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.

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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.

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
idends declared:							
mmon stock				(51,112)			(51,11
ferred stock				(1,862)			(1,86
mmon stock purchases			4,518		(81,801)		(77,28
er 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
idends 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
er 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.

(In thousands)	At December 31, 2017 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.

	June 30, 2018		December 31, 2017	
(In thousands)	Amortized cost	Fair value	Amortized cost	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.

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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)	30-59 days	60-89 days	Past due 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)	30-59 days	60-89 days	Past due 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	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

	Past due						Past due 90 days or more	
(In thousands)	30-59 days	60-89 days	90 days or more	Total past due	Current	Non-covered loans HIP	Non-accrual loans	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.

	Past due						Past due 90 days or more	
(In thousands)	30-59 days	60-89 days	90 days or more	Total past due	Current	Non-covered loans HIP	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.

	Past due						Past due 90 days or more	
(In thousands)	30-59 days	60-89 days	90 days or more	Total past due	Current	Non-covered loans HIP[3] [4]	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 with deteriorated credit quality accounted for under ASC 310-30

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

The outstanding principal balance of acquired loans accounted pursuant to ASC Subtopic 310-30, amounted to $2.3 billion at June 30, 2018 (December 31, 2017 $2.5 billion). The carrying amount of these loans consisted of loans determined to be impaired at the time of acquisition, which are accounted for in accordance with ASC Subtopic 310-30 (credit impaired loans), and loans that were considered to be performing at the acquisition date, accounted for by analogy to ASC Subtopic 310-30 (non-credit impaired loans), as detailed in the following table.

At June 30, 2018, none of the acquired loans accounted for under ASC Subtopic 310-30 were considered non-performing loans. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, was recognized on all acquired loans.

Changes in the carrying amount and the accretable yield for the loans accounted pursuant to the ASC Subtopic 310-30, for the quarters ended June 30, 2018 and 2017, were as follows:

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

	For the quarter ended		For the six months ended	
(In thousands)	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Beginning balance	$ 2,085,191	$ 2,245,624	$ 2,108,993	$ 2,301,024
Additions		4,298	5,272	9,879
Accretion	40,806	44,910	82,866	90,638
Collections / loan sales / charge-offs	(92,540)	(126,168)	(163,674)	(232,877)
Ending balance[1]	$ 2,033,457	$ 2,168,664	$ 2,033,457	$ 2,168,664
Allowance for loan losses	(156,328)	(103,597)	(156,328)	(103,597)
Ending balance, net of ALLL	$ 1,877,129	$ 2,065,067	$ 1,877,129	$ 2,065,067

[1] At June 30, 2018, includes $1.5 billion of loans considered non-credit impaired at the acquisition date (June 30, 2017 $1.6 billion).

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

	For the quarter ended		For the six months ended	
(In thousands)	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Beginning balance	$ 1,204,726	$ 1,290,984	$ 1,214,488	$ 1,288,983
Additions		2,601	3,437	5,855
Accretion	(40,806)	(44,910)	(82,866)	(90,638)
Change in expected cash flows	14,122	(3,003)	42,983	41,472
Ending balance[1]	$ 1,178,042	$ 1,245,672	$ 1,178,042	$ 1,245,672

[1] At June 30, 2018, includes $0.9 billion of loans considered non-credit impaired at the acquisition date (June 30, 2017 $0.9 billion).

Note 8 Allowance for loan losses

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

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

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

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

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

For the period ended June 30, 2018, 78% (June 30, 2017 39%) 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 mortgage, leasing and overall consumer portfolios for 2018 and in the personal, other consumer and commercial and industrial portfolios for 2017.

For the period ended June 30, 2018, 6% (June 30, 2017 2 %) of our Popular U.S. segment loan portfolios utilized the recent loss trend adjustment instead of the base loss. The effect of replacing the base loss with the recent loss trend adjustment was concentrated in the consumer portfolios for 2018 and commercial multifamily and legacy portfolios for 2017.

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.

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 six months ended June 30, 2018 and 2017.

	For the quarter ended June 30, 2018					
	Puerto Rico - Non-covered loans					
(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 188,522	$ 2,657	$ 153,301	$ 12,912	$ 176,203	$ 533,595
Provision (reversal of provision)	10,364	(2,193)	6,955	2,530	26,749	44,405
Charge-offs	(11,502)	(18)	(12,847)	(1,803)	(31,151)	(57,321)
Recoveries	3,542	319	1,272	646	7,077	12,856
Allowance transferred from covered loans [1]			33,422		188	33,610
Ending balance	$ 190,926	$ 765	$ 182,103	$ 14,285	$ 179,066	$ 567,145
Specific ALLL	$ 46,626	$	$ 45,039	$ 362	$ 23,553	$ 115,580
General ALLL	$ 144,300	$ 765	$ 137,064	$ 13,923	$ 155,513	$ 451,565
Loans held-in-portfolio:						
Impaired non-covered loans	$ 359,447	$ 2,559	$ 507,580	$ 1,130	$ 105,922	$ 976,638
Non-covered loans held-in-portfolio excluding impaired loans	6,688,151	94,616	6,135,546	870,968	3,281,198	17,070,479
Total non-covered loans held-in-portfolio	$ 7,047,598	$ 97,175	$ 6,643,126	$ 872,098	$ 3,387,120	$ 18,047,117

[1] Represents the allowance transferred from covered to non-covered loans at June 30, 2018, due to the Termination Agreement with the FDIC.

	For the quarter ended June 30, 2018					
	Puerto Rico - Covered loans					
(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$	$	$ 33,422	$	$ 188	$ 33,610
Provision						
Charge-offs						
Recoveries						
Allowance transferred to non-covered loans			(33,422)		(188)	(33,610)
Ending balance	$	$	$	$	$	$

Specific ALLL	$	$	$	$	$	$
General ALLL	$	$	$	$	$	$
Loans held-in-portfolio:						
Impaired covered loans	$	$	$	$	$	$
Covered loans held-in-portfolio excluding impaired loans						
Total covered loans held-in-portfolio	$	$	$	$	$	$

For the quarter ended June 30, 2018						
		Popular U.S.				
(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 47,859	$ 7,092	$ 4,727	$ 652	$ 13,043	$ 73,373
Provision (reversal of provision)	13,193	(155)	(346)	(229)	3,186	15,649
Charge-offs	(11,247)		(61)	(14)	(4,998)	(16,320)
Recoveries	1,115		43	291	1,722	3,171
Ending balance	$ 50,920	$ 6,937	$ 4,363	$ 700	$ 12,953	$ 75,873
Specific ALLL	$	$	$ 2,476	$	$ 1,283	$ 3,759
General ALLL	$ 50,920	$ 6,937	$ 1,887	$ 700	$ 11,670	$ 72,114
Loans held-in-portfolio:						
Impaired loans	$	$ 17,901	$ 9,728	$	$ 6,563	$ 34,192
Loans held-in-portfolio excluding impaired loans	4,542,395	784,247	723,857	29,250	447,458	6,527,207
Total loans held-in-portfolio	$ 4,542,395	$ 802,148	$ 733,585	$ 29,250	$ 454,021	$ 6,561,399

For the quarter ended June 30, 2018
Popular, Inc.

(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Beginning balance	$ 236,381	$ 9,749	$ 191,450	$ 652	$ 12,912	$ 189,434	$ 640,578
Provision (reversal of provision)	23,557	(2,348)	6,609	(229)	2,530	29,935	60,054
Charge-offs	(22,749)	(18)	(12,908)	(14)	(1,803)	(36,149)	(73,641)
Recoveries	4,657	319	1,315	291	646	8,799	16,027
Ending balance	$ 241,846	$ 7,702	$ 186,466	$ 700	$ 14,285	$ 192,019	$ 643,018
Specific ALLL	$ 46,626	$	$ 47,515	$	$ 362	$ 24,836	$ 119,339
General ALLL	$ 195,220	$ 7,702	$ 138,951	$ 700	$ 13,923	$ 167,183	$ 523,679
Loans held-in-portfolio:							
Impaired loans	$ 359,447	$ 20,460	$ 517,308	$	$ 1,130	$ 112,485	$ 1,010,830
Loans held-in-portfolio excluding impaired loans	11,230,546	878,863	6,859,403	29,250	870,968	3,728,656	23,597,686
Total loans held-in-portfolio	$ 11,589,993	$ 899,323	$ 7,376,711	$ 29,250	$ 872,098	$ 3,841,141	$ 24,608,516

For the six months ended June 30, 2018
Puerto Rico - Non-covered loans

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 171,531	$ 1,286	$ 159,081	$ 11,991	$ 174,215	$ 518,104
Provision (reversal of provision)	31,298	(1,030)	14,419	5,444	50,992	101,123
Charge-offs	(18,291)	30	(26,638)	(4,316)	(59,523)	(108,738)
Recoveries	6,388	479	1,819	1,166	13,194	23,046
Allowance transferred from covered loans [1]			33,422		188	33,610
Ending balance	$ 190,926	$ 765	$ 182,103	$ 14,285	$ 179,066	$ 567,145
Specific ALLL	$ 46,626	$	$ 45,039	$ 362	$ 23,553	$ 115,580
General ALLL	$ 144,300	$ 765	$ 137,064	$ 13,923	$ 155,513	$ 451,565
Loans held-in-portfolio:						
Impaired non-covered loans	$ 359,447	$ 2,559	$ 507,580	$ 1,130	$ 105,922	$ 976,638

Non-covered loans held-in-portfolio excluding impaired loans	6,688,151	94,616	6,135,546	870,968	3,281,198	17,070,479
Total non-covered loans held-in-portfolio	$ 7,047,598	$ 97,175	$ 6,643,126	$ 872,098	$ 3,387,120	$ 18,047,117

[1] Represents the allowance transferred from covered to non-covered loans at June 30, 2018, due to the Termination Agreement with the FDIC.

For the six months ended June 30, 2018

Puerto Rico - Covered loans

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

(In thousands)	For the six months ended June 30, 2018 Popular U.S. Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 44,134	$ 7,076	$ 4,541	$ 798	$ 15,529	$ 72,078
Provision (reversal of provision)	23,748	(139)	(464)	(706)	5,825	28,264
Charge-offs	(19,643)		(143)	(171)	(11,314)	(31,271)
Recoveries	2,681		429	779	2,913	6,802
Ending balance	$ 50,920	$ 6,937	$ 4,363	$ 700	$ 12,953	$ 75,873
Specific ALLL	$	$	$ 2,476	$	$ 1,283	$ 3,759
General ALLL	$ 50,920	$ 6,937	$ 1,887	$ 700	$ 11,670	$ 72,114
Loans held-in-portfolio:						
Impaired loans	$	$ 17,901	$ 9,728	$	$ 6,563	$ 34,192
Loans held-in-portfolio excluding impaired loans	4,542,395	784,247	723,857	29,250	447,458	6,527,207
Total loans held-in-portfolio	$ 4,542,395	$ 802,148	$ 733,585	$ 29,250	$ 454,021	$ 6,561,399

(In thousands)	For the six months ended June 30, 2018 Popular, Inc. Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Beginning balance	$ 215,665	$ 8,362	$ 196,143	$ 798	$ 11,991	$ 190,467	$ 623,426
Provision (reversal of provision)	55,046	(1,169)	16,220	(706)	5,444	56,282	131,117
Charge-offs	(37,934)	30	(28,227)	(171)	(4,316)	(70,839)	(141,457)
Recoveries	9,069	479	2,330	779	1,166	16,109	29,932
Ending balance	$ 241,846	$ 7,702	$ 186,466	$ 700	$ 14,285	$ 192,019	$ 643,018
Specific ALLL	$ 46,626	$	$ 47,515	$	$ 362	$ 24,836	$ 119,339
General ALLL	$ 195,220	$ 7,702	$ 138,951	$ 700	$ 13,923	$ 167,183	$ 523,679
Loans held-in-portfolio:							
Impaired loans	$ 359,447	$ 20,460	$ 517,308	$	$ 1,130	$ 112,485	$ 1,010,830
Loans held-in-portfolio excluding impaired loans	11,230,546	878,863	6,859,403	29,250	870,968	3,728,656	23,597,686
	$ 11,589,993	$ 899,323	$ 7,376,711	$ 29,250	$ 872,098	$ 3,841,141	$ 24,608,516

Total loans
held-in-portfolio

	For the quarter ended June 30, 2017					
	Puerto Rico - Non-covered loans					
(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 187,631	$ 1,961	$ 144,937	$ 7,897	$ 124,091	$ 466,517
Provision (reversal of provision)	(1,697)	(2,858)	23,682	1,544	21,502	42,173
Charge-offs	(21,575)	(68)	(21,493)	(1,956)	(28,002)	(73,094)
Recoveries	9,830	2,438	740	518	5,313	18,839
Ending balance	$ 174,189	$ 1,473	$ 147,866	$ 8,003	$ 122,904	$ 454,435
Specific ALLL	$ 41,982	$	$ 47,954	$ 487	$ 21,999	$ 112,422
General ALLL	$ 132,207	$ 1,473	$ 99,912	$ 7,516	$ 100,905	$ 342,013
Loans held-in-portfolio:						
Impaired non-covered loans	$ 333,936	$	$ 505,244	$ 1,668	$ 103,798	$ 944,646
Non-covered loans held-in-portfolio excluding impaired loans	6,822,150	96,904	5,313,039	741,935	3,157,991	16,132,019
Total non-covered loans held-in-portfolio	$ 7,156,086	$ 96,904	$ 5,818,283	$ 743,603	$ 3,261,789	$ 17,076,665

For the quarter ended June 30, 2017
Puerto Rico - Covered Loans

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$	$	$ 27,341	$	$ 430	$ 27,771
Provision			2,405		109	2,514
Charge-offs			(606)		(17)	(623)
Recoveries			1,144		2	1,146
Ending balance	$	$	$ 30,284	$	$ 524	$ 30,808
Specific ALLL	$	$	$	$	$	$
General ALLL	$	$	$ 30,284	$	$ 524	$ 30,808
Loans held-in-portfolio:						
Impaired covered loans	$	$	$	$	$	$
Covered loans held-in-portfolio excluding impaired loans			521,066		15,275	536,341
Total covered loans held-in-portfolio	$	$	$ 521,066	$	$ 15,275	$ 536,341

For the quarter ended June 30, 2017
Popular U.S.

(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 21,053	$ 8,036	$ 4,282	$ 1,166	$ 15,671	$ 50,208
Provision (reversal of provision)	6,623	(1,508)	302	(471)	2,846	7,792
Charge-offs	(151)		(845)	(542)	(4,786)	(6,324)
Recoveries	794		383	840	1,078	3,095
Ending balance	$ 28,319	$ 6,528	$ 4,122	$ 993	$ 14,809	$ 54,771
Specific ALLL	$	$	$ 2,194	$	$ 694	$ 2,888
General ALLL	$ 28,319	$ 6,528	$ 1,928	$ 993	$ 14,115	$ 51,883
Loans held-in-portfolio:						
Impaired loans	$	$	$ 8,896	$	$ 3,229	$ 12,125
Loans held-in-portfolio excluding impaired loans	3,891,273	687,485	725,617	39,067	486,039	5,829,481
Total loans held-in-portfolio	$ 3,891,273	$ 687,485	$ 734,513	$ 39,067	$ 489,268	$ 5,841,606

For the quarter ended June 30, 2017
Popular, Inc.

(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Beginning balance	$ 208,684	$ 9,997	$ 176,560	$ 1,166	$ 7,897	$ 140,192	$ 544,496
Provision (reversal of provision)	4,926	(4,366)	26,389	(471)	1,544	24,457	52,479
Charge-offs	(21,726)	(68)	(22,944)	(542)	(1,956)	(32,805)	(80,041)
Recoveries	10,624	2,438	2,267	840	518	6,393	23,080
Ending balance	$ 202,508	$ 8,001	$ 182,272	$ 993	$ 8,003	$ 138,237	$ 540,014
Specific ALLL	$ 41,982	$	$ 50,148	$	$ 487	$ 22,693	$ 115,310
General ALLL	$ 160,526	$ 8,001	$ 132,124	$ 993	$ 7,516	$ 115,544	$ 424,704
Loans held-in-portfolio:							
Impaired loans	$ 333,936	$	$ 514,140	$	$ 1,668	$ 107,027	$ 956,771
Loans held-in-portfolio excluding impaired loans	10,713,423	784,389	6,559,722	39,067	741,935	3,659,305	22,497,841
Total loans held-in-portfolio	$ 11,047,359	$ 784,389	$ 7,073,862	$ 39,067	$ 743,603	$ 3,766,332	$ 23,454,612

For the six months ended June 30, 2017
Puerto Rico - Non-covered loans

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 189,686	$ 1,353	$ 143,320	$ 7,662	$ 125,963	$ 467,984
Provision (reversal of provision)	(1,114)	(2,394)	38,854	2,592	35,713	73,651
Charge-offs	(32,646)	(3,655)	(36,476)	(3,297)	(49,814)	(125,888)
Recoveries	18,263	6,169	2,168	1,046	11,042	38,688
Ending balance	$ 174,189	$ 1,473	$ 147,866	$ 8,003	$ 122,904	$ 454,435
Specific ALLL	$ 41,982	$	$ 47,954	$ 487	$ 21,999	$ 112,422
General ALLL	$ 132,207	$ 1,473	$ 99,912	$ 7,516	$ 100,905	$ 342,013
Loans held-in-portfolio:						
Impaired non-covered loans	$ 333,936	$	$ 505,244	$ 1,668	$ 103,798	$ 944,646
Non-covered loans held-in-portfolio excluding impaired loans	6,822,150	96,904	5,313,039	741,935	3,157,991	16,132,019
Total non-covered loans held-in-portfolio	$ 7,156,086	$ 96,904	$ 5,818,283	$ 743,603	$ 3,261,789	$ 17,076,665

For the six months ended June 30, 2017
Puerto Rico - Covered Loans

(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$	$	$ 30,159	$	$ 191	$ 30,350
Provision			715		440	1,155
Charge-offs			(1,837)		(110)	(1,947)
Recoveries			1,247		3	1,250
Ending balance	$	$	$ 30,284	$	$ 524	$ 30,808
Specific ALLL	$	$	$	$	$	$
General ALLL	$	$	$ 30,284	$	$ 524	$ 30,808
Loans held-in-portfolio:						
Impaired covered loans	$	$	$	$	$	$
Covered loans held-in-portfolio excluding impaired loans			521,066		15,275	536,341
Total covered loans held-in-portfolio	$	$	$ 521,066	$	$ 15,275	$ 536,341

	For the six months ended June 30, 2017					
	Popular U.S.					
(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 12,968	$ 8,172	$ 4,614	$ 1,343	$ 15,220	$ 42,317
Provision (reversal of provision)	14,245	(1,644)	(134)	(1,136)	7,040	18,371
Charge-offs	(221)		(951)	(583)	(9,519)	(11,274)
Recoveries	1,327		593	1,369	2,068	5,357
Ending balance	$ 28,319	$ 6,528	$ 4,122	$ 993	$ 14,809	$ 54,771
Specific ALLL	$	$	$ 2,194	$	$ 694	$ 2,888
General ALLL	$ 28,319	$ 6,528	$ 1,928	$ 993	$ 14,115	$ 51,883
Loans held-in-portfolio:						
Impaired loans	$	$	$ 8,896	$	$ 3,229	$ 12,125
Loans held-in-portfolio excluding impaired loans	3,891,273	687,485	725,617	39,067	486,039	5,829,481
Total loans held-in-portfolio	$ 3,891,273	$ 687,485	$ 734,513	$ 39,067	$ 489,268	$ 5,841,606

	For the six months ended June 30, 2017						
	Popular, Inc.						
(In thousands)	Commercial	Construction	Mortgage	Legacy	Leasing	Consumer	Total
Allowance for credit losses:							
Beginning balance	$ 202,654	$ 9,525	$ 178,093	$ 1,343	$ 7,662	$ 141,374	$ 540,651
Provision (reversal of provision)	13,131	(4,038)	39,435	(1,136)	2,592	43,193	93,177
Charge-offs	(32,867)	(3,655)	(39,264)	(583)	(3,297)	(59,443)	(139,109)
Recoveries	19,590	6,169	4,008	1,369	1,046	13,113	45,295
Ending balance	$ 202,508	$ 8,001	$ 182,272	$ 993	$ 8,003	$ 138,237	$ 540,014
Specific ALLL	$ 41,982	$	$ 50,148	$	$ 487	$ 22,693	$ 115,310
General ALLL	$ 160,526	$ 8,001	$ 132,124	$ 993	$ 7,516	$ 115,544	$ 424,704
Loans held-in-portfolio:							
Impaired loans	$ 333,936	$	$ 514,140	$	$ 1,668	$ 107,027	$ 956,771
Loans held-in-portfolio excluding impaired loans	10,713,423	784,389	6,559,722	39,067	741,935	3,659,305	22,497,841
Total loans held-in-portfolio	$ 11,047,359	$ 784,389	$ 7,073,862	$ 39,067	$ 743,603	$ 3,766,332	$ 23,454,612

Impaired loans

The following tables present loans individually evaluated for impairment at June 30, 2018 and December 31, 2017.

	June 30, 2018							
	Puerto Rico							
	Impaired Loans With an Allowance			Impaired Loans With No Allowance		Impaired Loans - Total		
(In thousands)	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial multi-family	$ 698	$ 698	$ 5	$	$	$ 698	$ 698	$ 5
Commercial real estate non-owner occupied	93,221	93,998	21,784	38,684	53,175	131,905	147,173	21,784
Commercial real estate owner occupied	130,312	178,448	7,253	21,064	28,347	151,376	206,795	7,253
	68,643	77,399	17,584	6,825	9,462	75,468	86,861	17,584

Commercial and industrial								
Construction				2,559	2,559	2,559	2,559	
Mortgage	447,479	507,294	45,039	60,101	78,901	507,580	586,195	45,039
Leasing	1,130	1,130	362			1,130	1,130	362
Consumer:								
Credit cards	33,321	33,321	5,363			33,321	33,321	5,363
Personal	70,591	70,591	17,847			70,591	70,591	17,847
Auto	1,035	1,035	200			1,035	1,035	200
Other	975	975	143			975	975	143
Total Puerto Rico	$ 847,405	$ 964,889	$ 115,580	$ 129,233	$ 172,444	$ 976,638	$ 1,137,333	$ 115,580

June 30, 2018

Popular U.S.

	Impaired Loans With an Allowance			Impaired Loans With No Allowance		Impaired Loans - Total		
(In thousands)	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Construction	$	$	$	$ 17,901	$ 18,128	$ 17,901	$ 18,128	$
Mortgage	7,520	8,264	2,476	2,208	2,404	9,728	10,668	2,476
Consumer:								
HELOCs	4,670	4,685	1,043	1,122	1,147	5,792	$ 5,832	$ 1,043
Personal	550	550	240	221	221	771	$ 771	$ 240
Total Popular U.S.	$ 12,740	$ 13,499	$ 3,759	$ 21,452	$ 21,900	$ 34,192	$ 35,399	$ 3,759

June 30, 2018
Popular, Inc.

(In thousands)	Impaired Loans With an Allowance			Impaired Loans With No Allowance		Impaired Loans - Total		
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial multi-family	$ 698	$ 698	$ 5	$	$	$ 698	$ 698	$ 5
Commercial real estate non-owner occupied	93,221	93,998	21,784	38,684	53,175	131,905	147,173	21,784
Commercial real estate owner occupied	130,312	178,448	7,253	21,064	28,347	151,376	206,795	7,253
Commercial and industrial	68,643	77,399	17,584	6,825	9,462	75,468	86,861	17,584
Construction				20,460	20,687	20,460	20,687	
Mortgage	454,999	515,558	47,515	62,309	81,305	517,308	596,863	47,515
Leasing	1,130	1,130	362			1,130	1,130	362
Consumer:								
Credit Cards	33,321	33,321	5,363			33,321	33,321	5,363
HELOCs	4,670	4,685	1,043	1,122	1,147	5,792	5,832	1,043
Personal	71,141	71,141	18,087	221	221	71,362	71,362	18,087
Auto	1,035	1,035	200			1,035	1,035	200
Other	975	975	143			975	975	143
Total Popular, Inc.	$ 860,145	$ 978,388	$ 119,339	$ 150,685	$ 194,344	$ 1,010,830	$ 1,172,732	$ 119,339

December 31, 2017
Puerto Rico

(In thousands)	Impaired Loans With an Allowance			Impaired Loans With No Allowance		Impaired Loans - Total		
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial multi-family	$ 206	$ 206	$ 32	$	$	$ 206	$ 206	$ 32
Commercial real estate non-owner occupied	101,485	102,262	23,744	11,454	27,522	112,939	129,784	23,744
Commercial real estate owner occupied	127,634	153,495	10,221	24,634	57,219	152,268	210,714	10,221
Commercial and industrial	43,493	46,918	2,985	14,549	23,977	58,042	70,895	2,985

Mortgage	450,226	504,006	46,354	58,807	75,228	509,033	579,234	46,354
Leasing	1,456	1,456	475			1,456	1,456	475
Consumer:								
Credit cards	33,676	33,676	5,569			33,676	33,676	5,569
Personal	62,488	62,488	15,690			62,488	62,488	15,690
Auto	2,007	2,007	425			2,007	2,007	425
Other	1,009	1,009	165			1,009	1,009	165
Total Puerto Rico	$ 823,680	$ 907,523	$ 105,660	$ 109,444	$ 183,946	$ 933,124	$ 1,091,469	$ 105,660

December 31, 2017

Popular U.S.

	Impaired Loans With an Allowance			Impaired Loans With No Allowance		Impaired Loans - Total		
(In thousands)	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Mortgage	$ 6,774	$ 8,439	$ 2,478	$ 2,468	$ 3,397	$ 9,242	$ 11,836	$ 2,478
Consumer:								
HELOCs	3,530	3,542	722	761	780	4,291	4,322	722
Personal	542	542	231	224	224	766	766	231
Total Popular U.S.	$ 10,846	$ 12,523	$ 3,431	$ 3,453	$ 4,401	$ 14,299	$ 16,924	$ 3,431

	December 31, 2017							
	Popular, Inc.							
	Impaired Loans With an Allowance			Impaired Loans With No Allowance		Impaired Loans - Total		
(In thousands)	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Recorded investment	Unpaid principal balance	Related allowance
Commercial multi-family	$ 206	$ 206	$ 32	$	$	$ 206	$ 206	$ 32
Commercial real estate non-owner occupied	101,485	102,262	23,744	11,454	27,522	112,939	129,784	23,744
Commercial real estate owner occupied	127,634	153,495	10,221	24,634	57,219	152,268	210,714	10,221
Commercial and industrial	43,493	46,918	2,985	14,549	23,977	58,042	70,895	2,985
Mortgage	457,000	512,445	48,832	61,275	78,625	518,275	591,070	48,832
Leasing	1,456	1,456	475			1,456	1,456	475
Consumer:								
Credit Cards	33,676	33,676	5,569			33,676	33,676	5,569
HELOCs	3,530	3,542	722	761	780	4,291	4,322	722
Personal	63,030	63,030	15,921	224	224	63,254	63,254	15,921
Auto	2,007	2,007	425			2,007	2,007	425
Other	1,009	1,009	165			1,009	1,009	165
Total Popular, Inc.	$ 834,526	$ 920,046	$ 109,091	$ 112,897	$ 188,347	$ 947,423	$ 1,108,393	$ 109,091

The following tables present the average recorded investment and interest income recognized on impaired loans for the quarters and six months ended June 30, 2018 and 2017.

	For the quarter ended June 30, 2018					
	Puerto Rico		Popular U.S.		Popular, Inc.	
(In thousands)	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial multi-family	$ 414	$	$	$	$ 414	$
Commercial real estate non-owner occupied	132,842	1,681			132,842	1,681
Commercial real estate owner occupied	153,007	1,596			153,007	1,596
Commercial and industrial	69,493	702			69,493	702
Construction	3,426		8,951		12,377	
Mortgage	509,215	3,789	9,401	43	518,616	3,832
Leasing	1,246				1,246	
Consumer:						
Credit cards	33,293				33,293	
Helocs			5,436		5,436	
Personal	65,796	115	773		66,569	115
Auto	1,399				1,399	

Other	1,338				1,338	
Total Popular, Inc.	$ 971,469	$ 7,883	$ 24,561	$ 43	$ 996,030	$ 7,926

For the quarter ended June 30, 2017						
	Puerto Rico		Popular U.S.		Popular, Inc.	
(In thousands)	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial multi-family	$ 78	$ 1	$	$	$ 78	$ 1
Commercial real estate non-owner occupied	117,744	1,341			117,744	1,341
Commercial real estate owner occupied	160,001	1,534			160,001	1,534
Commercial and industrial	63,558	502			63,558	502
Mortgage	503,446	4,814	8,909	22	512,355	4,836
Leasing	1,736				1,736	
Consumer:						
Credit cards	36,812				36,812	
Helocs			2,570		2,570	
Personal	65,394		435		65,829	
Auto	2,075				2,075	
Other	736				736	
Total Popular, Inc.	$ 951,580	$ 8,192	$ 11,914	$ 22	$ 963,494	$ 8,214

	For the six months ended June 30, 2018					
	Puerto Rico		Popular U.S.		Popular, Inc.	
(In thousands)	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial multi-family	$ 344	$	$	$	$ 344	$
Commercial real estate non-owner occupied	126,208	3,104			126,208	3,104
Commercial real estate owner occupied	152,761	3,195			152,761	3,195
Commercial and industrial	65,676	1,397			65,676	1,397
Construction	2,284	25	5,967		8,251	25
Mortgage	509,154	10,229	9,348	87	518,502	10,316
Leasing	1,316				1,316	
Consumer:						
Credit cards	33,421				33,421	
HELOCs			5,054		5,054	
Personal	64,693	254	770		65,463	254
Auto	1,602				1,602	
Other	1,228				1,228	
Total Popular, Inc.	$ 958,687	$ 18,204	$ 21,139	$ 87	$ 979,826	$ 18,291

	For the six months ended June 30, 2017					
	Puerto Rico		Popular U.S.		Popular, Inc.	
(In thousands)	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial multi-family	$ 79	$ 3	$	$	$ 79	$ 3
Commercial real estate non-owner occupied	118,514	2,697			118,514	2,697
Commercial real estate owner occupied	161,199	3,198			161,199	3,198
Commercial and industrial	60,602	1,144			60,602	1,144
Mortgage	501,460	8,184	8,898	66	510,358	8,250
Leasing	1,763				1,763	
Consumer:						
Credit cards	37,029				37,029	
HELOCs			2,620		2,620	
Personal	65,610		329		65,939	
Auto	2,089				2,089	
Other	821				821	
Total Popular, Inc.	$ 949,166	$ 15,226	$ 11,847	$ 66	$ 961,013	$ 15,292

Modifications

Troubled debt restructurings (TDRs) amounted to $1.4 billion at June 30, 2018 (December 31, 2017 - $1.3 billion). The amount of outstanding commitments to lend additional funds to debtors owing receivables whose terms have been modified in TDRs amounted to $17 million related to the commercial loan portfolio at June 30, 2018 (December 31, 2017 - $8 million).

At June 30, 2018, the mortgage loan TDRs include $474 million guaranteed by U.S. sponsored entities at BPPR, compared to $449 million at December 31, 2017.

A modification of a loan constitutes a 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 3 to the 2017 Form 10-K.

The following table presents the non-covered and covered loans classified as TDRs according to their accruing status and the related allowance at June 30, 2018 and December 31, 2017.

Popular, Inc.

(In thousands)	June 30, 2018 Accruing	Non-Accruing	Total	Related Allowance	December 31, 2017 Accruing	Non-Accruing	Total	Related Allowance
Non-covered loans held-in-portfolio:								
Commercial	$ 225,599	$ 104,440	$ 330,039	$ 45,277	$ 161,220	$ 59,626	$ 220,846	$ 32,472
Construction		2,559	2,559					
Mortgage	825,372	141,753	967,125	47,515	803,278	126,798	930,076	48,832
Leases	764	366	1,130	362	863	393	1,256	475
Consumer	95,308	13,768	109,076	23,989	93,916	12,233	106,149	22,802
Non-covered loans held-in-portfolio	1,147,043	$ 262,886	$ 1,409,929	$ 117,143	$ 1,059,277	$ 199,050	$ 1,258,327	$ 104,581
Covered loans held-in-portfolio:								
Mortgage	$	$	$	$	$ 2,658	$ 3,227	$ 5,885	$
Covered loans held-in-portfolio	$	$	$	$	$ 2,658	$ 3,227	$ 5,885	$

The following tables present the loan count by type of modification for those loans modified in a TDR during the quarters and six months ended June 30, 2018 and 2017. Loans modified as TDRs for the U.S. operations are considered insignificant to the Corporation.

Popular, Inc.

	For the quarter ended June 30, 2018				For the six months ended June 30, 2018			
	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Commercial multi-family		1				1		
Commercial real estate non-owner occupied		6			2	11		
Commercial real estate owner occupied	3	23			3	42		
Commercial and industrial	1	31			4	50		
Construction					1			
Mortgage	26	6	67	22	45	10	103	45
Leasing			1				1	
Consumer:								
Credit cards	180		3	160	311		3	310

HELOCs		7	3			12	7	
Personal	468	1			628	3		
Auto		2	1			2	2	
Other	13				20		1	
Total	691	77	75	182	1,014	131	117	355

Popular, Inc.

	For the quarter ended June 30, 2017				For the six months ended June 30, 2017			
	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	4				4	1		
Commercial real estate owner occupied	1	8			3	9		
Commercial and industrial		15			2	21		
Mortgage	18	15	114	32	32	21	218	100
Leasing		1	2			1	5	
Consumer:								
Credit cards	159			152	285		1	310
HELOCs		1	1			1	1	
Personal	250				512	4		1
Auto		3	1	1		4	2	1
Other	8	1		1	16	1		1
Total	440	44	118	186	854	63	227	413

The following tables present by class, quantitative information related to loans modified as TDRs during the quarters and six months ended June 30, 2018 and 2017.

Popular, Inc.

For the quarter ended June 30, 2018

(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	1	$ 567	$ 567	$ 43
Commercial real estate non-owner occupied	6	4,460	4,464	(46)
Commercial real estate owner occupied	26	15,096	14,639	845
Commercial and industrial	32	36,153	35,971	13,934
Mortgage	121	15,325	14,016	777
Leasing	1	23	23	7
Consumer:				
Credit cards	343	3,478	3,503	398
HELOCs	10	860	817	107
Personal	469	7,253	7,251	1,720
Auto	3	60	59	10
Other	13	46	46	5
Total	1,025	$ 83,321	$ 81,356	$ 17,800

Popular, Inc.
For the quarter ended June 30, 2017

(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	4	$ 1,928	$ 1,762	$ 156
Commercial real estate owner occupied	9	1,546	1,535	87
Commercial and industrial	15	509	535	49
Mortgage	179	20,017	18,819	1,226
Leasing	3	122	120	34
Consumer:				
Credit cards	311	2,502	2,757	332
HELOCs	2	486	483	13
Personal	250	4,436	4,443	998
Auto	5	1,965	1,920	348
Other	10	1,891	1,891	55
Total	788	$ 35,402	$ 34,265	$ 3,298

Popular, Inc.
For the six months ended June 30, 2018

(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	1	$ 567	$ 567	$ 43
Commercial real estate non-owner occupied	13	27,446	27,387	6,754
Commercial real estate owner occupied	45	20,070	18,908	983
Commercial and industrial	54	47,222	46,494	13,824
Construction	1	4,210	4,293	474
Mortgage	203	25,598	22,935	1,234
Leasing	1	23	23	7
Consumer:				
Credit cards	624	6,404	6,804	852
HELOCs	19	1,725	1,673	374
Personal	631	10,325	10,321	2,730
Auto	4	194	191	33
Other	21	203	201	31
Total	1,617	$ 143,987	$ 139,797	$ 27,339

Popular, Inc.
For the six months ended June 30, 2017

(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	5	$ 2,069	$ 1,901	$ 145
Commercial real estate owner occupied	12	2,703	2,682	143
Commercial and industrial	23	828	2,923	468
Mortgage	371	41,085	38,332	2,240
Leasing	6	236	235	66
Consumer:				
Credit cards	596	4,904	5,400	644
HELOCs	2	486	483	13
Personal	517	9,034	9,038	2,031
Auto	7	2,001	1,957	354
Other	18	1,956	1,956	64
Total	1,557	$ 65,302	$ 64,907	$ 6,168

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 June 30, 2018 is inclusive of all partial paydowns and charge-offs since the modification date. Loans modified as a TDR that were fully paid down, charged-off or foreclosed upon by period end are not reported.

Popular, Inc.

(Dollars in thousands)	Defaulted during the quarter ended June 30, 2018 Loan count		Recorded investment as of first default date	Defaulted during the six months ended June 30, 2018 Loan count		Recorded investment as of first default date
Commercial real estate non-owner occupied	1	$	17	1	$	17
Commercial real estate owner occupied	1		50	3		136
Commercial and industrial	1		4	6		76
Mortgage	15		1,668	32		4,240
Consumer:						
Credit cards	102		1,073	125		2,155
Personal	38		578	55		1,438
Auto	1		22	1		22
Other	2		8	2		8
Total	161	$	3,420	225	$	8,092

Popular, Inc.

(Dollars in thousands)	Defaulted during the quarter ended June 30, 2017 Loan count		Recorded investment as of first default date	Defaulted during the six months ended June 30, 2017 Loan count		Recorded investment as of first default date
Commercial real estate non-owner occupied	1	$	195	2	$	457
Commercial real estate owner occupied	2		1,483	3		1,749
Commercial and industrial	1		21	3		565
Mortgage	30		2,542	62		5,896
Consumer:						
Credit cards	27		349	46		648
HELOCs	1		97	2		140
Personal	55		1,095	82		2,070
Auto	1		19	3		54
Other	1		9	1		9
Total	119	$	5,810	204	$	11,588

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 loans held-in-portfolio based on the Corporation s assignment of obligor risk ratings as defined at June 30, 2018 and December 31, 2017.

	June 30, 2018							
(In thousands)	Watch	Special Mention	Substandard	Doubtful	Loss	Sub-total	Pass/Unrated	Total
Puerto Rico								
Commercial multi-family	$ 1,047	$ 3,851	$ 3,835	$	$	$ 8,733	$ 138,732	$ 147,465
Commercial real estate non-owner occupied	445,886	289,659	347,391			1,082,936	1,230,536	2,313,472
Commercial real estate owner occupied	291,656	123,521	410,384	2,376		827,937	907,248	1,735,185
Commercial and industrial	614,880	110,201	209,893	375	92	935,441	1,916,035	2,851,476
Total Commercial	1,353,469	527,232	971,503	2,751	92	2,855,047	4,192,551	7,047,598
Construction		889	3,896			4,785	92,390	97,175
Mortgage	4,104	2,481	198,249			204,834	6,438,292	6,643,126
Leasing			3,662		34	3,696	868,402	872,098
Consumer:								
Credit cards			29,024			29,024	1,050,510	1,079,534
HELOCs			349			349	5,274	5,623
Personal	480	444	20,846			21,770	1,217,365	1,239,135
Auto			12,755		100	12,855	902,208	915,063
Other	92		15,081		235	15,408	132,357	147,765
Total Consumer	572	444	78,055		335	79,406	3,307,714	3,387,120
Total Puerto Rico	$ 1,358,145	$ 531,046	$ 1,255,365	$ 2,751	$ 461	$ 3,147,768	$ 14,899,349	$ 18,047,117
Popular U.S.								
Commercial multi-family	$ 41,569	$ 6,260	$ 6,749	$	$	$ 54,578	$ 1,265,820	$ 1,320,398
Commercial real estate non-owner occupied	71,105	9,113	38,540			118,758	1,757,536	1,876,294
	37,527	7,691	8,459			53,677	231,005	284,682

Commercial real estate owner occupied								
Commercial and industrial	4,041	101	100,741			104,883	956,138	1,061,021
Total Commercial	154,242	23,165	154,489			331,896	4,210,499	4,542,395
Construction	67,845	15,180	63,106			146,131	656,017	802,148
Mortgage			11,398			11,398	722,187	733,585
Legacy	600	368	2,737			3,705	25,545	29,250
Consumer:								
Credit cards							69	69
HELOCs			4,243		11,657	15,900	141,893	157,793
Personal			1,409		909	2,318	293,630	295,948
Other			1			1	210	211
Total Consumer			5,653		12,566	18,219	435,802	454,021
Total Popular U.S.	$ 222,687	$ 38,713	$ 237,383	$	$ 12,566	$ 511,349	$ 6,050,050	$ 6,561,399
Popular, Inc.								
Commercial multi-family	$ 42,616	$ 10,111	$ 10,584	$	$	$ 63,311	$ 1,404,552	$ 1,467,863
Commercial real estate non-owner occupied	516,991	298,772	385,931			1,201,694	2,988,072	4,189,766
Commercial real estate owner occupied	329,183	131,212	418,843	2,376		881,614	1,138,253	2,019,867
Commercial and industrial	618,921	110,302	310,634	375	92	1,040,324	2,872,173	3,912,497
Total Commercial	1,507,711	550,397	1,125,992	2,751	92	3,186,943	8,403,050	11,589,993
Construction	67,845	16,069	67,002			150,916	748,407	899,323
Mortgage	4,104	2,481	209,647			216,232	7,160,479	7,376,711
Legacy	600	368	2,737			3,705	25,545	29,250
Leasing			3,662		34	3,696	868,402	872,098
Consumer:								
Credit cards			29,024			29,024	1,050,579	1,079,603
HELOCs			4,592		11,657	16,249	147,167	163,416
Personal	480	444	22,255		909	24,088	1,510,995	1,535,083
Auto			12,755		100	12,855	902,208	915,063
Other	92		15,082		235	15,409	132,567	147,976

Total Consumer	572	444	83,708		12,901	97,625	3,743,516	3,841,141
Total Popular, Inc.	$ 1,580,832	$ 569,759	$ 1,492,748	$ 2,751	$ 13,027	$ 3,659,117	$ 20,949,399	$ 24,608,516

The following table presents the weighted average obligor risk rating at June 30, 2018 for those classifications that consider a range of rating scales.

Weighted average obligor risk rating	(Scales 11 and 12)	(Scales 1 through 8)
Puerto Rico:	Substandard	Pass
Commercial multi-family	11.21	5.76
Commercial real estate non-owner occupied	11.11	6.92
Commercial real estate owner occupied	11.21	7.19
Commercial and industrial	11.24	7.06
Total Commercial	11.18	7.02
Construction	11.66	7.83
Popular U.S. :	Substandard	Pass
Commercial multi-family	11.00	7.29
Commercial real estate non-owner occupied	11.01	6.71
Commercial real estate owner occupied	11.17	7.42
Commercial and industrial	11.84	6.45
Total Commercial	11.56	6.86
Construction	11.28	7.78
Legacy	11.15	7.94

	December 31, 2017							
(In thousands)	Watch	Special Mention	Substandard	Doubtful	Loss	Sub-total	Pass/Unrated	Total
Puerto Rico[1]								
Commercial multi-family	$ 1,387	$ 1,708	$ 6,831	$	$	$ 9,926	$ 136,473	$ 146,399
Commercial real estate non-owner occupied	327,811	335,011	307,579			970,401	1,434,158	2,404,559
Commercial real estate owner occupied	243,966	215,652	354,990	2,124		816,732	1,006,882	1,823,614
Commercial and industrial	453,546	108,554	241,695	471	126	804,392	2,086,935	2,891,327
Total Commercial	1,026,710	660,925	911,095	2,595	126	2,601,451	4,664,448	7,265,899
Construction	110	4,122	1,545			5,777	89,592	95,369
Mortgage	2,748	3,564	155,074			161,386	6,415,393	6,576,779
Leasing			1,926		1,048	2,974	807,016	809,990
Consumer:								
Credit cards			18,227			18,227	1,074,994	1,093,221
HELOCs			257			257	5,830	6,087
Personal	429	659	20,790			21,878	1,200,434	1,222,312
Auto			5,446		20	5,466	845,347	850,813
Other			16,324		440	16,764	140,824	157,588
Total Consumer	429	659	61,044		460	62,592	3,267,429	3,330,021
Total Puerto Rico	$ 1,029,997	$ 669,270	$ 1,130,684	$ 2,595	$ 1,634	$ 2,834,180	$ 15,243,878	$ 18,078,058
Popular U.S.								
Commercial multi-family	$ 11,808	$ 6,345	$ 7,936	$	$	$ 26,089	$ 1,184,604	$ 1,210,693
Commercial real estate non-owner occupied	46,523	16,561	37,178			100,262	1,588,049	1,688,311
Commercial real estate owner occupied	28,183	30,893	8,590			67,666	251,309	318,975
Commercial and industrial	4,019	603	123,935			128,557	876,426	1,004,983
	90,533	54,402	177,639			322,574	3,900,388	4,222,962

Total Commercial								
Construction	36,858	8,294	54,276			99,428	685,232	784,660
Mortgage			14,852			14,852	678,776	693,628
Legacy	688	426	3,302			4,416	28,564	32,980
Consumer:								
Credit cards			11			11	89	100
HELOCs			6,084		8,914	14,998	167,087	182,085
Personal			2,069		704	2,773	295,229	298,002
Other							319	319
Total Consumer			8,164		9,618	17,782	462,724	480,506
Total Popular U.S.	$ 128,079	$ 63,122	$ 258,233	$	$ 9,618	$ 459,052	$ 5,755,684	$ 6,214,736
Popular, Inc.								
Commercial multi-family	$ 13,195	$ 8,053	$ 14,767	$	$	$ 36,015	$ 1,321,077	$ 1,357,092
Commercial real estate non-owner occupied	374,334	351,572	344,757			1,070,663	3,022,207	4,092,870
Commercial real estate owner occupied	272,149	246,545	363,580	2,124		884,398	1,258,191	2,142,589
Commercial and industrial	457,565	109,157	365,630	471	126	932,949	2,963,361	3,896,310
Total Commercial	1,117,243	715,327	1,088,734	2,595	126	2,924,025	8,564,836	11,488,861
Construction	36,968	12,416	55,821			105,205	774,824	880,029
Mortgage	2,748	3,564	169,926			176,238	7,094,169	7,270,407
Legacy	688	426	3,302			4,416	28,564	32,980
Leasing			1,926		1,048	2,974	807,016	809,990
Consumer:								
Credit cards			18,238			18,238	1,075,083	1,093,321
HELOCs			6,341		8,914	15,255	172,917	188,172
Personal	429	659	22,859		704	24,651	1,495,663	1,520,314
Auto			5,446		20	5,466	845,347	850,813
Other			16,324		440	16,764	141,143	157,907
Total Consumer	429	659	69,208		10,078	80,374	3,730,153	3,810,527
Total Popular, Inc.	$ 1,158,076	$ 732,392	$ 1,388,917	$ 2,595	$ 11,252	$ 3,293,232	$ 20,999,562	$ 24,292,794

The following table presents the weighted average obligor risk rating at December 31, 2017 for those classifications that consider a range of rating scales.

Weighted average obligor risk rating	(Scales 11 and 12)	(Scales 1 through 8)
Puerto Rico:[1]	Substandard	Pass
Commercial multi-family	11.16	5.89
Commercial real estate non-owner occupied	11.06	6.99
Commercial real estate owner occupied	11.28	7.14
Commercial and industrial	11.16	7.11
Total Commercial	11.17	7.06
Construction	11.00	7.76
Popular U.S.:	Substandard	Pass
Commercial multi-family	11.00	7.28
Commercial real estate non-owner occupied	11.04	6.74
Commercial real estate owner occupied	11.10	7.14
Commercial and industrial	11.82	6.17
Total Commercial	11.59	6.80
Construction	11.00	7.70
Legacy	11.11	7.93

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

Note 9 FDIC loss-share asset and true-up payment obligation

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

As of March 31, 2018, the Corporation had an FDIC loss share asset of $45.6 million, net of amounts owed to the FDIC of $1.1 million, related to the covered assets. As part of the loss-share agreements, BPPR had agreed to make a true-up payment to the FDIC 45 days following the last day (such day, the true-up measurement date) of the final shared-loss month, or upon the final disposition of all covered assets under the loss-share agreements, in the event losses on the loss-share agreements fail to reach expected levels. The estimated fair value of such true-up payment obligation at March 31, 2018 was approximately $171 (December 31, 2017 $165 million) million and was included as a contingent consideration within the caption of other liabilities in the Consolidated Statements of Financial Condition.

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

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

	Quarters ended June 30,		Six months ended June 30,	
(In thousands)	2018	2017	2018	2017
Balance at beginning of period	$ 45,659	$ 64,077	$ 46,316	$ 69,334
FDIC loss-share Termination Agreement	(45,659)		(45,659)	
Accretion (amortization)		147	(934)	(629)
Credit impairment losses to be covered under loss-sharing agreements		2,126	104	2,274
Reimbursable expenses		723	537	1,644
Net payments from FDIC under loss-sharing agreements		(14,003)	(364)	(14,003)
Other adjustments attributable to FDIC loss-sharing agreements				(5,550)
Balance at end of period	$	$ 53,070	$	$ 53,070
		(487)		(487)

Balance due to the FDIC for recoveries on covered assets				
Balance at end of period	$	$ 52,583	$	$ 52,583

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

Note 10 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:

	Quarters ended June 30,		Six months ended June 30,	
(In thousands)	2018	2017	2018	2017
Mortgage servicing fees, net of fair value adjustments:				
Mortgage servicing fees	$ 12,425	$ 13,021	$ 24,881	$ 26,473
Mortgage servicing rights fair value adjustments	(4,622)	(8,046)	(8,929)	(14,000)
Total mortgage servicing fees, net of fair value adjustments	7,803	4,975	15,952	12,473
Net gain on sale of loans, including valuation on loans held-for-sale	2,460	7,250	3,517	12,631
Trading account (loss) profit:				
Unrealized gains (losses) on outstanding derivative positions	45	83	(176)	43
Realized (losses) gains on closed derivative positions	(237)	(1,567)	2,846	(3,037)
Total trading account (loss) profit	(192)	(1,484)	2,670	(2,994)
Total mortgage banking activities	$ 10,071	$ 10,741	$ 22,139	$ 22,110

Note 11 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 20 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 six months ended June 30, 2018 and 2017 because they did not contain any credit recourse arrangements. During the quarter and six months ended June 30, 2018, the Corporation recorded a net gain of $2.3 million and $3.3 million, respectively (June 30, 2017 $6.1 million and $11.1 million, respectively) 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 six months ended June 30, 2018 and 2017:

	Proceeds Obtained During the Quarter Ended June 30, 2018			
(In thousands)	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Debt securities available-for-sale:				
Mortgage-backed securities FNMA	$	$ 1,238	$	$ 1,238
Total debt securities available-for-sale	$	$ 1,238	$	$ 1,238
Trading account debt securities:				
Mortgage-backed securities GNMA	$	$ 97,363	$	$ 97,363
Mortgage-backed securities FNMA		19,203		19,203
Total trading account debt securities	$	$ 116,566	$	$ 116,566
Mortgage servicing rights	$	$	$ 2,158	$ 2,158
Total	$	$ 117,804	$ 2,158	$ 119,962

	Proceeds Obtained During the Six Months Ended June 30, 2018			
(In thousands)	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Debt securities available-for-sale:				
Mortgage-backed securities FNMA	$	$ 6,960	$	$ 6,960
Total debt securities available-for-sale	$	$ 6,960	$	$ 6,960
Trading account debt securities:				

Mortgage-backed securities GNMA	$	$ 209,858	$		$	209,858
Mortgage-backed securities FNMA		39,228				39,228
Total trading account debt securities	$	$ 249,086	$		$	249,086
Mortgage servicing rights	$	$	$ 4,573		$	4,573
Total	$	$ 256,046	$ 4,573		$	260,619

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	Proceeds Obtained During the Quarter Ended June 30, 2017			
(In thousands)	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Debt securities available-for-sale:				
Mortgage-backed securities FNMA	$	$ 6,968	$	$ 6,968
Total debt securities available-for-sale	$	$ 6,968	$	$ 6,968
Trading account debt securities:				
Mortgage-backed securities GNMA	$	$ 135,961	$	$ 135,961
Mortgage-backed securities FNMA		30,455		30,455
Total trading account debt securities	$	$ 166,416	$	$ 166,416
Mortgage servicing rights	$	$	$ 2,708	$ 2,708
Total	$	$ 173,384	$ 2,708	$ 176,092

	Proceeds Obtained During the Six Months Ended June 30, 2017			
(In thousands)	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Debt securities available-for-sale:				
Mortgage-backed securities FNMA	$	$ 11,720	$	$ 11,720
Total debt securities available-for-sale	$	$ 11,720	$	$ 11,720
Trading account debt securities:				
Mortgage-backed securities GNMA	$	$ 282,938	$	$ 282,938
Mortgage-backed securities FNMA		53,346		53,346
Total trading account debt securities	$	$ 336,284	$	$ 336,284
Mortgage servicing rights	$	$	$ 5,178	$ 5,178
Total	$	$ 348,004	$ 5,178	$ 353,182

During the six months ended June 30, 2018, the Corporation retained servicing rights on whole loan sales involving approximately $24 million in principal balance outstanding (June 30, 2017 $42 million), with realized gains of approximately $0.3 million (June 30, 2017 gains of $1.5 million). All loan sales performed during the six months ended June 30, 2018 and 2017 were without credit recourse agreements.

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

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

The following table presents the changes in MSRs measured using the fair value method for the six months ended June 30, 2018 and 2017.

Residential MSRs		
(In thousands)	June 30, 2018	June 30, 2017
Fair value at beginning of period	$ 168,031	$ 196,889
Additions	4,923	5,839
Changes due to payments on loans[1]	(6,852)	(9,276)
Reduction due to loan repurchases	(2,077)	(1,102)
Changes in fair value due to changes in valuation model inputs or assumptions		(3,622)
Fair value at end of period	$ 164,025	$ 188,728

[1] Represents changes due to collection / realization of expected cash flows over time.
Residential mortgage loans serviced for others were $16.1 billion at June 30, 2018 and December 31, 2017.

Net mortgage servicing fees, a component of mortgage banking activities in the Consolidated Statements of Operations, include the changes from period to period in the fair value of the MSRs, including changes due to collection / realization of expected cash flows. The banking subsidiaries receive servicing fees based on a percentage of the outstanding loan balance. These servicing fees are credited to income when they are collected. At June 30, 2018 and 2017, those weighted average mortgage servicing fees were 0.30%. Under these servicing agreements, the banking subsidiaries do not generally earn significant prepayment penalty fees on the underlying loans serviced.

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

Key economic assumptions used in measuring the servicing rights derived from loans securitized or sold by the Corporation during the quarters and six months ended June 30, 2018 and 2017 were as follows:

	Quarters ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Prepayment speed	4.4%	4.4%	4.4%	4.0%
Weighted average life (in years)	11.4	10.9	11.4	11.1
Discount rate (annual rate)	11.1%	11.0%	11.1%	11.0%

Key economic assumptions used to estimate the fair value of MSRs derived from sales and securitizations of mortgage loans performed by the banking subsidiaries and servicing rights purchased from other financial institutions, and the sensitivity to immediate changes in those assumptions, were as follows as of the end of the periods reported:

	Originated MSRs		Purchased MSRs	
(In thousands)	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Fair value of servicing rights	$ 69,232	$ 73,951	$ 94,793	$ 94,080

Weighted average life (in years)	7.6		7.3	6.9		6.5
Weighted average prepayment speed (annual rate)	4.4%		5.1%	4.9%		5.7%
Impact on fair value of 10% adverse change	$ (1,231)	$	(1,503)	$ (1,761)	$	(2,070)
Impact on fair value of 20% adverse change	$ (2,430)	$	(2,976)	$ (3,473)	$	(3,999)
Weighted average discount rate (annual rate)	11.5%		11.5%	11.0%		11.0%
Impact on fair value of 10% adverse change	$ (3,108)	$	(3,091)	$ (4,101)	$	(3,785)
Impact on fair value of 20% adverse change	$ (5,985)	$	(5,971)	$ (7,902)	$	(7,235)

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 June 30, 2018, the Corporation serviced $1.4 billion (December 31, 2017 $1.5 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 June 30, 2018, the Corporation had recorded $298 million in mortgage loans on its Consolidated Statements of Financial Condition related to this buy-back option program (December 31, 2017 $840 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 six months ended June 30, 2018, the Corporation repurchased approximately $189 million (June 30, 2017 $77 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.

Note 12 Other real estate owned

The following tables present the activity related to Other Real Estate Owned (OREO), for the quarters and six months ended June 30, 2018 and 2017.

	For the quarter ended June 30, 2018			
(In thousands)	Non-covered OREO Commercial/Construction	Non-covered OREO Mortgage	Covered OREO Mortgage	Total
Balance at beginning of period	$ 25,635	$ 127,426	$ 15,333	$ 168,394
Write-downs in value	(748)	(4,025)		(4,773)
Additions	2,638	2,546		5,184
Sales	(2,234)	(24,450)		(26,684)
Other adjustments	(29)	(29)		(58)
Transfer to non-covered status[1]		15,333	(15,333)	
Ending balance	$ 25,262	$ 116,801	$	$ 142,063

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

	For the six months ended June 30, 2018			
(In thousands)	Non-covered OREO Commercial/Construction	Non-covered OREO Mortgage	Covered OREO Mortgage	Total
Balance at beginning of period	$ 21,411	$ 147,849	$ 19,595	$ 188,855
Write-downs in value	(1,402)	(6,539)	(287)	(8,228)
Additions	7,041	5,530		12,571
Sales	(2,623)	(44,755)	(3,282)	(50,660)
Other adjustments	835	(617)	(693)	(475)
Transfer to non-covered status[1]		15,333	(15,333)	
Ending balance	$ 25,262	$ 116,801	$	$ 142,063

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

	For the quarter ended June 30, 2017			
(In thousands)	Non-covered OREO Commercial/Construction	Non-covered OREO Mortgage	Covered OREO Mortgage	Total
Balance at beginning of period	$ 22,554	$ 163,282	$ 29,926	$ 215,762
Write-downs in value	(720)	(9,104)	(1,974)	(11,798)
Additions	3,084	24,662	4,106	31,852
Sales	(971)	(22,474)	(5,392)	(28,837)
Other adjustments	2	781	(1,316)	(533)
Ending balance	$ 23,949	$ 157,147	$ 25,350	$ 206,446

	For the six months ended June 30, 2017			
(In thousands)	Non-covered OREO Commercial/Construction	Non-covered OREO Mortgage	Covered OREO Mortgage	Total
Balance at beginning of period	$ 20,401	$ 160,044	$ 32,128	$ 212,573
Write-downs in value	(1,979)	(11,859)	(2,746)	(16,584)
Additions	7,622	50,916	8,215	66,753
Sales	(1,964)	(42,883)	(10,789)	(55,636)
Other adjustments	(131)	929	(1,458)	(660)
Ending balance	$ 23,949	$ 157,147	$ 25,350	$ 206,446

Note 13 Other assets

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

(In thousands)	June 30, 2018	December 31, 2017
Net deferred tax assets (net of valuation allowance)	$ 1,185,302	$ 1,035,110
Investments under the equity method	215,576	215,349
Prepaid taxes	42,038	168,852
Other prepaid expenses	89,462	84,771
Derivative assets	15,763	16,539
Trades receivable from brokers and counterparties	38,552	7,514
Receivables from investments maturities	50,000	70,000
Principal, interest and escrow servicing advances	87,577	107,299
Guaranteed mortgage loan claims receivable	104,712	163,819
Others	111,798	122,070
Total other assets	$ 1,940,780	$ 1,991,323

Note 14 Goodwill and other intangible assets

Goodwill

There were no changes in the carrying amount of goodwill for the quarters and six months ended June 30, 2018 and 2017.

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

	June 30, 2018					
(In thousands)	Balance at January 1, 2018 (gross amounts)	Accumulated impairment losses	Balance at January 1, 2018 (net amounts)	Balance at June 30, 2018 (gross amounts)	Accumulated impairment losses	Balance at June 30, 2018 (net amounts)
Banco Popular de Puerto Rico	$ 280,221	$ 3,801	$ 276,420	$ 280,221	$ 3,801	$ 276,420
Popular U.S.	515,285	164,411	350,874	515,285	164,411	350,874
Total Popular, Inc.	$ 795,506	$ 168,212	$ 627,294	$ 795,506	$ 168,212	$ 627,294

	December 31, 2017					
(In thousands)	Balance at January 1, 2017 (gross amounts)	Accumulated impairment losses	Balance at January 1, 2017 (net amounts)	Balance at December 31, 2017 (gross amounts)	Accumulated impairment losses	Balance at December 31, 2017 (net amounts)
Banco Popular de Puerto Rico	$ 280,221	$ 3,801	$ 276,420	$ 280,221	$ 3,801	$ 276,420
Popular U.S.	515,285	164,411	350,874	515,285	164,411	350,874
Total Popular, Inc.	$ 795,506	$ 168,212	$ 627,294	$ 795,506	$ 168,212	$ 627,294

Other Intangible Assets

At June 30, 2018 and December 31, 2017, the Corporation had $ 6.1 million of identifiable intangible assets with indefinite useful lives, mostly associated with the E-LOAN trademark.

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

(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
June 30, 2018			
Core deposits	$ 37,224	$ 24,208	$ 13,016
Other customer relationships	35,632	23,789	11,843

Total other intangible assets	$ 72,856	$ 47,997	$ 24,859
December 31, 2017			
Core deposits	$ 37,224	$ 22,347	$ 14,877
Other customer relationships	35,683	21,051	14,632
Total other intangible assets	$ 72,907	$ 43,398	$ 29,509

During the quarter ended June 30, 2018, the Corporation recognized $ 2.3 million in amortization expense related to other intangible assets with definite useful lives (June 30, 2017 - $ 2.3 million). During the six months ended June 30, 2018, the Corporation recognized $ 4.6 million in amortization related to other intangible assets with definite useful lives (June 30, 2017 - $ 4.7 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 2018	$ 4,636
Year 2019	9,042
Year 2020	4,967
Year 2021	2,157
Year 2022	1,281
Year 2023	1,281
Later years	1,495

Note 15 Deposits

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

(In thousands)	June 30, 2018	December 31, 2017
Savings accounts	$ 9,922,817	$ 8,561,718
NOW, money market and other interest bearing demand deposits	12,639,394	10,885,967
Total savings, NOW, money market and other interest bearing demand deposits	22,562,211	19,447,685
Certificates of deposit:		
Under $100,000	3,400,596	3,446,575
$100,000 and over	4,022,491	4,068,303
Total certificates of deposit	7,423,087	7,514,878
Total interest bearing deposits	$ 29,985,298	$ 26,962,563

A summary of certificates of deposit by maturity at June 30, 2018 follows:

(In thousands)	
2018	$ 2,762,840
2019	1,676,796
2020	1,254,178
2021	824,573
2022	528,468
2023 and thereafter	376,232
Total certificates of deposit	$ 7,423,087

At June 30, 2018, the Corporation had brokered deposits amounting to $ 0.5 billion (December 31, 2017 - $ 0.5 billion).

The aggregate amount of overdrafts in demand deposit accounts that were reclassified to loans was $5 million at June 30, 2018 (December 31, 2017 - $4 million).

Note 16 Borrowings

The following table presents the balances of assets sold under agreements to repurchase at June 30, 2018 and December 31, 2017.

(In thousands)	June 30, 2018	December 31, 2017
Assets sold under agreements to repurchase	$ 306,911	$ 390,921
Total assets sold under agreements to repurchase	$ 306,911	$ 390,921

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

Repurchase agreements accounted for as secured borrowings

(In thousands)	June 30, 2018 Repurchase liability	December 31, 2017 Repurchase liability
U.S. Treasury securities		
Within 30 days	$ 147,318	$ 148,516
After 30 to 90 days	64,413	87,357
After 90 days	46,703	43,500
Total U.S. Treasury securities	258,434	279,373
Obligations of U.S. government sponsored entities		
Within 30 days	5,152	30,656
After 30 to 90 days	5,000	19,463
After 90 days	6,000	15,937
Total obligations of U.S. government sponsored entities	16,152	66,056
Mortgage-backed securities		
Within 30 days	22,642	31,383
Total mortgage-backed securities	22,642	31,383
Collateralized mortgage obligations		
Within 30 days	9,683	14,109
Total collateralized mortgage obligations	9,683	14,109

Total	$ 306,911	$ 390,921

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

The following table presents information related to the Corporation s other short-term borrowings for the periods ended June 30, 2018 and December 31, 2017.

(In thousands)	June 30, 2018	December 31, 2017
Advances with the FHLB	$	$ 95,000
Others	1,200	1,208
Total other short-term borrowings	$ 1,200	$ 96,208

Note: Refer to the Corporation s 2017 Form 10-K for rates information at December 31, 2017.

The following table presents the composition of notes payable at June 30, 2018 and December 31, 2017.

(In thousands)	June 30, 2018	December 31, 2017
Advances with the FHLB with maturities ranging from 2018 through 2029 paying interest at monthly fixed rates ranging from 0.89% to 4.19 %	$ 602,262	$ 572,307
Advances with the FHLB with maturities ranging from 2018 through 2019 paying interest monthly at a floating rate ranging from 0.22% to 0.34% over the 1 month LIBOR	34,164	34,164
Advances with the FHLB with maturities ranging from 2018 through 2019 paying interest quarterly at a floating rate from 0.12% to 0.24% over the 3 month LIBOR	19,724	25,019
Unsecured senior debt securities maturing on 2019 paying interest semiannually at a fixed rate of 7.00%, net of debt issuance costs of $2,085	447,915	446,873
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 $436	439,364	439,351
Others	18,234	18,642
Total notes payable	$ 1,561,663	$ 1,536,356

Note: Refer to the Corporation s 2017 Form 10-K for rates information at December 31, 2017.

A breakdown of borrowings by contractual maturities at June 30, 2018 is included in the table below.

(In thousands)	Assets sold under agreements to repurchase	Short-term borrowings	Notes payable	Total
2018	$ 300,911	$ 1,200	$ 139,597	$ 441,708
2019	6,000		649,793	655,793
2020			112,035	112,035
2021			21,877	21,877
2022			105,175	105,175
Later years			533,186	533,186
Total borrowings	$ 306,911	$ 1,200	$ 1,561,663	$ 1,869,774

At June 30, 2018 and December 31, 2017, the Corporation had FHLB borrowing facilities whereby the Corporation could borrow up to $3.5 billion and $3.9 billion, respectively, of which $656 million and $726 million, respectively, were used. In addition, at June 30, 2018 and December 31, 2017, the Corporation had placed $335 million and $260 million, respectively, of the available FHLB credit facility as collateral for a municipal letter of credit to secure deposits. The FHLB borrowing facilities are collateralized with loans held-in-portfolio, and do not have restrictive covenants or callable features.

Also, at June 30, 2018, the Corporation has a borrowing facility at the discount window of the Federal Reserve Bank of New York amounting to $1.2 billion (2017 - $1.1 billion), which remained unused at June 30, 2018 and December 31, 2017. The facility is a collateralized source of credit that is highly reliable even under difficult market conditions.

Note 17 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 June 30, 2018 and December 31, 2017.

As of June 30, 2018

				Gross Amounts Not Offset in the Statement of Financial Position			
(In thousands)	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Financial Instruments	Securities Collateral Received	Cash Collateral Received	Net Amount
Derivatives	$ 15,763	$	$ 15,763	$ 41	$	$	$ 15,722
Total	$ 15,763	$	$ 15,763	$ 41	$	$	$ 15,722

As of June 30, 2018

				Gross Amounts Not Offset in the Statement of Financial Position			
(In thousands)	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Financial Instruments	Securities Collateral Pledged	Cash Collateral Pledged	Net Amount
Derivatives	$ 14,223	$	$ 14,223	$ 41	$	$	$ 14,182
Repurchase agreements	306,911		306,911		306,911		
Total	$ 321,134	$	$ 321,134	$ 41	$ 306,911	$	$ 14,182

As of December 31, 2017

				Gross Amounts Not Offset in the Statement of Financial Position			
(In thousands)	Gross Amount of Recognized	Gross Amounts Offset in the	Net Amounts of Assets Presented in the	Financial Instruments	Securities Collateral Received	Cash Collateral Received	Net Amount

	Assets	Statement of Financial Position	Statement of Financial Position				
Derivatives	$ 16,719	$	$ 16,719	$ 121	$	$	$ 16,598
Total	$ 16,719	$	$ 16,719	$ 121	$	$	$ 16,598

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As of December 31, 2017							
				Gross Amounts Not Offset in the Statement of Financial Position			
(In thousands)	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Financial Instruments	Securities Collateral Pledged	Cash Collateral Pledged	Net Amount
Derivatives	$ 14,431	$	$ 14,431	$ 121	$ 8	$	$ 14,302
Repurchase agreements	390,921		390,921		390,921		
Total	$ 405,352	$	$ 405,352	$ 121	$ 390,929	$	$ 14,302

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

Note 18 Stockholders equity

As of June 30, 2018, stockholder s equity totaled $5.3 billion. During the six months ended June 30, 2018, the Corporation declared dividends on its common stock of $ 51.1 million. The quarterly dividend declared to shareholders of record as of the close of business on May 9, 2018, which amounted to $25.6 million, was paid on July 2, 2018.

On July 23, 2018, the Corporation announced that the Corporation s Board of Directors had authorized a common stock repurchase of up to $125 million. Common stock repurchases may be executed in the open market or in privately negotiated transactions. The timing and exact amount of the share repurchase will be subject to various factors, including the Corporation s capital position, financial performance and market conditions.

Note 19 Other comprehensive loss

The following table presents changes in accumulated other comprehensive loss by component for the quarters and six months ended June 30, 2018 and 2017.

		Changes in Accumulated Other Comprehensive Loss by Component [1]			
		Quarters ended June 30,		Six months ended June 30,	
(In thousands)		2018	2017	2018	2017
Foreign currency translation	Beginning Balance	$ (42,941)	$ (39,817)	$ (43,034)	$ (39,956)
	Other comprehensive loss	(3,456)	(1,588)	(3,363)	(1,449)
	Net change	(3,456)	(1,588)	(3,363)	(1,449)
	Ending balance	$ (46,397)	$ (41,405)	$ (46,397)	$ (41,405)
Adjustment of pension and postretirement benefit plans	Beginning Balance	$ (202,652)	$ (208,769)	$ (205,408)	$ (211,610)
	Amounts reclassified from accumulated other comprehensive loss for amortization of net losses	3,286	3,421	6,571	6,842
	Amounts reclassified from accumulated other comprehensive loss for amortization of prior service credit	(529)	(580)	(1,058)	(1,160)
	Net change	2,757	2,841	5,513	5,682
	Ending balance	$ (199,895)	$ (205,928)	$ (199,895)	$ (205,928)
Unrealized net holding losses on debt securities	Beginning Balance	$ (217,179)	$ (71,707)	$ (102,775)	$ (69,003)
	Other comprehensive (loss) income before reclassifications	(33,243)	8,553	(147,647)	5,849
	Other-than-temporary impairment amount reclassified from accumulated other comprehensive loss		6,740		6,740
	Net change	(33,243)	15,293	(147,647)	12,589
	Ending balance	$ (250,422)	$ (56,414)	$ (250,422)	$ (56,414)

Unrealized holding gains on equity securities	Beginning Balance	$		$	650	$	605	$	685
	Reclassification to retained earnings due to cumulative effect adjustment of accounting change						(605)		
	Other comprehensive income before reclassifications				37				132
	Amounts reclassified from accumulated other comprehensive income for gains on securities				(15)				(145)
	Net change				22		(605)		(13)
	Ending balance	$		$	672	$		$	672
Unrealized net (losses) gains on cash flow hedges	Beginning Balance	$	(66)	$	(269)	$	(40)	$	(402)

Other comprehensive (loss) income before reclassifications	(165)	(230)	582	(619)
Amounts reclassified from accumulated other comprehensive (loss) income	153	631	(620)	1,153
Net change	(12)	401	(38)	534
Ending balance	$ (78)	$ 132	$ (78)	$ 132
Total	$ (496,792)	$ (302,943)	$ (496,792)	$ (302,943)

[1] All amounts presented are net of tax.

The following table presents the amounts reclassified out of each component of accumulated other comprehensive loss during the quarters and six months ended June 30, 2018 and 2017.

	Reclassifications Out of Accumulated Other Comprehensive Loss				
	Affected Line Item in the Consolidated Statements of Operations	Quarters ended June 30,		Six months ended June 30,	
(In thousands)		2018	2017	2018	2017
Adjustment of pension and postretirement benefit plans					
Amortization of net losses	Personnel costs	$ (5,385)	$ (5,606)	$ (10,771)	$ (11,213)
Amortization of prior service credit	Personnel costs	868	950	1,735	1,900
	Total before tax	(4,517)	(4,656)	(9,036)	(9,313)
	Income tax benefit	1,760	1,815	3,523	3,631
	Total net of tax	$ (2,757)	$ (2,841)	$ (5,513)	$ (5,682)
Unrealized holding losses on debt securities					
Other-than-temporary impairment	Other-than-temporary impairment losses on available-for-sale debt securities	$	$ (8,299)	$	$ (8,299)
	Total before tax		(8,299)		(8,299)
	Income tax benefit		1,559		1,559
	Total net of tax	$	$ (6,740)	$	$ (6,740)
Unrealized holding gains on equity securities					

Realized gain on sale of equity securities	Net gain on equity securities	$		$	19	$		$	181
	Total before tax				19				181
	Income tax expense				(4)				(36)
	Total net of tax	$		$	15	$		$	145
Unrealized net (losses) gains on cash flow hedges									
Forward contracts	Mortgage banking activities	$	(250)	$	(1,035)	$	1,017	$	(1,890)
	Total before tax		(250)		(1,035)		1,017		(1,890)
	Income tax benefit (expense)		97		404		(397)		737
	Total net of tax	$	(153)	$	(631)	$	620	$	(1,153)
	Total reclassification adjustments, net of tax	$	(2,910)	$	(10,197)	$	(4,893)	$	(13,430)

Note 20 Guarantees

At June 30, 2018, the Corporation recorded a liability of $0.4 million (December 31, 2017 - $0.3 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 June 30, 2018, the Corporation serviced $1.4 billion (December 31, 2017 - $1.5 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 six months ended June 30, 2018, the Corporation repurchased approximately $1 million and $9 million, respectively, of unpaid principal balance in mortgage loans subject to the credit recourse provisions (June 30, 2017 **-** $6 million and $15 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 June 30, 2018, the Corporation s liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to $57 million (December 31, 2017 - $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 six months ended June 30, 2018 and 2017.

	Quarters ended June 30,		Six months ended June 30,	
(In thousands)	2018	2017	2018	2017
Balance as of beginning of period	$ 57,425	$ 51,540	$ 58,820	$ 54,489
Provision (reversal) for recourse liability	(9)	2,595	2,991	4,729
Net recoveries (charge-offs)	9	(4,740)	(4,386)	(9,823)
Balance as of end of period	$ 57,425	$ 49,395	$ 57,425	$ 49,395

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 quarter and six months ended June 30, 2018, BPPR repurchased $1 million and $10 million, respectively, in loans under representation and warranty arrangements (there were no loan repurchases during the same period of the prior year). 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 six months ended June 30, 2018 and 2017.

(In thousands)	Quarters ended June 30, 2018	Quarters ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Balance as of beginning of period	$ 11,418	$ 10,537	$ 11,742	$ 10,936
Provision (reversal) for representation and warranties	450	18	298	(381)
Net charge-offs	(715)	(10)	(887)	(10)
Balance as of end of period	$ 11,153	$ 10,545	$ 11,153	$ 10,545

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 June 30, 2018, the Corporation serviced $16.1 billion in mortgage loans for third-parties, including the loans serviced with credit recourse (December 31, 2017 - $16.1 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 June 30, 2018, the outstanding balance of funds advanced by the Corporation under such mortgage loan servicing agreements was approximately $88 million (December 31, 2017 - $107 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 June 30, 2018 and December 31, 2017. In addition, at June 30, 2018 and December 31, 2017, PIHC fully and unconditionally guaranteed on a subordinated basis $427 million of capital securities (trust preferred securities) issued by wholly-owned issuing trust entities to the extent set forth in the applicable guarantee agreement. Refer to Note 22 to the Consolidated Financial Statements in the 2017 Form 10-K for further information on the trust preferred securities.

Note 21 Commitments and contingencies

Off-balance sheet risk

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

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

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

(In thousands)	June 30, 2018	December 31, 2017
Commitments to extend credit:		
Credit card lines	$ 4,420,602	$ 4,303,256
Commercial and construction lines of credit	2,500,468	3,011,673
Other consumer unused credit commitments	252,075	250,029
Commercial letters of credit	3,835	2,116
Standby letters of credit	28,107	33,633
Commitments to originate or fund mortgage loans	31,690	15,297

At June 30, 2018 and December 31, 2017, 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.

Business concentration

Since the Corporation s business activities are concentrated primarily in Puerto Rico, its results of operations and financial condition are dependent upon the general trends of the Puerto Rico economy and, in particular, the residential and commercial real estate markets. The concentration of the Corporation s operations in Puerto Rico exposes it to greater risk than other banking companies with a wider geographic base. Its asset and revenue composition by geographical area is presented in Note 33 to the Consolidated Financial Statements.

Puerto Rico is in the midst of a profound fiscal and economic crisis. In response to such crisis, the U.S. Congress enacted the Puerto Rico Oversight Management and Economic Stability Act (PROMESA) on June 30, 2016. PROMESA, among other things, (i) established a seven-member federally-appointed oversight board (the Oversight Board) with broad powers over the finances of the Commonwealth, its instrumentalities and municipalities, (ii) requires the Commonwealth (and any instrumentality thereof designated by the Oversight Board as a covered entity under PROMESA) to submit its budgets, and if the Oversight Board so requests, a fiscal plan for certification by the Oversight Board, and (iii) established two separate processes for the restructuring of the outstanding obligations of the Commonwealth, its instrumentalities and municipalities: (a) Title VI, a largely out-of-court process through which a government entity and its financial creditors can agree on terms to restructure such entity s debts, and (b) Title III, a court-supervised process for a comprehensive restructuring similar to Chapter 9 of the U.S. Bankruptcy Code.

The Oversight Board has designated a number of entities as covered entities under PROMESA, including the Commonwealth and all of its instrumentalities. While the Oversight Board has the power to designate any of the Commonwealth s municipalities as covered entities under PROMESA, it has not done so as of the date hereof. Pursuant to PROMESA, the Oversight Board certified fiscal plans for certain of these covered entities, including the Commonwealth, Government Development Bank for Puerto Rico (GDB) and several other public corporations in 2017. However, following the passage of Hurricanes Irma and Maria, the Oversight Board requested the submission of new fiscal plans for such entities. The Oversight Board certified revised fiscal plans for the Commonwealth, GDB, the Puerto Rico Highways and Transportation Authority (HTA), the Puerto Rico Electric Power Authority (PREPA), the Puerto Rico Aqueduct and Sewer Authority and the University of Puerto Rico in 2018. Both last year s fiscal plans and the new certified fiscal plans indicate that the applicable government entities are unable to pay their outstanding obligations as currently scheduled, thus recognizing a need for a significant debt restructuring and/or write downs.

On May 3, 2017, the Oversight Board, on behalf of the Commonwealth, filed a petition in the U.S. District Court for the District of Puerto Rico to restructure the Commonwealth s obligations under Title III of PROMESA. The Oversight Board has subsequently filed analogous petitions with respect to the Puerto Rico Sales Tax Financing Corporation, the Employees Retirement System of the Government of the Commonwealth of Puerto Rico, HTA and PREPA. The Oversight Board has also authorized GDB to pursue a restructuring of its financial indebtedness under Title VI of PROMESA. As of the date hereof, these entities are the only entities for which the Oversight Board has sought to use the restructuring authority provided by PROMESA. However, the Oversight Board may use the restructuring authority of Title III or Title VI of PROMESA for other Commonwealth government entities, including its municipalities, in the future.

At June 30, 2018, the Corporation s direct exposure to the Puerto Rico government and its instrumentalities and municipalities amounted to $481 million, which was fully outstanding at quarter-end (compared to a direct exposure of approximately $484 million, which was fully outstanding at December 31, 2017). Of this amount, $434 million consists of loans and $47 million are securities ($435 million and $49 million at December 31, 2017). The entire amount outstanding at June 30, 2018 was obligations from various Puerto Rico municipalities. In most cases, these are general obligations of a municipality, to which the applicable municipality has pledged its good faith, credit and unlimited taxing power, or special obligations of a municipality, to which the applicable municipality has pledged other revenues. At June 30, 2018, 74% of the Corporation s exposure to municipal loans and securities was concentrated in the municipalities of San Juan, Guaynabo, Carolina and Bayamón. On July 2, 2018 the Corporation received principal payments amounting to $23 million from various obligations from Puerto Rico municipalities.

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

(In thousands)	Investment Portfolio	Loans	Total Outstanding	Total Exposure
Central Government				
After 1 to 5 years	$ 4	$	$ 4	$ 4
After 5 to 10 years	9		9	9
After 10 years	47		47	47
Total Central Government	60		60	60
Government Development Bank (GDB)				
Within 1 year	3		3	3
Total Government Development Bank (GDB)	3		3	3
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	3,445	9,454	12,899	12,899

After 1 to 5 years	16,195	196,369	212,564	212,564
After 5 to 10 years	26,140	106,573	132,713	132,713
After 10 years	1,025	122,038	123,063	123,063
Total Municipalities	46,805	434,434	481,239	481,239
Total Direct Government Exposure	$ 46,872	$ 434,434	$ 481,306	$ 481,306

In addition, at June 30, 2018, the Corporation had $378 million in loans or securities issued or guaranteed by Puerto Rico governmental entities whose principal source of repayment is non-governmental. In such obligations, the Puerto Rico government entity guarantees any shortfall in collateral in the event of borrower default ($386 million at December 31, 2017). These included $303 million in residential mortgage loans guaranteed by the Puerto Rico Housing Finance Authority (HFA), an entity that has been designated as a covered entity under PROMESA (December 31, 2017 - $310 million). These mortgage loans are secured by the underlying properties and the HFA guarantee serve to cover shortfalls in collateral in the event of a borrower default. Although the Governor is currently authorized by local legislation to impose a temporary moratorium on the financial obligations of the HFA, he has not exercised this power as of the date hereof. Also, at June 30, 2018 and December 31, 2017, the Corporation had $44 million in Puerto Rico housing bonds issued by HFA, which are secured by second mortgage loans on Puerto Rico residential properties, and for which HFA also provides a guarantee to cover shortfalls, $7 million in pass-through securities issued by HFA that have been economically defeased and refunded and for which collateral including U.S. agencies and Treasury obligations has been escrowed, and $24 million of commercial real estate notes issued by government entities, but payable from rent paid by third parties at June 30, 2018 (December 31, 2017 $25 million).

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

The Corporation has operations in the United States Virgin Islands (the USVI) and has approximately $79 million in direct exposure to USVI government entities. The USVI has been experiencing a number of fiscal and economic challenges that could adversely affect the ability of its public corporations and instrumentalities to service their outstanding debt obligations.

Legal Proceedings

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

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

In certain cases, exposure to loss exists in excess of the accrual to the extent such loss is reasonably possible, but not probable. Management believes and estimates that the 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 $26.4 million as of June 30, 2018. For certain other cases, management cannot reasonably estimate the possible loss at this time. Any estimate involves significant judgment, given the varying stages of the Legal Proceedings (including the fact that many of them are currently in preliminary stages), the existence of multiple defendants in several of the current Legal Proceedings whose share of liability has yet to be determined, the numerous unresolved issues in many of the Legal Proceedings, and the inherent uncertainty of the various potential outcomes of such Legal Proceedings. Accordingly, management s estimate will change from time-to-time, and actual losses may be more or less than the current estimate.

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

Set forth below is a description of the Corporation s significant legal proceedings.

BANCO POPULAR DE PUERTO RICO

Hazard Insurance Commission-Related Litigation

Popular, Inc., BPPR and Popular Insurance, LLC (the Popular Defendants) have been named defendants in a putative class action complaint captioned Perez DÍaz v. Popular, Inc., et al, filed before the Court of First Instance, Arecibo Part. The complaint seeks damages and preliminary and permanent injunctive relief on behalf of the purported class against the Popular Defendants, as well as Antilles Insurance Company and MAPFRE-PRAICO Insurance Company (the Defendant Insurance Companies). Plaintiffs allege that the Popular Defendants have been unjustly enriched by failing to reimburse them for commissions paid by the Defendant Insurance Companies to the insurance agent and/or mortgagee for policy years when no claims were filed against their hazard insurance policies. They demand the reimbursement to the purported class of an estimated $400 million plus legal interest, for the good experience commissions allegedly paid by the Defendant Insurance Companies during the relevant time period, as well as injunctive relief seeking to enjoin the Defendant Insurance Companies from paying commissions to the insurance agent/mortgagee and ordering them to pay those fees directly to the insured. A hearing on the request for preliminary injunction and other matters was held on February 15, 2017, as a result of which plaintiffs withdrew their request for preliminary injunctive relief. A motion for dismissal on the merits, which the Defendant Insurance Companies filed shortly before hearing, was denied with a right to replead following limited targeted discovery. On March 24, 2017, the Popular Defendants filed a certiorari petition with the Puerto Rico Court of Appeals seeking a review of the lower court s denial of the motion to dismiss. The Court of Appeals denied the Popular Defendant s request, and the Popular Defendants appealed this determination to the Puerto Rico Supreme Court, which declined review. Separately, a class certification hearing was held in June and the Court requested post-hearing briefs on this issue. On October 26, 2017, the Court entered an order whereby it broadly certified the class. At a hearing held on November 2, 2017, the Court encouraged the parties to reach agreement on discovery and class notification procedures. The Court further allowed defendants until January 4, 2018 to answer the complaint. On December 21, 2017, the Popular Defendants filed a certiorari petition before the Puerto Rico Court of Appeals in relation to the class certification, which plaintiffs opposed on January 9, 2018. On March 4, 2018, the Court of Appeals declined to entertain the certiorari petition. Plaintiffs sought to amend the complaint and defendants filed an answer thereto. A follow-up hearing was held on March 6, 2018 where discovery procedures were discussed; another hearing is set for August 2018. The case is now in its discovery stage.

BPPR has separately been named a defendant in a putative class action complaint captioned Ramirez Torres, et al. v. Banco Popular de Puerto Rico, et al, filed before the Puerto Rico Court of First Instance, San Juan Part. The complaint seeks damages and preliminary and permanent injunctive relief on behalf of the purported class against the same Popular Defendants, as well as other financial institutions with insurance brokerage subsidiaries in Puerto Rico. Plaintiffs essentially contend that in November 2015, Antilles Insurance Company obtained approval from the Puerto Rico Insurance Commissioner to market an endorsement that allowed its customers to obtain reimbursement on their insurance deductible for good experience, but that defendants failed to offer this product or disclose its existence to their customers, favoring other products instead, in violation of their duties as insurance brokers. Plaintiffs seek a determination that defendants unlawfully failed to comply with their duty to disclose the existence of this new insurance product, as well as double or treble damages (the latter subject to a determination that defendants engaged in anti-monopolistic practices in failing to offer this product). Between late March and early April, co-defendants filed motions to dismiss the complaint and opposed the request for preliminary injunctive relief. A co-defendant filed a third-party Complaint against Antilles Insurance Company. A preliminary injunction and class certification hearing originally scheduled for April 6th was subsequently postponed, pending resolution of the motions to dismiss. On July 31, 2017, the Court dismissed the complaint with prejudice. In August 2017, plaintiffs appealed this judgment and, on March 21, 2018, the Court of Appeals reversed the Court of First Instance s dismissal. On May 18, 2018, defendants each filed Petitions of Certiorari to the Puerto Rico Supreme Court. The Petitions of Certiorari were all denied on June

26, 2018 and all parties but BPPR filed a timely Motion for Reconsideration of such denial. Those Motions for Reconsideration are still pending.

Mortgage-Related Litigation and Claims

BPPR has been named a defendant in a putative class action captioned Lilliam González Camacho, et al. v. Banco Popular de Puerto Rico, et al., filed before the United States District Court for the District of Puerto Rico on behalf of mortgage-holders who have allegedly been subjected to illegal foreclosures and/or loan modifications through their mortgage servicers. Plaintiffs maintain that when they sought to reduce their loan payments, defendants failed to provide them with such reduced loan payments, instead subjecting them to lengthy loss mitigation processes while filing foreclosure claims against them in parallel. Plaintiffs assert that such actions violate the Home Affordable Modification Program (HAMP), the Home Affordable Refinance Program (HARP) and other federally sponsored loan modification programs, as well as the Puerto Rico Mortgage Debtor Assistance Act and the Truth in Lending Act (TILA). For the alleged violations stated above, Plaintiffs request that all Defendants (over 20, including all local banks), be held jointly and severally liable in an amount no less than $400 million. BPPR waived service of process in June and filed a motion to dismiss in August 2017, as did most co-defendants. On March 28, 2018, the Court dismissed the complaint in its entirety. On April 9, 2018, plaintiffs filed a motion for reconsideration of such dismissal, which is still pending before the Court.

BPPR has also been named a defendant in two separate putative class actions captioned Costa Dorada Apartment Corp., et al. v. Banco Popular de Puerto Rico, et al., and Yiries Josef Saad Maura v. Banco Popular, et al., filed by the same counsel who filed the González Camacho action referenced above, on behalf of commercial and residential customers of the defendant banks who have allegedly been subject to illegal foreclosures and/or loan modifications through their mortgage servicers. As in González Camacho, plaintiffs contend that when they sought to reduce their loan payments, defendants failed to provide them with such reduced loan payments, instead subjecting them to lengthy loss mitigation processes while filing foreclosure claims against them in parallel (dual tracking), all in violation of TILA, the Real Estate Settlement Procedures Act (RESPA), the Equal Credit Opportunity Act (ECOA), the Fair Credit Reporting Act (FCRA), the Fair Debt Collection Practices Act (FDCPA) and other consumer-protection laws and regulations. They demand approximately $1 billion (in Costa Dorada) and unspecified damages (in Saad Maura). Banco Popular was never served with summons in relation to the Costa Dorada Matter and Plaintiffs filed a notice of voluntary dismissal on March 12, 2018. On January 3, 2018, plaintiffs in the Saad Maura case requested that Banco Popular waive service of process, which it agreed to do on February 1, 2018. BPPR subsequently filed a motion to dismiss the complaint on the same grounds as those asserted in the Gonzalez Camacho action (as did most co-defendants, separately). BPPR further filed a motion to oppose class certification. These motions are still pending.

BPPR has been named a defendant in a complaint for damages and breach of contract captioned Héctor Robles Rodriguez et al. v. Municipio de Ceiba, et al. Plaintiffs are residents of a development called Hacienda Las Lomas. Through the Doral Bank-FDIC assisted transaction, BPPR acquired a significant number of mortgage loans within this development and is currently the primary creditor in the project. Plaintiffs claim damages against the developer, contractor, the relevant insurance companies, and most recently, their mortgage lenders, because of a landslide that occurred in October 2015, affecting various streets and houses within the development. Plaintiffs specifically allege that the mortgage lenders, including BPPR, should be deemed liable for their alleged failure to properly inspect the subject properties. Plaintiffs demand in excess of $30 million in damages and the annulment of their mortgage deeds. BPPR extended plaintiffs three consecutive six-month payment forbearances, the last of which is still in effect, and has recently engaged in preliminary settlement discussions with plaintiffs. In November 2017, the FDIC notified BPPR that it had agreed to indemnify the Bank in connection with its Doral-related exposure, pursuant to the terms of the relevant Purchase and Assumption Agreement. The FDIC filed a Notice of Removal to the United States District Court (USDC) on March 27, 2018, and, on April 11th, the state court stayed these proceedings in response thereto. On April 13, 2018, the FDIC requested the USDC to stay the proceedings until Plaintiffs have exhausted administrative remedies. This motion is still pending, along with several motions for remand to state court filed by plaintiffs.

Mortgage-Related Investigations

The Corporation and its subsidiaries from time to time receive requests for information from departments of the U.S. government that investigate mortgage-related conduct. In particular, BPPR has received subpoenas and other requests for information from the Federal Housing Finance Agency s Office of the Inspector General, the Civil Division of the Department of Justice, the Special Inspector General for the Troubled Asset Relief Program and the Federal Department of Housing and Urban Development s Office of the Inspector General mainly concerning real estate appraisals and residential and construction loans in Puerto Rico. The Corporation is cooperating with these requests and is in discussions with the relevant U.S. government departments regarding the resolution of such matters. There can be no assurances as to the outcome of those discussions.

Separately, in July 2017, management learned that certain letters generated by the Corporation to comply with Consumer Financial Protection Bureau (CFPB) rules requiring written notification to borrowers who have submitted a loss mitigation application were not mailed to borrowers over a period of up to approximately three-years due to a systems interface error. Loss mitigation is a process whereby creditors work with mortgage loan borrowers who are having difficulties making their loan payments on their debt. The loss mitigation process applies both to mortgage loans held by the Corporation and to mortgage loans serviced by the Corporation for third parties. The Corporation has corrected the systems interface error that caused the letters not to be sent.

The Corporation notified applicable regulators and conducted a review of its mortgage files to assess the scope of potential customer impact. The review has been completed. The review found that while the mailing error extended to approximately 23,000 residential mortgage loans (approximately 50% of which are serviced by the Corporation for third parties), the number of borrowers actually harmed by the mailing error was substantially lower. This was due to, among other things, the fact that the Corporation regularly uses means other than the mail to communicate with borrowers, including email and hand delivery of written notices at our mortgage servicing centers or bank branches. Importantly, more than half of all borrowers potentially subject to such error actually closed on a loss mitigation alternative.

During the fourth quarter of 2017, the Corporation began outreach to potentially affected borrowers with outstanding loans. These efforts are substantially complete; however, outreach to certain borrowers whose loans require special handling is still in progress. Such borrowers include for example, those in bankruptcy. The Corporation is engaged in ongoing dialogue with applicable regulators with respect to this matter, including remediation plans. At this point, we are not able to estimate the financial impact of the failure to mail the loss mitigation notices.

Other Significant Proceedings

In June 2017, a syndicate comprised of BPPR and other local banks (the Lenders) filed an involuntary Chapter 11 bankruptcy proceeding against Betteroads Asphalt and Betterecycling Corporation (the Involuntary Debtors). This filing followed attempts by the Lenders to restructure and resolve the Involuntary Debtors obligations and outstanding defaults under a certain credit agreement, first through good faith negotiations and subsequently, through the filing of a collection action against the Involuntary Debtors in local court. The involuntary debtors subsequently counterclaimed, asserting damages in excess of $900 million. The Lenders ultimately joined in the commencement of these involuntary bankruptcy proceedings against the Debtors in order to preserve and recover the Involuntary Debtors assets, having confirmed that the Involuntary Debtors were transferring assets out of their estate for little or no consideration. The Involuntary Debtors subsequently filed a motion to dismiss the proceedings and for damages against the syndicate, arguing both that this petition was filed in bad faith and that there was a bona fide dispute as to the petitioners claims, as set forth in the counterclaim filed by the Involuntary Debtors in local court. The court allowed limited discovery to take place prior to an evidentiary hearing to determine the merits of debtors motion to dismiss. At a hearing held in November 2017, the Court determined that it was inclined to rule against the dismissal of the complaint but requested that the parties submit supplemental briefs on the subject, which the parties did; however, no decision has been rendered to date. Discovery is ongoing.

POPULAR SECURITIES

Puerto Rico Bonds and Closed-End Investment Funds

The volatility in prices and declines in value that Puerto Rico municipal bonds and closed-end investment companies that invest primarily in Puerto Rico municipal bonds have experienced since August 2013 have led to regulatory inquiries, customer complaints and arbitrations for most broker-dealers in Puerto Rico, including Popular Securities. Popular Securities has received customer complaints and is named as a respondent (among other broker-dealers) in 130 arbitration proceedings with aggregate claimed amounts of approximately $255 million, including one arbitration with claimed damages of approximately $78 million in which another Puerto Rico broker-dealer is a co-defendant. While Popular Securities believes it has meritorious defenses to the claims asserted in these proceedings, it has often determined that it is in its best interest to settle such claims rather than expend the money and resources required to see such cases to completion. The Government s defaults and non-payment of its various debt obligations, as well as the Commonwealth s and the Financial Oversight Management Board s decision to pursue restructurings under Title III and Title VI of PROMESA, have increased and may continue to increase the number of customer complaints (and claimed damages) filed against Popular Securities concerning Puerto Rico bonds, including bonds issued by COFINA and GDB, and closed-end investment companies that invest primarily in Puerto Rico bonds. An adverse result in the arbitration proceedings described above, or a significant increase in customer complaints, could have a material adverse effect on Popular.

Subpoenas for Production of Documents in relation to PROMESA Title III Proceedings

Popular Securities has, together with Popular, Inc. and BPPR (collectively, the Popular Companies) filed an appearance in connection with the Commonwealth of Puerto Rico s pending Title III bankruptcy proceeding. Its appearance was prompted by a request by the Commonwealth s Unsecured Creditors Committee (UCC) to allow a broad discovery program under Rule 2004 to investigate, among other things, the causes of the Puerto Rico financial crisis. The Rule 2004 request sought broad discovery not only from the Popular Companies, but also from Banco Santander de Puerto Rico (Santander) and others, spanning in excess of eleven (11) years. The PROMESA Oversight Board, as well as the Popular Companies and Santander, opposed the UCC s request. Magistrate Dein denied the UCC s request without prejudice to allow the law firm of Kobre & Kim to carry out its own independent investigation on behalf of the PROMESA Oversight Board.

The Popular Companies have separately been served with additional requests for the preservation and voluntary production of certain documents and witnesses from the UCC and the COFINA Agents in connection with the COFINA-Commonwealth adversary complaint, as well as from the Oversight Board s Independent Investigator, Kobre & Kim, with respect to its ongoing independent investigation. The Popular Companies are cooperating with all such requests but have asked that such requests be submitted in the form of a subpoena to address privacy and confidentiality considerations pertaining to some of the documents involved in the production. At a hearing held on July 25th, 2018, Judge Swain ratified Kobre & Kim s exit plan with respect to documents gathered in the course of its independent investigation, including those materials produced by the Popular Companies. Kobre & Kim s final report is due in August 2018.

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POPULAR BANK

Josefina Valle v. Popular Community Bank (now Popular Bank)

PB 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, PB customers, allege among other things that PB 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 PB improperly disclosed its consumer overdraft policies and that the overdraft rates and fees assessed by PB 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. After several procedural steps that included a ruling partially granting PB s motion to dismiss and the filing of an amended complaint that was also partially dismissed, on August 12, 2015, Plaintiffs filed a second amended complaint. On September 17, 2015, PB filed a motion to dismiss the second amended complaint and on February 18, 2016, the Court granted it in part and denied it in part, dismissing 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, PB filed an answer to the second amended complaint. On April 7, 2016, PB filed a notice of appeal on the partial denial of PB s motion to dismiss and after briefing and the holding of oral argument, on April 25, 2017, the Appellate Division issued an order denying PB s appeal. On November 13, 2017, the parties reached an agreement in principle. Under this agreement, subject to certain customary conditions including court approval of a final settlement agreement in consideration for the full settlement and release of defendant, an amount up to $5.2 million will be paid to qualified claimants. In March 2018, the Court entered an order for the preliminary approval of the settlement. On July 23, 2018, the claims process closed and, on August 6, 2018, the Court granted its final approval of the settlement agreement.

Eugene Duncan v. Popular North America

Popular North America was named a defendant in a putative class action complaint captioned Duncan v. Popular North America, filed on January 29, 2018 in the United States District Court for the Eastern District of New York. The complaint generally asserted that Popular North America (PNA) failed to design, construct, maintain and operate its website to be fully accessible to and independently usable by plaintiff and other blind or visually-impaired people, and that PNA s denial of full and equal access to its website, and therefore to its products and services, violates the Americans with Disabilities Act. Plaintiff sought a permanent injunction to cause a change in defendant s allegedly unlawful corporate policies, practices and procedures so that its website becomes and remains accessible to blind and visually impaired customers. The parties reached a final settlement regarding this matter in the second quarter of 2018.

Note 22 Non-consolidated variable interest entities

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

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

The Corporation holds variable interests in these VIEs in the form of agency mortgage-backed securities and collateralized mortgage obligations, including those securities originated by the Corporation and those acquired from third parties. Additionally, the Corporation holds agency mortgage-backed securities and agency collateralized mortgage obligations issued by third party VIEs in which it has no other form of continuing involvement. Refer to Note 24 to the Consolidated Financial Statements for additional information on the debt securities outstanding at June 30, 2018 and December 31, 2017, 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 June 30, 2018 and December 31, 2017.

(In thousands)	June 30, 2018	December 31, 2017
Assets		
Servicing assets:		
Mortgage servicing rights	$ 132,404	$ 132,692
Total servicing assets	$ 132,404	$ 132,692
Other assets:		
Servicing advances	$ 35,184	$ 47,742
Total other assets	$ 35,184	$ 47,742

Total assets	$	167,588	$	180,434
Maximum exposure to loss	$	167,588	$	180,434

The size of the non-consolidated VIEs, in which the Corporation has a variable interest in the form of servicing fees, measured as the total unpaid principal balance of the loans, amounted to $11.0 billion at June 30, 2018 (December 31, 2017 $11.7 billion).

The Corporation determined that the maximum exposure to loss includes the fair value of the MSRs and the assumption that the servicing advances at June 30, 2018 and December 31, 2017, will not be recovered. The agency debt securities are not included as part of the maximum exposure to loss since they are guaranteed by the related agencies.

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

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

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

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

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

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

The following tables present the carrying amount and classification of the assets and liabilities related to the Corporation s variable interests in the non-consolidated VIEs, PRLP 2011 Holdings, LLC and PR Asset Portfolio 2013-1 International, LLC, and their maximum exposure to loss at June 30, 2018 and December 31, 2017.

	PRLP 2011 Holdings, LLC		PR Asset Portfolio 2013-1 International, LLC	
(In thousands)	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Assets				
Other assets:				
Equity investment	$ 6,887	$ 7,199	$ 6,443	$ 12,874
Total assets	$ 6,887	$ 7,199	$ 6,443	$ 12,874
Liabilities				

Deposits	$ (831)	$ (20)	$ (10,625)	$ (10,501)
Total liabilities	$ (831)	$ (20)	$ (10,625)	$ (10,501)
Total net assets	$ 6,056	$ 7,179	$ (4,182)	$ 2,373
Maximum exposure to loss	$ 6,056	$ 7,179	$	$ 2,373

The Corporation determined that the maximum exposure to loss under a worst case scenario at June 30, 2018 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 June 30, 2018.

Note 23 Related party transactions

The Corporation considers its equity method investees as related parties. The following provides information on transactions with equity method investees considered related parties.

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 June 30, 2018, the Corporation s stake in EVERTEC was 16.03%. 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.

During the six months ended June 30, 2018, there were no dividend distributions received by the Corporation from its investments in EVERTEC s holding company (June 30, 2017 - $ 2.3 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)	June 30, 2018	December 31, 2017
Equity investment in EVERTEC	$ 55,347	$ 47,532

The Corporation had the following financial condition balances outstanding with EVERTEC at June 30, 2018 and December 31, 2017. Items that represent liabilities to the Corporation are presented with parenthesis.

(In thousands)	June 30, 2018	December 31, 2017
Accounts receivable (Other assets)	$ 6,527	$ 6,830
Deposits	(20,924)	(22,284)
Accounts payable (Other liabilities)	(3,257)	(2,040)
Net total	$ (17,654)	$ (17,494)

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 six months ended June 30, 2018 and 2017.

(In thousands)	Quarter ended June 30, 2018	Six months ended June 30, 2018
Share of income from the investment in EVERTEC	$ 3,200	$ 6,904
Share of other changes in EVERTEC s stockholders equity	506	635

Share of EVERTEC s changes in equity recognized in income	$ 3,706	$ 7,539

(In thousands)	Quarter ended June 30, 2017	Six months ended June 30, 2017
Share of income from the investment in EVERTEC	$ 3,243	$ 6,943
Share of other changes in EVERTEC s stockholders equity	1,049	1,668
Share of EVERTEC s changes in equity recognized in income	$ 4,292	$ 8,611

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 six months ended June 30, 2018 and 2017. Items that represent expenses to the Corporation are presented with parenthesis.

(In thousands)	Quarter ended June 30, 2018	Six months ended June 30, 2018	Category
Interest expense on deposits	$ (14)	$ (25)	Interest expense
ATH and credit cards interchange income from services to EVERTEC	8,472	16,454	Other service fees
Rental income charged to EVERTEC	1,751	3,516	Net occupancy
Processing fees on services provided by EVERTEC	(48,525)	(94,083)	Professional fees
Other services provided to EVERTEC	291	605	Other operating expenses
Total	$ (38,025)	$ (73,533)	

(In thousands)	Quarter ended June 30, 2017	Six months ended June 30, 2017	Category
Interest expense on deposits	$ (12)	$ (21)	Interest expense
ATH and credit cards interchange income from services to EVERTEC	7,929	15,595	Other service fees
Rental income charged to EVERTEC	1,623	3,382	Net occupancy
Processing fees on services provided by EVERTEC	(46,064)	(88,434)	Professional fees
Other services provided to EVERTEC	343	609	Other operating expenses
Total	$ (36,181)	$ (68,869)	

PRLP 2011 Holdings LLC

As indicated in Note 22 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.

(In thousands)	June 30, 2018	December 31, 2017
Equity investment in PRLP 2011 Holdings, LLC	$ 6,887	$ 7,199

The Corporation had the following financial condition balances outstanding with PRLP 2011 Holdings, LLC at June 30, 2018 and December 31, 2017.

(In thousands)	June 30, 2018	December 31, 2017
Deposits (non-interest bearing)	$ (831)	$ (20)

The Corporation s proportionate share of income or loss from PRLP 2011 Holdings, LLC is included in other operating income in the Consolidated Statements of Operations. The following table presents the Corporation s proportionate share of loss from PRLP 2011 Holdings, LLC for the quarters and six months ended June 30, 2018 and 2017.

(In thousands)	Quarter ended June 30, 2018	Six months ended June 30, 2018
Share of loss from the equity investment in PRLP 2011 Holdings, LLC	$ (53)	$ (312)

(In thousands)	Quarter ended June 30, 2017	Six months ended June 30, 2017
Share of loss from the equity investment in PRLP 2011 Holdings, LLC	$ (398)	$ (909)

No capital distributions were received by the Corporation from its investment in PRLP 2011 Holdings, LLC during the six months ended June 30, 2018 and 2017. There were no transactions between the Corporation and PRLP 2011 Holdings, LLC during the quarters ended June 30, 2018 and 2017.

PR Asset Portfolio 2013-1 International, LLC

As indicated in Note 22 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.

(In thousands)	June 30, 2018	December 31, 2017
Equity investment in PR Asset Portfolio 2013-1 International, LLC	$ 6,443	$ 12,874

The Corporation had the following financial condition balances outstanding with PR Asset Portfolio 2013-1 International, LLC at June 30, 2018 and December 31, 2017.

(In thousands)	June 30, 2018	December 31, 2017
Deposits	$ (10,625)	$ (10,501)

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 six months ended June 30, 2018 and 2017.

(In thousands)	Quarter ended June 30, 2018	Six months ended June 30, 2018
Share of loss from the equity investment in PR Asset Portfolio 2013-1 International, LLC	$ (53)	$ (5,409)

(In thousands)	Quarter ended June 30, 2017	Six months ended June 30, 2017
Share of income from the equity investment in PR Asset Portfolio 2013-1 International, LLC	$ 302	$ 149

During the six months ended June 30, 2018, the Corporation received $ 1.0 million in capital distributions from its investment in PR Asset Portfolio 2013-1 International, LLC (June 30, 2017 $ 3.4 million). The Corporation received $0.7 million in dividend distributions during the six months ended June 30, 2017, which were declared by PR Asset Portfolio 2013-1 International, LLC during the quarter ended December 31, 2016. The following table presents transactions between the Corporation and PR Asset Portfolio 2013-1 International, LLC and their impact on the Corporation s results of operations for the quarters and six months ended June 30, 2018 and 2017.

(In thousands)	Quarter ended June 30, 2018	Six months ended June 30, 2018	Category
Interest expense on deposits	(5)	(11)	Interest expense
Total	$ (5)	$ (11)	

(In thousands)	Quarter ended June 30, 2017	Six months ended June 30, 2017	Category
Interest income on loan to PR Asset Portfolio 2013-1 International, LLC	$	$ 9	Interest income
Interest expense on deposits	(11)	(15)	Interest expense
Total	$ (11)	$ (6)	

Centro Financiero BHD León

At June 30, 2018, 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 six months ended June 30, 2018, the Corporation recorded $ 15.8 million in earnings from its investment in BHD Leon (June 30, 2017 $ 11.8 million), which had a carrying amount of $ 134.3 million at June 30, 2018 (December 31, 2017 $ 135.0 million). As of December 31, 2016, BPPR had extended a credit facility of $ 50 million to BHD León with an outstanding balance of $ 25 million. This credit facility was repaid and expired during March 2017. On December 2017, BPPR extended a credit facility of $ 40 million to BHD León. This credit facility was repaid during the quarter ended March 31, 2018. The Corporation received $ 12.6 million in dividend distributions during the six months ended June 30, 2018 from its investment in BHD Leon (June 30, 2017 $ 11.8 million).

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

Puerto Rico Investment Companies

The Corporation provides advisory services to several Puerto Rico investment companies in exchange for a fee. The Corporation also provides administrative, custody and transfer agency services to these investment companies. These fees are calculated at an annual rate of the average net assets of the investment company, as defined in each agreement. Due to its advisory role, the Corporation considers these investment companies as related parties.

For the six months ended June 30, 2018 administrative fees charged to these investment companies amounted to $ 3.4 million (June 30, 2017 - $ 3.9 million) and waived fees amounted to $ 1.1 million (June 30, 2017 - $ 1.1 million), for a net fee of $ 2.3 million (June 30, 2017 - $ 2.8 million).

The Corporation, through its subsidiary Banco Popular de Puerto Rico, has also entered into lines of credit facilities with these companies. As of June 30, 2018, the available lines of credit facilities amounted to $341 million (December 31, 2017 - $356 million). The aggregate sum of all outstanding balances under all credit facilities that may be made available by BPPR, from time to time, to those Puerto Rico investment companies for which BPPR acts as investment advisor or co-investment advisor, shall never exceed the lesser of $200 million or 10% of BPPR s capital. At June 30, 2018 there was no outstanding balance for these credit facilities.

Note 24 Fair value measurement

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

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

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

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

The Corporation maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Fair value is based upon quoted market prices when available. If listed prices or quotes are not available, the Corporation employs internally-developed models that primarily use market-based inputs including yield curves, interest rates, volatilities, and credit curves, among others. Valuation adjustments are limited to those necessary to ensure that the financial instrument s fair value is adequately representative of the price that would be received or paid in the marketplace. These adjustments include amounts that reflect counterparty credit quality, the Corporation s credit standing, constraints on liquidity and unobservable parameters that are applied consistently. There have been no changes in the Corporation s methodologies used to estimate the fair value of assets and liabilities from those disclosed in the 2017 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 June 30, 2018 and December 31, 2017:

	At June 30, 2018			
(In thousands)	Level 1	Level 2	Level 3	Total
RECURRING FAIR VALUE MEASUREMENTS				
Assets				
Debt securities available-for-sale:				
U.S. Treasury securities	$ 552,388	$ 4,424,577	$	$ 4,976,965
Obligations of U.S. Government sponsored entities		531,876		531,876
Obligations of Puerto Rico, States and political subdivisions		6,643		6,643
Collateralized mortgage obligations federal agencies		809,669		809,669
Mortgage-backed securities		4,214,912	1,264	4,216,176
Other		681		681
Total debt securities available-for-sale	$ 552,388	$ 9,988,358	$ 1,264	$ 10,542,010
Trading account debt securities, excluding derivatives:				
U.S. Treasury securities	$ 4,956	$	$	$ 4,956
Obligations of Puerto Rico, States and political subdivisions		180		180
Collateralized mortgage obligations		50	670	720
Mortgage-backed securities		32,256	43	32,299
Other		2,976	506	3,482
Total trading account debt securities, excluding derivatives	$ 4,956	$ 35,462	$ 1,219	$ 41,637
Equity securities	$	$ 12,798	$	$ 12,798
Mortgage servicing rights			164,025	164,025
Derivatives		15,763		15,763
Total assets measured at fair value on a recurring basis	$ 557,344	$ 10,052,381	$ 166,508	$ 10,776,233
Liabilities				
Derivatives	$	$ (14,223)	$	$ (14,223)
Total liabilities measured at fair value on a recurring basis	$	$ (14,223)	$	$ (14,223)

(In thousands)	At December 31, 2017 Level 1	Level 2	Level 3	Total
RECURRING FAIR VALUE MEASUREMENTS				
Assets				
Debt securities available-for-sale:				
U.S. Treasury securities	$ 503,385	$ 3,424,779	$	$ 3,928,164
Obligations of U.S. Government sponsored entities		608,933		608,933
Obligations of Puerto Rico, States and political subdivisions		6,609		6,609
Collateralized mortgage obligations federal agencies		943,753		943,753
Mortgage-backed securities		4,687,374	1,288	4,688,662
Other		802		802
Total debt securities available-for-sale	$ 503,385	$ 9,672,250	$ 1,288	$ 10,176,923
Trading account debt securities, excluding derivatives:				
U.S. Treasury securities	$ 261	$	$	$ 261
Obligations of Puerto Rico, States and political subdivisions		159		159
Collateralized mortgage obligations			529	529
Mortgage-backed securities		29,237	43	29,280
Other		2,988	529	3,517
Total trading account debt securities, excluding derivatives	$ 261	$ 32,384	$ 1,101	$ 33,746
Equity securities	$	$ 11,076	$	$ 11,076
Mortgage servicing rights			168,031	168,031
Derivatives		16,719		16,719
Total assets measured at fair value on a recurring basis	$ 503,646	$ 9,732,429	$ 170,420	$ 10,406,495
Liabilities				
Derivatives	$	$ (14,431)	$	$ (14,431)
Contingent consideration			(164,858)	(164,858)
Total liabilities measured at fair value on a recurring basis	$	$ (14,431)	$ (164,858)	$ (179,289)

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 quarters and six months ended June 30, 2018 and 2017 and excludes nonrecurring fair value measurements of assets no longer outstanding as of the reporting date.

	Six months ended June 30, 2018				
(In thousands)	Level 1	Level 2	Level 3	Total	
NONRECURRING FAIR VALUE MEASUREMENTS					
Assets					Write-downs
Loans[1]	$	$	$ 84,075	$ 84,075	$ (18,767)
Other real estate owned[2]			33,457	33,457	(6,967)
Other foreclosed assets[2]			2,597	2,597	(970)
Total assets measured at fair value on a nonrecurring basis	$	$	$ 120,129	$ 120,129	$ (26,704)

[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.

(In thousands)	Six moths ended June 30, 2017 Level 1	Level 2	Level 3	Total	Write-downs
NONRECURRING FAIR VALUE MEASUREMENTS					
Assets					
Loans[1]	$	$	$ 61,328	$ 61,328	$ (16,546)
Other real estate owned[2]			110,676	110,676	(14,760)
Other foreclosed assets[2]			1,682	1,682	(185)
Total assets measured at fair value on a nonrecurring basis	$	$	$ 173,686	$ 173,686	$ (31,491)

[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.

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the quarters and six months ended June 30, 2018 and 2017.

(In thousands)	Quarter ended June 30, 2018 MBS classified as debt securities available-for-sale	CMOs classified as trading account debt securities	MBS classified as trading account debt securities	Other securities classified as trading account debt securities	Mortgage servicing rights	Total assets	Contingent consideration[1]	Total liabilities
Balance at March 31, 2018	$ 1,263	$ 488	$ 43	$ 519	$ 166,281	$ 168,594	$ (170,970)	$ (170,970)
Gains (losses) included in earnings		6		(13)	(4,622)	(4,629)		
Gains (losses) included in OCI	1					1		
Additions		237			2,366	2,603		
Settlements		(61)				(61)	170,970	170,970
Balance at June 30, 2018	$ 1,264	$ 670	$ 43	$ 506	$ 164,025	$ 166,508	$	$
Changes in unrealized gains (losses) included in earnings relating to assets still held at June 30, 2018	$	$ 6	$	$ 6	$	$ 12	$	$

[1] Effective May 22, 2018, the Corporation entered into a Termination Agreement with the FDIC to terminate the Corporation s loss share arrangement ahead of their contractual maturities. Refer to Note 9 for additional information.

	Six months ended June 30, 2018							
(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[1]	Total liabilities
Balance at January 1, 2018	$ 1,288	$ 529	$ 43	$ 529	$ 168,031	$ 170,420	$ (164,858)	$ (164,858)
Gains (losses) included in earnings		6		(23)	(8,929)	(8,946)	(6,112)	(6,112)
Gains (losses) included in OCI	2					2		
Additions		253			4,923	5,176		
Settlements	(26)	(118)				(144)	170,970	170,970
Balance at June 30, 2018	$ 1,264	$ 670	$ 43	$ 506	$ 164,025	$ 166,508	$	$
Changes in unrealized gains (losses) included in earnings relating to assets still held at June 30, 2018	$	$ 6	$	$ 11	$	$ 17	$	$

[1] Effective May 22, 2018, the Corporation entered into a Termination Agreement with the FDIC to terminate the Corporation s loss share arrangement ahead of their contractual maturities. Refer to Note 9 for additional information.

	Quarter ended June 30, 2017							
(In thousands)	MBS classified as debt securities available-for-sale	CMOs classified as trading account debt securities	MBS classified as trading account debt securities	Other securities classified as trading account debt securities	Mortgage servicing rights	Total assets	Contingent consideration	Total liabilities
Balance at March 31, 2017	$ 1,289	$ 1,061	$ 4,345	$ 583	$ 193,698	$ 200,976	$ (160,543)	$ (160,543)
Gains (losses) included in earnings		(1)	(4)	(26)	(8,046)	(8,077)	(3,125)	(3,125)
Additions		8	168		3,076	3,252		
Sales		(160)				(160)		
Settlements		(50)	(175)			(225)		
Balance at June 30, 2017	$ 1,289	$ 858	$ 4,334	$ 557	$ 188,728	$ 195,766	$ (163,668)	$ (163,668)
Changes in unrealized gains (losses) included in earnings relating to assets still held at June 30, 2017	$	$ (2)	$ 4	$ 12	$ (2,899)	$ (2,885)	$ (3,125)	$ (3,125)

	Six months ended June 30, 2017							
(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 January 1, 2017	$ 1,392	$ 1,321	$ 4,755	$ 602	$ 196,889	$ 204,959	$ (153,158)	$ (153,158)
Gains (losses) included in earnings		(5)	(47)	(45)	(14,000)	(14,097)	(10,510)	(10,510)
Gains (losses) included in OCI	10					10		
Additions		8	332		5,839	6,179		
Sales		(365)	(156)			(521)		
Settlements	(25)	(101)	(550)			(676)		
Transfers out of Level 3	(88)					(88)		
Balance at June 30, 2017	$ 1,289	$ 858	$ 4,334	$ 557	$ 188,728	$ 195,766	$ (163,668)	$ (163,668)
Changes in unrealized gains (losses) included in	$	$ (6)	$ (23)	$ 21	$ (3,622)	$ (3,630)	$ (10,510)	$ (10,510)

earnings relating to
assets still held at
June 30, 2017

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 quarter and six months ended June 30, 2018. There were no transfers in and /or out Level 1, Level 2, or Level 3 for financial instruments measured at fair value on a recurring basis during the quarter June 30, 2017. During the six months ended June 30, 2017, certain MBS amounting to $88 thousand, were transferred from Level 3 to Level 2 due to a change in valuation technique from an internally-prepared pricing matrix to a bond s theoretical value.

Gains and losses (realized and unrealized) included in earnings for the quarters and six months ended June 30, 2018 and 2017 for Level 3 assets and liabilities included in the previous tables are reported in the consolidated statement of operations as follows:

	Quarter ended June 30, 2018		Six months ended June 30, 2018	
(In thousands)	Total gains (losses) included in earnings	Changes in unrealized gains (losses) relating to assets still held at reporting date	Total gains (losses) included in earnings	Changes in unrealized gains (losses) relating to assets still held at reporting date
FDIC loss share expense	$	$	$ (6,112)	$
Mortgage banking activities	(4,622)		(8,929)	
Trading account profit (loss)	(7)	12	(17)	17
Total	$ (4,629)	$ 12	$ (15,058)	$ 17

(In thousands)	Quarter ended June 30, 2017 Total gains (losses) included in earnings	Quarter ended June 30, 2017 Changes in unrealized gains (losses) relating to assets still held at reporting date	Six months ended June 30, 2017 Total gains (losses) included in earnings	Six months ended June 30, 2017 Changes in unrealized gains (losses) relating to assets still held at reporting date
FDIC loss share expense	$ (3,125)	$ (3,125)	$ (10,510)	$ (10,510)
Mortgage banking activities	(8,046)	(2,899)	(14,000)	(3,622)
Trading account profit (loss)	(31)	14	(97)	(8)
Total	$ (11,202)	$ (6,010)	$ (24,607)	$ (14,140)

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 June 30, 2018	Valuation technique	Unobservable inputs	Weighted average (range)
CMO s trading	$ 670	Discounted cash flow model	Weighted average life	2.0 years (1.4 2.2 years)
			Yield	3.8% (3.7% 4.2%)
			Prepayment speed	19.3% (16.6% 21.4%)
Other trading	$ 506	Discounted cash flow model	Weighted average life	5.2 years
			Yield	12.2%
			Prepayment speed	10.8%
Mortgage servicing rights	$ 164,025	Discounted cash flow model	Prepayment speed	4.7% (0.2% 15.9%)
			Weighted average life	7.1 years (0.1 16.6 years)
			Discount rate	11.2% (9.5% 15.0%)
Loans held-in-portfolio	$ 76,984 [1]	External appraisal	Haircut applied on external appraisals	12.1% (10.0%-15.0%)
Other real estate owned	$ 30,053 [2]	External appraisal	Haircut applied on external appraisals	23.7% (15.0% 30.0%)

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

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

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

Note 25 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 June 30, 2018 and December 31, 2017, 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 2017 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.

	June 30, 2018				
(In thousands)	Carrying amount	Level 1	Level 2	Level 3	Fair value
Financial Assets:					
Cash and due from banks	$ 400,568	$ 400,568	$	$	$ 400,568
Money market investments	8,628,442	8,617,121	11,321		8,628,442
Trading account debt securities, excluding derivatives[1]	41,637	4,956	35,462	1,219	41,637
Debt securities available-for-sale[1]	10,542,010	552,388	9,988,358	1,264	10,542,010
Debt securities held-to-maturity:					
Obligations of Puerto Rico, States and political subdivisions	$ 90,928	$	$	$ 93,390	$ 93,390
Collateralized mortgage obligation-federal agency	61			65	65
Trust preferred securities	13,198		13,198		13,198
Other	750		743		743
Total debt securities held-to-maturity	$ 104,937	$	$ 13,941	$ 93,455	$ 107,396
Equity securities:					
FHLB stock	$ 56,099	$	$ 56,099	$	$ 56,099
FRB stock	88,817		88,817		88,817
Other investments	14,101		12,798	5,602	18,400
Total equity securities	$ 159,017	$	$ 157,714	$ 5,602	$ 163,316
Loans held-for-sale	$ 73,859	$	$	$ 74,719	$ 74,719

Loans not covered under loss sharing agreement with the FDIC	23,965,498			21,825,495	21,825,495
Mortgage servicing rights	164,025			164,025	164,025
Derivatives	15,763		15,763		15,763

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(In thousands)	June 30, 2018 Carrying amount	Level 1	Level 2	Level 3	Fair value
Financial Liabilities:					
Deposits:					
Demand deposits	$ 31,954,476	$	$ 31,954,476	$	$ 31,954,476
Time deposits	7,423,085		7,220,074		7,220,074
Total deposits	$ 39,377,561	$	$ 39,174,550	$	$ 39,174,550
Assets sold under agreements to repurchase	$ 306,911	$	$ 306,941	$	$ 306,941
Other short-term borrowings[2]	$ 1,200	$	$ 1,200	$	$ 1,200
Notes payable:					
FHLB advances	$ 656,150	$	$ 649,118	$	$ 649,118
Unsecured senior debt securities	447,915		460,463		460,463
Junior subordinated deferrable interest debentures (related to trust preferred securities)	439,364		416,875		416,875
Others	18,234			18,234	18,234
Total notes payable	$ 1,561,663	$	$ 1,526,456	$ 18,234	$ 1,544,690
Derivatives	$ 14,223	$	$ 14,223	$	$ 14,223

[1] Refer to Note 24 to the Consolidated Financial Statements for the fair value by class of financial asset and its hierarchy level.

[2] Refer to Note 16 to the Consolidated Financial Statements for the composition of other short-term borrowings.

	December 31, 2017				
(In thousands)	Carrying amount	Level 1	Level 2	Level 3	Fair value
Financial Assets:					
Cash and due from banks	$ 402,857	$ 402,857	$	$	$ 402,857
Money market investments	5,255,119	5,245,346	9,773		5,255,119
Trading account debt securities, excluding derivatives[1]	33,746	261	32,384	1,101	33,746
Debt securities available-for-sale[1]	10,176,923	503,385	9,672,250	1,288	10,176,923
Debt securities held-to-maturity:					
Obligations of Puerto Rico, States and political subdivisions	$ 92,754	$	$	$ 83,239	$ 83,239
Collateralized mortgage obligation-federal agency	67			71	71
Trust preferred securities	13,198		13,198		13,198
Other	1,000		750	243	993
Total debt securities held-to-maturity	$ 107,019	$	$ 13,948	$ 83,553	$ 97,501
Equity securities:					
FHLB stock	$ 57,819	$	$ 57,819	$	$ 57,819
FRB stock	94,308		94,308		94,308
Other investments	12,976		11,076	5,214	16,290
Total equity securities	$ 165,103	$	$ 163,203	$ 5,214	$ 168,417
Loans held-for-sale	$ 132,395	$	$	$ 134,839	$ 134,839
Loans not covered under loss sharing agreement with the FDIC	23,702,612			21,883,003	21,883,003
Loans covered under loss sharing agreements with the FDIC	484,030			465,893	465,893
FDIC loss share asset	45,192			33,323	33,323
Mortgage servicing rights	168,031			168,031	168,031
Derivatives	16,719		16,719		16,719

	December 31, 2017				
(In thousands)	Carrying amount	Level 1	Level 2	Level 3	Fair value
Financial Liabilities:					
Deposits:					
Demand deposits	$ 27,938,630	$	$ 27,938,630	$	$ 27,938,630
Time deposits	7,514,878		7,381,232		7,381,232
Total deposits	$ 35,453,508	$	$ 35,319,862	$	$ 35,319,862
Assets sold under agreements to repurchase	$ 390,921	$	$ 390,752	$	$ 390,752
Other short-term borrowings[2]	$ 96,208	$	$ 96,208	$	$ 96,208
Notes payable:					

FHLB advances	$ 631,490	$	$ 628,839	$	$ 628,839
Unsecured senior debt	446,873		463,554		463,554
Junior subordinated deferrable interest debentures (related to trust preferred securities)	439,351		406,883		406,883
Others	18,642			18,642	18,642
Total notes payable	$ 1,536,356	$	$ 1,499,276	$ 18,642	$ 1,517,918

Derivatives	$	14,431	$		$	14,431	$	$	14,431
Contingent consideration	$	164,858	$		$		$ 164,858	$	164,858

[1] Refer to Note 24 to the Consolidated Financial Statements for the fair value by class of financial asset and its hierarchy level.

[2] Refer to Note 16 to the Consolidated Financial Statements for the composition of other short-term borrowings.

The notional amount of commitments to extend credit at June 30, 2018 and December 31, 2017 is $7.2 billion and $7.6 billion, respectively, and represents the unused portion of credit facilities granted to customers. The notional amount of letters of credit at June 30, 2018 and December 31, 2017 is $32 million and $36 million respectively, and represents the contractual amount that is required to be paid in the event of nonperformance. The fair value of commitments to extend credit and letters of credit, which are based on the fees charged to enter into those agreements, are not material to Popular s financial statements.

Note 26 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 six months ended June 30, 2018 and 2017:

	Quarters ended June 30,		Six months ended June 30,	
(In thousands, except per share information)	2018	2017	2018	2017
Net income	$ 279,783	$ 96,226	$ 371,107	$ 189,171
Preferred stock dividends	(931)	(931)	(1,862)	(1,862)
Net income applicable to common stock	$ 278,852	$ 95,295	$ 369,245	$ 187,309
Average common shares outstanding	101,892,402	101,601,552	101,794,914	102,263,593
Average potential dilutive common shares	139,553	107,151	137,563	123,653
Average common shares outstanding assuming dilution	102,031,955	101,708,703	101,932,477	102,387,246
Basic EPS	$ 2.74	$ 0.94	$ 3.63	$ 1.83
Diluted EPS	$ 2.73	$ 0.94	$ 3.62	$ 1.83

For the quarter and six months ended June 30, 2018, 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, 2017. For a discussion of the calculation under the treasury stock method, refer to Note 35 of the Consolidated Financial Statements included in the 2017 Form 10-K.

For the quarters and six months ended June 30, 2018 and 2017, there were no stock options outstanding.

Note 27 Revenue from contracts with customers

The following tables present the Corporation s revenue streams from contracts with customers by reportable segment for the quarters and six months ended June 30, 2018 and 2017:

(In thousands)	Quarter ended June 30, 2018		Six months ended June 30, 2018	
	BPPR	Popular U.S.	BPPR	Popular U.S.
Service charges on deposit accounts	$ 33,776	$ 3,326	$ 66,955	$ 6,602
Other service fees:				
Debit card fees	11,425	259	22,820	502
Insurance fees, excluding reinsurance	8,650	833	15,887	1,455
Credit card fees, excluding late fees and membership fees	18,681	237	35,484	477
Sale and administration of investment products	5,020		10,375	
Trust fees	5,218		10,559	
Total revenue from contracts with customers [1]	$ 82,770	$ 4,655	$ 162,080	$ 9,036

[1] The amounts include intersegment transactions of $1.3 million and $1.7 million, respectively, for the quarter and six months ended June 30, 2018.

(In thousands)	Quarter ended June 30, 2017		Six months ended June 30, 2017	
	BPPR	Popular U.S.	BPPR	Popular U.S.
Service charges on deposit accounts	$ 37,730	$ 3,343	$ 74,006	$ 6,603
Other service fees:				
Debit card fees	11,341	235	22,683	436
Insurance fees, excluding reinsurance	8,958	860	16,315	1,442
Credit card fees, excluding late fees and membership fees	15,480	248	29,864	432
Sale and administration of investment products	5,799		10,881	
Trust fees	5,111		10,148	
Total revenue from contracts with customers [1]	$ 84,419	$ 4,686	$ 163,897	$ 8,913

[1] The amounts include intersegment transactions of $1.5 million and $1.7 million, respectively, for the quarter and six months ended June 30, 2017.

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

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

Service charges on deposit accounts

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

Debit card fees

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

Insurance fees

Insurance fees include, but are not limited to, commissions and contingent commissions. Commissions and fees are recognized when related policies are effective since the Corporation does not have an enforceable right to payment for services completed to date. An allowance is created for expected adjustments to commissions earned related to policy cancellations. Contingent commissions are recorded on an accrual basis when the amount to be received is notified by the insurance company. The Corporation is acting as an agent since it arranges for the sale of the policies and receives commissions if, and when, it achieves the sale.

Credit card fees

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

Sale and administration of investment products

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

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

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

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

Mutual fund fees, such as distribution fees, are considered variable consideration and are recognized over time, as the uncertainty of the fees to be received is resolved as NAV is determined and investor activity occurs. The promise to provide distribution-related services is considered a single performance obligation as it requires the provision of a series of distinct services that are substantially the same and have the same pattern of transfer. When the broker-dealer subsidiary is acting as a distributor, it is acting as principal. In turn, when it acts as third-party dealer, it is acting as an agent.

Trust fees

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

Note 28 FDIC loss share income (expense)

The caption of FDIC loss-share income (expense) in the Consolidated Statements of Operations consists of the following major categories:

	Quarters ended June 30,		Six months ended June 30,	
(In thousands)	2018	2017	2018	2017
Accretion (amortization)	$	$ 147	$ (934)	$ (629)
80% mirror accounting on credit impairment losses		2,126	104	2,274
80% mirror accounting on reimbursable expenses		723	537	1,644
80% mirror accounting on recoveries on covered assets, including rental income on OREOs, subject to reimbursement to the FDIC		(400)	(1,658)	4,433
Change in true-up payment obligation		(3,125)	(6,112)	(10,510)
Gain on FDIC loss-share Termination Agreement[1]	102,752		102,752	
Other		54	36	(5,944)
Total FDIC loss-share income (expense)	$ 102,752	$ (475)	$ 94,725	$ (8,732)

[1] Refer to Note 9 for additional information of the Termination Agreement with the FDIC.

Note 29 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:

	Pension Plan Quarters ended June 30,		Benefit Restoration Plans Quarters ended June 30,	
(In thousands)	2018	2017	2018	2017
Other operating expenses:				
Interest cost	$ 6,029	$ 6,120	$ 344	$ 352
Expected return on plan assets	(9,551)	(10,186)	(509)	(502)
Amortization of net loss	4,715	5,053	349	411
Total net periodic pension cost (benefit)	$ 1,193	$ 987	$ 184	$ 261

	Pension Plans Six months ended June 30,		Benefit Restoration Plans Six months ended June 30,	
(In thousands)	2018	2017	2018	2017
Other operating expenses:				
Interest cost	$ 12,058	$ 12,240	$ 688	$ 705
Expected return on plan assets	(19,101)	(20,372)	(1,018)	(1,005)
Amortization of net loss	9,431	10,107	699	822
Total net periodic pension cost (benefit)	$ 2,388	$ 1,975	$ 369	$ 522

During the quarter ended June 30, 2018 the Corporation made a contribution to the pension and benefit restoration plans of $59 thousand. The total contributions expected to be paid during the year 2018 for the pension and benefit restoration plans amount to approximately $235 thousand.

During the quarters ended June 30, 2018 and 2017, there is no service cost recognized as part of the net periodic pension cost since the accrual of benefits for all participants has been frozen. As part of the implementation of ASU 2017-07, the other components of net periodic pension cost were reclassified from Personnel costs to Other operating expenses in the consolidated statement of operations in the amount of $1.2 million for the quarter ended June 30, 2017 and $2.5 million for the six months ended June 30, 2017.

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.

	Postretirement Benefit Plan			
	Quarters ended June 30,		Six months ended June 30,	
(In thousands)	2018	2017	2018	2017

Personnel Costs:				
Service cost	$ 257	$ 256	$ 514	$ 513
Other operating expenses:				
Interest cost	1,390	1,426	2,780	2,851
Amortization of prior service cost	(868)	(950)	(1,735)	(1,900)
Amortization of net loss	321	142	641	284
Total postretirement cost	$ 1,100	$ 874	$ 2,200	$ 1,748

Contributions made to the postretirement benefit plan for the quarter ended June 30, 2018 amounted to approximately $1.3 million. The total contributions expected to be paid during the year 2018 for the postretirement benefit plan amount to approximately $6.3 million.

As part of the implementation of ASU 2017-07, the other components of net periodic postretirement benefit cost other than the service cost components were reclassified from Personnel costs to Other operating expenses in the consolidated statement of operations in the amount of $0.6 million for the quarter ended June 30, 2017 and $1.2 million for the six months ended June 30, 2017.

Note 30 Stock-based compensation

Incentive Plan

In April 2004, the Corporation s shareholders adopted the Popular, Inc. 2004 Omnibus Incentive Plan (the Incentive Plan). The Incentive Plan permits the granting of incentive awards in the form of Annual Incentive Awards, Long-term Performance Unit Awards, Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Units or Performance Shares. Participants in the Incentive Plan are designated by the Compensation Committee of the Board of Directors (or its delegate as determined by the Board). Employees and directors of the Corporation and/or any of its subsidiaries are eligible to participate in the Incentive Plan.

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

The performance share awards consist of the opportunity to receive shares of Popular, Inc. s common stock provided that the Corporation achieves certain goals during a three-year performance cycle. The goals will be based on two metrics weighted equally: the Relative Total Shareholder Return (TSR) and the Absolute Earnings per Share (EPS) goals. The TSR metric is considered to be a market condition under ASC 718. For equity settled awards based on a market condition, the fair value is determined as of the grant date and is not subsequently revised based on actual performance. The EPS performance metric is considered to be a performance condition under ASC 718. The fair value is determined based on the probability of achieving the EPS goal as of each reporting period. The TSR and EPS metrics are equally weighted and work independently. The number of shares that will ultimately vest ranges from 50% to a 150% of target based on both market (TSR) and performance (EPS) conditions. The performance shares vest at the end of the three-year performance cycle. 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.

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

(Not in thousands)	Shares	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2016	383,982	$ 26.35
Granted	212,200	42.57
Performance Shares Quantity Adjustment	(232,989)	29.10
Vested	(67,853)	48.54
Non-vested at December 31, 2017	295,340	$ 30.75

Granted	227,720		45.48
Performance Shares Quantity Adjustment	160,693		30.24
Vested	(280,733)		34.48
Forfeited	(2,326)		33.07
Non-vested at June 30, 2018	400,694	$	36.29

During the quarter ended June 30, 2018, 70,690 shares of restricted stock (June 30, 2017 74,037) were awarded to management under the Incentive Plan. During the quarters ended June 30, 2018 and 2017, no performance shares were awarded to management under the Incentive Plan. For the six months ended June 30, 2018, 155,306 shares of restricted stock (June 30, 2017 138,516) and 72,414 performance shares (June 30, 2017 73,684) were awarded to management under the incentive plan.

During the quarter ended June 30, 2018, the Corporation recognized $2.1 million of restricted stock expense related to management incentive awards, with a tax benefit of $0.4 million (June 30, 2017 - $1.9 million, with a tax benefit of $0.5 million). For the six months ended June 30, 2018, the Corporation recognized $4.8 million of restricted stock expense related to management incentive awards, with a tax benefit of $0.8 million (June 30, 2017 - $3.8 million, with a tax benefit of $0.6 million). For the six months ended June 30, 2018, the fair market value of the restricted stock and performance shares vested was $6 million at grant date and $8 million at vesting date. This triggers a windfall of $0.7 million that was recorded as a reduction on income tax expense. During the quarter ended June 30, 2018 the Corporation recognized $0.6 million of performance shares expense, with a tax benefit of $12 thousand (June 30, 2017 - $0.3 million, with a tax benefit of $42 thousand). For the six months ended June 30, 2018, the Corporation recognized $3.2 million of performance shares expense, with a tax benefit of $0.3 million (June 30, 2017 - $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 June 30, 2018 was $9.6 million and is expected to be recognized over a weighted-average period of 2.4 years.

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

(Not in thousands)	Restricted Stock	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2016		$
Granted	25,771	38.42
Vested	(25,771)	38.42
Forfeited		
Non-vested at December 31, 2017		$
Granted	22,394	46.90
Vested	(22,394)	46.90
Forfeited		
Non-vested at June 30, 2018		$

During the quarter ended June 30, 2018, the Corporation granted 22,394 shares of restricted stock to members of the Board of Directors of Popular, Inc (June 30, 2017 - 25,771). During this period, the Corporation recognized $1.2 million of restricted stock expense related to these restricted stock grants, with a tax benefit of $0.2 million (June 30, 2017 - $0.3 million, with a tax benefit of $36 thousand). For the six months ended June 30, 2018, the Corporation granted 22,394 shares of restricted stock to members of the Board of Directors of Popular, Inc., which became vested at grant date (June 30, 2017   25,771). During this period, the Corporation recognized $1.5 million of restricted stock expense related to these restricted stock grants, with a tax benefit of $0.2 million (June 30, 2017 - $0.6 million, with a tax benefit of $68 thousand). The fair value at vesting date of the restricted stock vested during the six months ended June 30, 2018 for directors was $1.1 million.

Note 31 Income taxes

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

	Quarters ended			
	June 30, 2018		June 30, 2017	
(In thousands)	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax expense at statutory rates	$ 97,977	39%	$ 51,464	39%
Net benefit of tax exempt interest income	(22,407)	(9)	(18,841)	(14)
Deferred tax asset valuation allowance	4,186	2	5,064	4
Difference in tax rates due to multiple jurisdictions	(2,238)	(1)	(831)	(1)
Effect of income subject to preferential tax rate[1]	(103,008)	(41)	(3,493)	(3)
State and local taxes	1,718	1	1,585	1
Others	(4,788)	(2)	784	1
Income tax (benefit) expense	$ (28,560)	(11)%	$ 35,732	27%

[1] For the quarter ended June 30, 2018, includes the impact of the Tax Closing Agreement entered into in connection with the Westernbank FDIC-assisted Transaction.

	Six months ended			
	June 30, 2018		June 30, 2017	
(In thousands)	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax expense at statutory rates	$ 142,234	39%	$ 100,585	39%
Net benefit of tax exempt interest income	(45,400)	(12)	(36,845)	(14)
Deferred tax asset valuation allowance	11,412	3	10,120	4
Difference in tax rates due to multiple jurisdictions	(5,197)	(2)	(1,790)	(1)
Effect of income subject to preferential tax rate[1]	(106,056)	(29)	(6,512)	(2)
State and local taxes	3,081	1	2,864	1
Others	(6,479)	(2)	316	
Income tax (benefit) expense	$ (6,405)	(2)%	$ 68,738	27%

[1] For the six months ended June 30, 2018, includes the impact of the Tax Closing Agreement entered into in connection with the Westernbank FDIC-assisted Transaction.

The income tax benefit of $28.6 million reflects the impact of the Termination Agreement with the FDIC, discussed in Note 9. In June 2012, the Puerto Rico Department of the Treasury and the Corporation entered into a Tax Closing Agreement (the Tax Closing Agreement) to clarify the tax treatment related to the loans acquired in the FDIC Transaction in accordance with the provisions of the Puerto Rico Tax Code. The Tax Closing Agreement provides that these loans are capital assets and any principal amount collected in excess of the amount paid for such loans will be taxed as a capital gain. The Tax Closing Agreement further provides that the Corporation s tax liability upon the termination of the Shared-Loss Agreements be calculated based on the deemed sale of the underlying loans. As a result, in connection with the Termination Agreement with the FDIC, the Corporation recognized an additional income tax expense of $49.8 million associated with the deemed sale incremental tax liability at the capital gains rate per the Tax Closing Agreement. In addition, the Corporation recognized an income tax benefit of $158.7 million related to the increase in deferred tax assets due to increase in the tax basis of the loans as a result of the deemed sale for a net tax benefit of $108.9 million. Also, the Corporation recorded an income tax expense of $45.0 million related to the gain resulting from the Termination Agreement, mainly related to the reversal of net deferred tax liability of the true-up payment obligation and the FDIC Loss Share Asset.

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

	June 30, 2018		
(In thousands)	PR	US	Total
Deferred tax assets:			
Tax credits available for carryforward	$ 16,500	$ 7,859	$ 24,359
Net operating loss and other carryforward available	119,578	739,724	859,302
Postretirement and pension benefits	82,886		82,886
Deferred loan origination fees	3,583	(348)	3,235
Allowance for loan losses	586,457	23,741	610,198
Deferred gains		2,733	2,733
Accelerated depreciation	1,300	7,461	8,761
FDIC-assisted transaction	108,327		108,327
Intercompany deferred (loss) gains	1,512		1,512
Difference in outside basis from pass-through entities	28,257		28,257
Other temporary differences	27,869	6,978	34,847
Total gross deferred tax assets	976,269	788,148	1,764,417
Deferred tax liabilities:			
Indefinite-lived intangibles	33,713	38,199	71,912
Unrealized net gain (loss) on trading and available-for-sale securities	15,949	(16,861)	(912)
Other temporary differences	10,735	845	11,580
Total gross deferred tax liabilities	60,397	22,183	82,580
Valuation allowance	78,676	419,408	498,084
Net deferred tax asset	$ 837,196	$ 346,557	$ 1,183,753

	December 31, 2017		
(In thousands)	PR	US	Total
Deferred tax assets:			
Tax credits available for carryforward	$ 16,069	$ 7,979	$ 24,048
Net operating loss and other carryforward available	115,512	708,158	823,670
Postretirement and pension benefits	85,488		85,488
Deferred loan origination fees	3,669	958	4,627
Allowance for loan losses	603,462	20,708	624,170
Deferred gains		2,670	2,670
Accelerated depreciation	1,300	7,083	8,383
Intercompany deferred (loss) gains	224		224
Difference in outside basis from pass-through entities	30,424		30,424
Other temporary differences	25,084	6,901	31,985
Total gross deferred tax assets	881,232	754,457	1,635,689

Deferred tax liabilities:			
FDIC-assisted transaction	60,402		60,402
Indefinite-lived intangibles	31,973	33,009	64,982
Unrealized net gain (loss) on trading and available-for-sale securities	26,364	(7,961)	18,403
Other temporary differences	9,876	386	10,262
Total gross deferred tax liabilities	128,615	25,434	154,049
Valuation allowance	67,263	380,561	447,824
Net deferred tax asset	$ 685,354	$ 348,462	$ 1,033,816

The net deferred tax asset shown in the table above at June 30, 2018 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, 2017 $1.0 billion) and $1.5 million in deferred tax liabilities in the Other liabilities caption (December 31, 2017 $1.3 million), reflecting the aggregate deferred tax assets or liabilities of individual tax-paying subsidiaries of the Corporation in their respective tax jurisdiction, Puerto Rico or the United States.

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

At June 30, 2018 the net deferred tax asset of the U.S. operations amounted to $766 million with a valuation allowance of approximately $419 million, for a net deferred tax asset of approximately $347 million. As of June 30, 2018, management estimated that the U.S. operations would earn enough pre-tax Income during the carryover period to realize the total amount of net deferred tax asset after valuation allowance. After weighting all available positive and negative evidence, management concluded that is more likely than not that a portion of the deferred tax asset from the U.S. operation, amounting to approximately $347 million, will be realized. Management will continue to evaluate the realization of the deferred tax asset each quarter and adjust as any changes arises.

At June 30, 2018, the Corporation s net deferred tax assets related to its Puerto Rico operations amounted to $837 million.

The Corporation s Puerto Rico Banking operation is not in a cumulative three year loss position and has sustained profitability for the three year period ended June 30, 2018. This is considered a strong piece of objectively verifiable positive evidence that outweights 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 Popular, Inc., holding company (PIHC) operation is in a cumulative loss position taking into account taxable income exclusive of reversing temporary differences, for the three year period ended June 30, 2018. Management expects these losses will be a trend in future years. This objectively verifiable negative evidence is considered by management as 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 PIHC will not be able to realize any portion of the deferred tax assets, considering the criteria of ASC Topic 740. Accordingly, a valuation allowance is recorded on the deferred tax asset at the PIHC, which amounted to $79 million as of June 30, 2018.

The reconciliation of unrecognized tax benefits, excluding interest, was as follows:

(In millions)	2018	2017
Balance at January 1	$ 7.3	$ 7.4
Additions for tax positions January through March	0.2	0.2
Balance at March 31	$ 7.5	$ 7.6
Additions for tax positions April through June	0.3	0.3