,674
Federal funds purchased and assets sold under agreements to repurchase			3,106		3,106
Other short-term borrowings					
Payments of notes payable			(230,608)		(230,608)
Proceeds from issuance of notes payable			165,047		165,047
Proceeds from issuance of common stock	5,718				5,718
Dividends paid to parent company			(78,100)	78,100	
Dividends paid	(49,438)				(49,438)
Net payments for repurchase of common stock	(1,453)		(1)	(93)	(1,547)
Return of capital to parent company			(14,000)	14,000	
Net cash (used in) provided by financing activities	(45,173)		2,961,511	95,614	3,011,952
Net decrease in cash and due from banks	(16,319)	(7)	(13,376)	16,573	(13,129)
Cash and due from banks at beginning of period	24,298	600	363,620	(24,844)	363,674
Cash and due from banks at end of period	\$ 7,979	\$ 593	\$ 350,244	\$ (8,271)	\$ 350,545

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

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Acquisition of loan portfolios			(355,507)		(355,507)
Net payments from FDIC under loss-sharing agreements			95,407		95,407
Return of capital from equity method investments	118	206			324
Return of capital from wholly-owned subsidiaries	14,000			(14,000)	
Acquisition of premises and equipment	(794)		(77,503)		(78,297)
Proceeds from sale of:					
Premises and equipment and other productive assets	56		5,463		5,519
Foreclosed assets	434		54,166		54,600
Net cash (used in) provided by investing activities	(6,411)	11,041	(3,500,105)	(1,035)	(3,496,510)
Cash flows from financing activities:					
Net increase (decrease) in:					
Deposits			3,116,067	3,607	3,119,674
Federal funds purchased and assets sold under agreements to repurchase			3,106		3,106
Other short-term borrowings					
Payments of notes payable			(230,608)		(230,608)
Proceeds from issuance of notes payable			165,047		165,047
Proceeds from issuance of common stock	5,718				5,718
Dividends paid to parent company			(78,100)	78,100	
Dividends paid	(49,438)				(49,438)
Net payments for repurchase of common stock	(1,453)		(1)	(93)	(1,547)
Return of capital to parent company			(14,000)	14,000	
Net cash (used in) provided by financing activities	(45,173)		2,961,511	95,614	3,011,952
Net decrease in cash and due from banks	(16,319)	(7)	(13,376)	16,573	(13,129)
Cash and due from banks at beginning of period	24,298	600	363,620	(24,844)	363,674
Cash and due from banks at end of period	\$ 7,979	\$ 593	\$ 350,244	\$ (8,271)	\$ 350,545

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

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

(In thousands)	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 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 losses 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

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Net originations on loans held-for-sale			(574,942)		(574,942)
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.

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

This report includes management's discussion and analysis (MD&A) of the consolidated financial position and financial performance of Popular, Inc. (the Corporation or Popular). All accompanying tables, financial statements

and notes included elsewhere in this report should be considered an integral part of this analysis.

The Corporation is a diversified, publicly-owned financial holding company subject to the supervision and regulation of the Board of Governors of the Federal Reserve System. The Corporation has operations in Puerto Rico, the United States (U.S.) mainland, and the U.S. and British Virgin Islands. In Puerto Rico, the Corporation provides retail, including residential mortgage loan originations, and commercial banking services through its principal banking subsidiary, Banco Popular de Puerto Rico (BPPR), as well as investment banking, broker-dealer, auto and equipment leasing and financing, and insurance services through specialized subsidiaries. In the U.S. mainland, the Corporation operates Banco Popular North America (BPNA). BPNA focuses efforts and resources on the core community banking business. BPNA, under the name Popular Community Bank (PCB), operates branches in New York, New Jersey and Southern Florida. Note 35 to the consolidated financial statements presents information about the Corporation's business segments. As of September 30, 2016, the Corporation had a 15.91% 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, 2016 the Corporation recorded \$3.6 million in earnings from its investment in EVERTEC which had a carrying amount of \$37.4 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, 2016 the Corporation recorded \$6.1 million in earnings from its investment in BHD Leon, which had a carrying amount of \$122.1 million, as of the end of the quarter.

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QUARTER HIGHLIGHTS

As previously announced, on October 3, 2016 the review board hearing an arbitration claim submitted by BPPR issued a final arbitration award denying BPPR's request for reimbursement of approximately \$55 million in shared loss claims that were the subject of one of the disputes between BPPR and the Federal Deposit Insurance Corporation, as receiver, under the commercial loss share agreement entered into in connection with the Westernbank FDIC-assisted transaction. As a result, for the quarter ended September 30, 2016, Popular recognized a pre-tax charge of \$54.9 million and a corresponding reduction to its FDIC indemnification asset.

OVERVIEW

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

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

(In thousands)	Ending balances at			Average for the nine months ended		
	September 30, 2016	December 31, 2015	Variance	September 30, 2016	September 30, 2015	Variance
Money market investments	\$ 3,963,495	\$ 2,180,092	\$ 1,783,403	\$ 2,911,043	\$ 2,370,293	\$ 540,750
Investment and trading securities	7,968,004	6,407,802	1,560,202	7,224,704	5,969,409	1,255,295
Loans	23,256,259	23,129,230	127,029	23,057,383	23,016,530	40,853
Earning assets	35,187,758	31,717,124	3,470,634	33,193,130	31,356,232	1,836,898
Total assets	39,054,296	35,761,733	3,292,563	37,119,732	35,055,499	2,064,233
Deposits*	30,327,045	27,209,723	3,117,322	28,534,115	26,668,741	1,865,374
Borrowings	2,364,984	2,425,853	(60,869)	2,382,051	2,864,483	(482,432)
Stockholders equity	5,380,395	5,105,324	275,071	5,259,959	4,579,043	680,916
Liabilities from discontinued operations	1,815	1,815		1,815	2,187	(372)

* Average deposits exclude average derivatives.

Operating Highlights

(In thousands, except per share information)	Quarters ended September 30,			Nine months ended September 30,		
	2016	2015	Variance	2016	2015	Variance
Net interest income	\$ 353,687	\$ 350,735	\$ 2,952	\$ 1,066,650	\$ 1,056,483	\$ 10,167
Provision for loan losses non-covered loans	42,594	69,568	(26,974)	130,202	159,747	(29,545)
Provision (reversal) for loan losses covered loans	750	(2,890)	3,640	(1,551)	23,200	(24,751)
Non-interest income	75,978	140,759	(64,781)	298,111	387,103	(88,992)
Operating expenses	323,672	306,897	16,775	934,764	982,412	(47,648)
Income from continuing operations before income tax	62,649	108,269	(45,620)	301,346	278,227	23,119
Income tax expense (benefit)	15,839	22,620	(6,781)	80,550	(478,344)	558,894
Income from continuing operations	\$ 46,810	\$ 85,649	\$ (38,839)	\$ 220,796	\$ 756,571	\$ (535,775)
(Loss) income from discontinued operations, net of tax		(9)	9		1,347	(1,347)
Net income	\$ 46,810	\$ 85,640	\$ (38,830)	\$ 220,796	\$ 757,918	\$ (537,122)
Net income applicable to common stock	\$ 45,880	\$ 84,709	\$ (38,829)	\$ 218,004	\$ 755,126	\$ (537,122)
Net income from continuing operations	\$ 0.44	\$ 0.82	\$ (0.38)	\$ 2.11	\$ 7.33	\$ (5.22)
Net income from discontinued operations	\$	\$	\$	\$	\$ 0.01	\$ (0.01)

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Net income per Common Share Basic	\$	0.44	\$	0.82	\$	(0.38)	\$	2.11	\$	7.34	\$	(5.23)
Net income from continuing operations	\$	0.44	\$	0.82	\$	(0.38)	\$	2.11	\$	7.31	\$	(5.20)
Net income from discontinued operations	\$		\$		\$		\$		\$	0.01	\$	(0.01)
Net income per Common Share Diluted	\$	0.44	\$	0.82	\$	(0.38)	\$	2.11	\$	7.32	\$	(5.21)

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Selected Statistical Information	Quarters ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Common Stock Data				
Market price				
High	\$ 39.74	\$ 31.49	\$ 39.74	\$ 35.58
Low	28.00	27.19	22.62	27.19
End	38.22	30.23	38.22	30.23
Book value per common share at period end	51.85	48.28	51.85	48.76
Profitability Ratios				
Return on assets	0.49%	0.95%	0.79%	2.89%
Return on common equity	3.46	6.79	5.59	22.29
Net interest spread (taxable equivalent) Non-GAAP	4.37	4.60	4.55	4.75
Net interest margin (taxable equivalent) Non-GAAP	4.15	4.39	4.32	4.54
Capitalization Ratios				
Average equity to average assets	13.98%	13.96%	14.17%	13.06%
Tier I capital	16.64	16.21	16.64	16.21
Total capital	19.65	18.78	19.65	18.78
Tier I leverage	11.21	11.75	11.21	11.75

Adjusted results of operations Non-GAAP financial measure*Adjusted net income*

The Corporation prepares its Consolidated Financial Statements using accounting principles generally accepted in the U.S. (U.S. GAAP or the reported basis). In addition to analyzing the Corporation s results on a reported basis, management monitors Adjusted net income of the Corporation and excludes the impact of certain transactions on the results of its operations. Management believes that adjusted net income provides meaningful information about the underlying performance of the Corporation s ongoing operations. Adjusted net income is a non-GAAP financial measure. Refer to tables 35 to 38 for a reconciliation of net income to adjusted net income for the quarter and nine months ended September 30, 2016 and September 30, 2015.

Net interest income on a taxable equivalent basis

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

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

comparison of revenues arising from taxable and exempt sources.

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

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

For the quarter ended September 30, 2016, the Corporation recorded net income of \$46.8 million, compared to a net income of \$85.6 million for the same quarter of the previous year. The results for the third quarter of 2016, include a charge of \$43.9 million, net of tax, related to the FDIC final arbitration award and a goodwill impairment charge of \$3.8 million at the securities subsidiary. The adjusted net income for the third quarter of 2016 was \$94.6 million, compared to an adjusted net income of \$93.4 million for the third quarter of 2015. Refer to tables 35 to 36 for a detail of the adjustments to arrive at the adjusted net income.

Net interest income was \$353.7 million, an increase of \$3.0 million when compared to the same quarter of 2015. Net interest income on a taxable equivalent basis was \$375.4 million, an increase of \$7.4 million when compared to the same quarter of 2015. The increase is driven by higher income from money and investment securities and commercial loans in the U.S., partially offset by lower income from the Westernbank (WB) portfolio and higher expense from higher volumes of deposits. Net interest margin, on a taxable equivalent basis, for the third quarter of 2016 was 4.37%, compared to 4.60% for the same quarter of 2015.

Non-interest income decreased by \$55.1 million for the quarter ended September 30, 2016, compared with the same quarter of the previous year. The decline was mainly driven by an unfavorable variance in the FDIC loss share income (expense) which included a charge of \$54.9 million related to the FDIC final arbitration award. Refer to the Non-interest section of this MD&A for additional information.

The total provision for loan losses was \$43.3 million, compared to \$66.7 million for the same quarter of 2015. The decrease of \$23.4 million is mainly due to a lower provision at the BPPR segment by \$27.0 million, offset by a higher provision at BPNA. The provision for the third quarter of 2015 included incremental reserves for certain large relationships charged-off during the fourth quarter of 2015 and an impairment of \$10.1 million on certain WB loans that the Corporation subsequently sold. During the third quarter of 2016, BPPR recorded a recovery of \$7.1 million related to the sale of previously charged-off credit cards and personal loans. This reduction was in part offset by a \$9.4 million impact at BPPR related to the annual review of the components of the allowance for loan losses methodology, which for BPNA did not have a significant impact.

Non-performing assets decreased by \$37 million when compared with December 31, 2015, mainly attributed to the sale of the Puerto Rico Electric Power Authority (PREPA) loan with a carrying value of \$40 million, transferred to held-for-sale in the second quarter of 2015. Non-performing loans held-in-portfolio decreased by \$22 million, which was partially offset by an increase in OREOs of \$30 million from December 31, 2015.

Refer to the Credit Risk Management and Loan Quality section of this MD&A for an explanation of the main factors impacting the provision for loan losses and a detailed analysis of net charge-offs, non-performing assets, the allowance for loan losses and selected loan losses statistics.

Operating expenses increased by \$16.8 million for the quarter ended September 30, 2016, compared to the same quarter of the previous year, mainly due higher legal fees associated with the FDIC arbitration, higher

OREO expenses, higher operational losses and goodwill impairment charge of \$3.8 million. Refer to the Operating expenses section of this MD&A for additional information.

The income tax expense for the third quarter of 2016 was \$15.8 million, compared to \$22.6 million for the same quarter of the previous year. The decline is mainly due to lower income before tax and the reversal of \$4.4 million in reserves for uncertain tax positions.

The Corporation's total assets at September 30, 2016 amounted to \$39.1 billion, compared to \$35.8 billion at December 31, 2015. Money market investment increased by \$1.8 billion, due mainly to increase in cash balances from deposits. Investment securities available-for-sale increased by \$1.6 billion due to purchases of MBS and U.S. Treasury securities. Total deposits increased by \$3.1 billion, mainly from Puerto Rico government deposit accounts at BPPR, NOW accounts and commercial checking accounts, offset by lower brokered CDs. Also, deposit balances in the U.S. reflected an increase related to the funding of loan growth.

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Stockholders' equity totalled \$5.4 billion at September 30, 2016, compared with \$5.1 billion at December 31, 2015. The increase resulted mainly from the Corporation's net income of \$221 million, a favorable variance of \$94 million in unrealized gains on securities available-for-sale, partially offset by the declaration of dividends of \$46.7 million on common stock of \$0.15 per share and \$2.8 million in dividends on preferred stock.

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

Capital ratios continued to be strong. As of September 30, 2016 the Corporation's Common equity Tier 1 Capital ratio was 16.64% while the tangible common equity ratio was 12.13%. Refer to Table 14 for capital ratios and Table 15 for Non-GAAP reconciliations.

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES / ESTIMATES

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

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

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During the third quarter of 2016, management completed the annual review of the components of the ALLL models. For additional information of the annual review and recalibration process, refer to Note 10.

During the third quarter of 2016, the Corporation performed the annual goodwill impairment evaluation for the entire organization. For additional information on the results of the goodwill impairment analysis, refer to Note 16.

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OPERATING RESULTS ANALYSIS

NET INTEREST INCOME

Net interest income was \$353.7 million for the third quarter of 2016, an increase of \$3.0 million when compared to the \$350.7 million for the same quarter of 2015. Taxable equivalent net interest income was \$375.4 million for the third quarter of 2016, an increase of \$7.4 million when compared to the \$368.0 million for the same quarter of 2015. Net interest margin for the third quarter of 2016 was 4.12%, a decrease of 27 basis points when compared with the same quarter of the previous year. Net interest margin, on a taxable equivalent basis, for the third quarter of 2016 was 4.37%, a decrease of 23 basis points when compared to the 4.60% for the same quarter of 2015. The main reasons for the increase in net interest income are described below:

Higher interest income from money market investments due to higher volume of overnight investments driven by an increase in P.R. public funds deposits.

Higher interest income from investment securities due mainly to higher volumes of mortgage backed securities.

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

Higher interest income from the leasing portfolio mainly due to higher volume of loans in P.R. These positive variances were partially offset by:

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

Higher interest expense on deposits mainly due to higher volumes in most categories mainly deposits from the P.R. public sector and higher volumes in the U.S. to fund the loan growth. These increases were partially offset by a decrease in the average volume of brokered CDs. The increase in deposit cost of 3 basis points is mostly related to a higher cost of time deposits and money market deposits in the U.S. to finance asset growth, as explained above.

Interest income for the quarter ended September 30, 2016 included the amortization of deferred loans fees, prepayment penalties, late fees and the amortization of premium/ discounts amounting to \$5.1 million compared with \$6.9 million for the same period in 2015.

Table of Contents**Table 2 Analysis of Levels & Yields on a Taxable Equivalent Basis for Continuing Operations (Non-GAAP)****Quarters ended September 30,**

Average Volume			Average Yields/Costs				Interest			Variance	Attributed Rate
2016	2015	Variance	2016	2015	Variance		2016	2015	(In thousands)		
(\$ in millions)											
\$ 3,537	\$ 2,642	\$ 895	0.51%	0.30%	0.21%	Money market investments	\$ 4,568	\$ 2,003	\$ 2,565	\$ 1,962	
7,494	5,789	1,705	2.68	2.63	0.05	Investment securities	50,165	38,143	12,022	(357)	
128	236	(108)	5.85	6.31	(0.46)	Trading securities	1,876	3,749	(1,873)	(265)	
						Total money market, investment and trading securities	56,609	43,895	12,714	1,340	
						Loans:					
9,269	8,769	500	5.05	5.16	(0.11)	Commercial	117,762	114,123	3,639	(2,762)	
739	681	58	5.44	6.30	(0.86)	Construction	10,115	10,811	(696)	(1,576)	
669	594	75	6.72	6.75	(0.03)	Leasing	11,240	10,032	1,208	(46)	
6,637	7,072	(435)	5.56	5.22	0.34	Mortgage	92,169	92,341	(172)	5,689	
3,847	3,811	36	10.37	10.34	0.03	Consumer	100,268	99,356	912	(505)	
21,161	20,927	234	6.24	6.21	0.03	Sub-total loans	331,554	326,663	4,891	800	
1,881	2,221	(340)	8.65	8.59	0.06	WB loans	40,867	47,982	(7,115)	(5,161)	
23,042	23,148	(106)	6.44	6.44		Total loans	372,421	374,645	(2,224)	(4,361)	
\$ 34,201	\$ 31,815	\$ 2,386	5.00%	5.23%	(0.23)%	Total earning assets	\$ 429,030	\$ 418,540	\$ 10,490	\$ (3,021)	
						Interest bearing deposits:					
						NOW and money market					
\$ 7,326	\$ 5,742	\$ 1,584	0.38%	0.34%	0.04%	[1]	\$ 7,014	\$ 4,873	\$ 2,141	\$ 1,156	
7,550	7,055	495	0.24	0.23	0.01	Savings	4,613	4,093	520	140	
7,859	8,157	(298)	1.05	0.94	0.11	Time deposits	20,735	19,390	1,345	1,802	
22,735	20,954	1,781	0.57	0.54	0.03	Total deposits	32,362	28,356	4,006	3,098	
818	1,186	(368)	1.04	0.74	0.30		2,132	2,222	(90)	713	

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1,580	1,676	(96)	4.85	4.76	0.09	Short-term borrowings					
						Other medium and long-term debt	19,118	19,969	(851)	260	
25,133	23,816	1,317	0.85	0.84	0.01	Total interest bearing liabilities	53,612	50,547	3,065	4,071	
6,676	6,144	532				Non-interest bearing demand deposits					
2,392	1,855	537				Other sources of funds					
\$ 34,201	\$ 31,815	\$ 2,386	0.63%	0.63%	%	Total source of funds	53,612	50,547	3,065	4,071	
			4.37%	4.60%	(0.23)%	Net interest margin/income on a taxable equivalent basis	375,418	367,993	7,425	\$(7,092)	
			4.15%	4.39%	(0.24)%	Net interest spread					
						Taxable equivalent adjustment	21,731	17,258	4,473		
			4.12%	4.39%	(0.27)%	Net interest margin / income non-taxable equivalent basis	\$ 353,687	\$ 350,735	\$ 2,952		

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.

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Net interest income was \$1.1 billion for the nine-month period ended September 30, 2016, an increase of \$10.2 million when compared to the same period of 2015. Taxable equivalent net interest income was \$1.1 billion for the nine-month period ended September 30, 2016, an increase of \$17.0 million when compared to the same period of 2015. Net interest margin for the nine-month period ended September 30, 2016 was 4.29%, a decrease of 21 basis points when compared with the same period of the previous year. Net interest margin, on a taxable equivalent basis, for the nine-month period ended September 30, 2016 was 4.55%, a decrease of 20 basis points when compared to the 4.75% for the same period of 2015. The variances in net interest income for the nine-month period are similar to the quarterly variances described above: positive variances in earning assets due to higher volume of investment securities and money markets and continued growth in the commercial portfolio in the U.S. and the leasing portfolio in P.R. On the negative side, similar variances related to lower volumes from WB loans and the increase in P.R. public funds deposits at BPPR and in time and money market deposits in the U.S. to fund the loan growth.

Interest income for the nine-months ended September 30, 2016 included the amortization of deferred loans fees, prepayment penalties, late fees and the amortization of premium/ discounts amounting to \$13.3 million compared with \$13.4 million for the same period in 2015.

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

Average Volume			Average Yields/Costs				Interest			Attr Rate
2016	2015	Variance	2016	2015	Variance		2016	2015	Variance	
(In millions)							(In thousands)			
						Money market				
\$ 2,911	\$ 2,371	\$ 540	0.52%	0.30%	0.22%	investments	\$ 11,320	\$ 5,294	\$ 6,026	\$ 5,09
7,096	5,746	1,350	2.76	2.65	0.11	Investment	146,943	114,378	32,565	(78
129	223	(94)	6.69	6.43	0.26	securities	6,463	10,728	(4,265)	43
						Trading				
						securities				
						Total money				
						market,				
						investment and				
10,136	8,340	1,796	2.17	2.09	0.08	trading	164,726	130,400	34,326	4,73
						securities				
						Loans:				
9,126	8,627	499	5.08	5.18	(0.10)	Commercial	346,778	334,537	12,241	(6,81
722	600	122	5.39	6.05	(0.66)	Construction	29,150	27,135	2,015	(3,11
650	582	68	6.74	6.89	(0.15)	Leasing	32,866	30,106	2,760	(68
6,736	6,989	(253)	5.53	5.34	0.19	Mortgage	279,210	279,769	(559)	9,74
3,839	3,826	13	10.45	10.39	0.06	Consumer	300,416	297,192	3,224	72
						Sub-total loans	988,420	968,739	19,681	(14
21,073	20,624	449	6.26	6.27	(0.01)	WB loans	135,565	160,910	(25,345)	11,57
1,984	2,392	(408)	9.12	8.99	0.13	Total loans	1,123,985	1,129,649	(5,664)	11,43
23,057	23,016	41	6.51	6.56	(0.05)	Total earning				
						assets	\$ 1,288,711	\$ 1,260,049	\$ 28,662	\$ 16,17
						Interest bearing				
						deposits:				
						NOW and				
						money market				
\$ 6,689	\$ 5,413	\$ 1,276	0.38%	0.35%	0.03%	[1]	\$ 19,217	\$ 14,003	\$ 5,214	\$ 2,50
7,438	6,996	442	0.24	0.23	0.01	Savings	13,307	12,119	1,188	17
7,928	8,147	(219)	1.02	0.89	0.13	Time deposits	60,311	54,357	5,954	6,23
22,055	20,556	1,499	0.56	0.52	0.04	Total deposits	92,835	80,479	12,356	8,97
810	1,117	(307)	1.00	0.70	0.30		6,051	5,819	232	2,18

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1,572	1,747	(175)	4.92	4.50	0.42	Short-term borrowings					
						Other medium and long-term debt	57,993	58,876	(883)	3,000	
24,437	23,420	1,017	0.86	0.83	0.03	Total interest bearing liabilities	156,879	145,174	11,705	14,190	
6,484	6,113	371				Demand deposits					
2,272	1,823	449				Other sources of funds					
\$ 33,193	\$ 31,356	\$ 1,837	0.63%	0.62%	0.01%	Total source of funds	156,879	145,174	11,705	14,190	
			4.55%	4.75%	(0.20)%	Net interest margin/income on a taxable equivalent basis	1,131,832	1,114,875	16,957	\$ 1,900	
			4.32%	4.54%	(0.22)%	Net interest spread					
						Taxable equivalent adjustment	65,182	58,392	6,790		
			4.29%	4.50%	(0.21)%	Net interest margin / income non-taxable equivalent basis	\$ 1,066,650	\$ 1,056,483	\$ 10,167		

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

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

Table of Contents**Provision for Loan Losses**

The Corporation's total provision for loan losses was \$43.3 million for the quarter ended September 30, 2016, compared to \$66.7 million for the quarter ended September 30, 2015, a decrease of \$23.4 million.

The provision for loan losses for the non-covered loan portfolio totaled \$42.6 million, compared to \$69.6 million for the same quarter in 2015, a decrease of \$27.0 million, mostly related to lower provision in the BPPR segment. Despite challenging operating conditions in Puerto Rico credit metrics continued stable. Net charge-offs, decreased by \$11.2 million when compared with the same quarter in 2015.

The provision for loan losses for the non-covered loan portfolio at the BPPR segment decreased by \$32.5 million when compared to the same quarter in 2015. The provision for the third quarter of 2015 included incremental reserves for certain large relationships charged-off during the fourth quarter of 2015. The provision for the third quarter of 2015 also included an impairment of \$10.1 million on certain Westernbank loans that the Corporation sold during the fourth quarter of 2015 and the second quarter of 2016. Also, during the third quarter of 2016, BPPR recorded a recovery of \$7.1 million related to the sale of previously charged-off credit cards and personal loans. These reductions were in part offset by a \$9.4 million impact related to the annual review of the components of the allowance for loan losses methodology.

The provision for loan losses for the BPNA segment amounted to \$6.3 million, compared to \$813 thousand for the same quarter in 2015. Credit trends for the BPNA segment continued strong with minimal non-performing loans and net charge-offs. The effect of the recalibration was immaterial for the BPNA segment. The increase in the provision was mainly due to loan growth.

The provision for covered loan portfolio totaled \$750 thousand in the third quarter of 2016, compared to a provision release of \$2.9 million for the same quarter in 2015, increasing by \$3.6 million.

For the nine months ended September 30, 2016, the Corporation's total provision for loan losses totaled \$128.7 million, compared with \$182.9 million for the same period in 2015, decreasing by \$54.2 million.

For the nine months period ended September 30, 2016, the provision for loan losses for the non-covered loan portfolio decreased by \$29.5 million when compared to the same period of 2015 driven by a reduction of \$42.7 million in the BPPR segment. This decrease is mainly due to lower loss trends, lower reserve for impaired loans, and lower provision related to Westernbank loans, as mentioned above. The second quarter of 2016 included \$5.4 million positive impact related to the bulk sale of WB loans. The results for the nine months ended September 30, 2016 included an impact of \$9.4 million related to the previously mentioned annual recalibration of the environmental factors adjustment. The provision for the nine months ended September 30, 2016 in the BPNA segment increased by \$13.2 million, mainly driven by portfolio growth. The provision for the same period in 2015 was a credit of \$1.5 million.

The provision for the covered portfolio decreased by \$24.8 million for the nine month period ended September 30, 2016. This decrease was mainly due to the reclassification to non-covered loans of the non-single family loans that were previously covered by the commercial loss agreement with the FDIC at the end of the second quarter of 2015.

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

Non-interest income decreased by \$55.1 million during the quarter ended September 30, 2016, compared with the same quarter of the previous year. The decrease in non-interest income was principally due to:

Lower income from mortgage banking activities by \$8.9 million due to an unfavorable variance in the valuation adjustment on mortgage servicing rights and lower mortgage servicing fees; and an

Unfavorable variance in the FDIC loss share (expense) income of \$62.9 million as a result of a \$54.9 million charge related to the arbitration award, an unfavorable change in the fair value of the true-up payment obligation mainly as a result of the improvement in the Corporation's credit spreads, and lower mirror accounting on reimbursable expenses. Refer to Table 4 for a breakdown of FDIC loss share income (expenses) by major categories.

These decreases were partially offset by:

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Higher other service fees by \$3.1 million due to higher life insurance commission revenues and higher credit card interchange fee income at the BPPR reportable segment due to higher transaction volumes;

Higher net gain on sale of loans by \$8.5 million as a result of the sale of a non-accrual public sector credit during the third quarter; and

Higher other operating income by \$3.3 million mainly due to higher aggregated net earnings from investments under the equity method.

Non-interest income decreased by \$89.0 million during the nine months ended September 30, 2016, compared with the same period of the previous year. The decrease in non-interest income was due to:

lower income from mortgage banking activities by \$16.3 million due to an unfavorable variance in the valuation adjustment on mortgage servicing rights and higher realized losses on closed derivative positions;

an unfavorable variance in adjustments to indemnity reserves of \$4.3 million mainly due to 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 completed in 2013; and

an unfavorable variance in FDIC loss share (expense) income of \$101.9 million resulting from lower mirror accounting on reimbursable expenses, a \$54.9 million charge as previously mentioned, an unfavorable change in the true-up payment obligation and lower mirror accounting on credit impairment losses, partially offset by lower amortization of the indemnification asset.

These unfavorable variances were partially offset by:

lower other-than-temporary impairment losses on investment securities by \$14.2 million due to the other-than-temporary impairment charge during the second quarter of 2015 on the portfolio of Puerto Rico government investment securities available-for-sale of \$14.4 million;

higher trading account profit by \$3.9 million mainly due to higher unrealized gains on MBS outstanding;

higher net gain on sale of loans by \$7.6 million as a result of the sale of a non-accrual public sector credit during the third quarter as previously mentioned; and

higher other operating income by \$4.7 million due to higher aggregated net earnings from investments under the equity method.

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 ended September 30, 2016 and 2015.

Table of Contents**Table 4 Financial Information Westernbank FDIC-Assisted Transaction**

(In thousands)	Quarters ended			Nine months ended		
	September 30, 2016	September 30, 2015	Variance	September 30, 2016	September 30, 2015	Variance
Interest income on WB loans	\$ 40,867	\$ 47,982	\$ (7,115)	\$ 135,566	\$ 160,910	\$ (25,344)
FDIC loss-share (expense) income:						
Amortization of loss-share indemnification asset	(1,259)	(3,931)	2,672	(9,337)	(62,312)	52,975
80% mirror accounting on credit impairment losses (reversal) ^[1]	659	(183)	842	(959)	15,710	(16,669)
80% mirror accounting on reimbursable expenses	853	6,276	(5,423)	7,038	70,551	(63,513)
80% mirror accounting on recoveries on covered assets, including rental income on OREOs, subject to reimbursement to the FDIC	(522)		(522)	(5,123)	(7,822)	2,699
Change in true-up payment obligation	(6,611)	(1,058)	(5,553)	(14,742)	6,778	(21,520)
Arbitration award expense ^[2]	(54,924)		(54,924)	(54,924)		(54,924)
Other	81	103	(22)	602	1,516	(914)
Total FDIC loss-share (expense) income	(61,723)	1,207	(62,930)	(77,445)	24,421	(101,866)
Total revenues (expense)	(20,856)	49,189	(70,045)	58,121	185,331	(127,210)
Provision (reversal) for loan losses	6,612	20,206	(13,594)	(1,026)	46,296	(47,322)
Total revenues (expense) less provision for loan losses	\$ (27,468)	\$ 28,983	\$ (56,451)	\$ 59,147	\$ 139,035	\$ (79,888)

[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] Refer to Note 23, Commitments and Contingencies, for additional information on the FDIC arbitration award.

Average balances

(In millions)	Quarters ended			Nine months ended		
	September 30, 2016	September 30, 2015	Variance	September 30, 2016	September 30, 2015	Variance
WB Loans	\$ 1,881	\$ 2,221	\$ (340)	\$ 1,984	\$ 2,392	\$ (408)
FDIC loss-share asset	192	330	(138)	212	382	(170)

Operating Expenses

Operating expenses increased by \$16.8 million for the quarter ended September 30, 2016, compared with the same quarter of the previous year. Refer to Table 5 for a breakdown of operating expenses by major categories. The increase in operating expenses was driven primarily by:

Higher equipment expense by \$1.2 million mainly due to higher software and maintenance expenses;

Higher other taxes by \$1.4 million due to higher municipal license tax;

Higher professional cost by \$4.1 million as a result of higher legal fees by \$4.8 million related to the FDIC arbitration proceedings and higher programming, processing and other technology services by \$3.0 million, partially offset by lower other professional fees;

Higher OREO expenses by \$3.6 million due to higher loss on sale of commercial and construction OREO properties and higher mortgage OREO write-downs at BPPR;

Higher other operating expenses by \$4.2 million mainly due to higher operational losses by \$10.0 million at BPPR and BPNA including increased reserves for legal matters, curtailment losses on insured mortgage claims in our mortgage servicing business and higher incidence of credit cards fraud losses, partially offset by lower credit and debit card processing, volume and interchange expenses by \$2.8 million mainly due to earned volume credits; and

A goodwill impairment charge of \$3.8 million at the securities subsidiary, recorded as part of the Corporation's annual goodwill impairment analysis.

These increases were partially offset by:

Lower FDIC deposit insurance by \$1.4 million mainly due to improvements in the risk profile of the Corporation.

Operating expenses decreased by \$47.6 million for the nine months ended September 30, 2016, when compared to the same period in 2015. The decrease in operating expenses was driven primarily by:

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Lower OREO expenses by \$42.1 million mainly due to lower write-downs across the portfolio impacted by the loss of \$22.0 million on commercial and construction properties resulting from a bulk sale in 2015;

Lower other operating expenses by \$3.5 million mainly due to property tax payments at BPPR during 2015, partially offset by higher operational losses; and

Lower restructuring cost incurred during 2015 in connection with the reorganization of BPNA by \$17.4 million.

These decreases were partially offset by:

Higher personnel cost by \$6.7 million impacted by higher headcount and higher pension cost due to changes in actuarial assumptions; and

Higher professional fees by \$6.2 million mainly due to higher programming, processing and other technology services by \$8.6 million, higher legal fees by \$8.3 million, partially offset by lower other professional fees by \$5.5 million and lower collection, appraisals and other credit related fees by \$5.2 million.

Table 5 Operating Expenses

(In thousands)	Quarters ended September 30,			Nine months ended September 30,		
	2016	2015	Variance	2016	2015	Variance
Personnel costs:						
Salaries	\$ 77,770	\$ 78,193	\$ (423)	\$ 230,860	\$ 227,040	\$ 3,820
Commissions, incentives and other bonuses	18,528	18,618	(90)	56,279	61,290	(5,011)
Pension, postretirement and medical insurance	13,413	12,578	835	38,803	33,666	5,137
Other personnel costs, including payroll taxes	11,513	11,474	39	39,081	36,302	2,779
Total personnel costs	121,224	120,863	361	365,023	358,298	6,725
Net occupancy expenses	21,626	21,277	349	63,770	66,272	(2,502)
Equipment expenses	15,922	14,739	1,183	45,731	44,075	1,656
Other taxes	11,324	9,951	1,373	31,689	29,638	2,051
Professional fees:						
Collections, appraisals and other credit related fees	4,005	5,049	(1,044)	13,479	18,660	(5,181)
Programming, processing and other technology services	52,174	49,134	3,040	152,270	143,700	8,570
Legal fees, excluding collections	11,428	6,624	4,804	27,691	19,401	8,290
Other professional fees	13,659	16,347	(2,688)	43,910	49,370	(5,460)

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Total professional fees	81,266	77,154	4,112	237,350	231,131	6,219
Communications	5,785	6,058	(273)	18,117	18,387	(270)
Business promotion	12,726	12,325	401	37,541	36,914	627
FDIC deposit insurance	5,854	7,300	(1,446)	18,586	22,240	(3,654)
Other real estate owned (OREO) expenses	11,295	7,686	3,609	33,416	75,571	(42,155)
Other operating expenses:						
Credit and debit card processing, volume and interchange expenses	3,640	6,449	(2,809)	15,979	17,032	(1,053)
Operational losses	19,609	9,648	9,961	29,416	15,572	13,844
All other	6,503	9,454	(2,951)	25,037	41,377	(16,340)
Total other operating expenses	29,752	25,551	4,201	70,432	73,981	(3,549)
Amortization of intangibles	3,097	3,512	(415)	9,308	8,497	811
Goodwill impairment charge	3,801		3,801	3,801		3,801
Restructuring costs		481	(481)		17,408	(17,408)
Total operating expenses	\$ 323,672	\$ 306,897	\$ 16,775	\$ 934,764	\$ 982,412	\$ (47,648)

INCOME TAXES

For the quarter ended September 30, 2016, the Corporation recorded an income tax expense of \$15.8 million, compared to an income tax expense of \$22.6 million for the same quarter of the previous year. The reduction in income tax expense was primarily due to lower income before tax mainly in the Corporation's Puerto Rico operations and by a reversal of \$4.4 million in the reserve for uncertain tax positions due to the expiration of the statute of limitations in the P.R. operations.

The effective income tax rate for the third quarter of 2016 was 25%, compared to 21% for the same period of the previous year. The effective tax rate is impacted by the composition and source of the taxable income.

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For the nine months ended September 30, 2016 the Corporation recorded an income tax expense of \$80.5 million, compared to an income tax benefit of \$478.3 million for the same period of the previous year, driven by the tax benefit of \$544.9 million as a result of the partial release of the valuation allowance of the deferred tax asset at the U.S. operations that took place during 2015.

Refer to Note 33 to the consolidated financial statements for a reconciliation of the statutory income tax rate to the effective tax rate and additional information on income taxes.

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 and sold during 2014.

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 35 to the consolidated financial statements.

The Corporate group reported a net loss of \$12.1 million for the quarter ended September 30, 2016, compared with a net loss of \$17.6 million for the quarter ended September 30, 2015. For the nine months ended September 30 2016, the Corporate group reported a net loss of \$46.8 million, compared with a net loss of \$57.8 million for the same period of the previous year.

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 \$49.6 million for the quarter ended September 30, 2016, compared with a net income of \$81.4 million for the same quarter of the previous year. The principal factors that contributed to the variance in the financial results included the following:

Lower net interest income by \$0.2 million mostly due to:

Lower income from loans by \$7.9 million driven by WB loans by \$7.1 million due to the normal portfolio run-off.

Partially offset by:

Higher income from investment securities by \$6.1 million due to higher volume of investments as a result of liquidity from increased deposits; and

Lower cost of funds by \$1.6 million due to lower levels of borrowings, partially offset by a higher cost on deposits;

The net interest margin was 4.49% for the quarter ended September 30, 2016, compared to 4.75% for the same period in 2015.

Provision for loan losses of \$37.1 million, a decrease of \$28.9 million, driven by a decline of \$32.5 million for the non-covered portfolio due to lower loss trends and lower reserve for impaired loans. Also, during the third quarter of 2016, BPPR recorded a recovery of \$7.1 million related to the sale of previously charged-off credit cards and personal loans. These reductions were in part offset by a \$9.4 million impact related to the annual review of the components of the allowance for loan losses methodology. The provision for the covered portfolio increased by approximately \$3.6 million.

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Lower non-interest income by \$56.3 million mainly due to:

Lower income from mortgage banking activities by \$8.9 million due to an unfavorable variance in the valuation adjustment on mortgage servicing rights and lower mortgage servicing fees; and

Unfavorable variance in the FDIC loss share (expense) income of \$62.9 million as a result of a \$54.9 million charge related to the arbitration award, an unfavorable change in the fair value of the true-up payment obligation mainly as a result of the improvement in the Corporation's credit spreads, and lower mirror accounting on reimbursable expenses;

Partially offset by:

Higher other service fees by \$3.7 million due to higher life insurance commission revenues and higher credit card interchange fee income at the BPPR reportable segment due to higher transaction volumes; and

Higher net gain on sale of loans by \$8.5 million as a result of the sale of a non-accrual public sector credit during the third quarter.

Operating expenses were higher by \$17.6 million mainly due to:

Higher professional cost by \$3.5 million as a result of higher legal fees related to the FDIC arbitration proceedings and higher programming, processing and other technology services, partially offset by lower other professional fees;

Higher OREO expenses by \$3.4 million due to higher loss on sale of commercial and construction OREO properties, higher mortgage OREO write-downs and higher holding costs;

Higher other operating expenses by \$5.7 million mainly due to higher operational losses including increased reserves for legal matters, curtailment losses on insured mortgage servicing claims and higher incidence of credit cards fraud losses, partially offset by lower credit and debit card processing, volume and interchange expenses mainly due to earned volume credits; and

A goodwill impairment charge of \$3.8 million at the securities subsidiary, recorded as part of the Corporation's annual goodwill impairment analysis.

Lower income tax expense by \$13.3 million due to lower taxable income and the reversal of \$4.4 million in reserves for uncertain tax positions.

Net income for the nine months ended September 30, 2016 amounted to \$233.7 million, compared to \$228.1 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 \$7.2 million mostly due to:

A decrease of \$30.0 million in income from loans driven by the WB loans portfolio by \$27.4 million as part of the normal portfolio run-off and loan resolutions and lower volumes of commercial loans;

Partially offset by:

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Higher income from investment securities by \$16.7 million mostly due to higher volume of investments as a result of liquidity from increased deposits; and

Lower cost of funds by \$4.1 million mainly due to lower average balances.

Lower provision for loan losses by \$67.3 million, mainly due to lower loss trends and reserves for impaired loans and the impact of the net recoveries of \$7.1 million related to the sale of consumer loans mentioned above and of \$5.4 million from the bulk sale of WB loans completed in the second quarter of 2016, partially offset by the impact of the review of the allowance for loan losses components which increased reserves by \$9.4 million.

Lower non-interest income by \$88.8 million, mainly due to:

Lower income from mortgage banking activities by \$16.5 million due to an unfavorable variance in the MSRs valuation adjustment and higher losses from closed derivative positions;

An unfavorable variance in adjustments to indemnity reserves by \$5.4 million due to 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 completed in 2013; and

An unfavorable variance in the FDIC loss share (expense) income of \$101.9 million resulting from lower mirror accounting on reimbursable expenses, a \$54.9 million charge as previously mentioned, an unfavorable change in the true-up payment obligation and lower mirror accounting on credit impairment losses, partially offset by lower amortization of the indemnification asset;

Partially offset by:

Lower other-than-temporary impairment losses on P.R. Government investment securities by \$14.2 million;

Higher gain on sale of loans by \$7.5 million from the sale of the public sector loan; and

Higher other operating income by \$5.8 million from higher earnings from equity investments.

Lower operating expenses by \$29.3 million, mainly due to:

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Lower occupancy expense by \$3.3 million due to lower rent expense;

Lower OREO expenses by \$38.4 million, reflecting the loss of \$22.0 million on the bulk sale of WB OREO completed in 2015 and lower write-downs in commercial properties; and

Lower other operating expenses by \$4.9 million due to property tax payments in 2015;
Partially offset by:

Higher personnel cost by \$6.8 million due to higher salaries impacted by higher headcount and higher pension cost due to changes in actuarial assumptions;

Higher professional fees by \$4.3 million mainly from programming and technology charges and legal fees; and

The goodwill impairment charge of \$3.8 million mentioned above.

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Lower income tax expense by \$4.9 million due to lower taxable income and the reversal of \$4.4 million in reserves for uncertain tax positions.

Banco Popular North America

For the quarter ended September 30, 2016, the reportable segment of Banco Popular North America reported net income of \$9.2 million, compared to net income from continuing operations of \$21.5 million for the same quarter of the previous year. The factors that contributed to the variance in the financial results included the following:

Higher net interest income by \$2.9 million due to:

Higher income from consumer loans by \$3.6 million from higher average balances due to purchases completed in the second half of 2015;

Higher income from commercial loans by \$ 5.1 million due to the portfolio growth; and

Higher income from investment securities by \$0.9 million due to higher average balance of mortgage backed securities;

Partially offset by:

Higher deposits expense by \$4.2 million due to increased balances to fund portfolio growth at a higher cost.

Net interest margin was 3.61% for the third quarter of 2016, compared to 3.91% for the same period of the previous year.

The provision for loan losses for the BPNA segment amounted to \$6.3 million, compared to \$813 thousand for the same quarter in 2015. Credit trends for the BPNA segment continued strong with minimal non-performing loans and net charge-offs. The effect of the recalibration was immaterial for the BPNA segment.

Non-interest income for the third quarter of 2016 was \$5.4 million, relatively flat when compared to the same period of the previous year.

Operating expenses were \$49.2 million, an increase of \$5.0 million compared to the same period of the previous year, mainly due to:

Higher net occupancy expense by \$1.0 million mainly from property taxes and rent expense;

Higher professional fees by \$1.0 million due to higher loan servicing and legal fees; and

Higher other operating expenses by \$4.1 million related to provisions for legal settlements;
Partially offset by:

Lower FDIC insurance expense by \$1.7 million due to a lower assessment rate by the FDIC.

Higher income taxes by \$4.7 million.

Net income from continuing operations for the nine months ended September 30, 2016 amounted to \$33.4 million, compared to \$585.7 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:

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Higher net interest income by \$16.7 million driven by commercial loans by \$20.6 million and consumer loans by \$10.8 million mainly due to loan growth as discussed above; partially offset by higher deposit expense by \$13.6 million due to higher balances to fund loan growth.

Higher provision for loan losses by \$13.1 million mainly due to portfolio growth.

Non-interest income decreased by \$1.7 million mainly due to lower other service fees as a result of fees collected in 2015 as part of the Doral Bank Transaction and lower credit card fees.

Operating expenses decreased by \$13.0 million mainly due to:

Lower OREO expenses by \$3.8 million due to lower write-downs in commercial properties; and

Lower restructuring charges of \$17.4 million incurred during 2015 in connection with the reorganization of BPNA;

Partially offset by:

Higher professional fees by \$3.2 million mainly due to loan servicing, legal and technology fees; and

Higher other operating expenses by \$6.5 million due to reserves for legal settlements.

Unfavorable variance of \$567.1 million in income taxes due to the above mentioned partial reversal of the valuation allowance of the deferred tax asset.

FINANCIAL CONDITION ANALYSIS

Assets

The Corporation's total assets were \$39.1 billion at September 30, 2016 compared to \$35.8 billion at December 31, 2015. 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 \$4.0 billion at September 30, 2016, compared to \$2.2 billion at December 31, 2015. The increase was mainly at BPPR due to an increase in cash balances from deposits, partially offset by purchases of MBS and U.S. Treasury securities, as discussed below.

Trading account securities amounted to \$73 million at September 30, 2016, relatively flat when compared to \$72 million at December 31, 2015. 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 \$7.7 billion at September 30, 2016, compared with \$6.2 billion at December 31, 2015. The increase of \$1.5 billion was mainly due to purchases of MBS at both BPPR and BPNA and purchases of U.S. Treasury securities at BPPR.

Table 6 provides a breakdown of the Corporation's portfolio of investment securities available-for-sale (AFS) and held-to-maturity (HTM) on a combined basis. Also, Notes 7 and 8 to the consolidated financial statements provide additional information with respect to the Corporation's investment securities AFS and HTM. The portfolio of obligations of the Puerto Rico Government is mainly comprised of securities with specific sources of income or revenues identified for repayments.

Table of Contents**Table 6 Breakdown of Investment Securities Available-for-Sale and Held-to-Maturity**

(In thousands)	September 30, 2016	December 31, 2015
U.S. Treasury securities	\$ 1,619,416	\$ 1,183,328
Obligations of U.S. Government sponsored entities	698,309	939,641
Obligations of Puerto Rico, States and political subdivisions	122,871	121,176
Collateralized mortgage obligations	1,339,329	1,560,923
Mortgage-backed securities	3,932,729	2,344,196
Equity securities	2,205	2,398
Others	11,770	12,233
Total investment securities AFS and HTM	\$ 7,726,629	\$ 6,163,895

Loans

Refer to Table 7 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 7. The risks on covered loans are significantly different as a result of the loss protection provided by the FDIC. As of September 30, 2016, the Corporation's covered loans portfolio amounted to \$588 million, comprised mainly of residential mortgage loans.

Refer to Note 9 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, 2016, compared to \$23.1 billion at December 31, 2015.

Table 7 Loans Ending Balances

(In thousands)	September 30, 2016	December 31, 2015	Variance
Loans not covered under FDIC loss sharing agreements:			
Commercial	\$ 10,537,191	\$ 10,099,163	\$ 438,028
Construction	731,352	681,106	50,246
Legacy ^[1]	47,914	64,436	(16,522)
Lease financing	682,810	627,650	55,160
Mortgage	6,774,497	7,036,081	(261,584)
Consumer	3,822,208	3,837,679	(15,471)
Total non-covered loans held-in-portfolio	22,595,972	22,346,115	249,857

Loans covered under FDIC loss sharing agreements:			
Mortgage	571,349	627,102	(55,753)
Consumer	16,862	19,013	(2,151)
Total covered loans held-in-portfolio	588,211	646,115	(57,904)
Total loans held-in-portfolio	23,184,183	22,992,230	191,953
Loans held-for-sale:			
Commercial		45,074	(45,074)
Construction		95	(95)
Mortgage	72,076	91,831	(19,755)
Total loans held-for-sale	72,076	137,000	(64,924)
Total loans	\$ 23,256,259	\$ 23,129,230	\$ 127,029

- [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.

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The non-covered loans held-in-portfolio increased by \$250 million to \$22.6 billion at September 30, 2016. The increase was mainly at BPNA by \$544 million, driven by growth in the commercial, construction and consumer loan portfolios, partially offset by a decrease of \$284 million at BPPR mainly due to lower originations of residential mortgages and the bulk sale of WB loans with a carrying value of approximately \$100 million completed in the second quarter of 2016.

The loans held-for-sale portfolio decreased by \$65 million from December 31, 2015, mainly at BPPR due mostly to the sale of the loan to the PREPA which had a carrying amount of \$40 million and lower originations of mortgage loans held-for-sale.

Covered loans

The covered loans portfolio amounted to \$588 million at September 30, 2016, compared to \$646 million at December 31, 2015. The decrease of \$58 million is mostly from residential mortgage loans due to loan resolutions and the normal portfolio run-off. Refer to Table 7 for a breakdown of the covered loans by major loan type categories.

Tables 8 and 9 provide the activity in the carrying amount and outstanding discount on the Westernbank loans accounted for under ASC 310-30. The outstanding accretable discount is impacted by changes in cash flow expectations on the loan pool based on quarterly revisions of the portfolio. An increase in the accretable discount is recognized as interest income using the effective yield method over the estimated life of each applicable loan pool.

Table 8 Activity in the Carrying Amount of Westernbank Loans Accounted for Under ASC 310-30

(In thousands)	Quarter ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Beginning balance	\$ 1,799,943	\$ 2,137,078	\$ 1,974,501	\$ 2,444,172
Accretion	39,590	46,693	131,599	156,384
Collections / loan sales / charge-offs ^[1]	(71,994)	(107,759)	(338,561)	(524,544)
Ending balance ^[2]	\$ 1,767,539	\$ 2,076,012	\$ 1,767,539	\$ 2,076,012
Allowance for loan losses (ALLL)	(69,571)	(64,583)	(69,571)	(64,583)
Ending balance, net of ALLL	\$ 1,697,968	\$ 2,011,429	\$ 1,697,968	\$ 2,011,429

^[1] For the nine months ended September 30, 2016, includes the impact of the bulk sale of loans during the second quarter with a carrying value of approximately \$99 million.

^[2] The carrying amount of loans acquired from Westernbank and accounted for under ASC 310-30 which remain subject to the loss sharing agreement with the FDIC amounted to approximately \$578 million as of September 30, 2016 (September 30, 2015 \$655 million).

Table 9 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,	
	2016	2015	2016	2015
Beginning balance	\$ 1,071,680	\$ 1,245,924	\$ 1,112,458	\$ 1,271,337
Accretion ^[1]	(39,590)	(46,693)	(131,599)	(156,384)
Change in expected cash flows	6,602	(53,782)	57,833	30,496
Ending balance	\$ 1,038,692	\$ 1,145,449	\$ 1,038,692	\$ 1,145,449

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

FDIC loss share asset

Table 10 sets forth the activity in the FDIC loss share asset for the quarters and nine months ended September 30, 2016 and 2015.

Table of Contents**Table 10 Activity of Loss Share Asset**

(In thousands)	Quarters ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Balance at beginning of period	\$ 214,029	\$ 392,947	\$ 310,221	\$ 542,454
Amortization of loss-share indemnification asset	(1,259)	(3,931)	(9,337)	(62,312)
Credit impairment losses (reversal) to be covered under loss-sharing agreements	659	(183)	(959)	15,710
Reimbursable expenses	853	6,276	7,038	70,551
Recoveries reimbursable to the FDIC			(4,093)	
Net payments from FDIC under loss-sharing agreements	(6,819)	(80,993)	(95,407)	(245,416)
Arbitration award expense	(54,924)		(54,924)	
Other adjustments attributable to FDIC loss-sharing agreements	(72)	(2,170)	(72)	(9,041)
Balance at end of period	\$ 152,467	\$ 311,946	\$ 152,467	\$ 311,946

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 11 presents the activity associated with the outstanding balance of the FDIC loss share asset amortization (or negative discount) for the periods presented.

Table 11 Activity in the Remaining FDIC Loss-Share Asset Discount

(In thousands)	Quarters ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Balance at beginning of period ^[1]	\$ 23,191	\$ 28,493	\$ 26,100	\$ 53,095
Amortization of negative discount ^[2]	(1,259)	(3,931)	(9,337)	(62,312)
Impact of change in projected losses	(14,627)	2,805	(9,458)	36,584
Balance at end of period	\$ 7,305	\$ 27,367	\$ 7,305	\$ 27,367

[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, 2016, OREO increased to \$222 million from \$192 million at December 31, 2015 mainly at BPPR on residential properties, partially offset by the bulk sale of WB commercial OREOs with a book value of \$9 million during the second quarter of 2016. Refer to Note 14 to the consolidated financial statements for the activity in other real estate owned. The amounts included as covered other real estate are subject to the FDIC loss sharing agreements.

Other assets

Refer to Note 15 for a breakdown of the principal categories that comprise the caption of Other Assets in the consolidated statements of financial condition at September 30, 2016 and December 31, 2015. Other assets decreased by \$29 million from December 31, 2015 to September 30, 2016, due mostly to a decrease in the deferred tax asset, partially offset by an increase in guaranteed mortgage loan claims.

Table of Contents**Goodwill**

Goodwill increased by \$1 million from December 31, 2015 to September 30, 2016, due to a goodwill adjustment related to the Doral Bank Transaction recorded in the first quarter of 2016, partially offset by goodwill impairment of approximately \$4 million related to Popular Securities during the third quarter of 2016. Refer to Note 16 to the consolidated financial statements for detailed information on the Corporation's goodwill.

Liabilities

The Corporation's total liabilities were \$33.7 billion at September 30, 2016 compared to \$30.7 billion at December 31, 2015. Refer to the Corporation's consolidated statements of financial condition included in this Form 10-Q.

Deposits and Borrowings

The composition of the Corporation's financing sources to total assets at September 30, 2016 and December 31, 2015 is included in Table 12.

Table 12 Financing to Total Assets

(In millions)	September 30,	December 31,	% increase (decrease)	% of total assets	
	2016	2015	from 2015 to 2016	2016	2015
Non-interest bearing deposits	\$ 6,950	\$ 6,402	8.6%	17.8%	17.9%
Interest-bearing core deposits	18,513	15,641	18.4	47.4	43.7
Other interest-bearing deposits	4,864	5,167	(5.9)	12.4	14.4
Fed funds purchased and repurchase agreements	765	762	0.4	2.0	2.1
Other short-term borrowings	1	1			
Notes payable	1,599	1,663	(3.8)	4.1	4.7
Other liabilities	980	1,019	(3.8)	2.5	2.9
Liabilities from discontinued operations	2	2			
Stockholders' equity	5,380	5,105	5.4	13.8	14.3

Deposits

The Corporation's deposits totaled \$30.3 billion at September 30, 2016 compared to \$27.2 billion at December 31, 2015. The deposits increase of \$3.1 billion was mainly at BPPR by \$2.5 billion largely due to increases in government deposit accounts, NOW accounts and commercial checking accounts, partially offset by a decline in brokered CDs and an increase at BPNA by approximately \$0.5 billion to fund loan growth. Refer to Table 13 for a breakdown of the Corporation's deposits at September 30, 2016 and December 31, 2015.

Table 13 Deposits Ending Balances

(In thousands)	September 30,	December 31,	Variance
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	2016	2015	
Demand deposits [1]	\$ 9,161,839	\$ 7,221,238	\$ 1,940,601
Savings, NOW and money market deposits (non-brokered)	12,872,072	11,440,693	1,431,379
Savings, NOW and money market deposits (brokered)	391,128	382,424	8,704
Time deposits (non-brokered)	7,619,232	7,274,157	345,075
Time deposits (brokered CDs)	282,774	891,211	(608,437)
Total deposits	\$ 30,327,045	\$ 27,209,723	\$ 3,117,322

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

Table of Contents**Borrowings**

The Corporation's borrowings remained flat at \$2.4 billion at September 30, 2016 and December 31, 2015. Refer to Note 18 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.

Stockholders' Equity

Stockholders' equity totaled \$5.4 billion at September 30, 2016, compared with \$5.1 billion at December 31, 2015. The increase resulted from the Corporation's net income of \$221 million for the nine months ended September 30, 2016, a favorable variance of \$94 million in unrealized gains on securities available-for-sale, partially offset by the declaration of dividends of \$46.7 million on common stock of \$0.15 per share and \$2.8 million in dividends on preferred stock. 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

The Corporation, BPPR and BPNA are subject to Basel III capital requirements, which are effective since January 1, 2015. Basel III capital requirements include a revised minimum and well-capitalized regulatory capital ratios and compliance with the standardized approach for determining risk-weighted assets. As of September 30, 2016, 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, 2016, the Corporation had \$427 million in trust preferred securities outstanding which no longer qualified for Tier 1 capital treatment, but instead qualify for Tier 2 capital treatment. At December 31, 2015, approximately \$107 million of these trust preferred securities outstanding still qualified as Tier I capital.

As part of the adoption of Basel III Capital Rules, 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 14, which include common equity tier 1, Tier 1 capital, total capital and leverage capital as of September 30, 2016, are calculated based on the Basel III regulatory guidance related to the measurement of capital, risk-weighted assets and average assets.

Table 14 Capital Adequacy Data

(Dollars in thousands)	September 30, 2016	December 31, 2015
Common equity tier 1 capital:		
Common stockholders equity - GAAP basis	\$ 5,330,235	\$ 5,055,164
AOCI related adjustments due to opt-out election	118,900	220,956
Goodwill, net of associated deferred tax liability (DTL)	(557,237)	(564,323)

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Intangible assets, net of associated DTLs	(27,363)	(22,222)
Deferred tax assets and other deductions	(742,741)	(639,999)
Common equity tier 1 capital	\$ 4,121,794	\$ 4,049,576
Additional tier 1 capital:		
Preferred stock	50,160	50,160
Trust preferred securities subject to phase out of additional tier 1		106,650
Other additional tier 1 capital deductions	(50,160)	(156,810)
Tier 1 capital	\$ 4,121,794	\$ 4,049,576
Tier 2 capital:		
Trust preferred securities subject to phase in as tier 2	426,602	319,952
Other inclusions (deductions), net	318,894	322,881
Tier 2 capital	\$ 745,496	\$ 642,833

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Total risk-based capital	\$ 4,867,290	\$ 4,692,409
Minimum total capital requirement to be well capitalized	\$ 2,476,528	\$ 2,498,714
Excess total capital over minimum well capitalized	\$ 2,390,762	\$ 2,193,695
Total risk-weighted assets	\$ 24,765,278	\$ 24,987,144
Total assets for leverage ratio	\$ 36,773,255	\$ 34,253,625
Risk-based capital ratios:		
Common equity tier 1 capital	16.64%	16.21%
Tier 1 capital	16.64	16.21
Total capital	19.65	18.78
Tier 1 leverage	11.21	11.82

The Basel III Capital Rules provide that a depository institution will be deemed to be well capitalized 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, 2016, the Corporation, BPPR and BPNA were well-capitalized under Basel III Capital Rules.

The increase in the common equity tier I capital ratio, tier I capital ratio and total capital ratio on September 30, 2016 as compared to December 31, 2015 was mostly due to the nine months period earnings, and lower risk-weighted assets driven by a decrease in loans meeting the high volatility commercial real estate loans criteria, partially offset by the complete phase out of the trust preferred securities under Basel III which at December 31, 2015 allowed approximately \$107 million to be included as tier I capital. Total capital ratio was not negatively impacted by the phase out of the trust preferred securities because they qualified as tier 2 capital and therefore continued to be included as part of the total capital ratio. The decrease in leverage ratio was mainly due to the increase in average total assets. Refer to Table 1, Financial Condition Highlights, for information of average assets and to the Financial Condition Analysis section of this MD&A for a discussion of significant variances in assets.

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 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 15 provides a reconciliation of total stockholders' equity to tangible common equity and total assets to tangible assets as of September 30, 2016, and December 31, 2015.

Table of Contents**Table 15 Reconciliation of Tangible Common Equity and Tangible Assets**

(In thousands, except share or per share information)	September 30, 2016	December 31, 2015
Total stockholders' equity	\$ 5,380,395	\$ 5,105,324
Common shares outstanding at end of period	103,762,596	103,618,976
Book value per common share	\$ 51.85	\$ 49.27
Total stockholders' equity	\$ 5,380,395	\$ 5,105,324
Less: Preferred stock	(50,160)	(50,160)
Less: Goodwill	(627,294)	(626,388)
Less: Other intangibles	(47,886)	(58,109)
Total tangible common equity	\$ 4,655,055	\$ 4,370,667
Total assets	\$ 39,054,296	\$ 35,761,733
Less: Goodwill	(627,294)	(626,388)
Less: Other intangibles	(47,886)	(58,109)
Total tangible assets	\$ 38,379,116	\$ 35,077,236
Tangible common equity to tangible assets	12.13%	12.46%
Common shares outstanding at end of period	103,762,596	103,618,976
Tangible book value per common share	\$ 44.86	\$ 42.18

OFF-BALANCE SHEET ARRANGEMENTS AND OTHER COMMITMENTS

In the ordinary course of business, the Corporation engages in financial transactions that are not recorded on the balance sheet, or may be recorded on the balance sheet in amounts that are different than the full contract or notional amount of the transaction. As a provider of financial services, the Corporation routinely enters into commitments with off-balance sheet risk to meet the financial needs of its customers. These commitments may include loan commitments and standby letters of credit. These commitments are subject to the same credit policies and approval process used for on-balance sheet instruments. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial position. Other types of off-balance sheet arrangements that the Corporation enters in the ordinary course of business include derivatives, operating leases and provision of guarantees, indemnifications, and representation and warranties. Refer to Note 22 for a detailed discussion related to the Corporation's obligations under credit recourse and representation and warranties arrangements.

Contractual Obligations and Commercial Commitments

The Corporation has various financial obligations, including contractual obligations and commercial commitments, which require future cash payments on debt and lease agreements. Also, in the normal course of business, the Corporation enters into contractual arrangements whereby it commits to future purchases of products or services from third parties. Obligations that are legally binding agreements, whereby the Corporation agrees to purchase products or

services with a specific minimum quantity defined at a fixed, minimum or variable price over a specified period of time, are defined as purchase obligations.

Purchase obligations include major legal and binding contractual obligations outstanding at September 30, 2016, 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 \$169 million at September 30, 2016 of which approximately 42% mature in 2016, 27% in 2017, 15% in 2018 and 16% 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.

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Refer to Note 18 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 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 16 presents the contractual amounts related to the Corporation's off-balance sheet lending and other activities at September 30, 2016.

Table 16 Off-Balance Sheet Lending and Other Activities

(In millions)	Amount of commitment - Expiration Period				Total
	Remaining 2016	Years 2017 - 2018	Years 2019 - 2020	Years 2021 - thereafter	
Commitments to extend credit	\$ 5,512	\$ 1,895	\$ 132	\$ 83	\$ 7,622
Commercial letters of credit	5	1			6
Standby letters of credit	7	30			37
Commitments to originate or fund mortgage loans	21	8			29
Total	\$ 5,545	\$ 1,934	\$ 132	\$ 83	\$ 7,694

At September 30, 2016 and December 31, 2015, the Corporation maintained a reserve of approximately \$9 million and \$10 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 23 to the consolidated financial statements for additional information on credit commitments and contingencies.

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.

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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.

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, 2017. Under a 200 basis points rising rate scenario, the projected net interest income increases by \$136 million, while under a 400 basis points rising rate scenario, the projected net interest income increases by \$264 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.

Table of Contents***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.

At September 30, 2016, the Corporation held trading securities with a fair value of \$73 million, representing approximately 0.2% of the Corporation's total assets, compared with \$72 million and 0.2% at December 31, 2015. As shown in Table 17, the trading portfolio consists principally of mortgage-backed securities relating to BPPR's mortgage activities described above, which at September 30, 2016 were investment grade securities. As of September 30, 2016, the trading portfolio also included \$6.1 million in Puerto Rico government obligations and shares of Closed-end funds that invest primarily in Puerto Rico government obligations (December 31, 2015 \$6.0 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 \$113 thousand for the quarter ended September 30, 2016 and a trading account loss of \$398 thousand for the quarter ended September 30, 2015.

Table 17 Trading Portfolio

	September 30, 2016		December 31, 2015	
	Amount	Weighted Average Yield [1]	Amount	Weighted Average Yield [1]
(Dollars in thousands)				
Mortgage-backed securities	\$ 52,404	4.67%	\$ 51,155	5.22%
Collateralized mortgage obligations	1,371	5.27	2,054	5.06
Puerto Rico government obligations	4,523	2.67	4,590	5.41
Interest-only strips	623	12.26	687	12.10
Other	13,663	2.29	13,173	3.31
Total	\$ 72,584	4.17%	\$ 71,659	4.94%

[1] Not on a taxable equivalent basis.

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

The Corporation's trading portfolio had a 5-day VAR of approximately \$0.4 million for the last week in September 2016. 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 fair value of assets and liabilities may include market or credit related adjustments, where appropriate. During the quarter ended September 30, 2016, inclusion of credit risk in the fair value of the derivatives resulted in a net gain of \$0.1 million recorded in the other operating income and interest expense captions of the consolidated statement of operations, which consisted of a gain of \$0.1 million from the assessment of the counterparties' credit risk. During the nine months ended September 30, 2016, inclusion of credit risk in the fair value of the derivatives resulted in a net gain of \$0.3 million recorded in the other operating income and interest expense captions of the consolidated statement of operations, which consisted of a gain of \$0.1 million resulting from the Corporation's own credit standing adjustment and a gain of \$0.2 million from the assessment of the counterparties' credit risk.

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.

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Refer to Note 26 to the consolidated financial statements for information on the Corporation's fair value measurement disclosures required by the applicable accounting standard. At September 30, 2016, approximately \$ 7.7 billion, or 97%, 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 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.

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 \$ 16 million at September 30, 2016, of which \$ 7 million were Level 3 assets and \$ 9 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.

Refer to Note 34 to the consolidated financial statements in the 2015 Form 10-K for a description of the Corporation's valuation methodologies used for the assets and liabilities measured at fair value. Also, refer to the Critical Accounting Policies / Estimates in the 2015 Form 10-K for additional information on the accounting guidance and the Corporation's policies or procedures related to fair value measurements.

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, 2016, 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. In addition, during the quarter and nine months ended September 30, 2016, the Corporation did not adjust any prices obtained from pricing service providers or broker dealers for its trading account securities and investment securities available-for-sale.

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 fair value hierarchy for each asset or liability measured. The fair value measurement analysis performed by the Corporation includes validation procedures with alternate pricing sources when available and review of market changes, pricing methodology, assumption and level hierarchy changes, and evaluation of distressed transactions. 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.

LIQUIDITY

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

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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 nine months ended September 30, 2016, the Corporation declared quarterly dividends on its common stock of \$ 0.15 per share, for a total of \$ 46.7 million. The quarterly dividend declared to shareholders of record as of the close of business on September 9, 2016, which amounted to \$15.6 million, was paid on October 3, 2016.

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 \$ 1.5 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 78% of the Corporation's total assets at September 30, 2016 and December 31, 2015. The ratio of total ending loans to deposits was 77% at September 30, 2016, compared to 85% at December 31, 2015. In addition to traditional deposits, the Corporation maintains borrowing arrangements. At September 30, 2016, these borrowings consisted primarily of \$ 765 million in assets sold under agreement to repurchase, \$697 million in advances with the FHLB, \$439 million in junior subordinated deferrable interest debentures (net of debt issuance cost) related to trust preferred securities and \$ 444 million in term notes (net of debt issuance cost) issued to partially fund the repayment of TARP funds. A detailed description of the Corporation's borrowings, including their terms, is included in Note 18 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 18 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 nine months ended September 30, 2016, BPPR declared cash dividends of \$59.1 million, a portion of which was used by Popular, Inc. for the payment of the quarterly cash dividends on its outstanding common stock, as mentioned above.

Note 36 to the consolidated financial statements provides a consolidating statement of cash flows which includes the Corporation's banking subsidiaries as part of the All other subsidiaries and eliminations column.

The banking subsidiaries maintain sufficient funding capacity to address large increases in funding requirements such as deposit outflows. This capacity is comprised mainly of available liquidity derived from secured funding sources, as well as on-balance sheet liquidity in the form of cash balances maintained at the Federal Reserve 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.

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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 13 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 \$ 25.5 billion, or 84% of total deposits, at September 30, 2016, compared with \$22.0 billion, or 81% of total deposits, at December 31, 2015. Core deposits financed 72% of the Corporation's earning assets at September 30, 2016, compared with 69% at December 31, 2015.

Certificates of deposit with denominations of \$100,000 and over at September 30, 2016 totaled \$ 4.2 billion, or 14% of total deposits (December 31, 2015 \$4.2 billion, or 15% of total deposits). Their distribution by maturity at September 30, 2016 is presented in the table that follows:

Table 18 - Distribution by Maturity of Certificate of Deposits of \$100,000 and Over

(In thousands)	
3 months or less	\$ 1,621,479
3 to 6 months	500,550
6 to 12 months	597,960
Over 12 months	1,513,350
Total	\$ 4,233,339

At September 30, 2016 approximately 2% of the Corporation's assets were financed by brokered deposits, as compared to 4% at December 31, 2015. The Corporation had \$ 674 million in brokered deposits at September 30, 2016, compared with \$1.3 billion at December 31, 2015. 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, 2016 and December 31, 2015, the banking subsidiaries had credit facilities authorized with the FHLB aggregating to \$3.9

billion, based on assets pledged with the FHLB at those dates. Outstanding borrowings under these credit facilities totaled \$697 million at September 30, 2016 and \$762 million at December 31, 2015. Such advances are collateralized by loans held-in-portfolio, do not have restrictive covenants and do not have any callable features. At September 30, 2016 the credit facilities authorized with the FHLB were collateralized by \$5.0 billion in loans held-in-portfolio, compared with \$4.7 billion at December 31, 2015. Refer to Note 18 to the consolidated financial statements for additional information on the terms of FHLB advances outstanding.

At September 30, 2016 and December 31, 2015, the Corporation's borrowing capacity at the Fed's Discount Window amounted to approximately \$1.2 billion and \$1.3 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, 2016 and December 31, 2015, this credit facility with the Fed was collateralized by \$2.3 billion and \$2.5 billion, respectively, in loans held-in-portfolio.

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At September 30, 2016, 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.

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 nine months ended September 30, 2016, PIHC received \$59.1 million in dividends from BPPR and \$ 3.5 million in dividends from EVERTEC's parent company. PIHC also received \$19 million in dividends from its non-banking subsidiaries. In addition, during the nine months ended September 30, 2016 the holding companies received \$12.1 million in dividends from its investment in BHD Leon.

Another use of liquidity at the parent holding company is the payment of dividends on its outstanding stock. During the nine months ended September 30, 2016, the Corporation declared quarterly dividends on its common stock of \$ 0.15 per share, for a total of \$ 46.7 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, 2016.

The BHC's have in the past borrowed in the money markets and in the corporate debt market primarily to finance their non-banking subsidiaries, however, the cash needs of the Corporation's non-banking subsidiaries other than to repay indebtedness and interest are now minimal. These sources of funding have become more costly due to the reductions in the Corporation's credit ratings. The Corporation's principal credit ratings are below investment grade which affects the Corporation's ability to raise funds in the capital markets. The Corporation has an automatic shelf registration statement filed and effective with the Securities and Exchange Commission, which permits the Corporation to issue an unspecified amount of debt or equity securities.

Note 36 to the consolidated financial statements provides a statement of condition, of operations and of cash flows for the two BHC's. The loans held-in-portfolio in such financial statements is principally associated with intercompany transactions.

The outstanding balance of notes payable at the BHC's amounted to \$884 million at September 30, 2016 and \$882 million at December 31, 2015, net of debt issuance cost. The repayment of the BHC's obligations represents a potential cash need which is expected to be met with a combination of internal liquidity resources stemming mainly from future

dividend receipts and new borrowings. The contractual maturities of the BHC's notes payable at September 30, 2016 are presented in the following table.

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

Year	(In thousands)
2016	\$
2017	
2018	
2019	444,267
2020	
Later years	439,317
Total	\$ 883,584

As indicated previously, the BHC did not issue new registered debt in the capital markets during the quarter ended September 30, 2016.

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 \$ 2.7 billion at September 30, 2016 and \$3.0 billion at December 31, 2015. A substantial portion of these securities could be used to raise financing quickly in the U.S. money markets or from secured lending sources.

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

Risks to Liquidity

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

The importance of the Puerto Rico market for the Corporation is an additional risk factor that could affect its financing activities. In the case of a deterioration in economic 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.

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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 \$15 million in deposits at September 30, 2016 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 \$2 million at September 30, 2016, with the Corporation providing collateral totaling \$4 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 \$67 million at September 30, 2016. The Corporation could be required to post additional collateral under the agreements. Management expects that it would be able to meet additional collateral requirements if and when needed. The requirements to post collateral under certain agreements or the loss of escrow deposits could reduce the Corporation's liquidity resources and impact its operating results.

CREDIT RISK 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 20.

On June 30, 2015, the shared-loss arrangement under the commercial loss share agreement with the FDIC related to the loans acquired from Westernbank as part of the FDIC assisted transaction in 2010 expired. Loans and OREOs 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, 2016.

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

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The Corporation continued to experience stable credit trends despite challenging economic conditions in Puerto Rico. The shift in the composition and the risk profile of the credit portfolios over the last few years has better positioned the Corporation to operate in the Island's environment. The Corporation continues to closely monitor changes in credit quality trends and is focused on taking measures to minimize risks. The U.S. operation continued to reflect positive results with strong growth and favorable credit quality metrics.

Non-performing assets, excluding covered loans and OREO, decreased by \$38 million when compared with December 31, 2015, mainly attributed to a reduction in the non-performing loans held-for-sale of \$45 million, mostly related to the sale of the Puerto Rico Electric Power Authority (PREPA) loan transferred to held-for-sale in the second quarter of 2015. Non-performing loans held-in-portfolio decreased by \$22 million from December 31, 2015, mostly driven by lower commercial and mortgage NPLs by \$11 million and \$6 million, respectively. These reductions were in part offset by higher OREOs by \$30 million from December 31, 2015. Table 20 presents the information of non-performing assets.

At September 30, 2016, non-performing loans secured by real estate held-in-portfolio, excluding covered loans, amounted to \$487 million in the Puerto Rico operations and \$24 million in the U.S. operations. These figures compare to \$504 million in the Puerto Rico operations and \$22 million in the U.S. operations at December 31, 2015. In addition to the non-performing loans included in Table 20 at September 30, 2016, there were \$146 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 \$160 million at December 31, 2015.

Table of Contents**Table 20 - Non-Performing Assets**

(Dollars in thousands)	September 30, 2016				December 31, 2015			
	BPPR	BPNA	Popular, Inc.	As a % of loans HIP by category [4]	BPPR	BPNA	Popular, Inc.	As a % of loans HIP by category [4]
Commercial	\$ 167,047	\$ 3,524	\$ 170,571	1.6%	\$ 177,902	\$ 3,914	\$ 181,816	1.8%
Construction					3,550		3,550	0.5
Legacy ^[1]		3,450	3,450	7.2		3,649	3,649	5.7
Leasing	2,878		2,878	0.4	3,009		3,009	0.5
Mortgage	331,346	14,430	345,776	5.1	337,933	13,538	351,471	5.0
Consumer	49,967	6,683	56,650	1.5	52,440	5,864	58,304	1.5
Total non-performing loans held-in- portfolio, excluding covered loans	551,238	28,087	579,325	2.6%	574,834	26,965	601,799	2.7%
Non-performing loans held-for-sale ^[2]					44,696	473	45,169	
Other real estate owned (OREO), excluding covered OREO	181,813	3,015	184,828		151,499	3,732	155,231	
Total non-performing assets, excluding covered assets	\$ 733,051	\$ 31,102	\$ 764,153		\$ 771,029	\$ 31,170	\$ 802,199	
Covered loans and OREO ^[3]	41,211		41,211		40,571		40,571	
Total non-performing assets	\$ 774,262	\$ 31,102	\$ 805,364		\$ 811,600	\$ 31,170	\$ 842,770	
Accruing loans past due 90 days or more ^{[5] [6]}	\$ 418,652	\$	\$ 418,652		\$ 446,725	\$	\$ 446,725	
Ratios excluding covered loans:^[7]								
Non-performing loans held-in-portfolio to loans held-in-portfolio	3.19	0.53	2.56%		3.27	0.56	2.69%	
Allowance for loan losses to loans held-in-portfolio	2.80	0.78	2.33		2.67	0.69	2.25	
Allowance for loan losses to	87.81	147.93	90.73		81.75	122.43	83.57	

non-performing loans,
excluding held-for-sale

Ratios including covered loans:

Non-performing assets to total assets	2.53	0.37	2.06%	2.91	0.40	2.36%
Non-performing loans held-in-portfolio to loans held-in-portfolio	3.11	0.53	2.52	3.18	0.56	2.63
Allowance for loan losses to loans held-in-portfolio	2.88	0.78	2.40	2.77	0.69	2.34
Allowance for loan losses to non-performing loans, excluding held-for-sale	92.66	147.93	95.32	87.11	122.43	88.68

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] There were no non-performing loans held-for-sale as of September 30, 2016 (December 31, 2015 - \$45 million in commercial loans and \$95 thousand in construction loans).
- [3] The amount consists of \$4 million in non-performing covered loans accounted for under ASC Subtopic 310-20 and \$37 million in covered OREO as of September 30, 2016 (December 31, 2015 - \$4 million and \$37 million, respectively). It excludes covered loans accounted for under ASC Subtopic 310-30 as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analyses.
- [4] Loans held-in-portfolio used in the computation exclude \$588 million in covered loans at September 30, 2016 (December 31, 2015 - \$646 million).
- [5] The carrying value of loans accounted for under ASC Sub-topic 310-30 that are contractually 90 days or more past due was \$289 million at September 30, 2016 (December 31, 2015 - \$349 million). This amount is excluded from the above table as the loans' accretable yield interest recognition is independent from the underlying contractual loan delinquency status.
- [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 \$174 million of residential mortgage loans insured by FHA or guaranteed by the VA that are no longer accruing interest as of September 30, 2016 (December 31, 2015 - \$164 million). Furthermore, the Corporation has approximately \$72 million in reverse mortgage loans which are guaranteed by FHA, but which are currently not accruing interest. Due to the guaranteed nature of the loans, it is the Corporation's policy to exclude these balances from non-performing assets (December 31, 2015 - \$70 million).
- [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.

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The Corporation's commercial loan portfolio secured by real estate (CRE), excluding covered loans, amounted to \$7.0 billion at September 30, 2016, of which \$2.1 billion was secured with owner occupied properties, compared with \$6.6 billion and \$2.1 billion, respectively, at December 31, 2015. CRE non-performing loans, excluding covered loans, amounted to \$136 million at September 30, 2016, compared with \$142 million at December 31, 2015. The CRE non-performing loans ratios for the BPPR and BPNA segments were 2.90% and 0.09%, respectively, at September 30, 2016, compared with 3.00% and 0.03%, respectively, at December 31, 2015.

Table of Contents**Table 21 - Activity in Non-Performing Loans Held-in-Portfolio (Excluding Consumer and Covered Loans)**

(Dollars in thousands)	For the quarter ended September 30, 2016			For the nine months ended September 30, 2016		
	BPPR	BPNA	Popular, Inc.	BPPR	BPNA	Popular, Inc.
Beginning balance	\$ 498,665	\$ 21,360	\$ 520,025	\$ 519,385	\$ 21,101	\$ 540,486
Plus:						
New non-performing loans	101,010	8,369	109,379	307,456	40,966	348,422
Advances on existing non-performing loans		299	299		310	310
Reclassification from construction loans to commercial loans	2,436		2,436	2,436		2,436
Less:						
Non-performing loans transferred to OREO	(16,621)	(428)	(17,049)	(41,590)	(873)	(42,463)
Non-performing loans charged-off	(18,384)	(2,281)	(20,665)	(60,207)	(3,376)	(63,583)
Loans returned to accrual status / loan collections	(66,277)	(5,915)	(72,192)	(226,651)	(36,724)	(263,375)
Reclassification from construction loans to commercial loans	(2,436)		(2,436)	(2,436)		(2,436)
Ending balance NPLs	\$ 498,393	\$ 21,404	\$ 519,797	\$ 498,393	\$ 21,404	\$ 519,797

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

(Dollars in thousands)	For the quarter ended September 30, 2015			For the nine months ended September 30, 2015		
	BPPR	BPNA	Popular, Inc.	BPPR	BPNA	Popular, Inc.
Beginning balance	\$ 502,928	\$ 28,300	\$ 531,228	\$ 567,351	\$ 13,144	\$ 580,495
Plus:						
New non-performing loans	185,161	16,335	201,496	423,075	48,588	471,663
Advances on existing non-performing loans		95	95		525	525
Reclassification from covered loans				8,075		8,075
Less:						
Non-performing loans transferred to OREO	(9,303)		(9,303)	(27,082)	(314)	(27,396)
Non-performing loans charged-off	(29,302)	(1,467)	(30,769)	(105,637)	(3,308)	(108,945)
Loans returned to accrual status / loan collections	(78,962)	(15,544)	(94,506)	(250,264)	(32,954)	(283,218)
Loans transferred to held-for-sale				(44,996)	2,038	(42,958)
Non-performing loans from discontinued operations		(7,770)	(7,770)		(7,770)	(7,770)
Ending balance NPLs	\$ 570,522	\$ 19,949	\$ 590,471	\$ 570,522	\$ 19,949	\$ 590,471

For the quarter ended September 30, 2016, total non-performing loan inflows, excluding consumer loans, decreased by \$92 million, or 46%, when compared to the inflows for the same quarter in 2015. Inflows of non-performing loans held-in-portfolio at the BPPR segment decreased by \$84 million, or 45%, compared to the inflows for the third quarter of 2015, mostly related to lower commercial inflows by \$79 million. The inflows for the third quarter of 2015 were impacted by a small number of large commercial loans, including a single \$49 million credit relationship. Inflows of non-performing loans held-in-portfolio at the BPNA segment decreased by \$8 million, or 47%, from the same period in 2015, mostly driven by lower commercial inflows.

Table of Contents**Table 23 - Activity in Non-Performing Commercial Loans Held-in-Portfolio (Excluding Covered Loans)**

(Dollars in thousands)	For the quarter ended September 30, 2016			For the nine months ended September 30, 2016		
	BPPR	BPNA	Popular, Inc.	BPPR	BPNA	Popular, Inc.
Beginning balance	\$ 172,584	\$ 3,031	\$ 175,615	\$ 177,902	\$ 3,914	\$ 181,816
Plus:						
New non-performing loans	12,520	1,609	14,129	60,206	18,927	79,133
Advances on existing non-performing loans		164	164		173	173
Reclassification from construction loans to commercial loans	2,436		2,436	2,436		2,436
Less:						
Non-performing loans transferred to OREO	(2,223)		(2,223)	(5,141)		(5,141)
Non-performing loans charged-off	(7,918)	(141)	(8,059)	(28,086)	(776)	(28,862)
Loans returned to accrual status / loan collections	(10,352)	(1,139)	(11,491)	(40,270)	(18,714)	(58,984)
Ending balance NPLs	\$ 167,047	\$ 3,524	\$ 170,571	\$ 167,047	\$ 3,524	\$ 170,571

Table 24 - 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	Popular, Inc.	BPPR	BPNA	Popular, Inc.
Beginning balance	\$ 179,399	\$ 10,895	\$ 190,294	\$ 257,910	\$ 2,315	\$ 260,225
Plus:						
New non-performing loans	91,393	2,125	93,518	135,911	11,541	147,452
Advances on existing non-performing loans		6	6		389	389
Reclassification from covered loans				7,395		7,395
Less:						
Non-performing loans transferred to OREO	(853)		(853)	(5,490)		(5,490)
Non-performing loans charged-off	(13,999)	(229)	(14,228)	(74,178)	(1,054)	(75,232)
Loans returned to accrual status / loan collections	(20,045)	(1,525)	(21,570)	(40,657)	(1,919)	(42,576)
Loans transferred to held-for-sale		(7,770)	(7,770)	(44,996)	(7,770)	(44,996)
		(7,770)	(7,770)		(7,770)	(7,770)

Other transfers out of
non-performing

Ending balance NPLs	\$ 235,895	\$ 3,502	\$ 239,397	\$ 235,895	\$ 3,502	\$ 239,397
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Table 25 - Activity in Non-Performing Construction Loans Held-in-Portfolio (Excluding Covered Loans)

(Dollars in thousands)	For the quarter ended September 30, 2016			For the nine months ended September 30, 2016		
	BPPR	BPNA	Popular, Inc.	BPPR	BPNA	Popular, Inc.
Beginning balance	\$ 2,423	\$ 100	\$ 2,523	\$ 3,550	\$	\$ 3,550
Plus:						
New non-performing loans	1,150		1,150	1,543	671	2,214
Less:						
Non-performing loans transferred to OREO				(304)		(304)
Non-performing loans charged-off	(985)		(985)	(1,103)		(1,103)
Loans returned to accrual status / loan collections	(152)	(100)	(252)	(1,250)	(671)	(1,921)
Reclassification from construction loans to commercial loans	(2,436)		(2,436)	(2,436)		(2,436)
Ending balance NPLs	\$	\$	\$	\$	\$	\$

Table of Contents**Table 26 - 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	Popular, Inc.	BPPR	BPNA	Popular, Inc.
Beginning balance	\$ 4,756	\$ 671	\$ 5,427	\$ 13,812	\$	\$ 13,812
Plus:						
New non-performing loans		7,745	7,745	456	8,416	8,872
Reclassification from covered loans				112		112
Less:						
Non-performing loans transferred to OREO				(2,194)		(2,194)
Non-performing loans charged-off	(91)		(91)	(91)		(91)
Loans returned to accrual status / loan collections	(1,060)	(8,416)	(9,476)	(8,490)	(8,416)	(16,906)
Ending balance NPLs	\$ 3,605	\$	\$ 3,605	\$ 3,605	\$	\$ 3,605

Table 27 - Activity in Non-Performing Mortgage Loans Held-in-Portfolio (Excluding Covered Loans)

(Dollars in thousands)	For the quarter ended September 30, 2016			For the nine months ended September 30, 2016		
	BPPR	BPNA	Popular, Inc.	BPPR	BPNA	Popular, Inc.
Beginning balance	\$ 323,658	\$ 14,390	\$ 338,048	\$ 337,933	\$ 13,538	\$ 351,471
Plus:						
New non-performing loans	87,340	6,715	94,055	245,707	20,167	265,874
Less:						
Non-performing loans transferred to OREO	(14,398)	(384)	(14,782)	(36,145)	(829)	(36,974)
Non-performing loans charged-off	(9,481)	(1,994)	(11,475)	(31,018)	(2,400)	(33,418)
Loans returned to accrual status / loan collections	(55,773)	(4,297)	(60,070)	(185,131)	(16,046)	(201,177)
Ending balance NPLs	\$ 331,346	\$ 14,430	\$ 345,776	\$ 331,346	\$ 14,430	\$ 345,776

Table 28 - Activity in Non-Performing Mortgage 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	Popular, Inc.	BPPR	BPNA	Popular, Inc.
Beginning balance	\$ 318,773	\$ 12,048	\$ 330,821	\$ 295,629	\$ 9,284	\$ 304,913
Plus:						

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New non-performing loans	93,768	5,816	99,584	286,708	23,905	310,613
Reclassification from covered loans				568		568
Less:						
Non-performing loans transferred to OREO	(8,450)		(8,450)	(19,398)	(314)	(19,712)
Non-performing loans charged-off	(15,212)	(517)	(15,729)	(31,368)	(959)	(32,327)
Loans returned to accrual status / loan collections	(57,857)	(4,959)	(62,816)	(201,117)	(21,566)	(222,683)
Loans transferred to held-for-sale					2,038	2,038
Ending balance NPLs	\$ 331,022	\$ 12,388	\$ 343,410	\$ 331,022	\$ 12,388	\$ 343,410

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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 Corporation's 2015 Annual Report on Form 10K for a description of the Corporation's allowance for loan losses methodology. Also, refer to Note 10 of the accompanying financial statements for a description of the annual review of the components of the allowance for loan losses and principal updates made to its methodology during the third quarter of 2016.

Refer to Tables 29 and 30 for a summary of the activity in the allowance for loan losses and selected loan losses statistics for the quarters and nine months ended September 30, 2016 and 2015.

Table of Contents**Table 29 - Allowance for Loan Losses and Selected Loan Losses Statistics - Quarterly Activity**

(Dollars in thousands)	Quarters ended September 30,					
	2016 Non-covered loans	2016 Covered loans	2016 Total	2015 Non-covered loans	2015 Covered loans	2015 Total
Balance at beginning of period	\$ 518,139	\$ 30,581	\$ 548,720	\$ 512,739	\$ 38,074	\$ 550,813
Provision for loan losses	42,594	750	43,344	69,568	(2,890)	66,678
	560,733	31,331	592,064	582,307	35,184	617,491
Charged-offs:						
BPPR						
Commercial	13,799		13,799	16,845		16,845
Construction	951		951	451		451
Leases	1,429		1,429	1,485		1,485
Mortgage	16,002	973	16,975	16,263	790	17,053
Consumer	25,470	411	25,881	29,625	76	29,701
Total BPPR charged-offs	57,651	1,384	59,035	64,669	866	65,535
BPNA						
Commercial	155		155	308		308
Legacy ^[1]	145		145	804		804
Mortgage	2,022		2,022	768		768
Consumer	2,884		2,884	1,826		1,826
Total BPNA charged-offs	5,206		5,206	3,706		3,706
Popular, Inc.						
Commercial	13,954		13,954	17,153		17,153
Construction	951		951	451		451
Leases	1,429		1,429	1,485		1,485
Legacy	145		145	804		804
Mortgage	18,024	973	18,997	17,031	790	17,821
Consumer	28,354	411	28,765	31,451	76	31,527
Total charge-offs	62,857	1,384	64,241	68,375	866	69,241
Recoveries:						
BPPR						
Commercial	10,600		10,600	7,673		7,673
Construction	65		65	3,099		3,099
Leases	613		613	591		591
Mortgage	765	312	1,077	739	189	928
Consumer	12,649	3	12,652	5,322	2	5,324
Total BPPR recoveries	24,692	315	25,007	17,424	191	17,615

BPNA				
Commercial	1,328	1,328	2,267	2,267
Legacy ^[1]	665	665	1,407	1,407
Mortgage	80	80	(19)	(19)
Consumer	952	952	994	994
Total BPNA recoveries	3,025	3,025	4,649	4,649
Popular, Inc.				
Commercial	11,928	11,928	9,940	9,940
Construction	65	65	3,099	3,099
Leases	613	613	591	591
Legacy	665	665	1,407	1,407

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Mortgage	845	312	1,157	720	189	909
Consumer	13,601	3	13,604	6,316	2	6,318
Total recoveries	27,717	315	28,032	22,073	191	22,264
Net loans charged-offs (recovered):						
BPPR						
Commercial	3,199		3,199	9,172		9,172
Construction	886		886	(2,648)		(2,648)
Leases	816		816	894		894
Mortgage	15,237	661	15,898	15,524	601	16,125
Consumer	12,821	408	13,229	24,303	74	24,377
Total BPPR net loans charged-offs (recovered)	32,959	1,069	34,028	47,245	675	47,920
BPNA						
Commercial	(1,173)		(1,173)	(1,959)		(1,959)
Legacy ^[1]	(520)		(520)	(603)		(603)
Mortgage	1,942		1,942	787		787
Consumer	1,932		1,932	832		832
Total BPNA net loans charged-offs (recovered)	2,181		2,181	(943)		(943)
Popular, Inc.						
Commercial	2,026		2,026	7,213		7,213
Construction	886		886	(2,648)		(2,648)
Leases	816		816	894		894
Legacy	(520)		(520)	(603)		(603)
Mortgage	17,179	661	17,840	16,311	601	16,912
Consumer	14,753	408	15,161	25,135	74	25,209
Total net loans charged-offs (recovered)	35,140	1,069	36,209	46,302	675	46,977
Balance at end of period	\$ 525,593	\$ 30,262	\$ 555,855	\$ 536,005	\$ 34,509	\$ 570,514
Specific ALLL	\$ 129,057	\$	\$ 129,057	\$ 156,848	\$	\$ 156,848
General ALLL	\$ 396,536	\$ 30,262	\$ 426,798	\$ 379,157	\$ 34,509	\$ 413,666
Ratios:						
Annualized net charge-offs to average loans held-in-portfolio ^[4]	0.63%		0.63%	0.83%		0.82%
Provision for loan losses to net charge-offs ^[4]	1.21x		1.20x	1.50x		1.42x

- [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 recoveries (write-downs) are related to loans sold or reclassified to held-for-sale.
- [4] Excluding provision for loan losses and net recoveries (write-downs) related to loans sold or reclassified to held-for-sale.

Table of Contents**Table 30 - Allowance for Loan Losses and Selected Loan Losses Statistics Year-to-date Activity**

(Dollars in thousands)	Nine months ended September 30,					
	2016 Non-covered loans	2016 Covered loans	2016 Total	2015 Non-covered loans	2015 Covered loans	2015 Total
Balance at beginning of period	\$ 502,935	\$ 34,176	\$ 537,111	\$ 519,719	\$ 82,073	\$ 601,792
Provision (reversal) for loan losses	130,202	(1,551)	128,651	159,747	23,200	182,947
	633,137	32,625	665,762	679,466	105,273	784,739
Charged-offs:						
BPPR						
Commercial	47,256		47,256	49,740	37,936	87,676
Construction	3,026		3,026	2,645	25,086	27,731
Leases	4,435		4,435	4,415		4,415
Mortgage	45,924	3,078	49,002	38,597	4,695	43,292
Consumer	78,860	17	78,877	83,507	843	84,350
Total BPPR charged-offs	179,501	3,095	182,596	178,904	68,560	247,464
BPNA						
Commercial	1,040		1,040	1,190		1,190
Legacy ^[1]	388		388	1,758		1,758
Mortgage	2,595		2,595	1,329		1,329
Consumer	8,194		8,194	7,318		7,318
Total BPNA charged-offs	12,217		12,217	11,595		11,595
Popular, Inc.						
Commercial	48,296		48,296	50,930	37,936	88,866
Construction	3,026		3,026	2,645	25,086	27,731
Leases	4,435		4,435	4,415		4,415
Legacy	388		388	1,758		1,758
Mortgage	48,519	3,078	51,597	39,926	4,695	44,621
Consumer	87,054	17	87,071	90,825	843	91,668
Total charge-offs	191,718	3,095	194,813	190,499	68,560	259,059
Recoveries:						
BPPR						
Commercial	35,706		35,706	18,707	6,504	25,211
Construction	5,055		5,055	6,497	4,700	11,197
Leases	1,547		1,547	1,779		1,779
Mortgage	2,527	722	3,249	1,861	635	2,496
Consumer	24,838	10	24,848	20,897	817	21,714

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Total BPPR recoveries	69,673	732	70,405	49,741	12,656	62,397
BPNA						
Commercial	3,273		3,273	4,507		4,507
Legacy ^[1]	2,048		2,048	4,159		4,159
Mortgage	407		407	212		212
Consumer	3,328		3,328	3,250		3,250
Total BPNA recoveries	9,056		9,056	12,128		12,128
Popular, Inc.						
Commercial	38,979		38,979	23,214	6,504	29,718
Construction	5,055		5,055	6,497	4,700	11,197
Leases	1,547		1,547	1,779		1,779
Legacy	2,048		2,048	4,159		4,159

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Mortgage	2,934	722	3,656	2,073	635	2,708
Consumer	28,166	10	28,176	24,147	817	24,964
Total recoveries	78,729	732	79,461	61,869	12,656	74,525
Net loans charged-offs						
(recovered):						
BPPR						
Commercial	11,550		11,550	31,033	31,432	62,465
Construction	(2,029)		(2,029)	(3,852)	20,386	16,534
Leases	2,888		2,888	2,636		2,636
Mortgage	43,397	2,356	45,753	36,736	4,060	40,796
Consumer	54,022	7	54,029	62,610	26	62,636
Total BPPR net loans charged-offs (recovered)	109,828	2,363	112,191	129,163	55,904	185,067
BPNA						
Commercial	(2,233)		(2,233)	(3,317)		(3,317)
Legacy ^[1]	(1,660)		(1,660)	(2,401)		(2,401)
Mortgage	2,188		2,188	1,117		1,117
Consumer	4,866		4,866	4,068		4,068
Total BPNA net loans charged-offs (recovered)	3,161		3,161	(533)		(533)
Popular, Inc.						
Commercial	9,317		9,317	27,716	31,432	59,148
Construction	(2,029)		(2,029)	(3,852)	20,386	16,534
Leases	2,888		2,888	2,636		2,636
Legacy	(1,660)		(1,660)	(2,401)		(2,401)
Mortgage	45,585	2,356	47,941	37,853	4,060	41,913
Consumer	58,888	7	58,895	66,678	26	66,704
Total net loans charged-offs (recovered)	112,989	2,363	115,352	128,630	55,904	184,534
Allowance transferred from covered to non-covered loans ^[2]				13,037	(13,037)	
Net recoveries (write-downs) ^[3]	5,445		5,445	(27,868)	(1,823)	(29,691)
Balance at end of period	\$ 525,593	\$ 30,262	\$ 555,855	\$ 536,005	\$ 34,509	\$ 570,514
Specific ALLL	\$ 129,057	\$	\$ 129,057	\$ 156,848	\$	\$ 156,848
General ALLL	\$ 396,536	\$ 30,262	\$ 426,798	\$ 379,157	\$ 34,509	\$ 413,666

Ratios:

Annualized net charge-offs to average loans held-in-portfolio ^[4]	0.67%	0.67%	0.78%	1.07%
Provision for loan losses to net charge-offs ^[4]	1.15x	1.12x	1.23x	0.99x

[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 recoveries (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.

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, 2016 and 2015.

Table of Contents**Table 31 - Annualized Net Charge-offs (Recoveries) to Average Loans Held-in-Portfolio (Non-covered loans)**

	Quarters ended					
	September 30, 2016			September 30, 2015		
	BPPR	BPNA	Popular Inc.	BPPR	BPNA	Popular Inc.
Commercial	0.18%	(0.15)%	0.08%	0.49%	(0.31)%	0.29%
Construction	3.34		0.48	(9.84)		(1.52)
Leases	0.49		0.49	0.60		0.60
Legacy		(4.26)	(4.26)		(3.43)	(3.43)
Mortgage	1.04	0.94	1.03	1.01	0.33	0.92
Consumer	1.55	1.41	1.53	2.88	0.74	2.63
Total annualized net charge-offs to average loans held-in-portfolio	0.77%	0.17%	0.63%	1.07%	(0.08)%	0.83%

	Nine months ended					
	September 30, 2016			September 30, 2015		
	BPPR	BPNA	Popular Inc.	BPPR	BPNA	Popular Inc.
Commercial	0.21%	(0.10)%	0.12%	0.54%	(0.19)%	0.37%
Construction	(2.52)		(0.38)	(3.75)		(0.83)
Leases	0.59		0.59	0.60		0.60
Legacy		(4.11)	(4.11)		(4.53)	(4.53)
Mortgage	0.98	0.34	0.90	0.82	0.15	0.73
Consumer	2.17	1.21	2.04	2.47	1.18	2.31
Total annualized net charge-offs to average loans held-in-portfolio	0.85%	0.08%	0.67%	0.97%	(0.02)%	0.78%

Net charge-offs, excluding covered loans, for the quarter ended September 30, 2016, decreased by \$11.2 million, when compared to the third quarter of 2015, mainly driven by the BPPR segment with lower consumer net charge-offs of \$11.5 million mostly due to a \$7.1 million recovery related to the sale of previously charged-off credit cards and personal loans. For the quarter ended September 30, 2016, total net charge-offs for individually evaluated impaired loans amounted to approximately \$12.3 million related to the BPPR segment.

Table of Contents**Table 32 - Composition of ALLL**

(Dollars in thousands)	September 30, 2016							Total ^[3]
	Commercial	Construction	Legacy ^[2]	Leasing	Mortgage	Consumer		
Specific ALLL	\$ 58,527	\$	\$	\$ 540	\$ 45,557	\$ 24,433	\$ 129,057	
Impaired loans ^[1]	\$ 328,868	\$	\$	\$ 1,899	\$ 496,868	\$ 110,929	\$ 938,564	
Specific ALLL to impaired loans ^[1]	17.80%		%	%	28.44%	9.17%	22.03%	13.75%
General ALLL	\$ 165,639	\$ 9,942	\$ 1,682	\$ 7,375	\$ 93,971	\$ 117,927	\$ 396,536	
Loans held-in-portfolio, excluding impaired loans ^[1]	\$ 10,208,312	\$ 731,352	\$ 47,914	\$ 680,911	\$ 6,277,639	\$ 3,711,280	\$ 21,657,408	
General ALLL to loans held-in-portfolio, excluding impaired loans ^[1]	1.62%	1.36%	3.51%	1.08%	1.50%	3.18%	1.83%	
Total ALLL	\$ 224,166	\$ 9,942	\$ 1,682	\$ 7,915	\$ 139,528	\$ 142,360	\$ 525,593	
Total non-covered loans held-in-portfolio ^[1]	\$ 10,537,180	\$ 731,352	\$ 47,914	\$ 682,810	\$ 6,774,507	\$ 3,822,209	\$ 22,595,972	
ALLL to loans held-in-portfolio ^[1]	2.13%	1.36%	3.51%	1.16%	2.06%	3.72%	2.33%	

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

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

[3] Excludes covered loans acquired on the Westernbank FDIC-assisted transaction. At September 30, 2016, the general allowance on the covered loans amounted to \$30.3 million.

Table 33 - Composition of ALLL

(Dollars in thousands)	December 31, 2015							Total ^[3]
	Commercial	Construction	Legacy ^[2]	Leasing	Mortgage	Consumer		
Specific ALLL	\$ 49,243	\$ 264	\$	\$ 573	\$ 44,029	\$ 23,963	\$ 118,072	
Impaired loans ^[1]	\$ 337,133	\$ 2,481	\$	\$ 2,404	\$ 471,932	\$ 111,836	\$ 925,786	
Specific ALLL to impaired loans ^[1]	14.61%	10.64%		%	23.84%	9.33%	21.43%	12.75%

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General ALLL Loans held-in-portfolio, excluding impaired loans ^[1]	\$ 147,590	\$ 8,605	\$ 2,687	\$ 10,420	\$ 89,283	\$ 126,278	\$ 384,863
General ALLL to loans held-in-portfolio, excluding impaired loans ^[1]		1.51%	1.27%	4.17%	1.67%	1.36%	3.39%
Total ALLL	\$ 196,833	\$ 8,869	\$ 2,687	\$ 10,993	\$ 133,312	\$ 150,241	\$ 502,935
Total non-covered loans held-in-portfolio ^[1]	\$ 10,099,163	\$ 681,106	\$ 64,436	\$ 627,650	\$ 7,036,081	\$ 3,837,679	\$ 22,346,115
ALLL to loans held-in-portfolio ^[1]		1.95%	1.30%	4.17%	1.75%	1.89%	3.91%
							2.25%

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

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

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

Non-covered loans portfolio

At September 30, 2016, the allowance for loan losses, increased by \$23 million when compared with December 31, 2015, mostly driven by higher reserves for both BPPR and BPNA portfolios of \$14 million and \$9 million, respectively.

At September 30, 2016, the allowance for loan losses at the BPPR segment increased to \$484 million, or 2.80% of non-covered loans held-in-portfolio, compared with \$470 million, or 2.67% of non-covered loans held-in-portfolio, at December 31, 2015. This increase includes an impact of \$9 million related to the annual recalibration of the environmental factors adjustment. The ratio of the allowance to non-performing loans held-in-portfolio was 87.81% at September 30, 2016, compared with 81.75% at December 31, 2015.

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The allowance for loan losses at the BPNA segment increased to \$42 million, or 0.78% of loans held-in-portfolio, compared with \$33 million, or 0.69% of loans held-in-portfolio, at December 31, 2015, mainly driven by portfolio growth. Credit trends for the BPNA segment continued strong with minimal non-performing loans and net charge-offs. The effect of the recalibration was immaterial for the BPNA segment.

The ratio of the allowance to non-performing loans held-in-portfolio was 147.94% at September 30, 2016, compared with 122.43% at December 31, 2015.

Covered loans portfolio

The Corporation's allowance for loan losses for the covered loan portfolio acquired in the Westernbank FDIC-assisted transaction amounted to \$30 million at September 30, 2016, compared to \$34 million at December 31, 2015. This allowance covers the estimated credit loss exposure primarily related to acquired loans accounted for under ASC Subtopic 310-30.

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

Troubled debt restructurings

The Corporation's TDR loans, excluding covered loans, amounted to \$1.2 billion at September 2016, increasing by \$58 million, or 5%, from December 31, 2015. TDRs in accruing status increased by \$72 million from December 31, 2015, due to sustained borrower performance, while non-accruing TDRs decreased by \$14 million.

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

The tables that follow present the approximate amount and percentage of non-covered commercial impaired loans for which the Corporation relied on appraisals dated more than one year old for purposes of impairment requirements at September 30, 2016 and December 31, 2015.

Table of Contents**Table 34 - Non-Covered Impaired Loans with Appraisals Dated 1 year or Older**

(In thousands)	September 30, 2016		
	Loan Count	Outstanding Principal Balance	Impaired Loans with Appraisals Over One-Year Old [1]
Commercial	116	\$ 276,361	21%

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

(In thousands)	December 31, 2015		
	Loan Count	Outstanding Principal Balance	Impaired Loans with Appraisals Over One-Year Old [1]
Commercial	118	\$ 281,478	29%

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

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 35 to the consolidated financial statements. A significant portion of our financial activities and credit exposure is concentrated in Puerto Rico, which entered into 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 (likely as a result of the large amount of governmental stimulus and deficit spending in that fiscal year) and decreased by 0.2%, 0.9%, and 0.6% in fiscal years 2013, 2014, and 2015, respectively. According to the Puerto Rico Planning Board's baseline scenario projections, for fiscal years 2016 and 2017, gross national product is projected to further contract by 1.2% and 2%, respectively. The latest Government Development Bank for Puerto Rico (GDB) Economic Activity Index, which is an indicator of general economic activity and not a direct measurement of gross national product, reflected a 1.4% reduction in the average for fiscal year 2016, compared to the prior fiscal year. During the first two months of fiscal year 2017 (July and August 2016), the Economic Activity Index reflected a 1.3% reduction in the average when compared to the same period of the prior fiscal year.

The Commonwealth is experiencing a severe fiscal and economic crisis resulting from persistent and significant budget deficits, a high debt burden, continuing economic contraction and lack of access to the capital markets, among other factors. The Commonwealth is also currently facing a grave liquidity crisis and has been forced to implement

extraordinary measures in order to continue to fund its operational expenses and provide essential services to its residents. Budget deficits and intra-year cash flow variances were historically covered with bond financings, tax and revenue anticipation notes, loans from GDB and extraordinary one-time revenue measures. As a result of, among other factors, multiple downgrades of the Commonwealth and its instrumentalities' obligations to below investment grade ratings since February 2014, GDB's liquidity constraints, and the Commonwealth's fiscal situation, the Commonwealth's ability to finance intra-year cash flow variances and budget deficits is and is expected to remain very limited, if any.

Recent Extraordinary Liquidity Preservation and Enhancement Measures and Defaults in Debt Service Payments

Recent extraordinary measures taken by the Commonwealth in order to address its liquidity crisis have included, among others: (i) the enactment of Act 21-2016, as amended, known as the Puerto Rico Emergency Moratorium and Rehabilitation Act (the "Moratorium Act") and the suspension of certain payments and transfers in respect of the Commonwealth and several of its instrumentalities' financial obligations thereunder, as further explained below, (ii) the retention by the Commonwealth of certain revenues assigned to particular public corporations and the redirection of such revenues for the payment of essential government services or general obligation debt, (iii) the delay of the payment of third-party payables and amounts due to public corporations; (iv) the deferral of the disbursement of certain budgetary appropriations; (v) the reduction in the Commonwealth's employer contributions to the retirement systems, (vi) the delay of the payment of income tax refunds, (vii) the enactment of Act 66-2014, a fiscal emergency law that freezes benefits under collective bargaining agreements and formula appropriations to various governmental entities and other branches of the central government, and (viii) the enactment of various revenue raising measures, including an increase in the sales and use tax ("SUT") from 7% to 11.5% and the implementation of a Commonwealth SUT of 4% with respect to certain business-to-business services.

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The Government has stated that some of these measures are unsustainable and have significant negative economic effects. Also, the Commonwealth has indicated that it expects that these measures will not be sufficient to address the Commonwealth's liquidity needs and that it will need to implement additional extraordinary measures.

As stated above, since April 2016, the Governor has adopted several executive orders pursuant to the Moratorium Act ordering, among other things, (i) the prohibition of the disbursement of loans by GDB, (ii) stringent restrictions on the withdrawal of deposits from GDB, including deposits of the Commonwealth's municipalities, which only permit the withdrawal of funds necessary to provide essential services, and (iii) the suspension of payments and transfers with respect to certain debt obligations of the Commonwealth, Puerto Rico Public Buildings Authority (PBA), GDB, Puerto Rico Highways and Transportation Authority (HTA), Puerto Rico Infrastructure Financing Authority (PRIFA), Convention Center District Authority (CCDA), and Puerto Rico Public Finance Corporation (PFC). Consistent with the provisions of Moratorium Act and the executive orders issued thereunder, the approved budget for the Commonwealth for fiscal year 2017 does not allocate funds for the payment of debt service on the Commonwealth's general obligation debt or other debt payable from Commonwealth appropriations.

As a result of the Commonwealth's liquidity constraints, the redirection (or clawback) of certain revenues assigned to various public corporations, the non-appropriation of funds for the payment of debt service, and the executive orders issued under the Moratorium Act, as applicable, the Commonwealth and certain of its public corporations have failed to make certain debt service payments or required deposits to bond debt service and/or reserve accounts. The following entities have not made payment of principal and/or interest in full on certain of their respective bonds and notes as of the date hereof: the Commonwealth, GDB, PBA, PRIFA, PFC, and HTA (with respect to certain subordinated bonds). Certain other entities have not made scheduled deposits required under the governing bond documentation, including: HTA, CCDA, PRIFA, the Employees Retirement System, and the University of Puerto Rico (UPR). The Governor has not taken action under the Moratorium Act with respect to the Puerto Rico Sales Tax Financing Corporation (COFINA) and COFINA continues to make debt service payments when due.

Reports on the Commonwealth's Fiscal and Economic Crisis Prepared Prior to the Enactment of PROMESA

In response to the continued fiscal and economic challenges, in 2015 the Government of Puerto Rico engaged a group of former International Monetary Fund 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, 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.

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 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).

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In June 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.

The Working Group initially presented to the Governor a draft of its proposed Fiscal and Economic Growth Plan (FEGP) in September 2015, which was subsequently revised in January 2016. The Commonwealth commenced to consensually renegotiate its debts and those of certain of its instrumentalities based on the FEGP but such negotiations did not result in a definitive agreement with its creditors prior to the enactment of the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA), discussed below, because of, among other things, the large amount of targeted debt and number of creditors and extremely complex nature of these credits.

PROMESA and the Commonwealth's Fiscal Plan

On June 30, 2016, President Obama signed PROMESA into law. PROMESA established a seven-member oversight board with broad powers over the finances of the Commonwealth and its instrumentalities (the Oversight Board). On August 31, 2016, President Obama appointed the seven members of the Board, one of which is a resident of Puerto Rico. On August 31, 2016, the Governor appointed his representative on the Oversight Board, who serves as a non-voting ex officio member. Pursuant to PROMESA, the Oversight Board shall remain in place until market access is restored and balanced budgets are produced for four consecutive years.

Among other things, PROMESA provides for: (i) a stay on litigation to enforce remedies or rights related to outstanding liabilities of the Commonwealth, its political subdivisions, including municipalities, instrumentalities and public corporations and (ii) two separate processes for the restructuring of the debt obligations of such entities. PROMESA also includes other miscellaneous provisions, including relief from certain wage and hour laws and regulations and provisions for identification and expedited permitting of critical infrastructure projects. Notwithstanding the stay on litigation provisions of PROMESA, there are various lawsuits filed by creditors in the U.S. District Court for the District of Puerto Rico challenging the Commonwealth's actions under the Moratorium Act and requesting that the court lift the stay under PROMESA.

During the first meeting of the Oversight Board, held on September 30, 2016, the Oversight Board announced the designation of a number of entities as covered entities under PROMESA, including the Commonwealth, all of its public corporations and retirement systems, UPR, and all affiliates and subsidiaries of the foregoing. While the Oversight Board has the power to designate any of the Commonwealth's municipalities as covered entities under PROMESA, it has not done so as of the date hereof.

The designation of an entity as a covered entity has various implications under PROMESA. First, it means that the Governor will have to submit such entity's annual budgets and, if the Oversight Board so requests, its fiscal plans, to the Oversight Board for its review and approval. Second, covered territorial instrumentalities may not issue debt or guarantee, exchange, modify, repurchase, redeem, or enter into similar transactions with respect to their debts without the prior approval of the Oversight Board. Third, pursuant to certain contracting guidelines approved by the Oversight Board, prior Oversight Board approval is required in connection with any transaction undertaken by a covered entity that (i) is outside the ordinary course of business or (ii) has a material financial impact. Finally, covered entities could also potentially be eligible to use the restructuring procedures provided by PROMESA. The first, Title VI, is a largely out-of-court process through which a government entity and its financial creditors can agree on terms to restructure such entity's debt. If a supermajority of creditors of a certain category agree, that agreement can bind all other creditors in such category. The second, Title III, draws on the federal bankruptcy code and provides a court-supervised process for a comprehensive restructuring led by the Oversight Board. Access to either of these procedures is dependent on

compliance with certain requirements established in PROMESA, including the approval of the Oversight Board.

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PROMESA requires the Commonwealth to create a fiscal plan to bring the island back from its current financial situation and such fiscal plan must look forward at least five years, respect existing legal priorities and liens, and provide a method to achieve fiscal responsibility and access to the capital markets. The Commonwealth submitted its fiscal plan to the Oversight Board on October 14, 2016 (the Fiscal Plan).

The Fiscal Plan is based on five principles the Commonwealth believes are necessary in order to achieve economic recovery. These are: (i) end austerity measures that suppress economic growth, (ii) become more fiscally disciplined, (iii) regain competitiveness to attract businesses and investment, (iv) protect the most vulnerable citizens and (v) achieve debt sustainability. In addition to these five principles, the Commonwealth recognizes that only through a partnership with the federal government may Puerto Rico achieve the economic growth required to emerge from this crisis.

The Fiscal Plan projects that, under current policies, the cumulative financing gap during the next ten years will be approximately \$58.7 billion, and that this financing gap could be reduced to approximately \$5.7 billion through the successful implementation of certain revenue raising and expense reduction measures identified in the Fiscal Plan, assuming, among other things, the elimination of all debt service. Finally, the Fiscal Plan states that, if the Commonwealth successfully implements the measures identified therein and if federal healthcare funding is kept at the current level, the Commonwealth could have a cumulative surplus of approximately \$18.8 billion during the next ten years, if payment of the full debt service of approximately \$34.2 billion is excluded, and a financing gap of approximately \$15.4 billion, if full payment of debt service is assumed.

The Fiscal Plan states that without a substantial debt restructuring resulting in a sustainable debt burden, Puerto Rico's growth potential will continue to be hindered by the fear of future defaults, lower public and private investment and further outmigration. The Fiscal Plan does not include the debt of Puerto Rico's municipalities. The Fiscal Plan contemplates, however, as part of the expense reduction measures, that the central government will gradually reduce subsidies provided to the municipalities. The Fiscal Plan is publicly available in the Oversight Board's website.

Exposure of the Corporation

The credit quality of BPPR's loan portfolio necessarily reflects, among other things, the general economic conditions in Puerto Rico and other adverse conditions affecting Puerto Rico consumers and businesses. The effects of the prolonged recession are reflected in limited loan demand, an increase in the rate of foreclosures and delinquencies on loans granted in Puerto Rico. In addition, the measures taken to address the fiscal crisis and those that may have to be taken in the near future will likely affect many of our individual customers and customers' businesses, which could cause credit losses that adversely affect us and may negatively affect consumer confidence. Any reduction in consumer spending as a result of these issues may also adversely impact our interest and non-interest revenues. If global or local economic conditions worsen or the Government of Puerto Rico is unable to manage its fiscal crisis, including consummating an orderly restructuring of its debt obligations while continuing to provide essential services, these adverse effects could continue or worsen in ways that we are not able to predict.

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At September 30, 2016, the Corporation's direct exposure to the Puerto Rico government and its instrumentalities and municipalities amounted to \$ 557 million, of which approximately \$ 524 million is outstanding (\$669 million and \$ 578 million, respectively, at December 31, 2015). Of the amount outstanding, \$ 448 million consists of loans and \$ 76 million are securities (\$ 502 million and \$ 76 million, respectively, at December 31, 2015). Of the amount outstanding, \$ 23 million represents obligations from the Government of Puerto Rico and public corporations, most of which have a specific source of income or revenues identified for their repayment (\$ 76 million at December 31, 2015). The reduction in the Corporation's direct exposure with respect to obligations from the Government of Puerto Rico and its public corporations corresponds, in large part, to the sale by the Corporation of its \$40 million credit facility to PREPA, which was subject to restructuring negotiations. As a result, the Corporation is no longer directly exposed to PREPA credit risk. Some of the obligations of the Government of Puerto Rico and its public corporations still held by the Corporation consist of bonds and notes issued by public corporations that obtain revenues from rates charged for services or products. Public corporations have varying degrees of independence from the central Government and many receive appropriations or other payments from it. The remaining \$ 501 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 (\$ 502 million at December 31, 2015). These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all of its general obligation bonds and loans. These loans have seniority to the payment of operating cost and expenses of the municipality. The Corporation performs periodic credit quality reviews on these issuers.

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

In addition, at September 30, 2016, the Corporation had \$413 million in indirect exposure to loans or securities that are payable by non-governmental entities, but which carry a government guarantee to cover any shortfall in collateral in the event of borrower default (\$394 million at December 31, 2015). These included \$330 million in residential mortgage loans that are guaranteed by the Puerto Rico Housing Finance Authority (December 31, 2015 - \$316 million). These mortgage loans are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default. Also, the Corporation had \$51 million in Puerto Rico pass-through housing bonds backed by FNMA, GNMA or residential loans CMO's, and \$32 million of industrial development notes (\$50 million and \$28 million, respectively, at December 31, 2015).

As further detailed in Notes 7 and 8 to the consolidated financial statements, a substantial portion of the Corporation's investment securities represented exposure to the U.S. Government in the form of U.S. Government sponsored entities, as well as agency mortgage-backed and U.S. Treasury securities. In addition, \$858 million of residential mortgages and \$100 million in commercial loans were insured or guaranteed by the U.S. Government or its agencies at September 30, 2016. 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 or the reported basis). In addition to analyzing the Corporation's results on a reported basis, management monitors Adjusted net income of the Corporation and excludes the impact of certain transactions on the results of its operations. Management believes that adjusted net income provides meaningful information about the underlying performance of the Corporation's ongoing operations. Adjusted net income is a non-GAAP financial measure. Refer to the following tables for a reconciliation of net income to adjusted net income for the quarters and nine months ended September 30, 2016, and 2015.

Table 35 - Adjusted Net Income for the Quarter Ended September 30, 2016 (Non-GAAP)

(Unaudited)			
(In thousands)	Pre-tax	Income tax effect	Impact on net income
U.S. GAAP Net Income			\$ 46,810
Non-GAAP Adjustments:			
FDIC arbitration award ^[1]	54,924	(10,985)	43,939
Goodwill impairment charge ^[2]	3,801		3,801
Adjusted net income (Non-GAAP)			\$ 94,550

^[1] Represents the arbitration decision denying BPPR's request for reimbursement in certain shared loss claims. Gains and losses related to assets acquired from Westernbank as part of the FDIC assisted transaction are subject to the capital gains tax rate of 20%.

^[2] Represents goodwill impairment charge in the Corporation's securities subsidiary. The securities subsidiary is a limited liability company with a partnership election. Accordingly, its earnings flow through Popular, Inc., holding company, for income tax purposes. Since Popular, Inc. has a full valuation allowance on its deferred tax assets, this results in an effective tax rate of 0%.

Table 36 - Adjusted Net Income for the Quarter Ended September 30, 2015 (Non-GAAP)

(Unaudited)			
(In thousands)	Pre-tax	Income tax effect	Impact on net income
U.S. GAAP Net Income			\$ 85,640
Non-GAAP Adjustments:			
BPNA Reorganization ^[1]	490		490
Doral Transaction ^[2]	4,822	(1,050)	3,772
MSR's Acquired ^[3]	(4,378)	1,707	(2,671)
Impairment of Loans Under Proposed Portfolio Sale ^[4]	10,126	(3,949)	6,177

Adjusted Net Income (Non-GAAP)	\$ 93,408
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- [1] Represents restructuring charges associated with the reorganization of BPNA. The impact of the partial reversal of the valuation allowance of the deferred tax asset at BPNA corresponding to the income for the year 2015 was reflected in the effective tax rate, effectively reducing the income tax expense by the benefit of such reversal.
- [2] Includes approximately \$0.8 million of fees charged for loan servicing cost to the FDIC, 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.
- [3] 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.
- [4] 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 37 - Adjusted Net Income for the Nine Months Ended September 30, 2016 (Non-GAAP)**

(Unaudited)			
(In thousands)	Pre-tax	Income tax effect	Impact on net income
U.S. GAAP Net Income			\$ 220,796
Non-GAAP Adjustments:			
Impact of EVERTEC Restatement ^[1]	2,173		2,173
Bulk Sale of WB loans and OREO ^[2]	(891)	347	(544)
FDIC arbitration award ^[3]	54,924	(10,985)	43,939
Goodwill impairment charge ^[4]	3,801		3,801
Adjusted net income (Non-GAAP)			\$ 270,165

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

Table of Contents**Table 38 - Adjusted Net Income for the Nine Months Ended September 30, 2015 (Non-GAAP)**

(Unaudited)

(In thousands)	Pre-tax	Income tax effect	Impact on net income
U.S. GAAP Net Income			\$ 757,918
Non-GAAP Adjustments:			
BPNA Reorganization ^[1]	16,061		16,061
Doral Transaction ^[2]	25,576	(7,690)	17,886
OTTI ^[3]	14,445	(2,486)	11,959
Reversal DTA - PNA ^[4]		(544,927)	(544,927)
Loss on Bulk Sale of Covered OREOs ^[5]	4,391	(1,712)	2,679
Adjustment to FDIC Indemnification Asset ^[6]	10,887	(2,177)	8,710
MSR s Acquired ^[7]	(4,378)	1,707	(2,671)
Impairment of Loans Under Proposed Portfolio Sale ^[8]	10,126	(3,949)	6,177
Adjusted Net Income (Non-GAAP)			\$ 273,792

^[1] Represents restructuring charges associated with the reorganization of BPNA. The impact of the partial reversal of the valuation allowance of the deferred tax asset at BPNA corresponding to the income for the year 2015 was reflected in the effective tax rate, effectively reducing the income tax expense by the benefit of such reversal.

^[2] Includes approximately \$0.8 million of fees charged for loan servicing cost to the FDIC, \$2.1 million of fees charged for services provided to the alliance co-bidders, personnel costs related to former Doral Bank employees retained on a temporary basis and incentive compensation for an aggregate of \$7.1 million, building rent expense of Doral Bank s administrative offices for \$4.1 million, professional fees and business promotion expenses directly associated with the Doral Bank Transaction and systems conversion for \$16.0 million and other expenses, including equipment, business promotions and communications, of \$1.3 million.

^[3] Represents an other than temporary impairment (OTTI) recorded on Puerto Rico government investment securities available- for- sale. These securities had an amortized cost of approximately \$41.1 million and a market value of \$26.6 million. Based on the fiscal and economic situation in Puerto Rico, together with the government s announcements regarding its ability to pay its debt, 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. The tax effect of this impairment is reflected at the capital gains rate of 20%, except for entities which had a full valuation allowance on its deferred tax asset.

^[4] Represents the partial reversal of the valuation allowance of a portion of the deferred tax asset amounting to approximately \$1.2 billion, at the U.S. operations.

^[5] Represents the loss on a bulk sale of covered OREOs completed in the second quarter and the related mirror accounting of the 80% reimbursable from the FDIC.

^[6] The 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. Gains and losses related to assets acquired from Westernbank as part of the FDIC assisted transaction are subject to the capital gains tax rate of 20%.

^[7]

Represents the fair value of mortgage servicing rights acquired for a portfolio previously serviced by Doral Bank, for which the Corporation acted as a backup servicer, under a pre-existing contract.

- [8] Represents impairment based on the estimated fair value of loans acquired from Westernbank, that the Corporation has the intent to sell and are subject to the ongoing arbitration with the FDIC.

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 2015 Form 10-K.

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

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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, 2016 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 23, "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 2015 Form 10-K. 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 7 "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 2015 Form 10-K.

There have been no material changes to the risk factors previously disclosed under Item 1A of the Corporation's 2015 Form 10-K, except for the risks described below.

The risks described in our 2015 Form 10-K 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.

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, 2016 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.

There were no purchases of Common Stock during the quarter ended September 30, 2016 under the 2004 Omnibus Incentive Plan.

Table of Contents**Item 3. Defaults Upon Senior Securities**

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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, 2016

By: /s/ Carlos J. Vázquez

Carlos J. Vázquez

Executive Vice President & Chief Financial Officer

Date: November 9, 2016

By: /s/ Jorge J. García

Jorge J. García

Senior Vice President & Corporate Comptroller