POPULAR INC
Form 10-Q
August 07, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2018

Commission File Number: 001-34084

POPULAR, INC.

(Exact name of registrant as specified in its charter)

Puerto Rico	**66-0667416**
(State or other jurisdiction of Incorporation or organization)	**(IRS Employer Identification Number)**
Popular Center Building	**00918**

209 Muñoz Rivera Avenue

Hato Rey, Puerto Rico
(Address of principal executive offices) **(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, smaller reporting company, or an emerging growth company. See definitions of large accelerated filer , accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act:

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: Common Stock, $0.01 par value, 102,318,442 shares outstanding as of August 3, 2018.

POPULAR, INC.

INDEX

Forward-Looking Information

This Form 10-Q contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 about Popular, Inc. s (the Corporation, Popular, we, us, our), including without limitation statements about Popular s business, financial condition, results of operations, plans, objectives and future performance. These statements are not guarantees of future performance, are based on management s current expectations and, by their nature, involve risks, uncertainties, estimates and assumptions. Potential factors, some of which are beyond the Corporation s control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Risks and uncertainties include without limitation the effect of competitive and economic factors, and our reaction to those factors, the adequacy of the allowance for loan losses, delinquency trends, market risk and the impact of interest rate changes, capital markets conditions, capital adequacy and liquidity, the effect of legal proceedings and new accounting standards on the Corporation s financial condition and results of operations, and the impact of Hurricanes Irma and María on the Corporation. All statements contained herein that are not clearly historical in nature are forward-looking, and the words anticipate, believe, continues, expect, estimate, intend, project and similar expressions and future or conditional verbs such as will, would, could, might, can, may or similar expressions are generally intended to identify forward-looking statements.

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

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

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

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

the impact of Hurricanes Irma and Maria, and the measures taken to recover from these hurricanes (including the availability of relief funds and insurance proceeds), on the economy of Puerto Rico, the U.S. Virgin Islands and the British Virgin Islands, and on our customers and our business;

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

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

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

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 ability to successfully integrate the auto finance business acquired from Wells Fargo, as well as unexpected costs, including, without limitation, costs due to exposure to any unrecorded liabilities or issues not identified during the due diligence investigation of the business or that are not subject to indemnification or reimbursement, and risks that the business may suffer as a result of the transaction, including due to adverse effects on relationships with customers, employees and service providers;

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

the performance of the stock and bond markets;

- competition in the financial services industry;
- additional Federal Deposit Insurance Corporation (FDIC) assessments;
- possible legislative, tax or regulatory changes; and
- a failure in or breach of our operational or security systems or infrastructure or those of EVERTEC, Inc., our provider of core financial transaction processing and information technology services, as a result of cyberattacks, including e-fraud, denial-of-services and computer intrusion, that might result in loss or breach of customer data, disruption of services, reputational damage or additional costs to Popular.

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

- negative economic conditions, including as a result of Hurricanes Irma and Maria, that adversely affect housing prices, the job market, consumer confidence and spending habits which may affect, among other things, the level of non-performing assets, charge-offs and provision expense;
- changes in market rates and prices which may adversely impact the value of financial assets and liabilities;
- liabilities resulting from litigation and regulatory investigations;
- changes in accounting standards, rules and interpretations;
- our ability to grow our core businesses;
- decisions to downsize, sell or close units or otherwise change our business mix; and
- management s ability to identify and manage these and other risks.

Moreover, the outcome of legal proceedings, as discussed in Part II, Item I. Legal Proceedings, is inherently uncertain and depends on judicial interpretations of law and the findings of regulators, judges and/or juries. Investors should refer to the Corporation s Annual Report on Form 10-K for the year ended December 31, 2017 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 or information which speak as of their respective dates.

4

POPULAR, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(UNAUDITED)

(In thousands, except share information)	June 30, 2018	December 31, 2017
Assets:		
Cash and due from banks	$ 400,568	$ 402,857
Money market investments:		
Time deposits with other banks	8,628,442	5,255,119
Total money market investments	8,628,442	5,255,119
Trading account debt securities, at fair value:		
Pledged securities with creditors right to repledge	610	625
Other trading securities	41,027	33,301
Debt securities available-for-sale, at fair value:		
Pledged securities with creditors right to repledge	305,934	393,634
Other investment securities available-for-sale	10,236,076	9,783,289
Debt securities held-to-maturity, at amortized cost (fair value 2018 - $107,396; 2017 - $97,501)	104,937	107,019
Equity securities (realizable value 2018 -$163,316); (2017 - $168,417)	159,017	165,103
Loans held-for-sale, at lower of cost or fair value	73,859	132,395
Loans held-in-portfolio:		
Loans not covered under loss-sharing agreements with the FDIC	24,752,700	24,423,427
Loans covered under loss-sharing agreements with the FDIC		517,274
Less Unearned income	144,184	130,633
Allowance for loan losses	643,018	623,426
Total loans held-in-portfolio, net	23,965,498	24,186,642
FDIC loss-share asset		45,192
Premises and equipment, net	548,432	547,142
Other real estate not covered under loss-sharing agreements with the FDIC	142,063	169,260
Other real estate covered under loss-sharing agreements with the FDIC		19,595
Accrued income receivable	165,592	213,844
Mortgage servicing assets, at fair value	164,025	168,031
Other assets	1,940,780	1,991,323
Goodwill	627,294	627,294
Other intangible assets	31,023	35,672
Total assets	$ 47,535,177	$ 44,277,337
Liabilities and Stockholders Equity		

Liabilities:		
Deposits:		
Non-interest bearing	$ 9,392,263	$ 8,490,945
Interest bearing	29,985,298	26,962,563
Total deposits	39,377,561	35,453,508
Assets sold under agreements to repurchase	306,911	390,921
Other short-term borrowings	1,200	96,208
Notes payable	1,561,663	1,536,356
Other liabilities	998,181	1,696,439
Total liabilities	42,245,516	39,173,432
Commitments and contingencies (Refer to Note 21)		
Stockholders equity:		
Preferred stock, 30,000,000 shares authorized; 2,006,391 shares issued and outstanding	50,160	50,160
Common stock, $0.01 par value; 170,000,000 shares authorized; 104,285,694 shares issued (2017 - 104,238,159) and 102,296,440 shares outstanding (2017 - 102,068,981)	1,043	1,042
Surplus	4,302,946	4,298,503
Retained earnings	1,515,058	1,194,994
Treasury stock - at cost, 1,989,254 shares (2017 - 2,169,178)	(82,754)	(90,142)
Accumulated other comprehensive loss, net of tax	(496,792)	(350,652)
Total stockholders equity	5,289,661	5,103,905
Total liabilities and stockholders equity	$ 47,535,177	$ 44,277,337

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

POPULAR, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(In thousands, except per share information)	Quarters ended June 30, 2018	Quarters ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Interest income:				
Loans	$ 386,277	$ 367,669	$ 759,861	$ 730,805
Money market investments	36,392	11,131	58,677	17,704
Investment securities	58,181	49,933	115,390	96,219
Total interest income	480,850	428,733	933,928	844,728
Interest expense:				
Deposits	45,228	34,092	83,916	67,849
Short-term borrowings	1,752	1,115	3,765	2,210
Long-term debt	19,734	19,047	39,064	38,092
Total interest expense	66,714	54,254	126,745	108,151
Net interest income	414,136	374,479	807,183	736,577
Provision for loan losses non-covered loans	60,054	49,965	129,387	92,022
Provision for loan losses covered loans		2,514	1,730	1,155
Net interest income after provision for loan losses	354,082	322,000	676,066	643,400
Service charges on deposit accounts	37,102	41,073	73,557	80,609
Other service fees	62,876	59,168	123,478	115,343
Mortgage banking activities (Refer to Note 10)	10,071	10,741	22,139	22,110
Other-than-temporary impairment losses on debt securities		(8,299)		(8,299)
Net gain (loss), including impairment on equity securities	234	19	(412)	181
Net profit (loss) on trading account debt securities	21	(655)	(177)	(933)
Adjustments (expense) to indemnity reserves on loans sold	(527)	(2,930)	(3,453)	(4,896)
FDIC loss-share income (expense) (Refer to Note 28)	102,752	(475)	94,725	(8,732)
Other operating income	22,280	18,151	38,449	37,279
Total non-interest income	234,809	116,793	348,306	232,662
Operating expenses:				
Personnel costs	124,332	116,948	250,184	240,688
Net occupancy expenses	22,425	22,265	45,227	43,041
Equipment expenses	17,775	16,250	34,981	32,220
Other taxes	10,876	10,740	21,778	21,709
Professional fees	93,903	72,934	176,888	142,184
Communications	5,382	5,899	11,288	11,848

Business promotion	16,778	13,366	28,787	24,942
FDIC deposit insurance	7,004	6,172	13,924	12,665
Other real estate owned (OREO) expenses	6,947	16,670	13,078	29,488
Other operating expenses	29,922	23,247	58,886	54,679
Amortization of intangibles	2,324	2,344	4,649	4,689
Total operating expenses	337,668	306,835	659,670	618,153
Income before income tax	251,223	131,958	364,702	257,909
Income tax (benefit) expense	(28,560)	35,732	(6,405)	68,738
Net Income	$ 279,783	$ 96,226	$ 371,107	$ 189,171
Net Income Applicable to Common Stock	$ 278,852	$ 95,295	$ 369,245	$ 187,309
Net Income per Common Share Basic	$ 2.74	$ 0.94	$ 3.63	$ 1.83
Net Income per Common Share Diluted	$ 2.73	$ 0.94	$ 3.62	$ 1.83
Dividends Declared per Common Share	$ 0.25	$ 0.25	$ 0.50	$ 0.50

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

POPULAR, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

	Quarters ended,		Six months ended,	
	June 30,		June 30,	
(In thousands)	2018	2017	2018	2017
Net income	$ 279,783	$ 96,226	$ 371,107	$ 189,171
Reclassification to retained earnings due to cumulative effect of accounting change			(605)	
Other comprehensive (loss) income before tax:				
Foreign currency translation adjustment	(3,456)	(1,588)	(3,363)	(1,449)
Amortization of net losses of pension and postretirement benefit plans	5,385	5,606	10,771	11,213
Amortization of prior service credit of pension and postretirement benefit plans	(868)	(950)	(1,735)	(1,900)
Unrealized holding (losses) gains on debt securities arising during the period	(36,223)	8,758	(157,412)	5,732
Other-than-temporary impairment included in net income		8,299		8,299
Unrealized holding gains on equity securities arising during the period		46		165
Reclassification adjustment for gains included in net income		(19)		(181)
Unrealized net (losses) gains on cash flow hedges	(270)	(377)	955	(1,014)
Reclassification adjustment for net losses (gains) included in net income	250	1,035	(1,017)	1,890
Other comprehensive (loss) income before tax	(35,182)	20,810	(152,406)	22,755
Income tax benefit (expense)	1,228	(3,841)	6,266	(5,412)
Total other comprehensive (loss) income, net of tax	(33,954)	16,969	(146,140)	17,343
Comprehensive income, net of tax	$ 245,829	$ 113,195	$ 224,967	$ 206,514

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

	Quarters ended		Six months ended,	
	June 30,		June 30,	
(In thousands)	2018	2017	2018	2017
Amortization of net losses of pension and postretirement benefit plans	$ (2,099)	$ (2,185)	$ (4,200)	$ (4,371)
Amortization of prior service credit of pension and postretirement benefit plans	339	370	677	740

Unrealized holding (losses) gains on debt securities arising during the period	2,980	(205)	9,765	117
Other-than-temporary impairment included in net income		(1,559)		(1,559)
Unrealized holding gains on equity securities arising during the period		(9)		(33)
Reclassification adjustment for gains included in net income		4		36
Unrealized net (losses) gains on cash flow hedges	105	147	(373)	395
Reclassification adjustment for net losses (gains) included in net income	(97)	(404)	397	(737)
Income tax benefit (expense)	$ 1,228	$ (3,841)	$ 6,266	$ (5,412)

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

POPULAR, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(UNAUDITED)

thousands)	Common stock	Preferred stock	Surplus	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total
ance at December 31, 2016	$ 1,040	$ 50,160	$ 4,255,022	$ 1,220,307	$ (8,286)	$ (320,286)	$ 5,197,95
income				189,171			189,17
uance of stock	1		3,830				3,83
vidends declared:							
mmon stock				(51,112)			(51,11
ferred stock				(1,862)			(1,86
mmon stock purchases			4,518		(81,801)		(77,28
ner comprehensive income, net of tax						17,343	17,34
ance at June 30, 2017	$ 1,041	$ 50,160	$ 4,263,370	$ 1,356,504	$ (90,087)	$ (302,943)	$ 5,278,04
ance at December 31, 2017	$ 1,042	$ 50,160	$ 4,298,503	$ 1,194,994	$ (90,142)	$ (350,652)	$ 5,103,90
mulative effect of accounting change				1,935			1,93
income				371,107			371,10
uance of stock	1		1,742				1,74
vidends declared:							
mmon stock				(51,116)			(51,11
ferred stock				(1,862)			(1,86
mmon stock purchases					(2,344)		(2,34
mmon stock reissuance			40		1,297		1,33
ck based compensation			2,661		8,435		11,09
ner comprehensive income, net of tax						(146,140)	(146,14
ance at June 30, 2018	$ 1,043	$ 50,160	$ 4,302,946	$ 1,515,058	$ (82,754)	$ (496,792)	$ 5,289,66

closure of changes in number of shares:	June 30, 2018	June 30, 2017
ferred Stock:		
ance at beginning and end of period	2,006,391	2,006,39
mmon Stock Issued:		
ance at beginning of period	104,238,159	104,058,68
uance of stock	47,535	95,94
ance at end of period	104,285,694	104,154,62
asury stock	(1,989,254)	(2,167,86

mmon Stock Outstanding	102,296,440	101,986,75

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

POPULAR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In thousands)	Six months ended June 30, 2018	2017
Cash flows from operating activities:		
Net income	$ 371,107	$ 189,171
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	131,117	93,177
Amortization of intangibles	4,649	4,689
Depreciation and amortization of premises and equipment	25,575	23,928
Net accretion of discounts and amortization of premiums and deferred fees	(15,246)	(13,510)
Share-based compensation	5,445	
Impairment losses on long-lived assets	272	
Other-than-temporary impairment on debt securities		8,299
Fair value adjustments on mortgage servicing rights	8,929	14,000
FDIC loss share (income) expense	(94,725)	8,732
Adjustments (expense) to indemnity reserves on loans sold	3,453	4,896
Earnings from investments under the equity method, net of dividends or distributions	(5,400)	(6,743)
Deferred income tax (benefit) expense	(141,066)	52,354
(Gain) loss on:		
Disposition of premises and equipment and other productive assets	(680)	5,517
Sale of loans, including valuation adjustments on loans held-for-sale and mortgage banking activities	(3,602)	(12,631)
Sale of foreclosed assets, including write-downs	566	13,603
Acquisitions of loans held-for-sale	(112,687)	(153,085)
Proceeds from sale of loans held-for-sale	29,519	58,857
Net originations on loans held-for-sale	(112,975)	(224,278)
Net decrease (increase) in:		
Trading debt securities	218,904	334,136
Equity securities	(1,124)	(80)
Accrued income receivable	48,252	1,939
Other assets	189,540	(6,747)
Net increase (decrease) in:		
Interest payable	50	(189)
Pension and other postretirement benefits obligation	2,363	883
Other liabilities	(181,094)	(16,018)
Total adjustments	35	191,729
Net cash provided by operating activities	371,142	380,900

Cash flows from investing activities:

Net increase in money market investments	(3,371,774)	(1,332,447)
Purchases of investment securities:		
Available-for-sale	(2,767,257)	(1,738,915)
Equity	(11,176)	(4,900)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:		
Available-for-sale	2,291,230	541,660
Held-to-maturity	3,030	2,860
Proceeds from sale of investment securities:		
Equity	18,387	2,541
Net repayments on loans	61,890	5,088
Acquisition of loan portfolios	(326,503)	(261,987)
Net payments (to) from FDIC under loss sharing agreements	(25,012)	(14,819)
Return of capital from equity method investments	1,519	3,362
Acquisition of premises and equipment	(31,690)	(29,992)
Proceeds from insurance claims	720	
Proceeds from sale of:		
Premises and equipment and other productive assets	5,222	5,186
Foreclosed assets	59,497	60,603
Net cash used in investing activities	(4,091,917)	(2,761,760)
Cash flows from financing activities:		
Net increase (decrease) in:		
Deposits	3,921,033	2,625,731
Assets sold under agreements to repurchase	(84,010)	(73,040)
Other short-term borrowings	(95,008)	
Payments of notes payable	(115,749)	(35,074)
Proceeds from issuance of notes payable	140,000	20,000

Proceeds from issuance of common stock	8,818	3,831
Dividends paid	(52,617)	(43,045)
Net payments for repurchase of common stock	(270)	(75,666)
Payments related to tax withholding for share-based compensation	(2,162)	(1,617)
Net cash provided by financing activities	3,720,035	2,421,120
Net (decrease) increase in cash and due from banks, and restricted cash	(740)	40,260
Cash and due from banks, and restricted cash at beginning of period	412,629	374,196
Cash and due from banks, and restricted cash at the end of the period	$ 411,889	$ 414,456

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

Notes to Consolidated Financial

Statements (Unaudited)

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 mainland United States and U.S. and British Virgin Islands. In Puerto Rico, the Corporation provides retail, mortgage, and commercial banking services through its principal banking subsidiary, Banco Popular de Puerto Rico (BPPR), as well as investment banking, broker-dealer, auto and equipment leasing and financing, and insurance services through specialized subsidiaries. In the U.S. mainland, the Corporation provides retail, mortgage and commercial banking services through its New York-chartered banking subsidiary, Popular Bank (PB), which has branches located in New York, New Jersey and Florida.

Prior to April 9, 2018, PB operated under the legal name of Banco Popular North America and conducted business under the assumed name of Popular Community Bank.

Note 2 Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The consolidated interim financial statements have been prepared without audit. The consolidated statement of financial condition data at December 31, 2017 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 2017 Consolidated Financial Statements and notes to the financial statements to conform to the 2018 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, 2017, included in the Corporation s 2017 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.

Note 3 New accounting pronouncements

Recently Adopted Accounting Standards Updates

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

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

As a result of the adoption of this accounting pronouncement, the Corporation recognized $4.4 million during the six months ended June 30, 2018 (June 30, 2017 $3.7 million) as components of net periodic benefit cost other than service cost in the other operating expenses caption, which would have otherwise previously been recognized as personnel cost. The presentation for prior periods has been adjusted to reflect the new classification. Effective January 1, 2018, these expenses are no longer capitalized as part of loan origination costs.

FASB Accounting Standards Update (ASU) 2017-05, Other Income Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets

The FASB issued ASU 2017-05 in February 2017, which, among other things, clarifies the scope of the derecognition of nonfinancial assets, the definition of in substance financial assets, and impacts the accounting for partial sales of nonfinancial assets by requiring full gain recognition upon the sale.

The adoption of this standard during the first quarter of 2018 did not have a material impact on the Corporation s financial statements.

FASB Accounting Standards Update (ASU) 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business

The FASB issued ASU 2017-01 in January 2017, which revises the definition of a business by providing an initial screen to determine when an integrated set of assets and activities (set) is not a business. Also, the amendments, among other things, specify the minimum inputs and processes required for a set to meet the definition of a business when the initial screen is not met and narrow the definition of the term output so that the term is consistent with Topic 606.

The Corporation adopted ASU 2017-01 during the first quarter of 2018. As such, the Corporation will consider this guidance in any business combinations completed after the effective date.

FASB Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash

The FASB issued ASU 2016-18 in November 2016, which require entities to present the changes in total cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The new guidance also requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet if restricted cash and restricted cash equivalents are presented in a different line item in the balance sheet.

As a result of the adoption of this accounting pronouncement, the Corporation included restricted cash and restricted cash equivalents within money market investments of $11.3 million at June 30, 2018 (June 30, 2017 $8.8 million) in the Consolidated Statements of Cash Flows. In addition, the Corporation presented a reconciliation of the totals in the Consolidated Statements of Cash Flows to the related captions in the Consolidated Statements of Condition in Note 32, Supplemental disclosure on the consolidated statements of cash flows.

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

The FASB issued ASU 2016-16 in October 2016, which eliminates the exception for all intra-entity sales of assets other than inventory that requires deferral of the tax effects until the transferred asset is sold to a third party or otherwise recovered through use. The new guidance requires a reporting entity to recognize the tax impact 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.

As a result of the adoption of this accounting pronouncement during the first quarter of 2018, the Corporation recorded a positive cumulative effect adjustment of $1.3 million to retained earnings to reflect the net tax benefit resulting from intra-entity sales of assets.

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.

As a result of the adoption of this accounting pronouncement, the Corporation reclassified from investing to operating activities $0.5 million in the Consolidated Statements of Cash Flows for the six months ended June 30, 2017 as a result of electing the cumulative earnings approach for classifying distributions received from equity investees.

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

The FASB has issued a series of ASUs which, among other things, clarify the principles for recognizing revenue and develop a common revenue standard. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services, that is, the satisfaction of performance obligations, to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. A five-step process is defined to achieve this core principle. The new guidance also requires disclosures to enable users of financial statements to understand the nature, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Corporation adopted this accounting pronouncement during the first quarter of 2018 using the modified retrospective approach. The Corporation elected the practical expedient that permits an entity to expense incremental costs of obtaining contracts, given the amortization periods were one year or less. There were no material changes in the presentation and timing of when revenues are recognized. ASC Topic 606 was applied to contracts that were not completed as of January 1, 2018. There was no impact in the evaluation of these contracts. Refer to additional disclosures on Note 27, Revenue from contracts with customers.

FASB Accounting Standards Update (ASU) 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities

The FASB issued ASU 2016-01 in January 2016, which primarily affects the accounting for equity investments and financial liabilities under the fair value option as follows: require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; simplify the impairment assessment of equity investments without readily determinable fair values; require changes in fair value due to instrument-specific credit risk to be presented separately in other comprehensive income for financial liabilities under the fair value option; and clarify that the need for a valuation allowance on a deferred tax asset related to available-for-sale securities should be evaluated in combination with the entity s other deferred tax assets. In addition, the ASU also impacts the presentation and disclosure requirements of financial instruments.

As a result of the adoption of this accounting pronouncement during the first quarter of 2018, the Corporation aggregated $11 million previously classified as available-for-sale and as trading to those under the other investment securities caption and reclassified under the caption of equity securities. In addition, a positive cumulative effect adjustment of $0.6 million was recognized due to the reclassification of unrealized gains of equity securities available-for-sale, net of tax, from accumulated other comprehensive loss to retained earnings.

The adoption of FASB Accounting Standards Update (ASU) 2017-09, Compensation Stock Compensation (Topic 718): Scope of Modification Accounting, effective during the first quarter of 2018, did not have a significant impact on the Consolidated Financial Statements.

Recently Issued Accounting Standards Updates

FASB Accounting Standards Update (ASU) 2018-11, Leases (Topic 842): Targeted Improvements

The FASB issued ASU 2018-11 in July 2018, which provides entities with an additional and optional transition method that allows entities to apply the transition provisions of the new leases standard at the adoption date, instead of at the earliest comparative period presented. If elected, comparative periods will continue to be presented in accordance with ASC Topic 840. Also, the amendments provide lessors with a practical expedient, by class of underlying asset, to not separate nonlease components, subject to certain circumstances.

The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

The Corporation will elect this optional transition method to initially apply the new leases standard as of January 1, 2019. On the other hand, the Corporation does not expect to elect the practical expedient provided to lessors.

FASB Accounting Standards Update (ASU) 2018-10, Codification Improvements to Topic 842, Leases

The FASB issued ASU 2018-10 in July 2018, which makes various technical corrections to clarify how to apply certain aspects of the new leases standard such as lease reassessment of lease classification, variable lease payments that depend on an index or a rate, lease term and purchase option, certain transition adjustments, among others.

The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

The Corporation does not expect to be materially impacted by these Codification improvements.

FASB Accounting Standards Update (ASU) 2018-09, Codification Improvements

The FASB issued ASU 2018-09 in July 2018, which makes various codification improvements in the areas of excess tax benefits on share-based compensation awards, income tax accounting for business combinations, derivatives offsetting, liability or equity-classified financial instruments, among others.

The amendments in this Update are effective immediately, except for amendments that require transition guidance, which are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018; and amendments to guidance not yet effective which are effective on the same date as the original Updates.

The Corporation does not expect to be materially impacted by these Codification improvements.

FASB Accounting Standards Update (ASU) 2018-07, Compensation   Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting

The FASB issued ASU 2018-07 in June 2018, which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees, although differences remain in the accounting for attribution and a contractual term election for valuing nonemployee equity share options.

The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted.

The Corporation does not expect to be impacted by these amendments since it does not enter into share-based payment transactions for acquiring goods and services from nonemployees.

FASB Accounting Standards Update (ASU) 2018-06, Codification Improvements to Topic 942, Financial Services Depository and Lending

The FASB issued ASU 2018-06 in May 2018, which removes outdated guidance related to the Comptroller of the Currency s Banking Circular 202, Accounting for Net Deferred Taxes in ASC Topic 942.

The amendments in this Update were effective upon issuance of the Update. The Corporation was not impacted by this Codification improvement.

FASB Accounting Standards Update (ASU   ) 2018-03, Technical Corrections and Improvements to Financial Instruments   Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities

The FASB issued ASU 2018-03 in February 2018, which clarifies certain aspects of the guidance in ASU 2016-01, principally related to equity securities without a readily determinable fair value.

The amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. Early adoption is permitted.

The Corporation does not expect to be significantly impacted by these technical corrections and improvements.

FASB Accounting Standards Update (ASU   ) 2016-02, Leases (Topic 842)

The FASB issued ASU 2016-02 in February 2016, which supersedes ASC Topic 840 and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessors and lessees. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset (ROU   ) and a lease liability for all leases with a term greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases.

The amendments of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted.

The ASU is expected to impact the Corporation   s Consolidated Financial Statements since the Corporation has operating and land lease arrangements for which it is the lessee. The Corporation expects to recognize lease liabilities of approximately $0.2 billion, with a corresponding recognition of ROU assets on its operating leases.

For other recently issued Accounting Standards Updates not yet effective, refer to Note 4 to the Consolidated Financial Statements included in the 2017 Form 10-K.

Note 4 Restrictions on cash and due from banks and certain securities

The Corporation s banking subsidiaries, BPPR and PB, are required by federal and state regulatory agencies to maintain average reserve balances with the Federal Reserve Bank of New York (the Fed) or other banks. Those required average reserve balances amounted to $1.5 billion at June 30, 2018 (December 31, 2017 - $1.4 billion). Cash and due from banks, as well as other highly liquid securities, are used to cover the required average reserve balances.

At June 30, 2018, the Corporation held $43 million in restricted assets in the form of funds deposited in money market accounts, debt securities available for sale and equity securities (December 31, 2017 - $41 million). The amounts held in debt securities available for sale and equity securities consist primarily of restricted assets held for the Corporation s non-qualified retirement plans and fund deposits guaranteeing possible liens or encumbrances over the title of insured properties.

Note 5 Debt securities available-for-sale

The following tables present the amortized cost, gross unrealized gains and losses, approximate fair value, weighted average yield and contractual maturities of debt securities available-for-sale at June 30, 2018 and December 31, 2017.

	At June 30, 2018				
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Weighted average yield
U.S. Treasury securities					
Within 1 year	$ 1,277,840	$ 30	$ 4,517	$ 1,273,353	1.42%
After 1 to 5 years	3,372,451	977	58,687	3,314,741	1.93
After 5 to 10 years	394,072		5,201	388,871	2.50
Total U.S. Treasury securities	5,044,363	1,007	68,405	4,976,965	1.85
Obligations of U.S. Government sponsored entities					
Within 1 year	288,749	10	937	287,822	1.37
After 1 to 5 years	248,546		4,492	244,054	1.50
Total obligations of U.S. Government sponsored entities	537,295	10	5,429	531,876	1.43
Obligations of Puerto Rico, States and political subdivisions					
After 1 to 5 years	6,796		153	6,643	1.76
Total obligations of Puerto Rico, States and political subdivisions	6,796		153	6,643	1.76
Collateralized mortgage obligations - federal agencies					
After 1 to 5 years	1,075		8	1,067	1.93
After 5 to 10 years	124,736		6,214	118,522	1.69
After 10 years	721,252	1,389	32,561	690,080	2.09
Total collateralized mortgage obligations - federal agencies	847,063	1,389	38,783	809,669	2.03
Mortgage-backed securities					
Within 1 year	962	8		970	4.25
After 1 to 5 years	6,768	38	202	6,604	2.70
After 5 to 10 years	333,026	1,558	9,239	325,345	2.24
After 10 years	4,029,804	11,325	157,872	3,883,257	2.43
Total mortgage-backed securities	4,370,560	12,929	167,313	4,216,176	2.42

Other					
After 5 to 10 years	677	4		681	3.62
Total other	677	4		681	3.62
Total debt securities available-for-sale[1]	$ 10,806,754	$ 15,339	$ 280,083	$ 10,542,010	2.07%

[1] Includes $8.2 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 $7.5 billion serve as collateral for public funds.

	At December 31, 2017				
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Weighted average yield
U.S. Treasury securities					
Within 1 year	$ 1,112,791	$ 8	$ 2,101	$ 1,110,698	1.06%
After 1 to 5 years	2,550,116		26,319	2,523,797	1.55
After 5 to 10 years	293,579	281	191	293,669	2.24
Total U.S. Treasury securities	3,956,486	289	28,611	3,928,164	1.46
Obligations of U.S. Government sponsored entities					
Within 1 year	276,304	21	818	275,507	1.26
After 1 to 5 years	336,922	22	3,518	333,426	1.48
Total obligations of U.S. Government sponsored entities	613,226	43	4,336	608,933	1.38
Obligations of Puerto Rico, States and political subdivisions					
After 1 to 5 years	6,668		59	6,609	2.30
Total obligations of Puerto Rico, States and political subdivisions	6,668		59	6,609	2.30
Collateralized mortgage obligations federal agencies					
Within 1 year	40			40	2.60
After 1 to 5 years	16,972	173	75	17,070	2.90
After 5 to 10 years	36,186	57	526	35,717	2.31
After 10 years	914,568	2,789	26,431	890,926	2.01
Total collateralized mortgage obligations federal agencies	967,766	3,019	27,032	943,753	2.03
Mortgage-backed securities					
Within 1 year	484	8		492	4.23
After 1 to 5 years	14,599	206	211	14,594	3.50
After 5 to 10 years	339,161	2,390	3,765	337,786	2.21
After 10 years	4,385,368	19,493	69,071	4,335,790	2.46
Total mortgage-backed securities	4,739,612	22,097	73,047	4,688,662	2.44
Other					
After 5 to 10 years	789	13		802	3.62
Total other	789	13		802	3.62
Total debt securities available-for-sale[1]	$ 10,284,547	$ 25,461	$ 133,085	$ 10,176,923	1.96%

[1] Includes $6.6 billion pledged to secure public and trust deposits, assets sold under agreements to repurchase, credit facilities and loan servicing agreements that the secured parties are not permitted to sell or repledge the collateral, of which $5.6 billion serve as collateral for public funds.

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 based on 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.

There were no securities sold during the six months ended June 30, 2018 and 2017.

The following tables present the Corporation s fair value and gross unrealized losses of debt securities available-for-sale, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2018 and December 31, 2017.

	At June 30, 2018					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
U.S. Treasury securities	$ 2,742,979	$ 50,265	$ 1,264,938	$ 18,140	$ 4,007,917	$ 68,405
Obligations of U.S. Government sponsored entities	147,211	847	381,273	4,582	528,484	5,429
Obligations of Puerto Rico, States and political subdivisions	6,643	153			6,643	153
Collateralized mortgage obligations federal agencies	195,626	4,469	541,559	34,314	737,185	38,783
Mortgage-backed securities	1,360,340	43,508	2,544,264	123,805	3,904,604	167,313
Total debt securities available-for-sale in an unrealized loss position	$ 4,452,799	$ 99,242	$ 4,732,034	$ 180,841	$ 9,184,833	$ 280,083

	At December 31, 2017					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
U.S. Treasury securities	$ 2,608,473	$ 14,749	$ 1,027,066	$ 13,862	$ 3,635,539	$ 28,611
Obligations of U.S. Government sponsored entities	214,670	1,108	376,807	3,228	591,477	4,336
Obligations of Puerto Rico, States and political subdivisions	6,609	59			6,609	59
Collateralized mortgage obligations federal agencies	153,336	2,110	595,339	24,922	748,675	27,032
Mortgage-backed securities	1,515,295	12,529	2,652,359	60,518	4,167,654	73,047
Total debt securities available-for-sale in an unrealized loss position	$ 4,498,383	$ 30,555	$ 4,651,571	$ 102,530	$ 9,149,954	$ 133,085

As of June 30, 2018, the portfolio of available-for-sale debt securities reflects gross unrealized losses of approximately $280 million, driven mainly by mortgage-backed securities, U.S. Treasury securities, and collateralized mortgage obligations.

Management evaluates debt securities for other-than-temporary (OTTI) declines in fair value on a quarterly basis. Once a decline in value is determined to be other-than-temporary, the value of a debt security is reduced and a corresponding charge to earnings is recognized for anticipated credit losses. The OTTI analysis requires management to consider various factors, which include, but are not limited to: (1) the length of time and the extent to which fair value has been less than the amortized cost basis, (2) the financial condition of the issuer or issuers, (3) actual collateral attributes, (4) the payment structure of the debt security and the likelihood of the issuer being able to make payments, (5) any rating changes by a rating agency, (6) adverse conditions specifically related to the security, industry, or a geographic area, and (7) management s intent to sell the debt security or whether it is more likely than not that the Corporation would be required to sell the debt security before a forecasted recovery occurs.

At June 30, 2018, management performed its quarterly analysis of all debt securities in an unrealized loss position. Based on the analysis performed, management concluded that no individual debt security was other-than-temporarily impaired as of such date. At June 30, 2018, the Corporation did not have the intent to sell debt securities in an unrealized loss position and it was not more likely than not that the Corporation would have to sell the debt securities prior to recovery of their amortized cost basis.

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

(In thousands)	June 30, 2018 Amortized cost	June 30, 2018 Fair value	December 31, 2017 Amortized cost	December 31, 2017 Fair value
FNMA	$ 3,330,286	$ 3,207,410	$ 3,621,537	$ 3,572,474
Freddie Mac	1,212,413	1,164,737	1,358,708	1,335,685

Note 6 Debt securities held-to-maturity

The following tables present the amortized cost, gross unrealized gains and losses, approximate fair value, weighted average yield and contractual maturities of debt securities held-to-maturity at June 30, 2018 and December 31, 2017.

	At June 30, 2018				
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Weighted average yield
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	$ 3,445	$	$ 7	$ 3,438	5.98%
After 1 to 5 years	16,195	89	144	16,140	6.06
After 5 to 10 years	26,140	317	1,369	25,088	3.62
After 10 years	45,148	3,636	60	48,724	1.90
Total obligations of Puerto Rico, States and political subdivisions	90,928	4,042	1,580	93,390	3.29
Collateralized mortgage obligations federal agencies					
After 5 to 10 years	61	4		65	5.44
Total collateralized mortgage obligations federal agencies	61	4		65	5.44
Trust preferred securities					
After 5 to 10 years	1,637			1,637	8.33
After 10 years	11,561			11,561	6.51
Total trust preferred securities	13,198			13,198	6.73
Other					
Within 1 year	250			250	3.52
After 1 to 5 years	500		7	493	2.97
Total other	750		7	743	3.15
Total debt securities held-to-maturity[1]	$ 104,937	$ 4,046	$ 1,587	$ 107,396	3.72%

[1] Includes $90.9 million pledged to secure public and trust deposits that the secured parties are not permitted to sell or repledge the collateral.

	At December 31, 2017				
(In thousands)	Amortized cost	Gross unrealized	Gross unrealized	Fair value	Weighted average

		gains	losses		yield
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	$ 3,295	$	$ 79	$ 3,216	5.96%
After 1 to 5 years	15,485		4,143	11,342	6.05
After 5 to 10 years	29,240		8,905	20,335	3.89
After 10 years	44,734	3,834	222	48,346	1.93
Total obligations of Puerto Rico, States and political subdivisions	92,754	3,834	13,349	83,239	3.38
Collateralized mortgage obligations federal agencies					
After 5 to 10 years	67	4		71	5.45
Total collateralized mortgage obligations federal agencies	67	4		71	5.45
Trust preferred securities					
After 5 to 10 years	1,637			1,637	8.33
After 10 years	11,561			11,561	6.51
Total trust preferred securities	13,198			13,198	6.73
Other					
Within 1 year	500		7	493	1.96
After 1 to 5 years	500			500	2.97
Total other	1,000		7	993	2.47
Total debt securities held-to-maturity[1]	$ 107,019	$ 3,838	$ 13,356	$ 97,501	3.79%

[1] Includes $92.8 million pledged to secure public and trust deposits that the secured parties are not permitted to sell or repledge the collateral.

Debt 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 debt securities held-to-maturity, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2018 and December 31, 2017.

	At June 30, 2018					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Obligations of Puerto Rico, States and political subdivisions	$ 7,236	$ 19	$ 29,524	$ 1,561	$ 36,760	$ 1,580
Other	250		493	7	743	7
Total debt securities held-to-maturity in an unrealized loss position	$ 7,486	$ 19	$ 30,017	$ 1,568	$ 37,503	$ 1,587

	At December 31, 2017					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Obligations of Puerto Rico, States and political subdivisions	$	$	$ 35,696	$ 13,349	$ 35,696	$ 13,349
Other			743	7	743	7
Total debt securities held-to-maturity in an unrealized loss position	$	$	$ 36,439	$ 13,356	$ 36,439	$ 13,356

As indicated in Note 5 to these Consolidated Financial Statements, management evaluates debt securities for OTTI declines in fair value on a quarterly basis.

The Obligations of Puerto Rico, States and political subdivisions classified as held-to-maturity at June 30, 2018 are primarily associated with securities issued by municipalities of Puerto Rico and are generally not rated by a credit rating agency. This includes $47 million of general and special obligation bonds issued by three municipalities of Puerto Rico, which are payable primarily from, and have a lien on, certain property taxes imposed by the issuing municipality. In the case of general obligations, they also benefit from a pledge of the full faith, credit and unlimited taxing power of the issuing municipality and issuing municipalities are required by law to levy property taxes in an amount sufficient for the payment of debt service on such general obligations bonds.

The portfolio also includes $44 million in securities for which the underlying source of payment is not the central government, but in which a government instrumentality provides a guarantee in the event of default. The Corporation performs periodic credit quality reviews on these issuers. Based on the quarterly analysis performed, management concluded that no individual debt security held-to-maturity was other-than-temporarily impaired at June 30, 2018. Further deterioration of the Puerto Rico economy or of the fiscal crisis of the Government of Puerto Rico (including if any of the issuing municipalities become subject to a debt restructuring proceeding under PROMESA) could further affect the value of these securities, resulting in losses to the Corporation. The Corporation does not have the intent to sell debt securities held-to-maturity and it is more likely than not that the Corporation will not have to sell these investment securities prior to recovery of their amortized cost basis.

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

Note 7 Loans

For a summary of the accounting policies related to loans, interest recognition and allowance for loan losses refer to Note 2 Summary of significant accounting policies of the 2017 Form 10-K.

The Corporation has presented the loans covered by the loss-sharing agreements with the FDIC separately as covered loans since the risk of loss was significantly different than those not covered under the loss-sharing agreements, due to the loss protection provided by the FDIC. As discussed in Note 9, on May 22, 2018, the Corporation entered into a Termination Agreement with the FDIC to terminate all loss-share arrangements in connection with the Westernbank FDIC-assisted transaction. As a result of the Termination Agreement, assets that were covered by the loss share agreement, including covered loans in the amount of approximately $514.6 million as of March 31, 2018, were reclassified as non-covered. The Corporation now recognizes entirely all future credit losses, expenses, gains, and recoveries related to the formerly covered assets with no offset due to or from the FDIC.

During the quarter and six months ended June 30, 2018, the Corporation recorded purchases (including repurchases) of mortgage loans amounting to $177 million and $333 million, respectively and consumer loans of $53 million and $105 million, respectively. During the quarter and six months ended June 30, 2017, the Corporation recorded purchases (including repurchases) of mortgage loans amounting to $124 million and $260 million, respectively; consumer loans of $108 million and $150 million, respectively; and leases of $2 million, for the six months ended June 30, 2017.

The Corporation performed whole-loan sales involving approximately $16 million and $26 million of residential mortgage loans during the quarter and six months ended June 30, 2018, respectively (June 30, 2017 $26 million and $54 million, respectively). Also, the Corporation securitized approximately $97 million and $210 million of mortgage loans into Government National Mortgage Association (GNMA) mortgage-backed securities during the quarter and six months ended June 30, 2018, respectively (June 30, 2017 $136 million and $283 million, respectively). Furthermore, the Corporation securitized approximately $20 million and $46 million of mortgage loans into Federal National Mortgage Association (FNMA) mortgage-backed securities during the quarter and six months ended June 30, 2018, respectively (June 30, 2017 - $37 million and $65 million, respectively).

Delinquency status

The following table presents the composition of loans held-in-portfolio (HIP), net of unearned income, by past due status, and by loan class including those that are in non-performing status or that accruing interest but are past due 90 days or more at June 30, 2018 and December 31, 2017.

June 30, 2018
Puerto Rico

(In thousands)	Past due 30-59 days	60-89 days	90 days or more	Total past due	Current	Loans HIP	Past due 90 days or more Non-accrual loans	Accruing loans[1]
Commercial multi-family	$ 331	$	$ 2,274	$ 2,605	$ 144,860	$ 147,465	$ 790	$
Commercial real estate:								
Non-owner occupied	3,703	126,456	34,861	165,020	2,148,452	2,313,472	27,506	
Owner occupied	28,402	9,722	112,786	150,910	1,584,275	1,735,185	86,000	
Commercial and industrial	3,308	3,004	49,058	55,370	2,796,106	2,851,476	48,485	573
Construction			2,559	2,559	94,616	97,175	2,559	
Mortgage	308,128	132,591	1,389,963	1,830,682	4,812,444	6,643,126	373,257	871,011
Leasing	6,392	2,008	3,696	12,096	860,002	872,098	3,696	
Consumer:								
Credit cards	9,997	7,700	29,024	46,721	1,032,813	1,079,534		29,024
Home equity lines of credit	54	176	349	579	5,044	5,623	12	337
Personal	11,757	8,066	21,051	40,874	1,198,261	1,239,135	19,910	32
Auto	24,984	7,377	12,855	45,216	869,847	915,063	12,855	
Other	169	143	15,264	15,576	132,189	147,765	14,768	496
Total	$ 397,225	$ 297,243	$ 1,673,740	$ 2,368,208	$ 15,678,909	$ 18,047,117	$ 589,838	$ 901,473

[1] Loans HIP of $183 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.

June 30, 2018
Popular U.S.

(In thousands)	Past due 30-59 days	60-89 days	90 days or more	Total past due	Current	Loans HIP	Past due 90 days or more Non-accrual loans	Accruing loans[1]
Commercial multi-family	$ 633	$ 19	$	$ 652	$ 1,319,746	$ 1,320,398	$	$
Commercial real estate:								
Non-owner occupied		10,852	365	11,217	1,865,077	1,876,294	365	
Owner occupied	1,587	1,918	1,435	4,940	279,742	284,682	1,435	
	222	1,661	82,738	84,621	976,400	1,061,021	368	

Commercial and industrial								
Construction	4,428		17,901	22,329	779,819	802,148	17,901	
Mortgage	1,051	3,804	11,398	16,253	717,332	733,585	11,398	
Legacy	471	15	3,663	4,149	25,101	29,250	3,663	
Consumer:								
Credit cards	1		12	13	56	69	12	
Home equity lines of credit	1,287	425	15,900	17,612	140,181	157,793	15,900	
Personal	2,075	1,666	2,318	6,059	289,889	295,948	2,318	
Other			1	1	210	211	1	
Total	$ 11,755	$ 20,360	$ 135,731	$ 167,846	$ 6,393,553	$ 6,561,399	$ 53,361	$

[1] Loans HIP of $82 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.

June 30, 2018
Popular, Inc.

(In thousands)	30-59 days	60-89 days	Past due 90 days or more	Total past due	Current	Loans HIP[3] [4]	Past due 90 days or more Non-accrual loans	Past due 90 days or more Accruing loans[5]
Commercial multi-family	$ 964	$ 19	$ 2,274	$ 3,257	$ 1,464,606	$ 1,467,863	$ 790	$
Commercial real estate:								
Non-owner occupied	3,703	137,308	35,226	176,237	4,013,529	4,189,766	27,871	
Owner occupied	29,989	11,640	114,221	155,850	1,864,017	2,019,867	87,435	
Commercial and industrial	3,530	4,665	131,796	139,991	3,772,506	3,912,497	48,853	573
Construction	4,428		20,460	24,888	874,435	899,323	20,460	
Mortgage[1]	309,179	136,395	1,401,361	1,846,935	5,529,776	7,376,711	384,655	871,011
Leasing	6,392	2,008	3,696	12,096	860,002	872,098	3,696	
Legacy[2]	471	15	3,663	4,149	25,101	29,250	3,663	
Consumer:								
Credit cards	9,998	7,700	29,036	46,734	1,032,869	1,079,603	12	29,024
Home equity lines of credit	1,341	601	16,249	18,191	145,225	163,416	15,912	337
Personal	13,832	9,732	23,369	46,933	1,488,150	1,535,083	22,228	32
Auto	24,984	7,377	12,855	45,216	869,847	915,063	12,855	
Other	169	143	15,265	15,577	132,399	147,976	14,769	496
Total	$ 408,980	$ 317,603	$ 1,809,471	$ 2,536,054	$ 22,072,462	$ 24,608,516	$ 643,199	$ 901,473

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

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

[3] Loans held-in-portfolio are net of $144 million in unearned income and exclude $74 million in loans held-for-sale.

[4] 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 $4.7 billion were pledged at the Federal Home Loan Bank (FHLB) as collateral for borrowings, $2.2 billion at the Federal Reserve Bank (FRB) for discount window borrowings and $0.4 billion serve as collateral for public funds.

[5] Loans HIP of $265 million accounted for under ASC Subtopic 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.

December 31, 2017

Puerto Rico

(In thousands)	Past due 30-59 days	Past due 60-89 days	Past due 90 days or more	Total past due	Current	Non-covered loans HIP	Past due 90 days or more Non-accrual loans	Past due 90 days or more Accruing loans[1]
Commercial multi-family	$	$ 426	$ 1,210	$ 1,636	$ 144,763	$ 146,399	$ 1,115	$
Commercial real estate:								
Non-owner occupied	39,617	131	28,045	67,793	2,336,766	2,404,559	18,866	
Owner occupied	7,997	2,291	123,929	134,217	1,689,397	1,823,614	101,068	
Commercial and industrial	3,556	1,251	40,862	45,669	2,845,658	2,891,327	40,177	685
Construction			170	170	95,199	95,369		
Mortgage	217,890	77,833	1,596,763	1,892,486	4,684,293	6,576,779	306,697	1,204,691
Leasing	10,223	1,490	2,974	14,687	795,303	809,990	2,974	
Consumer:								
Credit cards	7,319	4,464	18,227	30,010	1,063,211	1,093,221		18,227
Home equity lines of credit	438	395	257	1,090	4,997	6,087		257
Personal	13,926	6,857	19,981	40,764	1,181,548	1,222,312	19,460	141
Auto	24,405	5,197	5,466	35,068	815,745	850,813	5,466	
Other	537	444	16,765	17,746	139,842	157,588	15,617	1,148
Total	$ 325,908	$ 100,779	$ 1,854,649	$ 2,281,336	$ 15,796,722	$ 18,078,058	$ 511,440	$ 1,225,149

[1] Non-covered loans HIP of $118 million accounted for under ASC Subtopic 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.

December 31, 2017
Popular U.S.

(In thousands)	Past due 30-59 days	60-89 days	90 days or more	Total past due	Current	Non-covered loans HIP	Past due 90 days or more Non-accrual loans	Accruing loans[1]
Commercial multi-family	$ 395	$	$ 784	$ 1,179	$ 1,209,514	$ 1,210,693	$ 784	$
Commercial real estate:								
Non-owner occupied	4,028	1,186	1,599	6,813	1,681,498	1,688,311	1,599	
Owner occupied	2,684		862	3,546	315,429	318,975	862	
Commercial and industrial	1,121	5,278	97,427	103,826	901,157	1,004,983	594	
Construction					784,660	784,660		
Mortgage	13,453	6,148	14,852	34,453	659,175	693,628	14,852	
Legacy	291	417	3,039	3,747	29,233	32,980	3,039	
Consumer:								
Credit cards	3	2	11	16	84	100	11	
Home equity lines of credit	4,653	3,675	14,997	23,325	158,760	182,085	14,997	
Personal	3,342	2,149	2,779	8,270	289,732	298,002	2,779	
Other					319	319		
Total	$ 29,970	$ 18,855	$ 136,350	$ 185,175	$ 6,029,561	$ 6,214,736	$ 39,517	$

[1] Non-covered loans HIP of $97 million accounted for under ASC Subtopic 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.

December 31, 2017
Popular, Inc.

(In thousands)	Past due 30-59 days	60-89 days	90 days or more	Total past due	Current	Non-covered loans HIP[3] [4]	Past due 90 days or more Non-accrual loans	Accruing loans[5]
Commercial multi-family	$ 395	$ 426	$ 1,994	$ 2,815	$ 1,354,277	$ 1,357,092	$ 1,899	$
Commercial real estate:								
Non-owner occupied	43,645	1,317	29,644	74,606	4,018,264	4,092,870	20,465	
Owner occupied	10,681	2,291	124,791	137,763	2,004,826	2,142,589	101,930	
Commercial and industrial	4,677	6,529	138,289	149,495	3,746,815	3,896,310	40,771	685

Construction			170	170	879,859	880,029		
Mortgage[1]	231,343	83,981	1,611,615	1,926,939	5,343,468	7,270,407	321,549	1,204,691
Leasing	10,223	1,490	2,974	14,687	795,303	809,990	2,974	
Legacy[2]	291	417	3,039	3,747	29,233	32,980	3,039	
Consumer:								
Credit cards	7,322	4,466	18,238	30,026	1,063,295	1,093,321	11	18,227
Home equity lines of credit	5,091	4,070	15,254	24,415	163,757	188,172	14,997	257
Personal	17,268	9,006	22,760	49,034	1,471,280	1,520,314	22,239	141
Auto	24,405	5,197	5,466	35,068	815,745	850,813	5,466	
Other	537	444	16,765	17,746	140,161	157,907	15,617	1,148
Total	$ 355,878	$ 119,634	$ 1,990,999	$ 2,466,511	$ 21,826,283	$ 24,292,794	$ 550,957	$ 1,225,149

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

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

[3] Loans held-in-portfolio are net of $131 million in unearned income and exclude $132 million in loans held-for-sale.

[4] Includes $7.1 billion pledged to secure credit facilities and public funds that the secured parties are not permitted to sell or repledge the collateral, of which $4.6 billion were pledged at the FHLB as collateral for borrowings, $2.0 billion at the FRB for discount window borrowings and $0.5 billion serve as collateral for public funds.

[5] Non-covered loans HIP of $215 million accounted for under ASC Subtopic 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analysis.

At June 30, 2018, mortgage loans held-in-portfolio include $1.5 billion of loans insured by the Federal Housing Administration (FHA), or guaranteed by the U.S. Department of Veterans Affairs (VA) of which $877 million are 90 days or more past due, including $298 million of loans rebooked under the GNMA buyback option, discussed below (December 31, 2017 $1.8 billion, $1.2 billion and $840 million, respectively). Within this portfolio, loans in a delinquency status of 90 days or more are reported as accruing loans as opposed to non-performing since the principal repayment is insured. These balances include $216 million of residential mortgage loans in Puerto Rico that are no longer accruing interest as of June 30, 2018 (December 31, 2017 $178 million). Additionally, the Corporation has approximately $66 million in reverse mortgage loans in Puerto Rico which are guaranteed by FHA, but which are currently not accruing interest at June 30, 2018 (December 31, 2017 $58 million).

Loans with a delinquency status of 90 days past due as of June 30, 2018 include $298 million in loans previously pooled into GNMA securities (December 31, 2017 $840 million). Under the GNMA program, issuers such as BPPR have the option but not the obligation to repurchase loans that are 90 days or more past due. For accounting purposes, these loans subject to the repurchase option are required to be reflected on the financial statements of the Bank with an offsetting liability.

Covered loans

The following table presents the composition of covered loans held-in-portfolio by past due status, and by loan class that are in non-performing status or are accruing interest but are past due 90 days or more at December 31, 2017.

	December 31, 2017							
	Past due						Past due 90 days or more	
(In thousands)	30-59 days	60-89 days	90 days or more	Total past due	Current	Covered loans HIP[2]	Non-accrual loans	Accruing loans
Mortgage	$ 16,640	$ 5,453	$ 59,018	$ 81,111	$ 421,818	$ 502,929	$ 3,165	$
Consumer	518	147	988	1,653	12,692	14,345	188	
Total covered loans[1]	$ 17,158	$ 5,600	$ 60,006	$ 82,764	$ 434,510	$ 517,274	$ 3,353	$

[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.

[2] Includes $279 million pledged to secure credit facilities at the FHLB which are not permitted to sell or repledge the collateral.

Loans acquired w