FORWARD-LOOKING STATEMENTS

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

Various factors, some of which are beyond Popular's control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to, the rate of growth or decline in the economy and employment levels, as well as general business and economic conditions in the geographic areas we serve and, in particular, in the Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico"), where a significant portion of our business is concentrated; adverse economic conditions, including high levels of inflation, that adversely affect housing prices, the job market, consumer confidence and spending habits which may affect in turn, among other things, our level of non-performing assets, charge-offs and provision expense; changes in interest rates and market liquidity, which may reduce interest margins, impact funding sources, reduce loan originations, affect our ability to originate and distribute financial products in the primary and secondary markets and impact the value of our investment portfolio and our ability to return capital to our shareholders; the impact of bank failures or adverse developments at other banks and related negative media coverage of the banking industry in general on investor and depositor sentiment regarding the stability and liquidity of banks; the impact of the current fiscal and economic challenges of Puerto Rico and the measures taken and to be taken by the Puerto Rico Government and the Federally-appointed oversight board on the economy, our customers and our business; the impact of 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 challenges on the value of our portfolio of Puerto Rico government securities and loans to governmental entities and of our commercial, mortgage and consumer loan portfolios where private borrowers could be directly affected by governmental action; the amount of Puerto Rico public sector deposits held at the Corporation, whose future balances are uncertain and difficult to predict and may be impacted by factors such as the amount of Federal funds received by the P.R. Government and the rate of expenditure of such funds, as well as the financial condition, liquidity and cash management practices of the Puerto Rico Government and its instrumentalities; unforeseen or catastrophic events, including extreme weather events, including hurricanes, other natural disasters, man-made disasters, acts of violence or war or pandemics, epidemics and other health-related crises, or the fear of any such event occurring, any of which could cause adverse consequences for our business, including, but not limited to, disruptions in our operations; our ability to achieve the expected benefits from our transformation initiative, including our ability to achieve projected earnings, efficiencies and our targeted sustainable return on tangible common equity of 14% by the end of 2025; risks related to Popular's acquisition of certain information technology and related assets formerly used by Evertec, Inc. to service certain of Banco Popular de Puerto Rico's key channels, as well as the entry into amended and restated commercial agreements (the "Evertec Business Acquisition Transaction"); 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, liquidity, resolution-related requirements and the impact of other proposed capital standards on our capital ratios; additional Federal Deposit Insurance Corporation ("FDIC") assessments, such as the special assessment implemented by the FDIC to recover the losses to the deposit insurance fund ("DIF") resulting from the receiverships of Silicon Valley Bank and Signature Bank; regulatory approvals that may be necessary to undertake certain actions or consummate strategic transactions, such as acquisitions and dispositions; the relative strength or weakness of the consumer and commercial credit sectors and of the real estate markets in Puerto Rico and the other markets in which our borrowers are located; a deterioration in the credit quality of our clients, customers and counterparties; the performance of the stock and bond markets; competition in the financial services industry; possible legislative, tax or regulatory changes; a failure in or breach of our operational or security systems or infrastructure or those of Evertec, Inc., our provider of core financial transaction processing and information technology services, or of third parties providing services to us, including as a result of cyberattacks, e-fraud, denial-of-services and computer intrusion, that might result in, among other things, loss or breach of customer data, disruption of services, reputational damage or additional costs to Popular; changes in market rates and prices which may adversely impact the value of financial assets and liabilities; potential judgments, claims, damages, penalties, fines, enforcement actions and reputational damage resulting from pending or future litigation and regulatory or government investigations or actions; changes in accounting standards, rules and interpretations; our ability to grow our core businesses; decisions to downsize, sell or close branches or business units or otherwise change our business mix; and management's ability to identify and manage these and other risks.

Moreover, the outcome of legal and regulatory proceedings, as discussed in "Part I, Item 3. Legal Proceedings," is inherently uncertain and depends on judicial interpretations of law and the findings of regulators, judges and/or juries. Investors should refer to "Part I, Item 1A" of this Form 10-K for a discussion of certain risks and uncertainties to which the Corporation is subject.

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

OVERVIEW

The Corporation is a diversified, publicly-owned financial holding company subject to the supervision and regulation of the Board of Governors of the Federal Reserve System. The Corporation has operations in Puerto Rico, the United States ("U.S.") mainland, and the U.S. and British Virgin Islands. In Puerto Rico, the Corporation provides retail, mortgage, and commercial banking services through its principal banking subsidiary, Banco Popular de Puerto Rico ("BPPR"), as well as investment banking, broker-dealer, auto and equipment leasing and financing, and insurance services through specialized subsidiaries. In the U.S. mainland, the Corporation provides retail, mortgage, commercial banking services, as well as equipment leasing and financing, through its New York-chartered banking subsidiary, Popular Bank ("PB" or "Popular U.S.") which has branches located in New York, New Jersey and Florida. Note 37 to the Consolidated Financial Statements presents information about the Corporation's business segments.

YEAR 2023 SIGNIFICANT EVENTS

Issuance and Redemption of Senior Notes

On March 13, 2023, the Corporation issued $400 million aggregate principal amount of 7.25% Senior Notes due 2028 (the "2028 Notes") in an underwritten public offering. The Corporation used a portion of the net proceeds of the 2028 Notes offering to redeem, on August 14, 2023, the outstanding $300 million aggregate principal amount of its 6.125% Senior Notes due September 2023. The redemption price was equal to 100% of the principal amount plus accrued and unpaid interest through the redemption date.

FDIC Special Assessment

On November 16, 2023, the Federal Deposit Insurance Corporation ("FDIC") approved a final rule that imposes a special assessment (the "FDIC Special Assessment") to recover the losses to the deposit insurance fund ("DIF") resulting from the FDIC's use, in March 2023, of the systemic risk exception to the least-cost resolution test under the Federal Deposit Insurance Act in connection with the receiverships of several failed banks.

Under the final rule, the assessment base for the special assessment is equal to an insured depository institution's ("IDI") estimated uninsured deposits, as reported in the IDI's December 31, 2022 Call Report, excluding the first $5 billion in estimated uninsured deposits. For a holding company that has more than one IDI subsidiary, such as Popular, the $5 billion exclusion is allocated among the company's IDI subsidiaries in proportion to each IDI's estimated uninsured deposits. The special assessments will be collected at an annual rate of approximately 13.4 basis points per year (3.35 basis points per quarter) over eight quarters in 2024 and 2025, with the first assessment period beginning January 1, 2024. In their December 31, 2022 Call Reports, BPPR and PB reported estimated uninsured deposits of approximately $28.1 billion, including $16.2 billion in fully collateralized public sector deposits, and $3.5 billion, respectively. The Corporation recorded an expense of $71.4 million, $45.3 million net of tax, in the fourth quarter of 2023, representing the full amount of the assessment.

By statute, the FDIC is required to recover the loss arising from the use of a systemic risk determination through one or more special assessments. As of December 31, 2023, the FDIC's loss estimate described in the final rule had increased by approximately $4.1 billion to $20.4 billion, or approximately 25%. The exact amount of losses will be determined when the FDIC terminates the related receiverships considered in the final rule. Accordingly, the special assessment amount and collection period may change as the estimated loss is periodically adjusted or if the total amount collected varies. If the most recent increase in the FDIC's estimate remains unchanged and is assessed in the same manner, the Corporation estimates that the incremental expense for the FDIC Special Assessment could be approximately $18 million.

Increase in quarterly common stock dividends

During the fourth quarter of 2023, the Corporation declared a quarterly common stock cash dividend of $0.62 per share, an increase of $0.07, or 13%, compared to the $0.55 per share declared by the Corporation in the third quarter of 2023.

Table 1 - Selected Financial Data

	Years ended December 31,		
(Dollars in thousands, except per common share data)	2023	2022	2021
CONDENSED STATEMENTS OF OPERATIONS			
Interest income	$ 3,245,307	$ 2,465,911	$ 2,122,637
Interest expense	1,113,783	298,552	165,047
Net interest income	2,131,524	2,167,359	1,957,590
Provision for credit losses (benefit)	208,609	83,030	(193,464)
Non-interest income	650,724	897,062	642,128
Operating expenses	1,898,100	1,746,420	1,549,275
Income tax expense	134,197	132,330	309,018
Net income	$ 541,342	$ 1,102,641	$ 934,889
Net income applicable to common stock	$ 539,930	$ 1,101,229	$ 933,477
PER COMMON SHARE DATA			
Net income per common share - basic	$ 7.53	$ 14.65	$ 11.49
Net income per common share - diluted	7.52	14.63	11.46
Dividends declared	2.27	2.20	1.75
Common equity per share	71.03	56.66	74.48
Market value per common share	82.07	66.32	82.04
Outstanding shares:			
Average - basic	71,710,265	75,147,263	81,263,027
Average - assuming dilution	71,791,692	75,274,003	81,420,154
End of period	72,153,621	71,853,720	79,851,169
AVERAGE BALANCES			
Net loans[1]	$ 33,164,960	$ 30,405,281	$ 29,074,036
Earning assets	68,175,022	69,729,933	68,088,675
Total assets	71,234,236	72,808,604	71,168,650
Deposits	62,546,480	64,716,404	63,102,916
Borrowings	1,227,094	1,119,878	1,255,495
Total stockholders' equity	6,600,603	6,009,225	5,777,652
PERIOD END BALANCE			
Net loans[1]	$ 35,069,272	$ 32,083,150	$ 29,299,725
Allowance for credit losses - loans portfolio	729,341	720,302	695,366
Earning assets	67,216,816	64,251,062	72,103,862
Total assets	70,758,155	67,637,917	75,097,899
Deposits	63,618,243	61,227,227	67,005,088
Borrowings	1,078,332	1,400,319	1,155,166
Total stockholders' equity	5,146,953	4,093,425	5,969,397
SELECTED RATIOS			
Net interest margin (non-taxable equivalent basis)	3.13 %	3.11 %	2.88 %
Net interest margin (taxable equivalent basis) -Non-GAAP	3.31	3.46	3.19
Return on assets	0.76	1.51	1.31
Return on common equity	8.21	18.39	16.22
Tier I capital	16.36	16.45	17.49
Total capital	18.13	18.26	19.35

[1] Includes loans held-for-sale.

Non-GAAP financial measures

Net interest income on a taxable equivalent basis

Net interest income, on a taxable equivalent basis, is presented with its different components in Table 3 for the year ended December 31, 2023 as compared with the same period in 2022, segregated by major categories of interest earning assets and interest-bearing liabilities.

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

Net interest income, on a taxable equivalent basis, as used by the Corporation may not be comparable to similarly named non-GAAP financial measures used by other companies.

Financial highlights for the year ended December 31, 2023

The discussion that follows provides highlights of the Corporation's results of operations for the year ended December 31, 2023 compared to the results of operations of 2022. It also provides some highlights with respect to the Corporation's financial condition, credit quality, capital and liquidity. Table 2 presents a three-year summary of the components of net income as a percentage of average total assets. For a discussion of our 2022 results of operations compared with 2021, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Form 10-K for the year ended December 31, 2022.

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

	2023	2022	2021
Net interest income	2.99 %	2.98 %	2.75 %
Provision for credit (losses) benefit	(0.29)	(0.11)	0.27
Mortgage banking activities	0.03	0.06	0.07
Net gain (loss) and valuation adjustments on investment securities	0.01	(0.01)	-
Other non-interest income	0.87	1.18	0.83
Total net interest income and non-interest income, net of provision for credit losses	3.61	4.10	3.92
Operating expenses	(2.66)	(2.40)	(2.18)
Income before income tax	0.95	1.70	1.74
Income tax expense	(0.19)	(0.19)	(0.43)
Net income	0.76 %	1.51 %	1.31 %

The Corporation's net income for the year ended December 31, 2023 amounted to $541.3 million, compared to a net income of $1.1 billion for 2022.

Net interest income for the year ended December 31, 2023 was $2.1 billion, a decrease of $35.8 million when compared to 2022. The decrease in net interest income was mainly driven by higher interest expense from deposits, mainly due to higher cost of the Puerto Rico government deposits and the increase in cost of Popular U.S. deposits. The net interest margin for the year ended December 31, 2023 was 3.13% compared to 3.11% for the same period in 2022, driven by a full year impact, on the cost of deposits, of the increase, in 2022, of 400 basis points in the Federal Funds Rate and an additional 100 basis points in 2023. On a taxable equivalent basis, net interest margin was 3.31% in 2023, compared to 3.46% in 2022. Refer to the Net Interest Income section of this MD&A for additional information.

The Corporation's total provision for credit losses of $208.6 million for the year ended December 31, 2023, compared to $83.0 million for 2022. The higher expense for the year 2023 was driven by higher reserves in our consumer and commercial portfolios mostly due to changes in credit quality and higher loan volumes. The Corporation's consumer loans portfolios continued to experience credit quality normalization. While, non-performing loans ("NPLs") and net charge offs ("NCOs") continued below historical pre-pandemic averages, consumer portfolios, however, reflected credit quality deterioration in certain areas, particularly the unsecured personal loans and credit cards portfolios, with delinquencies and NCOs near or exceeding pre-pandemic levels. The auto loans portfolio also showed credit normalization, however, metrics remained below pre-pandemic levels. The commercial and mortgage portfolios continue to operate with historically low levels of NCOs and NPLs. Non-performing assets totaled $438.0 million at December 31, 2023, reflecting a decrease of $90.5 million when compared to December 31, 2022. Refer to the Provision for Credit Losses and Credit Risk sections of this MD&A for information on the allowance for credit losses, non-performing assets, loan modifications to borrowers with financial difficulties, net charge-offs and credit quality metrics.

Non-interest income for the year ended December 31, 2023 amounted to $650.7 million, a decrease of $246.3 million, when compared with 2022, mostly due to the $257.7 million gain related to the Evertec Transactions and related accounting adjustments during 2022. Refer to the Non-Interest Income section of this MD&A for additional information on the major variances of the different categories of non-interest income.

Total operating expenses amounted to $1.9 billion for the year 2023, reflecting an increase of $151.7 million, when compared to the same period in 2022, mainly due to the FDIC Special Assessment of $71.4 million, higher personnel costs reflecting salary increases and a higher headcount, a higher goodwill impairment charge in our U.S. based equipment leasing subsidiary, and higher processing and transactional services expenses. Refer to the Operating Expenses section ofthis MD&A for additional information.

Income tax expense amounted to $134.2 million for the year ended December 31, 2023, compared with an income tax expense of $132.3 million for the previous year. The income tax expense for the year was impacted by the composition and source of taxable income, including lower tax exempt income and lower incomesubject to preferential tax rates. The income tax expense of year 2022 benefited from the partial reversal of $68.2 million of the deferred tax assets valuation allowance of the U. S. operations, the sale of

Evertec shares, taxable at a preferential rate, and a higher tax exempt income net of disallowance. Refer to the Income Taxes section in this MD&A and Note 35 to the Consolidated Financial Statements for additional information on income taxes.

At December 31, 2023, the Corporation's total assets were $70.8 billion, compared with $67.6 billion at December 31, 2022. The increase of $3.1 billion is mainly driven by an increase in loans held-in-portfolio mainly in the commercial, consumer, and mortgage portfolios. Refer to the Statement of Financial Condition Analysis section of this MD&A for additional information.

Deposits amounted to $63.6 billion at December 31, 2023, compared with $61.2 billion at December 31, 2022. Table 8 presents a breakdown of deposits by major categories. The increase in deposits was mainly due to higher Puerto Rico public funds at BPPR and time deposits at PB. The Corporation's borrowings amounted to $1.1 billion at December 31, 2023, compared to $1.4 billion at December 31, 2022. Refer to Note 17 to the Consolidated Financial Statements for detailed information on the Corporation's borrowings.

Refer to Table 7 in the Statement of Financial Condition Analysis section of this MD&A for the percentage allocation of the composition of the Corporation's financing to total assets.

Stockholders' equity amounted to $5.1 billion at December 31, 2023, compared to $4.1 billion at December 31, 2022. The increase was principally due to lower accumulated unrealized losses on debt securities available-for-sale, lower accumulated unrealized losses on debt securities previously reclassified to held-to-maturity, and the net income for the year, partially offset by declared dividends. The Corporation and its banking subsidiaries continue to be well-capitalized at December 31, 2023. The Common Equity Tier 1 Capital ratio at December 31, 2023 was 16.30%, compared to 16.39% at December 31, 2022.

For further discussion of operating results, financial condition and business risks refer to the narrative and tables included herein.

The shares of the Corporation's common stock are traded on the Nasdaq Global Select Market under the symbol BPOP.

CRITICAL ACCOUNTING POLICIES / ESTIMATES

The accounting and reporting policies followed by the Corporation and its subsidiaries conform with generally accepted accounting principles in the United States of America ("GAAP") and general practices within the financial services industry. The Corporation's significant accounting policies are described in detail in Note 2 to the Consolidated Financial Statements and should be read in conjunction with this section.

Critical accounting policies require management to make estimates and assumptions, which involve significant judgment about the effect of matters that are inherently uncertain and that involve a high degree of subjectivity. These estimates are made under facts and circumstances at a point in time and changes in those facts and circumstances could produce actual results that differ from those estimates. The following MD&A section is a summary of what management considers the Corporation's critical accounting policies and estimates.

Fair Value Measurement of Financial Instruments

The Corporation currently measures at fair value on a recurring basis its trading debt securities, debt securities available-for-sale, certain equity securities, derivatives and mortgage servicing rights. Occasionally, the Corporation is required to record at fair value other assets on a nonrecurring basis, such as loans held-for-sale, loans held-in-portfolio that are collateral dependent and certain other assets. These nonrecurring fair value adjustments typically result from the application of lower of cost or fair value accounting or write-downs of individual assets.

The Corporation categorizes its assets and liabilities measured at fair value under the three-level hierarchy. The level within the hierarchy is based on whether the inputs to the valuation methodology used for fair value measurement are observable.

The Corporation requires the use of observable inputs when available, in order to minimize the use of unobservable inputs to determine fair value. The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The amount of judgment involved in estimating the fair value of a financial instrument depends upon the availability of quoted market prices or observable market parameters. In addition, it may be affected by other factors such as the type of instrument, the liquidity of the market for the instrument, transparency around the inputs to the valuation, as well as the contractual characteristics of the instrument. Broker quotes used for fair value measurements inherently reflect any lack of liquidity in the market since they represent an exit price from the perspective of the market participants.

Trading Debt Securities and Debt Securities Available-for-Sale

The majority of the values for trading debt securities and debt securities available-for-sale are obtained from third-party pricing services and are validated with alternate pricing sources when available. Securities not priced by a secondary pricing source are documented and validated internally according to their significance to the Corporation's financial statements. Management has established materiality thresholds according to the investment class to monitor and investigate material deviations in prices obtained from the primary pricing service provider and the secondary pricing source used as support for the valuation results.

Inputs are evaluated to ascertain that they consider current market conditions, including the relative liquidity of the market. When a market quote for a specific security is not available, the pricing service provider generally uses observable data to derive an exit price for the instrument, such as benchmark yield curves and trade data for similar products. To the extent trading data is not available, the pricing service provider relies on specific information including dialogue with brokers, buy side clients, credit ratings, spreads to established benchmarks and transactions on similar securities, to draw correlations based on the characteristics of the evaluated instrument. If for any reason the pricing service provider cannot observe data required to feed its model, it discontinues pricing the instrument.

Furthermore, management assesses the fair value of its portfolio of investment securities at least on a quarterly basis. Securities are classified in the fair value hierarchy according to product type, characteristics and market liquidity. At the end of each period, management assesses the valuation hierarchy for each asset or liability measured. The fair value measurement analysis performed by the Corporation includes validation procedures and review of market changes, pricing methodology, assumption and level hierarchy changes, and evaluation of distressed transactions.

Refer to Note 28 to the Consolidated Financial Statements for a description of the Corporation's valuation methodologies used for the assets and liabilities measured at fair value.

Loans and Allowance for Credit Losses

Interest on loans is accrued and recorded as interest income based upon the principal amount outstanding.

Non-accrual loans are those loans on which the accrual of interest is discontinued. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is charged against interest income and the loan is accounted for either on a cash-basis method or on the cost-recovery method. Loans designated as non-accruing are returned to accrual status when the Corporation expects repayment of the remaining contractual principal and interest. The determination as to the ultimate collectability of the loan's balance may involve management's judgment in the evaluation of the borrower's financial condition and prospects for repayment.

Refer to the MD&A section titled Credit Risk, particularly the Non-performing assets sub-section, for a detailed description of the Corporation's non-accruing and charge-off policies by major loan categories.

One of the most critical and complex accounting estimates is associated with the determination of the allowance for credit losses ("ACL"). The Corporation establishes an ACL for its loan portfolio based on its estimate of credit losses over the remaining contractual term of the loans, adjusted for expected prepayments, in accordance with Accounting Standards Codification ("ASC") Topic 326. An ACL is recognized for all loans including originated and purchased loans, since inception, with a corresponding charge to the provision for credit losses, except for purchased credit deteriorated ("PCD") loans as explained below. The Corporation follows a methodology to establish the ACL which includes a reasonable and supportable forecast period for estimating credit losses, considering quantitative and qualitative factors as well as the economic outlook. As part of this methodology, management evaluates various macroeconomic scenarios provided by third parties. At December 31, 2023, management applied probability weights to the outcome of the selected scenarios.

The Corporation has designated as collateral dependent loans secured by collateral when foreclosure is probable or when foreclosure is not probable but the practical expedient is used. The practical expedient is used when repayment is expected to be provided substantially by the sale or operation of the collateral and the borrower is experiencing financial difficulty. The ACL of collateral dependent loans is measured based on the fair value of the collateral less costs to sell. The fair value of the collateral is based on appraisals, which may be adjusted due to their age, and the type, location, and condition of the property or area or general market conditions to reflect the expected change in value between the effective date of the appraisal and the measurement date. In addition, refer to the Credit Risk section of this MD&A for detailed information on the Corporation’s collateral value estimation for other real estate.

Loans Acquired with Deteriorated Credit Quality

PCD loans are defined as those with evidence of a more-than-insignificant deterioration in credit quality since origination. PCD loans are initially recorded at its purchase price plus an estimated ACL. Upon the acquisition of a PCD loan, the Corporation recognizes the estimate of the expected credit losses over the remaining contractual term of each individual loan as an ACL with a corresponding addition to the loan purchase price. The amount of the purchased premium or discount which is not related to credit risk is amortized over the life of the loan through net interest income using the effective interest method or a method that approximates the effective interest method. Changes in expected credit losses are recorded as an increase or decrease to the ACL with a corresponding charge (reverse) to the provision for credit losses in the Consolidated Statements of Operations. These loans follow the same nonaccrual policies as non-PCD loans.

Income Taxes

Income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and attributable to operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered or paid. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period when the changes are enacted.

The calculation of periodic income taxes is complex and requires the use of estimates and judgments. The Corporation has recorded two accruals for income taxes: (i) the net estimated amount currently due or to be received from taxing jurisdictions, including any reserve for potential examination issues, and (ii) a deferred income tax that represents the estimated impact of temporary differences between how the Corporation recognizes assets and liabilities under GAAP, and how such assets and liabilities are recognized under the tax code. Differences in the actual outcome of these future tax consequences could impact the Corporation’s financial position or its results of operations. In estimating taxes, management assesses the relative merits and risks of the appropriate tax treatment of transactions taking into consideration statutory, judicial and regulatory guidance.

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

Management evaluates the realization of the deferred tax asset by taxing jurisdiction. The U.S. mainland operations are evaluated as a whole since a consolidated income tax return is filed; on the other hand, the deferred tax asset related to the Puerto Rico operations is evaluated on an entity by entity basis, since no consolidation is allowed in the income tax filing. Accordingly, this evaluation is composed of three major components: U.S. mainland operations, Puerto Rico banking operations and Holding Company.

For the evaluation of the realization of the deferred tax asset by taxing jurisdiction, refer to Note 35 to the Consolidated Financial Statements.

Under the Puerto Rico Internal Revenue Code, the Corporation and its subsidiaries are treated as separate taxable entities and are not entitled to file consolidated tax returns. The Code provides a dividends-received deduction of 100% on dividends received from "controlled" subsidiaries subject to taxation in Puerto Rico and 85% on dividends received from other taxable domestic corporations.

Changes in the Corporation's estimates can occur due to changes in tax rates, new business strategies, newly enacted guidance, and resolution of issues with taxing authorities regarding previously taken tax positions. Such changes could affect the amount of accrued taxes. The Corporation has made tax payments in accordance with estimated tax payments rules. Any remaining payment will not have any significant impact on liquidity and capital resources.

The valuation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in the financial statements or tax returns and future profitability. The accounting for deferred tax consequences represents management's best estimate of those future events. Changes in management's current estimates, due to unanticipated events, could have a material impact on the Corporation's financial condition and results of operations.

The Corporation establishes tax liabilities or reduces tax assets for uncertain tax positions when, despite its assessment that the tax return positions are appropriate and supportable under local tax law, the Corporation believes it may not succeed in realizing the tax benefit of certain positions if challenged. In evaluating a tax position, the Corporation determines whether it is more likely than not that the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Corporation's estimate of the ultimate tax liability contains assumptions based on past experiences, and judgments about potential actions by taxing jurisdictions as well as judgments about the likely outcome of issues that have been raised by taxing jurisdictions. The tax position is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Corporation evaluates these uncertain tax positions each quarter and adjusts the related tax liabilities or assets in light of changing facts and circumstances, such as the progress of a tax audit or the expiration of a statute of limitations. The Corporation believes the estimates and assumptions used to support its evaluation of uncertain tax positions are reasonable.

The amount of unrecognized tax benefits may increase or decrease in the future for various reasons including adding amounts for current tax year positions, expiration of open income tax returns due to the statutes of limitation, changes in management's judgment about the level of uncertainty, status of examinations, litigation and legislative activity and the addition or elimination of uncertain tax positions. Although the outcome of tax audits is uncertain, the Corporation believes that adequate amounts of tax, interest and penalties have been provided for any adjustments that are expected to result from open years. From time to time, the Corporation is audited by various federal, state and local authorities regarding income tax matters. Although management believes its approach in determining the appropriate tax treatment is supportable and in accordance with the accounting standards, it is possible that the final tax authority will take a tax position that is different than the tax position reflected in the Corporation's income tax provision and other tax reserves. As each audit is conducted, adjustments, if any, are appropriately recorded in the consolidated financial statement in the period determined. Such differences could have an adverse effect on the Corporation's income tax provision or benefit, or other tax reserves, in the reporting period in which such determination is made and, consequently, on the Corporation's results of operations, financial position and / or cash flows for such period.

Goodwill and Other Intangible Assets

The Corporation's goodwill and other identifiable intangible assets having an indefinite useful life are tested for impairment. Intangibles with indefinite lives are evaluated for impairment at least annually, and on a more frequent basis, if events or circumstances indicate impairment could have taken place. Such events could include, among others, a significant adverse change in the business climate, an adverse action by a regulator, an unanticipated change in the competitive environment and a decision to change the operations or dispose of a reporting unit. Other identifiable intangible assets with a finite useful life are evaluated periodically for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill impairment is recognized when the carrying amount of any of the reporting units exceeds its fair value up to the amount of the goodwill. The Corporation estimates the fair value of each reporting unit, consistent with the requirements of the fair value measurements accounting standard, generally using a combination of methods, including market price multiples of comparable companies and transactions, as well as discounted cash flow analyses. Subsequent reversal of goodwill impairment losses is not permitted under applicable accounting standards. For a detailed description of the annual goodwill impairment evaluation performed by the Corporation during the third quarter of 2023, refer to Note 15 to the Consolidated Financial Statements.

Pension and Postretirement Benefit Obligations

The Corporation provides pension and restoration benefit plans for certain employees of various subsidiaries. The Corporation also provides certain health care benefits for retired employees of BPPR. The non-contributory defined pension and benefit restoration plans ("the Pension Plans") are frozen with regards to all future benefit accruals.

The estimated benefit costs and obligations of the Pension Plans and Postretirement Health Care Benefit Plan ("OPEB Plan") are impacted by the use of subjective assumptions, which can materially affect recorded amounts, including expected returns on plan assets, discount rates, termination rates, retirement rates and health care trend rates. Management applies judgment in the determination of these factors, which normally undergo evaluation against current industry practice and the actual experience of the Corporation. The Corporation uses an independent actuarial firm for assistance in the determination of the Pension Plans and OPEB Plan costs and obligations. Detailed information on the Plans and related valuation assumptions are included in Note 30 to the Consolidated Financial Statements.

The Corporation periodically reviews its assumption for the long-term expected return on Pension Plans assets. The Pension Plans' assets fair value at December 31, 2023 was $652.4 million. The expected return on plan assets is determined by considering various factors, including a total fund return estimate based on a weighted-average of estimated returns for each asset class in each plan. Asset class returns are estimated using current and projected economic and market factors such as real rates of return, inflation, credit spreads, equity risk premiums and excess return expectations.

As part of the review, the Corporation's independent consulting actuaries performed an analysis of expected returns based on each plan's expected asset allocation for the year 2024 using the Willis Towers Watson US Expected Return Estimator. This analysis is reviewed by the Corporation and used as a tool to develop expected rates of return, together with other data. This forecast reflects the actuarial firm's view of expected long-term rates of return for each significant asset class or economic indicator as of January 1, 2024; for example, 8.5% for large cap stocks, 8.8% for small cap stocks, 9.0% for international stocks, 6.0% for long corporate bonds and 5.0% for long Treasury bonds. A range of expected investment returns is developed, and this range relies both on forecasts and on broad-market historical benchmarks for expected returns, correlations, and volatilities for each asset class.

As a consequence of recent reviews, the Corporation updated its expected return on plan assets for year 2024 to 5.6% and 6.6% for the Pension Plans. Expected rates of return of 5.9% and 6.5% had been used for 2023 and 4.3% and 5.4% had been used for 2022 for the Pension Plans. Since the expected return assumption is on a long-term basis, it is not materially impacted by the yearly fluctuations (either positive or negative) in the actual return on assets. The expected return can be materially impacted by a change in the plan's asset allocation.

Net Periodic Benefit Cost ("pension expense") for the Pension Plans amounted to $18.6 million in 2023. The total pension expense included a benefit of $34.4 million for the expected return on assets.

Pension expense is sensitive to changes in the expected return on assets. For example, decreasing the expected rate of return for 2024 from 5.6% to 5.35% would increase the projected 2024 pension expense for the Banco Popular de Puerto Rico Retirement Plan, the Corporation's largest plan, by approximately $1.5 million.

If the projected benefit obligation exceeds the fair value of plan assets, the Corporation shall recognize a liability equal to the unfunded projected benefit obligation and vice versa, if the fair value of plan assets exceeds the projected benefit obligation, the Corporation recognizes an asset equal to the overfunded projected benefit obligation. This asset or liability may result in a taxable or deductible temporary difference and its tax effect shall be recognized as an income tax expense or benefit which shall be allocated to various components of the financial statements, including other comprehensive income (loss). The determination of the fair value of pension plan obligations involves judgment, and any changes in those estimates could impact the Corporation's Consolidated Statements of Financial Condition. Management believes that the fair value estimates of the Pension Plans assets are reasonable given the valuation methodologies used to measure the investments at fair value as described in Note 28 to the Consolidated Financial Statements. Also, the compositions of the plan assets are primarily in equity and debt securities, which have readily determinable quoted market prices. The Corporation had recorded a pension asset of $16.6 million at December 31, 2023.

The Corporation uses the spot rate yield curve from the Willis Towers Watson RATE: Link (10/90) Model to discount the expected projected cash flows of the plans. The equivalent single weighted average discount rate ranged from 5.02% to 5.05% for the Pension Plans and 5.10% for the OPEB Plan to determine the benefit obligations at December 31, 2023.

A 50 basis point decrease to each of the rates in the December 31, 2023 Willis Towers Watson RATE: Link (10/90) Model would increase the projected 2024 expense for the Banco Popular de Puerto Rico Retirement Plan by approximately $2.2 million. The change would not affect the minimum required contribution to the Pension Plans.

The OPEB Plan was unfunded (no assets were held by the plan) at December 31, 2023. The Corporation had recorded a liability for the underfunded postretirement benefit obligation of $117.0 million at December 31, 2023.

STATEMENT OF OPERATIONS ANALYSIS

Net Interest Income

Net interest income is the interest earned from loans, debt securities and money market investments, including loan fees, minus the interest cost of deposits and borrowed money. Various risk factors affect net interest income including the economic environment in which we operate, market related events, the mix and size of the earning assets and related funding, changes in volumes, repricing characteristics, loan fees collected, delay charges and interest collected on nonaccrual loans, as well as strategic decisions made by the Corporation's management.

Net interest income for the year ended December 31, 2023 was $2.1 billion or $35.8 million lower than in 2022. Net interest income, on a taxable equivalent basis, for the year ended December 31, 2023 was $2.3 billion compared to $2.4 billion in 2022, a decrease of $154.4 million.

The average key index rates for the years 2023 and 2022 were as follows:

	2023	2022
Prime rate	8.19%	4.86%
Fed funds rate	5.20	1.86
3-month Treasury Bill	3.59	2.01
10-year Treasury	3.45	2.95
FNMA 30-year	4.94	4.26

Average outstanding securities balances are based upon amortized cost excluding any unrealized gains or losses on securities. Non-accrual loans have been included in the respective average loans and leases categories. Loan fees collected, and costs incurred in the origination of loans are deferred and amortized over the term of the loan as an adjustment to interest yield. Prepayment penalties, late fees collected and the amortization of premiums / discounts on purchased loans, including the discount accretion on purchased credit deteriorated loans ("PCD"), are also included as part of the loan yield. Interest income for the period ended December 31, 2023, included $21.0 million related to those items, compared to $44.6 million for the same period in 2022. The year over year decrease is related to lower amortized fees resulting from the forgiveness of PPP loans by $16.6 million, lower discount amortization on commercial loans by $5.4 million mainly driven by lower interest from cancellation of PCD loans and $3.7 million lower amortization of the fair value discountof the auto portfolios acquired in previous years.

Table 3 presents the different components of the Corporation's net interest income, on a taxable equivalent basis, for the year ended December 31, 2023, as compared with the same period in 2022, segregated by major categories of interest earning assets and interest-bearing liabilities. Net interest margin was 3.13% in 2023 or 2 basis points higher than the 3.11 % reported in 2022. The higher net interest margin for the year is driven by a full year impact, on deposit costs, of the increase, in 2022, of 425 basis points in the Federal Funds Rate and an additional 100 basis points in 2023. On a taxable equivalent basis, net interest margin was 3.31% in 2023, compared to 3.46% in 2022, a decrease of 15 basis points. The main drivers for the decrease in net interest income on a taxable equivalent basis were:

Negative variances:

- Lower interest income from investment securities by $48.5 million due to lower volume by $1.8 billion and lower yield by three basis points;
- Higher interest expense on deposits by $797.2 million due to an increase in interest cost by 170 basis points resulting mainly from the higher cost of the Puerto Rico government deposits and the increase in cost of Popular U.S. deposits. Under the terms of BPPR's deposit pricing agreement with the Puerto Rico public sector, public funds rates are market linked with a lag minus a specified spread. This source of funding still results in an attractive spread under market rates.

Partially offset by:

- Higher interest income from money market investments by $248.5 million due to higher interest rates by 396 basis points, driven by the higher interest rate environment, as explained above, partially offset by lower volume by $2.5 billion, due to lower volume of deposits and loan growth funding;
- Higher interest income from loans by $462.5 million due to:
    - Increase in commercial loan Interest income by $284.1 million, or 109 basis points as the origination of loans occurs in a higher interest rate scenario and the positive impact on the repricing of adjustable-rate loans, partially offset by lower amortized fees resulting from the forgiveness of PPP loans by $16.6 million and lower discount amortization on commercial loans by $5.4 million mainly from cancellation of PCD loans,
    - Higher interest income from construction loans by $23.4 million, mainly at Popular Bank, driven by higher yield by 257 basis points and a higher average volume of loans by $38 million,
    - Higher interest income from auto and lease financing portfolios by $40.2 million driven by higher volume by $175 million in the leasing portfolio and higher yields by 37 basis points in auto loans, the later increase in yield was negatively impacted by lower amortization of the fair value discount of the auto loan portfolios acquired in previous years,
    - Higher interest income from mortgage loans by $23.9 million driven by higher yield by 21 basis points and a higher average volume by $160 million,
    - Higher interest income from consumer loans by $91.0 million resulting from a higher volume by $372 million and higher yield by 153 basis points, driven by the increase, mainly in P.R. in personal loans year over year and an increase in credit cards volume.

Table 3 – Analysis of Levels & Yields on a Taxable Equivalent Basis from Continuing Operations (Non-GAAP)

Year ended December 31,

Average Volume			Average Yields / Costs				Interest			Variance Attributable to	
2023	2022	Variance	2023	2022	Variance		2023	2022	Variance	Rate	Volume
(In millions)							(In thousands)				
$ 7,052	$ 9,531	$ (2,479)	5.20 %	1.24 %	3.96 %	Money market investments	$ 366,625	$ 118,079	$ 248,546	$ 286,646	$ (38,100)
27,926	29,743	(1,817)	2.20	2.23	(0.03)	Investment securities [1]	615,758	664,278	(48,520)	(8,273)	(40,247)
32	51	(19)	4.32	5.94	(1.62)	Trading securities	1,376	3,049	(1,673)	(700)	(973)
35,010	39,325	(4,315)	2.81	2.00	0.81	Total money market, investment and trading securities	983,759	785,406	198,353	277,673	(79,320)
						Loans:					
16,469	14,562	1,907	6.55	5.46	1.09	Commercial	1,079,171	795,115	284,056	171,681	112,375
816	778	38	8.86	6.29	2.57	Construction	72,309	48,920	23,389	20,927	2,462
1,650	1,475	175	6.38	5.92	0.46	Leasing	105,309	87,274	18,035	7,203	10,832
7,482	7,322	160	5.55	5.34	0.21	Mortgage	414,992	391,133	23,859	15,212	8,647
3,115	2,743	372	13.19	11.66	1.53	Consumer	410,910	319,920	90,990	43,806	47,184
3,633	3,525	108	8.39	8.02	0.37	Auto	304,660	282,533	22,127	13,257	8,870
33,165	30,405	2,760	7.20	6.33	0.87	Total loans	2,387,351	1,924,895	462,456	272,086	190,370
$ 68,175	$ 69,730	$ (1,555)	4.94 %	3.89 %	1.05 %	Total earning assets	$ 3,371,110	$ 2,710,301	$ 660,809	$ 549,759	$ 111,050
						Interest bearing deposits:					
$ 24,563	$ 25,884	$ (1,321)	3.10 %	0.61 %	2.49 %	NOW and money market [2]	$ 761,647	$ 158,664	$ 602,983	$ 612,470	$ (9,487)
14,900	15,886	(986)	0.68	0.20	0.48	Savings	101,334	32,400	68,934	74,110	(5,176)
7,776	6,853	923	2.41	0.90	1.51	Time deposits	187,043	61,781	125,262	100,043	25,219
47,239	48,623	(1,384)	2.22	0.52	1.70	Total interest bearing deposits	1,050,024	252,845	797,179	786,623	10,556
15,307	16,094	(787)				Non-interest bearing demand deposits					
62,546	64,717	(2,171)	1.68	0.39	1.29	Total deposits	1,050,024	252,845	797,179	786,623	10,556
143	206	(63)	5.12	2.78	2.34	Short-term borrowings	7,329	5,737	1,592	4,506	(2,914)
1,109	939	170	5.09	4.26	0.83	Other medium and long-term debt	56,430	39,970	16,460	9,458	7,002
48,491	49,768	(1,277)	2.30	0.60	1.70	Total interest bearing liabilities (excluding demand deposits)	1,113,783	298,552	815,231	800,587	14,644
4,377	3,868	509				Other sources of funds					
$ 68,175	$ 69,730	$ (1,555)	1.63 %	0.43 %	1.20 %	Total source of funds	1,113,783	298,552	815,231	800,587	14,644
			3.31 %	3.46 %	(0.15)%	Net interest margin/ income on a taxable equivalent basis (Non-GAAP)	2,257,327	2,411,749	(154,422)$	(250,828)$	96,406
			2.64 %	3.29 %	(0.65)%	Net interest spread					
						Taxable equivalent adjustment	125,803	244,390	(118,587)		
			3.13%	3.11 %	0.02 %	Net interest margin/ income non-taxable equivalent basis (GAAP)	$ 2,131,524	$ 2,167,359	$ (35,835)		

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

[1] Average balances exclude unrealized gains or losses on debt securities available-for-sale and the unrealized loss related to certain securities transferred from available-for-sale to held-to-maturity.

Provision for Credit Losses - Loans Held-in-Portfolio and Unfunded Commitments

For the year ended December 31, 2023, the Corporation recorded an expense of $209.7 million for its allowance for credit losses (“ACL”) related to loans held-in-portfolio and unfunded commitments, compared with an expense of $84.2 million for the year ended December 31, 2022. The provision expense related to the loans-held-in-portfolio for the year 2023 was $201.5 million, compared to an expense of $83.3 million for the year 2022. The increase in provision expense was driven by higher reserves in our consumer and commercial portfolios mostly due to changes in credit quality and higher loan volumes. The provision for unfunded commitments for the year 2023 reflected an expense of $8.2 million, compared to an expense of $0.9 million for the same period of 2022.

The provision expense related to loans held-in-portfolio for the BPPR segment was $194.8 million for the year ended December 31, 2023, compared to an expense of $69.5 million for the year ended December 31, 2022, an unfavorable variance of $125.3 million. The provision expense related to loans held-in-portfolio for the Popular U.S. segment was $6.7 million for the year 2023, a favorable variance of $7.1 million, compared to an expense of $13.8 million for the year 2022. As part of the Corporation’s model governance procedures, a new model was implemented for the U.S commercial real estate segment. The new model enhances techniques used to capture default activity within the Corporation’s geographical footprint. As part of the implementation analysis, management evaluated the credit metrics of the portfolio such as risk ratings, delinquency levels, and low exposure to the commercial office sector. Qualitative reserves continue to be maintained to address risks within the U. S. commercial real estate segment. The new model, including qualitative reserve, resulted in a $7.3 million reduction of PB’s ACL.

At December 31, 2023, the total allowance for credit losses for loans held-in-portfolio amounted to $729.3 million, compared to $720.3 million as of December 31, 2022. The ratio of the allowance for credit losses to loans held-in-portfolio was 2.08% at December 31, 2023, compared to 2.25% at December 31, 2022. Refer to Note 9 to the Consolidated Financial Statements, for additional information on the Corporation’s methodology to estimate its ACL. As discussed therein, within the process to estimate its ACL, the Corporation applies probability weights to the outcomes of simulations using Moody’s Analytics’ Baseline, S3 (pessimistic) and S1 (optimistic) scenarios. The baseline scenario is assigned the highest probability, followed by the pessimistic scenario. In addition, refer to the Credit Risk section of this MD&A for a detailed analysis of net charge-offs, non-performing assets, the allowance for credit losses and selected loan losses statistics.

Provision for Credit Losses – Investment Securities

The Corporation’s provision for credit losses related to its investment securities held-to-maturity is related to the portfolio of obligations from the Government of Puerto Rico, states and political subdivisions. For the year ended December 31, 2023, the Corporation recorded a reserve release of $1.1 million, compared to a reserve release of $1.2 million for the year ended December 31, 2022. At December 31, 2023, the total allowance for credit losses for this portfolio amounted to $5.8 million, compared to $6.9 million as of December 31, 2022. Refer to Note 7 to the Consolidated Financial Statements for additional information on the ACL for this portfolio.

Non-Interest Income

For the year ended December 31, 2023, non-interest income decreased by $246.3 million, when compared with the previous year. Factors that contributed to the variance in non-interest income were:

- lower other operating income by $270.3 million mainly due to a $257.7 million gain recognized during the year 2022 due to the Evertec Transactions and related accounting adjustments;

- lower income from mortgage banking activities by $21.0 million due to the unfavorable variances of $11.8 million and $3.5 million in the fair value adjustments for mortgage servicing rights and mortgage servicing fees, respectively, driven by serviced loan portfolio runoff due to the Corporation's determination in the third quarter of 2022 to retain certain guaranteed loans as held for investment, and lower gains from closed derivative positions by $6.0 million; and

- lower service charges on deposit accounts by $9.7 million due to lower overdraft related charges, in part due to the Corporation’s determination to eliminate insufficient funds fees and modifying overdraft fees effective in the third quarter of 2022;

partially offset by:

- higher other service fees by $40.4 million, principally at the BPPR segment, due to higher credit card fees by $16.0 million, mainly due to higher customer purchase activity, higher other fees by $11.1 million, mainly due to higher fees from the merchant network business by $8.3 million due to the revenue sharing agreement entered into in connection with the Evertec Transactions, higher debit card fees by $4.1 million, mainly due to higher volume of transactions, and higher insurance fees by $3.8 million; and

- favorable variance of $10.8 million on the fair value adjustments to the portfolio of equity securities mainly related to deferred benefit plans, which have an offsetting effect recorded as higher personnel costs.

Operating Expenses

As discussed in the significant events section of this MD&A, to facilitate the transparency of the progress with the transformation initiative and to better portray the level of technology related expenses categorized by the nature of the expense, effective in the fourth quarter of 2022, the Corporation has separated technology, professional fees and transactional activities as standalone expense categories in the accompanying Consolidated Statements of Operations. There were no changes to the total operating expenses presented. Prior periods amount in the financial statements and related disclosures have been reclassified to conform to the current presentation.

Table provides the detail of the reclassifications for the year.

Table 4 - Operating Expenses Reclassification	**Year ended December 31,**		
	2021		
Financial statement line item	**As reported**	**Adjustments**	**Adjusted**
Equipment expenses	$ 92,097	$ (59,178)	$ 32,919
Professional fees	410,865	(284,144)	126,721
Technology and software expenses	-	277,979	277,979
Processing and transactional services	-	121,367	121,367
Communications	25,234	(11,205)	14,029
Other operating expenses	136,988	(44,819)	92,169
Net effect on operating expenses	$ 665,184	$ -	$ 665,184

Table 5 provides a breakdown of operating expenses by major categories.

Table 5 - Operating Expenses

	Years ended December 31,		
(In thousands)	2023	2022	2021
Personnel costs:			
Salaries	$ 505,935	$ 432,910	$ 371,644
Commissions, incentives and other bonuses	112,657	155,889	142,212
Pension, postretirement and medical insurance	67,469	56,085	52,077
Other personnel costs, including payroll taxes	91,984	74,880	65,869
Total personnel costs	778,045	719,764	631,802
Net occupancy expenses	111,586	106,169	102,226
Equipment expenses	37,057	35,626	32,919
Other taxes	55,926	63,603	56,783
Professional fees	161,142	172,043	126,721
Technology and software expenses	290,615	291,902	277,979
Processing and transactional services:			
Credit and debit cards	44,578	45,455	40,383
Other processing and transactional services	93,492	81,690	80,984
Total processing and transactional services	138,070	127,145	121,367
Communications	16,664	14,885	14,029
Business promotion:			
Rewards and customer loyalty programs	59,092	51,832	38,919
Other business promotion	35,834	37,086	34,062
Total business promotion	94,926	88,918	72,981
FDIC deposit insurance	105,985	26,787	25,579
Other real estate owned (OREO) income	(15,375)	(22,143)	(14,414)
Other operating expenses:			
Operational losses	23,505	32,049	38,391
All other	73,774	77,397	53,778
Total other operating expenses	97,279	109,446	92,169
Amortization of intangibles	3,180	3,275	9,134
Goodwill impairment charge	23,000	9,000	-
Total operating expenses	$ 1,898,100	$ 1,746,420	$ 1,549,275
Personnel costs to average assets	1.09 %	0.99 %	0.89 %
Operating expenses to average assets	2.66	2.40	2.18
Employees (full-time equivalent)	9,088	8,813	8,351
Average assets per employee (in millions)	$7.84	$8.26	$8.52

Operating expenses for the year ended December 31, 2023 totaled $1.9 billion, which included $71.4 million related to the FDIC Special Assessment, an increase of $151.7 million when compared with the previous year. Excluding the effect of the FDIC Special Assessment, total expenses for 2023 were $1.8 billion, an increase of $80.2 million, when compared with the previous year. During the year 2023, the Corporation incurred approximately $21.5 million in transformation related costs, compared to $24.6 million incurred during the second half of the year 2022. The other variances in operating expenses for the year were driven primarily by:

- higher personnel costs by $58.3 million mainly due to higher salaries expense by $73.0 million as a result of market adjustments, annual salary revisions and an increase in headcount, an increase in health insurance costs by $11.7 million, higher payroll taxes and other compensation expenses by $17.1 million; partially offset by a decrease in incentive compensation and profit-sharing accrual by $45.3 million;

- a higher goodwill impairment expense by $14.0 million, related to our U.S. based leasing subsidiary for which a charge of $23 million was recorded in 2023, due to lower forecasted cash flows and an increase in the rate used to discount cash flows, compared to an impairment of $9 million recorded in 2022 as a result of a decrease in the projected earnings.
- higher other processing and transactional services expenses by $11.8 million mainly due to broad based retail customers' debit card replacement costs incurred during the second quarter of 2023, the impact of $3.5 million of incentives received during July 2022 related to the ATH Network Participation Agreement entered into in connection with the Evertec Business Acquisition and an increase by $2.6 million in service charges related to point of sale debitcard transactions;
- higher customer reward program expense in our credit card business by $7.3 million, reflecting an increase in customer purchase activity;
- higher net occupancy expense by $5.4 million mainly due to an increase in buildings' insurance premiums and higher rent expense related to the space occupied by Popular Bank; and
- lower other real estate owned (OREO) income by $6.8 million mainly due to lower gain on sale of mortgage and commercial properties;

These variances were partially offset by:

- lower other operating expenses by $12.2 million mainly due to the effect of prior year expense related to the Evertec Transactions of $17.3 million, lower sundry losses by $8.5 million, mainly related to mortgage claim reserves, and $2.2 million of impairment of long-lived assets recognized during 2022; partially offset by higher pension plan cost by $19.2 million due to changes in actuarial assumption.
- lower professional fees by $10.9 million mainly due to lower legal fees by $2.7 million and lower advisory expenses by $6.8 million from various Corporate projects, including the Corporation's transformationinitiative, for which certain projects are being managed with internal personnel; and
- lower other taxes expense by $7.7 million mainly due to the reversal during 2023 of an accrual related to regulatory examination fees in BPPR.

Income Taxes

For the year ended December 31, 2023, the Corporation recorded an income tax expense of $134.2 million, compared to $132.3 million for the same period of 2022. The net increase of $1.9 million in income tax expense reflects the impact of the composition and source of taxable income between both years. For the year 2023, the income before tax was lower than year 2022, which would have resulted in a lower income tax expense; however, the income tax expense of year 2022 benefited from the reversal of a portion of the deferred tax assets valuation allowance of the U. S. operations, which resulted in an income tax benefit of $68.2 million, the sale of Evertec shares, taxable at a preferential rate, and a higher tax exempt income net of disallowance.

At December 31, 2023, the Corporation had a net deferred tax asset amounting to $1 billion, net of a valuation allowance of $0.5 billion. The net deferred tax asset related to the U.S. operations was $0.3 billion, net of a valuation allowance of $0.4 billion.

Refer to Note 35 to the Consolidated Financial Statements for a reconciliation of the statutory income tax rate to the effective tax rate and additional information on the income tax expense and deferred tax asset balances.

Fourth Quarter Results

The Corporation recognized net income of $94.6 million for the quarter ended December 31, 2023, compared with a net income of $257.1 million for the same quarter of 2022.

Net interest income for the fourth quarter of 2023 amounted to $534.1 million, compared with $559.6 million for the fourth quarter of 2022, a decrease of $25.4 million. The decrease in net interest income was mainly due to higher cost on deposits partially offset by an increase in interest income from loans, mainly due to growth at both BPPR and PB and higher rates, and higher income from money market investments due to higher average balances and higher rates. The net interest margin decreased by 20 basis points to 3.08% mainly due to an increase in deposit costs, particularly on Puerto Rico public funds and time deposits at PB. On a taxable equivalent basis, the net interest margin for the fourth quarter of 2023 was 3.26%, compared to 3.64% for the fourth quarter of 2022.

The provision for credit losses was $78.7 million for the fourth quarter of 2023, compared to a provision expense of $49.5 million for the fourth quarter of 2022. The increase in provision expense reflects portfolio growth and changes in credit quality.

Non-interest income amounted to $168.7 million for the quarter ended December 31, 2023, compared with $158.5 million for the same quarter in 2022. The increase of $10.3 million was mainly due to higher other service fees by $7.7 million and higher service charges on deposit accounts by $3.0 million mainly due to higher non-balance compensation.

Operating expenses totaled $531.1 million for the quarter ended December 31, 2023, compared with $461.7 million for the same quarter in the previous year. The increase of $69.4 million is mainly related to the $71.4 million FDIC Special Assessment recognized during the fourth quarter of 2023; partially offset by lower professional fees by $10.1 million mainly related to various corporate projects, including the transformation initiative, for which certain areas are currently being managed by internal personnel.

For the quarter ended December 31, 2023, the Corporation recorded an income tax benefit of $1.5 million, compared with an income tax benefit of $50.3 million for the same quarter of 2022. The unfavorable variance of $48.9 million in income tax benefit, when compared to the fourth quarter of 2022, was mostly attributed to the reversal of a portion of the deferred tax assets valuation allowance during the fourth quarter of 2022, for which we reported an income tax benefit of $68.2 million. During the fourth quarter of 2023, we reported a lower income before tax, mainly due to the FDIC Special Assessment, which resulted in a lower income tax expense by approximately $42.6 million. We also recorded lower exempt income and other lower tax benefits, both increasing the income tax expense by $15.5 million and 7.2 million, respectively.

REPORTABLE SEGMENT RESULTS

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

For a description of the Corporation’s reportable segments, including additional financial information and the underlying management accounting process, refer to Note 37 to the Consolidated Financial Statements.

The Corporate group reported a net income of $13.3 million for the year ended December 31, 2023, compared with a net income of $150.1 million for the previous year. The decrease in net income was mainly attributed to the $128.8 million in after-tax gains recognized by the Corporation as a result of the Evertec Stock Sale, as defined in Note 4 to the Consolidated Financial Statements, and related accounting adjustments during the year ended September 30,2022.

Highlights on the earnings results for the reportable segments are discussed below:

Banco Popular de Puerto Rico

The Banco Popular de Puerto Rico reportable segment’s net income amounted to $472.0 million for the year ended December 31, 2023, compared with $782.0 million for the year ended December 31, 2022. The principal factors that contributed to the variance in the financial results included the following:

- Lower net interest income by $11.9 million due to higher interest expense on deposits by $616.0 million mainly due to higher costs on the market-indexed Puerto Rico government deposits, and the higher interest rate environment’s impact on the cost of NOW accounts, time deposits and savings deposits; partially offset by higher interest income from money market and investment securities by $287.5 million mainly due to higher yields driven by the increase in rates by the Federal Reserve and higher average balances of U.S. Treasury securities; and higher interest income from loans by $317.4 million, mainly due to higher average balances mainly in commercial and consumer loans and higher yields across all the portfolios. The BPPR segment's net interest margin was 3.20% for 2023 compared with 3.06% for the same period in 2022.

- A provision for loan losses of $194.3 million in 2023, compared to $70.3 million for the year ended 2022, or an unfavorable variance of $124.0 million, due in part to loan growth;

- Lower non-interest income by $93.6 million mainly due to:

  - Lower other operating income by $109.3 million mostly due to the gain recorded as result of the Evertec Transactions and related accounting adjustments on 2022,

  - Lower mortgage banking activities by $20.4 million, unfavorable variances in the fair value adjustments for mortgage serving rights and mortgage servicing fees, driven by serviced loan portfolio runoff due to Corporation's determination in the third quarter of 2022 to retain certain guaranteed loans as held for investment, and lower gains from closed derivative positions;

  - Lower service charges on deposit accounts by $8.8 million principally due to the change in policy of eliminating insufficient fund fees and modifying overdraft fees implemented in the third quarter of 2022.

- Higher operating expenses by $111.5 million, mainly due to:

  - Higher personnel costs by $37.0 million due to a higher headcount and salaries adjustments, including merit increases, market and minimum salary adjustments and higher pension and health insurance costs; partially offset by a decrease in profit sharing in incentive compensation;

  - Higher business promotions by $6.1 million mainly due to higher customer rewards expense related to higher transactional volumes;

  - Higher FDIC deposit insurance expense by $68.8 million due to the FDIC Special Assessment recorded in 2023;

  - Higher processing and transactional services by $10.8 million mainly due to higher credit and debit card processing expense as a result of higher transactional volumes,

  - Higher professional fees by $17.8 million mainly due to costs associated with initiatives focused on regulatory, compliance and cyber security efforts as well as the transformation initiative.

  Partially offset by:

  - Lower other operating expenses by $26.7 million mainly due to $17.3 million charge related to Evertec Transactions on 2022 and lower mortgage related sundry losses by $5.6 million mainly due to a reserve release adjustment recorded in 2022 and lower charges allocated from the Corporate segment group by $9.1 million mainly from lower personnel costs; partially offset by higher pension plan cost by $19.2 million due to charges in actuarial assumptions;

  - Lower technology and software expenses by $4.5 million mainly due in part to savings associated with the acquired services from Evertec during 2022;

  - Lower net recoveries from OREO by $7.4 million mainly due to lower gain on sale of mortgage and commercial properties.

- Lower income tax expense by $30.9 million due to lower income before tax and the impact of the composition and sources of taxable income in each year.

Popular U.S.

For the year ended December 31, 2023, the reportable segment of Popular U.S. reported net income of $56.3 million, compared with a net income of $170.3 million for the year ended December 31, 2022. The principal factors that contributed to the variance in the financial results included the following:

- Lower net interest income by $22.3 million mainly due to higher interest expense on deposits by $207.3 million mainly due to higher rates and higher average balance of time deposit primarily gathered through its direct online channel, partially offset by higher interest income from loans by $138.1 million, mainly from growth in the commercial portfolio as well as higher yields due to increases in rates, and higher income from money market and investment securities by $47.4 million due to higher yields and higher average balance. The Popular U.S. reportable segment's net interest margin was 2.98% for 2023 compared with 3.68% for the same period in 2022;

- An unfavorable variance of $2.1 million on the provision for loan losses and unfunded commitments, reflective of the updated macroeconomics scenarios offset by the implementation of the new model for the U.S. commercial real estate loans, which resulted in a reserve release of $14.6 million;

- Lower non-interest income by $7.1 million mainly due to the reversal on 2022 of $9.2 million of the contingent liability related to the acquisition of the commercial lease business at Popular Equipment Finance;

- Higher operating expenses by $39.0 million mainly due to:

    - Higher personnel costs by $5.9 million due to salary market and annual adjustments;

    - Higher occupancy expense by $4.1 million due to higher rental building and an increase in amortization mainly due to early termination of contracts;

    - Higher FDIC deposit insurance expense by $10.0 million due to the FDIC Special Assessment recorded in 2023;

    - Higher other expenses by $2.9 million due to higher charges allocated from the Corporate segment by $1.6 million, mainly professional fees; and

    - The goodwill impairment charge related to our U.S. based leasing subsidiary of $23.0 million recorded in 2023, due to lower forecast cash flows and increase in the rate to discount cash flows, compared to an impairment of $9.0 million recorded in 2022, an unfavorable variance of $14.0 million.

- Higher income tax expense by $43.4 million due mainly due to the partial reversal of the deferred tax asset valuation allowance recorded during the fourth quarter of 2022 of $68.2 million.

STATEMENT OF FINANCIAL CONDITION ANALYSIS

Assets

The Corporation's total assets were $70.8 billion at December 31, 2023, compared to $67.6 billion at December 31, 2022. Refer to the Corporation's Consolidated Statements of Financial Condition at December 31, 2023 and 2022 included in this Form 10-K. Also, refer to the Statistical Summary 2023-2022 in this MD&A for Condensed Statements of Financial Condition.

Money market investments and debt securities

Money market investments increased by $1.4 billion at December 31, 2023, when compared to December 31, 2022. This was impacted by the increase in deposits of $2.4 billion, mainly due to higher Puerto Rico public sector deposits at BPPR and time deposit at PB. Debt securities available-for-sale decreased by $1.1 billion, mainly due repayments and maturities, while debt securities held-to-maturity decreased by $329.9 million. Refer to Notes 6 and 7 to the Consolidated Financial Statements for additional information with respect to the Corporation's debt securities available-for-sale and held-to-maturity.

Loans

Refer to Table 6 for a breakdown of the Corporation's loan portfolio. Also, refer to Note 8 to the Consolidated Financial Statements for detailed information about the Corporation's loan portfolio composition and loan purchases and sales.

Loans held-in-portfolio increased by $3.0 billion to $35.1 billion at December 31, 2023, mainly due to growth in the commercial portfolio of $2.0 billion, reflected at both BPPR and PB by approximately $1.1 billion and $0.9 billion, respectively, and consumer loans at BPPR. Consumer loans at BPPR increased by $445.0 million in the aggregate including credit cards, personal loans and auto loans. The increase in BPPR's consumer portfolio is aligned with the increase in retail sales and consumer spending in Puerto Rico during 2023. The auto loans portfolio at BPPR benefited from the sustained level of auto sales activity on the island. In addition, mortgage loans increased by $281.5 million from the previous year, as the Corporation continued to retain, in portfolio, FHA-guaranteed mortgage loans originations.

A portion of the Corporation's $3.0 billion year over year loan growth in 2023 was driven by its non-owner occupied commercial real estate and commercial multi-family portfolios, as detailed in Table 6. Due to market pressures from shifts to hybrid work environments since the pandemic, particularly in the New York Metro area where the Corporation operates, and the effect of the current higher interest rate environment, there has been increased focus about the risks of these categories of loans.

The Corporation's $5.1 billion non-owner occupied commercial real estate portfolio is comprised of $3.0 billion in Puerto Rico and $2.1 billion in the U.S. and is well diversified across a number of tenants in different industries and segments with exposure to retail (35% of non-owner occupied CRE), hotels (20%) and office space (12%) accounting for two thirds of the total exposure. The approximate $639 million office space exposure represents only 1.8% of the total loan portfolio and is comprised mainly of mid-rise properties with diversified tenants with average loan size of $2 million across both the U.S. and Puerto Rico.

Popular's $2.4 billion commercial multi-family portfolio represents approximately 7% of total loans and is concentrated in New York Metro ($1.4 billion), South Florida ($768 million) and Puerto Rico ($185 million). In the New York Metro region, the Corporation has no exposure to rent controlled buildings. The majority of our multi-family loans, in that region, are collateralized by underlying buildings that count on a mix of units subject to rent stabilized (subject to annual capped rent increases) and market-rate units. The rent stabilized units represent less than 40% of the total units in the loan portfolio with the majority originated after 2019. The mix of units within a building is common across the New York Metro region due to tax incentives awarded to developers based on rent stabilized units. In 2024, there are approximately $237 million in multi-family loans in our New York Metro portfolio expected to reprice.

Refer to Note 9 to the Consolidated Financial Statements for additional information on delinquency, asset quality and origination vintage information of these loan segments.

The allowance for credit losses for the loan portfolio increased by $9.0 million, net of the impact of the adoption of ASU 2022-02 on January 1, 2023 (Troubled Debt Restructuring by Creditors), mainly due to changes in credit quality metrics and portfolio growth. Refer to the Credit Quality section of the MD&A for additional information on the Allowance for credit losses for the loan portfolio.

Table 6 - Loans Ending Balances

(In thousands)	December 31, 2023	December 31, 2022
Loans held-in-portfolio:		
Commercial		
Commercial multi-family	$ 2,415,620	$ 2,321,713
Commercial real estate non-owner occupied	5,087,421	4,499,670
Commercial real estate owner occupied	3,080,635	3,078,549
Commercial and industrial	7,126,121	5,839,200
Total Commercial	17,709,797	15,739,132
Construction	959,280	757,984
Leasing	1,731,809	1,585,739
Mortgage	7,695,917	7,397,471
Consumer		
Credit cards	1,135,747	1,041,870
Home equity lines of credit	65,953	71,916
Personal	1,945,247	1,823,579
Auto	3,660,780	3,512,530
Other	160,441	147,548
Total Consumer	6,968,168	6,597,443
Total loans held-in-portfolio	$ 35,064,971	$ 32,077,769
Loans held-for-sale:		
Mortgage	$ 4,301	$ 5,381
Total loans held-for-sale	$ 4,301	$ 5,381
Total loans	$ 35,069,272	$ 32,083,150

Other assets

Other assets amounted to $2.0 billion at December 31, 2023, an increase of $166.8 million compared to $1.8 billion at December 31, 2022. At December 31, 2023, this includes $176 million in cash receivable from the maturities of investment securities. Refer to Note 14 to the Consolidated Financial Statements for a breakdown of the principal categories that comprise the caption of “Other Assets” in the Consolidated Statements of Financial Condition at December 31, 2023 and 2022.

Liabilities

The Corporation’s total liabilities were $65.6 billion at December 31, 2023, an increase of $2.1 billion compared to $63.5 billion at December 31, 2022, mainly due to an increase in deposits as discussed below. Refer to the Corporation’s Consolidated Statements of Financial Condition included in this Form 10-K.

Deposits and Borrowings

The composition of the Corporation’s financing to total assets at December 31, 2023 and 2022 is included in Table 7.

Table 7 - Financing to Total Assets

(In millions)		December 31, 2023		December 31, 2022	% increase (decrease) from 2022 to 2023	% of total assets 2023	% of total assets 2022
Non-interest bearing deposits	$	15,420	$	15,960	(3.4)%	21.8 %	23.6 %
Interest-bearing core deposits		43,571		41,600	4.7	61.6	61.5
Other interest-bearing deposits		4,627		3,667	26.2	6.5	5.4
Repurchase agreements		91		149	(38.9)	0.1	0.2
Other short-term borrowings		-		365	N.M.	-	0.5
Notes payable		987		887	11.3	1.4	1.3
Other liabilities		915		917	(0.2)	1.3	1.4
Stockholders' equity		5,147		4,093	25.8	7.3	6.1

Deposits

The Corporation's deposits totaled $63.6 billion at December 31, 2023, compared to $61.2 billion at December 31, 2022.The deposits increase of $2.4 billion was mainly in Puerto Rico public sector deposits at BPPR and time deposits at PB. Public sector deposit balances amounted to $18.1 billion at December 31, 2023, compared to $15.2 billion at December 31, 2022. The receipt by the Puerto Rico Government of additional federal assistance, and seasonal tax collections, could increase public deposit balances at BPPR in the near term. However, the rate at which public deposit balances may decline is uncertain and difficult to predict. The amount and timing of any such reduction is likely to be impacted by, for example, the speed at which federal assistance is distributed, the financial condition, liquidity and cash management practices of the Puerto Rico Government and its instrumentalities and the implementation of fiscal and debt adjustment plans approved pursuant to PROMESA or other actions mandated by the Fiscal Oversight and Management Board for Puerto Rico (the "Oversight Board").

Approximately 28% of the Corporation's deposits are public fund deposits from the Government of Puerto Rico, municipalities and government instrumentalities and corporations ("public funds''). These public funds deposits are indexed to short-term market rates and fluctuate in cost with changes in those rates with a one-quarter lag, in accordance with contractual terms. As a result, these deposits' costs have generally lagged variable asset repricing. Generally, these deposits require that the bank pledge high credit quality securities as collateral; therefore, liquidity risks arising from public sector deposit outflows are lower. Refer to the Liquidity section in this MD&A for additional information on the Corporation's funding sources.

Refer to Table 8 for a breakdown of the Corporation's deposits at December 31, 2023 and 2022.

Table 8 - Deposits Ending Balances

(In thousands)		2023		2022
Demand deposits [1]	$	27,579,054	$	26,382,605
Savings, NOW and money market deposits (non-brokered)		26,817,844		27,265,156
Savings, NOW and money market deposits (brokered)		719,453		798,064
Time deposits (non-brokered)		7,546,138		6,442,886
Time deposits (brokered CDs)		955,754		338,516
Total deposits	$	63,618,243	$	61,227,227

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

Borrowings

The Corporation's borrowings amounted to $1.1 billion at December 31, 2023, compared to $1.4 billion at December 31, 2022. Refer to Note 17 to the Consolidated Financial Statements for detailed information on the Corporation's borrowings. Also, refer to the Liquidity section in this MD&A for additional information on the Corporation's funding sources.

Other liabilities

The Corporation's other liabilities amounted to $0.9 billion at December 31, 2023, consistent with the December 31, 2022 balance.

Stockholders' Equity

Stockholders' equity totaled $5.1 billion at December 31, 2023, an increase of $1.1 billion when compared to December 31, 2022. The increase was principally due to lower accumulated unrealized gain/losses on debt securities available-for-sale by $472.5 million and net income for the year ended December 31, 2023 of $541.3 million, partially offset by declared dividends of $163.7 million and $1.4 million on common stock and preferred stock, respectively. Refer to the Consolidated Statements of Financial Condition, Comprehensive Income and of Changes in Stockholders' Equity for information on the composition of stockholders' equity. Also, refer to Note 22 to the Consolidated Financial Statements for a detail of accumulated other comprehensive income (loss), an integral component of stockholders' equity.

REGULATORY CAPITAL

The Corporation and its bank subsidiaries are subject to capital adequacy standards established by the Federal Reserve Board. The risk-based capital standards applicable to Popular, Inc. and the Banks, BPPR and PB, are based on the final capital framework of Basel III. The capital rules of Basel III include a "Common Equity Tier 1" ("CET1") capital measure and specifies that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements. Note 21 to the Consolidated Financial Statements presents further information on the Corporation's regulatory capital requirements, including the regulatory capital ratios of its depository institutions, BPPR and PB.

An institution is considered "well-capitalized" if it maintains a total capital ratio of 10%, a Tier 1 capital ratio of 8%, a CET1 capital ratio of 6.5% and a leverage ratio of 5%. The Corporation's ratios presented in Table 9 show that the Corporation was "well capitalized" for regulatory purposes, the highest classification, under Basel III for years 2023 and 2022. BPPR and PB were also well-capitalized for all years presented.

The Basel III Capital Rules also require an additional 2.5% "capital conservation buffer", composed entirely of CET1, on top of these minimum risk-weighted asset ratios, which excludes the leverage ratio. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall. Popular, BPPR and PB are required to maintain this additional capital conservation buffer of 2.5% of CET1, resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) Total capital to risk-weighted assets of at least 10.5%.

Table 9 presents the Corporation's capital adequacy information for the years 2023 and 2022.

Table 9 - Capital Adequacy Data

	At December 31,	
(Dollars in thousands)	2023	2022
Risk-based capital:		
Common Equity Tier 1 capital	$ 6,053,315	$ 5,639,686
Additional Tier 1 Capital	22,143	22,143
Tier 1 capital	$ 6,075,458	$ 5,661,829
Supplementary (Tier 2) capital	658,507	623,818
Total capital	$ 6,733,965	$ 6,285,647
Total risk-weighted assets	$ 37,146,330	$ 34,415,889
Adjusted average quarterly assets	$ 71,353,184	$ 70,287,610
Ratios:		
Common Equity Tier 1 capital	16.30 %	16.39 %
Tier 1 capital	16.36	16.45
Total capital	18.13	18.26
Leverage ratio	8.51	8.06
Average equity to assets[1]	9.27	8.25
Average tangible equity to assets[1]	8.19	7.27

[1] Average balances exclude unrealized gains or losses on debt securities available-for-sale and unrealized losses on debt securities transfer to held-to-maturities

On April 1, 2020, the Corporation adopted the final rule issued by the federal banking regulatory agencies pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996 that simplified several requirements in the agencies' regulatory capital rules. These rules simplified the regulatory capital requirement for mortgage servicing assets (MSAs), deferred tax assets arising from temporary differences and investments in the capital of unconsolidated financial institutions by raising the CET1 deduction threshold from 10% to 25%. The 15% CET1 deduction threshold which applies to the aggregate amount of such items was eliminated. The rule also requires, among other changes, increasing from 100% to 250% the risk weight to MSAs and temporary difference deferred tax asset not deducted from capital. For investments in the capital of unconsolidated financial institutions, the risk weight would be based on the exposure category of the investment.

The decrease in the CET1 capital ratio, Tier 1 capital ratio and, total capital ratio as of December 31, 2023, compared to December 31, 2022, was mostly due to an increase in risk weighted assets driven by the growth in the commercial and consumer loan portfolios, partially offset by the annual earnings. The increase in the leverage capital ratio was mainly due to the increase in capital driven by the annual earnings, partially offset by a slight increase in average total assets.

Pursuant to the adoption of CECL on January 1, 2020, the Corporation elected to use the five-year transition period option as provided in the final interim regulatory capital rules effective March 31,2020. The five-year transition period provision delays for two years the estimated impact of CECL on regulatory capital, followed by a three-year transition period to phase out the aggregate amount of the capital benefits provided during the initial two-year delay. As of December 31, 2023, the Corporation had phased-in 50% of the cumulative CECL deferral with the remaining impact to be recognized over the remaining two years. In the first quarter of 2024, the Corporation will phase in a cumulative 75% of the deferral.

On August 26, 2020, federal banking regulators issued a final rule to modify the Basel III regulatory capital rules applicable to banking organizations to allow those organizations participating in the Paycheck Protection Program ("PPP") established under the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") to neutralize the regulatory capital effects of participating in the program. Specifically, the agencies have clarified that banking organizations, including the Corporation and its Bank subsidiaries, are permitted to assign a zero percent risk weight to PPP loans for purposes of determining risk-weighted assets and risk-based capital ratios. Additionally, in order to facilitate use of the Paycheck Protection Program Liquidity Facility (the "PPPL Facility"), which provides Federal Reserve Bank loans to eligible financial institutions such as the Corporation's Bank subsidiaries to fund PPP loans, the agencies further clarified that, for purposes of determining leverage ratios, a banking organization is permitted to exclude from total average assets PPP loans that have been pledged as collateral for a PPPL Facility. As of December 31, 2023, the Corporation has $9 million in PPP loans and no loans were pledged as collateral for PPPL Facilities.

Table 10 reconciles the Corporation's total common stockholders' equity to common equity Tier 1 capital.

Table 10 - Reconciliation Common Equity Tier 1 Capital

	At December 31,	
(In thousands)	2023	2022
Common stockholders' equity	$ 5,209,561	$ 4,198,409
AOCI related adjustments due to opt-out election	1,831,003	2,468,193
Goodwill, net of associated deferred tax liability (DTL)	(666,538)	(691,560)
Intangible assets, net of associated DTLs	(9,764)	(12,944)
Deferred tax assets and other deductions	(310,947)	(322,412)
Common equity tier 1 capital	$ 6,053,315	$ 5,639,686
Common equity tier 1 capital to risk-weighted assets	16.30 %	16.39 %

Non-GAAP financial measures

The tangible common equity ratio and tangible book value per common share, which are presented in the table that follows, are non-GAAP measures. Management and many stock analysts use the tangible common equity ratio and tangible book value per common share in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations with significant amounts of goodwill or other intangible assets, typically stemming from the use of the purchase accounting method of accounting for mergers and acquisitions. Neither tangible common equity nor tangible assets or related measures should be considered in isolation or as a substitute for stockholders' equity, total assets or any other measure calculated in accordance with generally accepted accounting principles in the United States of America ("GAAP"). Moreover, the manner in which the Corporation calculates its tangible common equity, tangible assets and any other related measures may differ from that of other companies reporting measures with similar names.

The decrease in the Tangible common equity to tangible assets ratio during 2022 was mainly related to the decrease in the fair value of the Corporation's fixed rate available for sale debt securities portfolio and its impact on the unrealized loss component of accumulated other comprehensive income (loss) (''AOCI''). Given its ability due to the Corporation's liquidity position and its intention to reduce the impact on AOCI and tangible capital of further increases in interest rates, management changed its intent to hold certain securities to maturity. Therefore, in October 2022, the Corporation transferred U.S. Treasury securities with a fair value of $6.5 billion (par value of $7.4 billion) from its available-for-sale portfolio to its held-to-maturity portfolio.

The securities were reclassified at fair value at the time of the transfer. At the date of the transfer, these securities had pre-tax unrealized losses of $873.0 million recorded in AOCI. This fair value discount is being accreted to interest income and the unrealized loss remaining in AOCI is being amortized, offsetting each other through the remaining life of the securities. There were no realized gains or losses recorded as a result of this transfer.

While changes in the amount of unrealized gains and losses in AOCI have an impact on the Corporation's and its wholly-owned banking subsidiaries' tangible capital ratios, they do not impact regulatory capital ratios, in accordance with the regulatory framework. Refer to Note 7 to the Consolidated Financial Statements which presents information about the Corporation's Debt Securities Held-to-Maturity for additional details.

Table 11 provides a reconciliation of total stockholders' equity to tangible common equity and total assets to tangible assets at December 31, 2023 and 2022.

Table 11 - Reconciliation of Tangible Common Equity and Tangible Assets

(In thousands, except share or per share information)	At December 31, 2023		2022	
Total stockholders' equity	$ 5,146,953		$ 4,093,425	
Less: Preferred stock	(22,143)		(22,143)	
Less: Goodwill	(804,428)		(827,428)	
Less: Other intangibles	(9,764)		(12,944)	
Total tangible common equity	$ 4,310,618		$ 3,230,910	
Total assets	$ 70,758,155		$ 67,637,917	
Less: Goodwill	(804,428)		(827,428)	
Less: Other intangibles	(9,764)		(12,944)	
Total tangible assets	$ 69,943,963		$ 66,797,545	
Tangible common equity to tangible assets	6.16	%	4.84	%
Common shares outstanding at end of period	72,153,621		71,853,720	
Tangible book value per common share	$ 59.74		$ 44.97	

	Year-to-date average			
Total stockholders' equity [1]	$ 5,853,276		$ 5,798,407	
Average unrealized (gains) losses on AFS securities transferred to HTM	747,327		210,818	
Adjusted total stockholder's equity	6,600,603		6,009,225	
Less: Preferred Stock	(22,143)		(22,143)	
Less: Goodwill	(821,567)		(757,133)	
Less: Other intangibles	(11,473)		(17,113)	
Total tangible common equity	$ 5,745,420		$ 5,212,836	
Average return on tangible common equity	9.40	%	21.13	%

[1] Average balances exclude unrealized gains or losses on debt securities available-for-sale.

RISK MANAGEMENT

Market / Interest Rate Risk

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

Market risk refers to the risk of a reduction in the Corporation's capital due to changes in the market valuation of its assets and/or liabilities.

Most of the assets subject to market valuation risk are debt securities classified as available-for-sale. Refer to Notes 6 and 7 to the Consolidated Financial Statements for further information on the debt securities available-for-sale and held-to-maturity portfolios. Debt securities classified as available-for-sale amounted to $16.7 billion as of December 31, 2023. Other assets subject to market risk include loans held-for-sale, which amounted to $4 million, mortgage servicing rights ("MSRs") which amounted to $118 million, and securities classified as "trading", which amounted to $32 million, as of December 31, 2023.

Interest Rate Risk ("IRR")

The Corporation's net interest income is subject to various categories of interest rate risk, including repricing, basis, yield curve and option risks. In managing interest rate risk, management may alter the mix of floating and fixed rate assets and liabilities, change pricing schedules, adjust maturities through sales and purchases of investment securities, and enter into derivative contracts, among other alternatives.

Interest rate risk management is an active process that encompasses monitoring loan and deposit flows complemented by investment and funding activities. Effective management of interest rate risk begins with understanding the dynamic characteristics of assets and liabilities and determining the appropriate rate risk position given line of business forecasts, management objectives, market expectations and policy constraints.

Management utilizes various tools to assess IRR, including Net Interest Income ("NII") simulation modeling, static gap analysis, and Economic Value of Equity ("EVE"). The three methodologies complement each other and are used jointly in the evaluation of the Corporation's IRR. NII simulation modeling is prepared for a five-year period, which in conjunction with the EVE analysis, provides management a better view of long-term IRR.

Net interest income simulation analysis performed by legal entity and on a consolidated basis is a tool used by the Corporation in estimating the potential change in net interest income resulting from hypothetical changes in interest rates. Sensitivity analysis is calculated using a simulation model which incorporates actual balance sheet figures detailed by maturity and interest yields or costs.

Management assesses interest rate risk by comparing various NII simulations under different interest rate scenarios that differ in direction of interest rate changes, the degree of change and the projected shape of the yield curve. For example, the types of rate scenarios processed during the quarter include flat rates, implied forwards, and parallel and non-parallel rate shocks. Management also performs analyses to isolate and measure basis and prepayment risk exposures.

The asset and liability management group performs validation procedures on various assumptions used as part of the simulation analyses as well as validations of results on a monthly basis. In addition, the model and processes used to assess IRR are subject to independent validations according to the guidelines established in the Model Governance and Validation policy.

The Corporation processes NII simulations under interest rate scenarios in which the yield curve is assumed to rise and decline by the same magnitude (parallel shifts). The rate scenarios considered in these market risk simulations include instantaneous parallel changes of -100, -200, +100, and +200 basis points during the succeeding twelve-month period. Simulation analyses are based on many assumptions, including that the balance sheet remains flat, the relative levels of market interest rates across all yield curve points and indexes, interest rate spreads, loan prepayments and deposit elasticity. Thus, they should not be relied upon as indicative of actual results. Further, the estimates do not contemplate actions that management could take to respond to changes in interest rates. Additionally, the Corporation is also subject to basis risk in the repricing of its assets and liabilities, including the basis related to using different rate indexes for the repricing of assets and liabilities, as well as the effect of pricing lags which may be contractual or due to historical differences in the timing of management responses to changes in the rate environment. By their nature, these forward-looking computations are only estimates and may be different from what may actually occur in the future. The following table presents the results of the simulations at December 31, 2023 and December 31, 2022, assuming a static balance sheet and parallel changes over flat spot rates over a one-year time horizon:

Table 12 - Net Interest Income Sensitivity (One Year Projection)

	December 31, 2023		December 31, 2022	
(Dollars in thousands)	Amount Change	Percent Change	Amount Change	Percent Change
Change in interest rate				
+200 basis points	20,822	0.92	(18,003)	(0.82)
+100 basis points	11,496	0.51	(7,748)	(0.35)
-100 basis points	19,589	0.87	8,778	0.40
-200 basis points	16,971	0.75	9,296	0.42

The results of the NII simulations at December 31, 2022 in the table above have been adjusted from those reported in the Corporation's 2022 Form 10-K to reflect the effect of changes in certain modeling assumptions in down rate scenario simulations for certain variable rate loans. Specifically, the yield on certain variable rate loans that did not have contractual periodic floors, were not repricing according to the terms of those variable rate loans in the down rate simulations.

Although the adjustment referred to in the preceding paragraph results in the magnitude of the Corporation's sensitivity to decreases in interest rates becoming lower, as of December 31, 2022, the adjusted NII simulations continued to show that the Corporation had a neutral to slightly liability sensitive position driven by the rapid increase in short-term interest rates throughout 2022.

As of December 31, 2023, NII simulations show the Corporation has a neutral to slightly asset sensitive position as compared to a slightly liability sensitive position as of December 31, 2022. The primary reasons for the variation in sensitivity are changes in balance sheet composition driven by an increase in overnight Fed Funds, short-term U.S Treasury Bills ("T- Bills") and loan portfolio on the asset side partially offset by higher Puerto Rico public sector deposits which are indexed to market rates and an increase in time deposits. These results suggest that changes in the Corporation's net interest income sensitivity are driven by changes in the composition of the investment portfolio as the term bond portfolio continues to run off and get reinvested in short-term investments such as T-Bills, combined with the increase of approximately $3.0 billion in loans held in portfolio. Additionally, variation in liability cost, primarily driven by Puerto Rico public sector deposits that represented $18.1 billion or 28% of deposits as of December 31, 2023, as well as an increase of approximately $1.7 billion in time deposits, also impact the sensitivity profile. In declining rate scenarios net interest income would slightly increase as the decline in the cost of these deposit generates a greater benefit than the changes in assets yields. In rising rate scenarios, Popular's net interest income is also impacted by its large proportion of Puerto Rico public sector deposit, however the repricing of assets as they either reset or mature lead to an increase in net interest income.

The Corporation's loan and investment portfolios are subject to prepayment risk, which results from the ability of a third-party to repay debt obligations prior to maturity. Prepayment risk also could have a significant impact on the duration of mortgage-backed securities and collateralized mortgage obligations since prepayments could shorten (or lower prepayments could extend) the weighted average life of these portfolios.

Table 13 - Interest Rate Sensitivity

	At December 31, 2023								
	By repricing dates								
(Dollars in thousands)	0-30 days	Within 31 - 90 days	After three months but within six months	After six months but within nine months	After nine months but within one year	After one year but within two years	After two years	Non-interest bearing funds	Total
Assets:									
Money market investments	$ 6,998,871	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 6,998,871
Investment and trading securities	1,849,238	3,329,068	1,173,287	1,149,164	1,096,708	4,383,968	12,478,938	(317,478)	25,142,893
Loans	5,872,869	3,321,776	1,491,687	1,497,123	1,434,984	5,044,236	16,487,918	(81,321)	35,069,272
Other assets	(2)	-	-	-	-	-	-	3,547,121	3,547,119
Total	14,720,976	6,650,844	2,664,974	2,646,287	2,531,692	9,428,204	28,966,856	3,148,322	70,758,155
Liabilities and stockholders' equity:									
Savings, NOW and money market and other interest bearing demand deposits	19,996,702	770,508	1,081,390	999,305	924,802	3,075,028	12,848,992	-	39,696,727
Certificates of deposit	2,145,493	891,341	941,722	620,282	859,114	1,197,851	1,846,089	-	8,501,892
Federal funds purchased and assets sold under agreements to repurchase	44,329	38,763	8,292	-	-	-	-	-	91,384
Notes payable	21,000	-	25,000	23,570	22,373	144,214	750,791	-	986,948
Non-interest bearing deposits	-	-	-	-	-	-	-	15,419,624	15,419,624
Other non-interest bearing liabilities	-	-	-	-	-	-	-	914,627	914,627
Stockholders' equity	-	-	-	-	-	-	-	5,146,953	5,146,953
Total	$ 22,207,524	$ 1,700,612	$ 2,056,404	$ 1,643,157	$ 1,806,289	$ 4,417,093	$ 15,445,872	$ 21,481,204	$ 70,758,155
Interest rate sensitive gap	(7,486,548)	4,950,232	608,570	1,003,130	725,403	5,011,111	13,520,984	(18,332,882)	-
Cumulative interest rate sensitive gap	(7,486,548)	(2,536,316)	(1,927,746)	(924,616)	(199,213)	4,811,898	18,332,882	-	-
Cumulative interest rate sensitive gap to earning assets	(11.07)%	(3.75)%	(2.85)%	(1.37)%	(0.29)%	7.12 %	27.12 %	-	-

Table 14, which presents the maturity distribution of earning assets, takes into consideration prepayment assumptions.

Table 14 - Maturity Distribution of Earning Assets

	As of December 31, 2023							
	Maturities							
		After one year through five years		After five years through fifteen years		After fifteen years		
(In thousands)	One year or less	Fixed interest rates	Variable interest rates	Fixed interest rates	Variable interest rates	Fixed interest rates	Variable interest rates	Total
Money market securities	$ 6,998,871	$ -	$ -	$ -	$ -	$ -	$ -	$ 6,998,871
Investment and trading securities	8,533,897	14,294,589	9,289	2,145,920	3,431	-	-	24,987,126
Loans:								
Commercial	5,385,197	6,053,244	4,051,003	1,261,180	846,607	53,414	59,152	17,709,797
Construction	566,180	64,686	314,445	6,150	7,819	-	-	959,280
Leasing	467,644	1,235,563	-	28,602	-	-	-	1,731,809
Consumer	1,851,329	3,830,035	290,048	218,190	696,132	4,743	77,691	6,968,168
Mortgage	573,661	2,158,855	149,757	3,975,801	70,677	771,451	16	7,700,218
Subtotal loans	8,844,011	13,342,383	4,805,253	5,489,923	1,621,235	829,608	136,859	35,069,272
Total earning assets	$ 24,376,779	$ 27,636,972	$ 4,814,542	$ 7,635,843	$ 1,624,666	$ 829,608	$ 136,859	$ 67,055,269

Note: Equity securities available-for-sale and other investment securities, including Federal Reserve Bank stock and Federal Home Loan Bank stock held by the Corporation, are not included in this table. Loans held-for-sale have been allocated according to the expected sale date.

Trading

The Corporation engages in trading activities in the ordinary course of business at its subsidiaries, BPPR and Popular Securities. Popular Securities' trading activities consist primarily of market-making activities to meet expected customers' needs related to its retail brokerage business, and purchases and sales of U.S. Government and government sponsored securities with the objective of realizing gains from expected short-term price movements. BPPR's trading activities consist primarily of holding U.S. Government sponsored mortgage-backed securities classified as "trading" and hedging the related market risk with "TBA" (to-be-announced) market transactions. The objective is to derive spread income from the portfolio and not to benefit from short-term market movements. In addition, BPPR uses forward contracts or TBAs to hedge its securitization pipeline. Risks related to variations in interest rates and market volatility are hedged with TBAs that have characteristics similar to that of the forecasted security and its conversion timeline.

At December 31, 2023, the Corporation held trading securities with a fair value of $32 million, representing approximately 0.05% of the Corporation's total assets, compared with $28 million and 0.04%, respectively, at December 31, 2022. As shown in Table 15, the trading portfolio consists principally of mortgage-backed securities and U.S. Treasuries, which at December 31, 2023 were investment grade securities.

Table 15 - Trading Portfolio

	December 31, 2023		December 31, 2022	
(Dollars in thousands)	Amount	Weighted Average Yield [1]	Amount	Weighted Average Yield [1]
Mortgage-backed securities	$ 14,373	5.69 %	$ 14,223	5.79 %
U.S. Treasury securities	16,859	4.29	13,069	3.26
Collateralized mortgage obligations	98	5.21	160	5.51
Puerto Rico government obligations	71	0.91	64	0.45
Interest-only strips	167	12.00	207	12.00
Total	$ 31,568	4.96 %	$ 27,723	4.63 %

[1] Not on a taxable equivalent basis.

The Corporation's trading activities are limited by internal policies. For each of the two subsidiaries, the market risk assumed under trading activities is measured by the 5-day net value-at-risk ("VAR"), with a confidence level of 99%. The VAR measures the maximum estimated loss that may occur over a 5-day holding period, given a 99% probability.

The Corporation's trading portfolio had a 5-day VAR of approximately $0.3 million for the last week in December 31, 2023. There are numerous assumptions and estimates associated with VAR modeling, and actual results could differ from these assumptions and estimates. Backtesting is performed to compare actual results against maximum estimated losses, in order to evaluate model and assumptions accuracy.

In the opinion of management, the size and composition of the trading portfolio does not represent a significant source of market risk for the Corporation.

Derivatives

Derivatives may be used by the Corporation as part of its overall interest rate risk management strategy to minimize significant unexpected fluctuations in earnings and cash flows that are caused by interest rate volatility. Derivative instruments that the Corporation may use include, among others, interest rate caps, indexed options, and forward contracts. The Corporation does not use highly leveraged derivative instruments in its interest rate risk management strategy. Credit risk embedded in these transactions is reduced by requiring appropriate collateral from counterparties and entering into netting agreements whenever possible. All outstanding derivatives are recognized in the Corporation's Consolidated Statements of Condition at their fair value. Refer to Note

26 to the Consolidated Financial Statements for further information on the Corporation's involvement in derivative instruments and hedging activities.

Foreign Exchange

The Corporation holds an interest in BHD León in the Dominican Republic, which is an investment accounted for under the equity method. The Corporation's carrying value of the equity interest in BHD León approximated $ 225.9 million at December 31, 2023. This business is conducted in the country's foreign currency. The resulting foreign currency translation adjustment, from operations for which the functional currency is other than the U.S. dollar, is reported in accumulated other comprehensive income (loss) in the consolidated statements of condition, except for highly-inflationary environments in which the effects would be included in the consolidated statements of operations. At December 31, 2023, the Corporation had approximately $ 65 million in an unfavorable foreign currency translation adjustment as part of accumulated other comprehensive income (loss), compared with an unfavorable adjustment of $ 57 million at December 31, 2022 and $ 67 million at December 31, 2021.

Liquidity

The objective of effective liquidity management is to ensure that the Corporation has sufficient liquidity to meet all of its financial obligations, finance expected future growth, fund planned capital distributions and maintain a reasonable safety margin for cash needs under both normal and stressed market conditions. The Board of Directors is responsible for establishing the Corporation's tolerance for liquidity risk, including approving relevant risk limits and policies. The Board of Directors has delegated the monitoring of these risks to the Board's Risk Management Committee and the Asset/Liability Management Committee. The management of liquidity risk, on a long-term and day-to-day basis, is the responsibility of the Corporate Treasury Division. The Corporation's Corporate Treasurer is responsible for implementing the policies and procedures approved by the Board of Directors and for monitoring the Corporation's liquidity position on an ongoing basis. Also, the Corporate Treasury Division coordinates corporate wide liquidity management strategies and activities with the reportable segments, oversees policy breaches and manages the escalation process. The Financial and Operational Risk Management Division is responsible for the independent monitoring and reporting of adherence with established policies.

An institution's liquidity may be pressured if, for example, it experiences a sudden and unexpected substantial cash outflow due deposit outflows, whether due to a loss of confidence by depositors, or other reasons, including exogenous events such as the COVID-19 pandemic, a downgrading of its credit rating, or some other event that causes counterparties to avoid exposure to the institution. Factors that the Corporation does not control, such as the economic outlook, adverse ratings of its principal markets, perceptions of the financial services industry and regulatory changes, could also affect its ability to obtain funding.

The Corporation has adopted policies and limits to monitor the Corporation's liquidity position and that of its banking subsidiaries. Additionally, contingency funding plans are used to model various stress events of different magnitudes and affecting different time horizons that assist management in evaluating the size of the liquidity buffers needed if those stress events occur. However, such models may not predict accurately how the market and customers might react to every event, and are dependent on many assumptions.

Deposits, including customer deposits, brokered deposits and public funds deposits, continue to be the most significant source of funds for the Corporation, funding 90% of the Corporation's total assets at December 31, 2023 and 91% at December 31, 2022. The ratio of total ending loans to deposits was 55% at December 31, 2023 and 52% at December 31, 2022. In addition to traditional deposits, the Corporation maintains borrowing arrangements, which amounted to approximately $1.1 billion in outstanding balances at December 31, 2023 (December 31, 2022 - $1.4 billion). A detailed description of the Corporation's borrowings, including their terms, is included in Note 17 to the Consolidated Financial Statements. Also, the Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements provide information on the Corporation's cash inflows and outflows.

The following sections provide further information on the Corporation's major funding activities and needs, as well as the risks involved in these activities.

Banking Subsidiaries

Primary sources of funding for the Corporation's banking subsidiaries (BPPR and PB or, collectively, "the banking subsidiaries") include retail, commercial and public sector deposits, brokered deposits, unpledged investment securities, mortgage loan securitization and, to a lesser extent, loan sales. In addition, the Corporation maintains borrowing facilities with the FHLB and at the discount window of the Federal Reserve Bank of New York (the "FRB") and has a considerable amount of collateral pledged that can be used to raise funds under these facilities.

During the fourth quarter of 2023 the Corporation had no material incremental use of its available liquidity sources. At December 31,2023, the Corporation's available liquidity increased to $19.5 billion from $17.0 billion on December 31, 2022. The liquidity sources of the Corporation at December 31,2023 are presented in Table 16:

Table 16 - Liquidity Sources

	December 31, 2023			December 31, 2022		
(In thousands)	BPPR	Popular U.S.	Total	BPPR	Popular U.S.	Total
Unpledged securities and unused funding sources:						
Money market (excess funds at the Federal Reserve Bank)	$ 5,516,636	$ 1,475,143	$ 6,991,779	$ 5,240,100	$ 367,966	$ 5,608,066
Unpledged securities	4,212,480	347,791	4,560,271	7,494,189	326,599	7,820,788
FHLB borrowing capacity	2,157,685	1,341,329	3,499,014	1,389,579	722,005	2,111,584
Discount window of the Federal Reserve Bank borrowing capacity	2,605,674	1,818,946	4,424,620	1,090,308	329,385	1,419,693
Total available liquidity	$ 14,492,475	$ 4,983,209	$ 19,475,684	$ 15,214,176	$ 1,745,955	$ 16,960,131

Refer to Note 17 to the Consolidated Financial Statements for additional information of the Corporation's borrowing facilities available through its banking subsidiaries.

The principal uses of funds for the banking subsidiaries include loan originations, investment portfolio purchases, loan purchases and repurchases, repayment of outstanding obligations (including deposits), advances on certain serviced portfolios and operational expenses. Also, the banking subsidiaries assume liquidity risk related to collateral posting requirements for certain activities mainly in connection with contractual commitments, recourse provisions, servicing advances, derivatives and credit card licensing agreements.

The banking subsidiaries maintain sufficient funding capacity to address large increases in funding requirements such as deposit outflows. The Corporation has established liquidity guidelines that require the banking subsidiaries to have sufficient liquidity to cover all short-term borrowings and a portion of deposits.

The Corporation's ability to compete successfully in the marketplace for deposits, excluding brokered deposits, depends on various factors, including pricing, service, convenience and financial stability as reflected by operating results and financial condition, credit ratings (by nationally recognized credit rating agencies), customer confidence, and importantly, FDIC deposit insurance coverage. Deposits at all of the Corporation's banking subsidiaries are federally insured (subject to FDIC limits) and this is expected to mitigate the potential effect of the aforementioned risks.

Deposits are a key source of funding. Refer to Table 8 for a breakdown of deposits by major types. Core deposits are generated from a large base of consumer, corporate and public sector customers. Core deposits include certificate of deposit under $250,000, all interest-bearing transactional deposit accounts, non-interest bearing deposits, and savings deposits. Core deposits exclude brokered deposits and certificates of deposit over $250,000. Core deposits, excluding P.R. public funds that are fully collateralized, have historically provided the Corporation with a sizable source of relatively stable and low-cost funds. P.R. public funds, while linked to market interest rates, provide a stable source of funding with an attractive earnings spread. Core deposits totaled $59.0 billion, or 93% of total deposits, at December 31, 2023, compared with $57.6 billion, or 94% of total deposits, at December 31, 2022. Core deposits financed 88% of the Corporation's earning assets at December 31, 2023, compared with 90% at December 31, 2022.

The distribution by maturity of certificates of deposit with denominations of $250,000 and over at December 31, 2023 is presented in the table that follows:

Table 17 - Distribution by Maturity of Certificates of Deposit of $250,000 and Over

(In thousands)	
3 months or less	$ 2,025,571
Over 3 to 12 months	630,145
Over 1 year to 3 years	225,165
Over 3 years	177,949
Total	$ 3,058,830

For the years ended December 31, 2023 and 2022, average deposits, including brokered deposits, represented 92% of average earning assets. Table 18 summarizes average deposits for the past three years.

Table 18 - Average Total Deposits

	For the years ended December 31,	
(In thousands)	2023	2022
Non-interest bearing demand deposits	$ 15,307,152	$ 16,093,704
Savings accounts	15,265,784	16,242,457
NOW, money market and other interest bearing demand accounts	24,208,570	25,539,909
Certificates of deposit	7,764,974	6,840,334
Total interest bearing deposits	47,239,328	48,622,700
Total average deposits	$ 62,546,480	$ 64,716,404

The Corporation had $1.7 billion in brokered deposits at December 31, 2023, which financed approximately 2% of its total assets (December 31, 2022 - $1.1 billion and 2%, respectively). In the event that any of the Corporation's banking subsidiaries' regulatory capital ratios fall below those required by a well-capitalized institution or are subject to capital restrictions by the regulators, that banking subsidiary faces the risk of not being able to raise or maintain brokered deposits and faces limitations on the rate paid on deposits, which may hinder the Corporation's ability to effectively compete in its retail markets and could affect its deposit raising efforts.

Deposits from the public sector represent an important source of funds for the Corporation. As of December 31, 2023, total public sector deposits were $18.1 billion, compared to $15.8 billion at December 31, 2022. Generally, these deposits require that the bank pledge high credit quality securities as collateral; therefore, liquidity risks arising from public sector deposit outflows are lower given that the bank receives its collateral in return. This, now unpledged, collateral can either be financed via repurchase agreements or sold for cash. However, there are some timing differences between the time the deposit outflow occurs and when the bank receives its collateral. Additionally, the Corporation mainly utilizes fixed-rate U.S. Treasury debt securities as collateral. While these securities have limited credit risk, they are subject to market value risk based on changes in the interest rate environment. When interest rates increase, the value of this collateral decreases and could result in the Corporation having to provide additional collateral to cover the same amount of deposit liabilities. This additional collateral could reduce unpledged securities otherwise available as liquidity sources to the Corporation.

At December 31, 2023, management believes that the banking subsidiaries had sufficient current and projected liquidity sources to meet their anticipated cash flow obligations, as well as special needs and off-balance sheet commitments, in the ordinary course of business and have sufficient liquidity resources to address a stress event. Although the banking subsidiaries have historically been able to replace maturing deposits and advances, no assurance can be given that they would be able to replace those funds in the future if the Corporation's financial condition or general market conditions were to deteriorate. The Corporation's financial flexibility will be severely constrained if the banking subsidiaries are unable to maintain access to funding or if adequate financing is not available to accommodate future financing needs at acceptable interest rates. The banking subsidiaries also are required to deposit cash or qualifying securities to meet margin requirements on repurchase agreements and other collateralized borrowing facilities. To the extent that the value of securities previously pledged as collateral declines because of market changes, the Corporation will be required to deposit additional cash or securities to meet its margin requirements, thereby adversely affecting its liquidity. Finally, if management is required to rely more heavily on more expensive funding sources to meet its future growth, revenues may not increase proportionately to cover costs. In this case, profitability would be adversely affected.

The Corporation monitors uninsured deposits under applicable FDIC regulations. Additionally, the Corporation monitors accounts with balances over $250,000. While the Corporation has a diverse deposit base from retail, commercial, corporate and government clients, as well as wholesale funding sources such as brokered deposits, it considers balance in excess of $250,000 to have a higher potential liquidity risk. Table 19 reflects the aggregate balance in deposit accounts in excess of $250,000, including collateralized public funds and deposits outside of the U.S. and its territories. Collateralized public funds, as presented in Table 19, represent public deposit balances from governmental entities in the U.S. and its territories, including Puerto Rico and the United States Virgin Islands, that are collateralized based on such jurisdictions' applicable collateral requirements. On December 31,2023, deposits with balances in excess of $250,000, excluding foreign deposits (mainly deposits in the British Virgin Islands) intercompany deposits and collateralized public funds, were $ 10.6 billion or 20% at BPPR and $ 2.6 billion or 23% at Popular U.S., compared to available liquidity sources of $ 14.5 billion at BPPR and $ 5.0 billion at Popular U.S.

Table 19 - Deposits

(Dollars in thousands)	31-Dec-23 BPPR	% of Total	Popular U.S.	% of Total	Popular, Inc. (Consolidated)	% of Total
Deposits:						
Deposits balances under $250,000 [1]	$ 23,683,475	45 %	$ 7,760,363	69 %	$ 31,443,838	49 %
Transactional deposits balances over $250,000	8,632,491	16 %	2,230,978	20 %	10,863,469	17 %
Time deposits balances over $250,000	1,926,005	4 %	361,315	3 %	2,287,320	4 %
Uninsured foreign deposits	418,334	1 %	-	-%	418,334	1 %
Collateralized public funds	18,313,612	34 %	291,670	3 %	18,605,282	29 %
Intercompany deposits	159,163	- %	626,312	5 %	-	-%
Total deposits	$ 53,133,080	100 %	$ 11,270,638	100 %	$ 63,618,243	100 %

[1] Includes the first $250,000 in balances of transactional and time deposit accounts with balances in excess of $250,000.

(Dollars in thousands)	31-Dec-22 BPPR	% of Total	Popular U.S.	% of Total	Popular, Inc. (Consolidated)	% of Total
Deposits						
Deposits balances under $250,000 [1]	$ 24,505,697	46 %	$ 5,231,417	60 %	$ 29,737,114	49 %
Transactional deposits balances over $250,000	9,957,877	19 %	2,674,841	31 %	12,632,718	21 %
Time deposits balances over $250,000	1,920,455	4 %	167,067	2 %	2,087,522	3 %
Uninsured foreign deposits	425,855	1 %	-	-%	425,855	1 %
Collateralized public funds	16,233,342	31 %	110,676	1 %	16,344,018	27 %
Intercompany deposits	135,172	- %	482,167	6 %	-	-%
Total deposits	$ 53,178,398	100 %	$ 8,666,168	100 %	$ 61,227,227	100 %

[1] Includes the first $250,000 in balances of transactional and time deposit accounts with balances in excess of $250,000.

Bank Holding Companies

The principal sources of funding for the BHCs, which are Popular, Inc. (holding company only) and PNA, include cash on hand, investment securities, dividends received from banking and non-banking subsidiaries, asset sales, credit facilities available from affiliate banking subsidiaries and proceeds from potential securities offerings. Dividends from banking and non-banking subsidiaries are subject to various regulatory limits and authorization requirements that are further described below and that may limit the ability of those subsidiaries to act as a source of funding to the BHCs.

The principal use of these funds includes the repayment of debt, and interest payments to holders of senior debt and junior subordinated deferrable interest (related to trust preferred securities), the payment of dividends to common stockholders, repurchases of the Corporation's securities and capitalizing its banking subsidiaries.

The outstanding balance of notes payable at the BHCs amounted to $592 million at December 31, 2023 and $497 million at December 31, 2022.

The contractual maturities of the BHCs notes payable at December 31, 2023 are presented in Table 20.

Table 20 - Distribution of BHC's Notes Payable by Contractual Maturity

Year		(In thousands)
2028	$	393,937
Later years		198,346
Total	$	592,283

As of December 31, 2023, the BHCs had cash and money markets investments totaling $388 million and borrowing potential of $222 million from its secured facility with BPPR. The BHCs' liquidity position continues to be adequate with sufficient cash on hand, investments and other sources of liquidity which are expected to be enough to meet all interest payments and dividend obligations during the foreseeable future. On March 13, 2023, the Corporation issued $400 million aggregate principal amount of 7.25% Senior Notes due 2028 (the "Notes") in an underwritten public offering. The Corporation used a portion of the net proceeds of the 2028 Notes to redeem, on August 14, 2023, the outstanding $300 million aggregate principal amount of its outstanding 6.125% Senior Notes which were due on September 2023. Additionally, the Corporation's latest quarterly dividend was $0.62 per share or approximately $45 million per quarter.

The BHCs have in the past borrowed in the corporate debt market primarily to finance their non-banking subsidiaries and refinance debt obligations. These sources of funding are more costly due to the fact that two out of the three principal credit rating agencies rate the Corporation below "investment grade", which affects the Corporation's cost and ability to raise funds in the capital markets. Factors that the Corporation does not control, such as the economic outlook, interest rate volatility, inflation, disruptions in the debt market, among others, could also affect its ability to obtain funding. The Corporation has an automatic shelf registration statement filed and effective with the Securities and Exchange Commission, which permits the Corporation to issue an unspecified amount of debt or equity securities.

Non-Banking Subsidiaries

The principal sources of funding for the non-banking subsidiaries include internally generated cash flows from operations, loan sales, repurchase agreements, capital injections and borrowed funds from their direct parent companies or the holding companies. The principal uses of funds for the non-banking subsidiaries include repayment of maturing debt, operational expenses and payment of dividends to the BHCs. The liquidity needs of the non-banking subsidiaries are minimal since most of them are funded internally from operating cash flows or from intercompany borrowings or capital contributions from their holding companies.

Dividends

During the year ended December 31, 2023, the Corporation declared cash dividends of $2.27 per common share outstanding ($163.7 million in the aggregate). The dividends for the Corporation's Series A preferred stock amounted to $1.4 million. During the year ended December 31, 2023, the BHCs received dividends amounting to $200 million from BPPR, $50 million from PNA, $14 million from PIBI and $8 million from its non-banking subsidiaries. In addition, during the year ended December 31, 2023, Popular International Bank Inc., wholly owned subsidiary of Popular, Inc., received $14.1 million in cash dividends and $2.1 million in stock dividends from its investment in BHD. Dividends from BPPR constitute Popular, Inc.'s primary source of liquidity.

Other Funding Sources and Capital

In addition to cash reserves held at the FRB that totaled $7.0 billion at December 31,2023, the debt securities portfolio provides an additional source of liquidity, which may be realized through either securities sales, collateralized borrowings or repurchase agreements. The Corporation's debt securities portfolio consists primarily of liquid U.S. government debt securities, U.S.

government sponsored agency debt securities, U.S. government sponsored agency mortgage-backed securities, and U.S. government sponsored agency collateralized mortgage obligations that can be used to raise funds in the repo markets. The availability of the repurchase agreement would be subject to having sufficient unpledged collateral available at the time the transactions are to be consummated, in addition to overall liquidity and risk appetite of the various counterparties. In 2023, BPPR became an approved counterparty in the Federal Reserve's Standing Repo Facility. This allows approved counterparties to participate in daily auctions with the Standing Repo Facility for up to $500 billion in aggregate of overnight financing using U.S. Treasuries and Agency MBS as collateral. The Corporation's unpledged debt securities amounted to $ 4.6 billion at December 31, 2023 and $ 7.8 billion at December 31, 2022. A substantial portion of these debt securities could be used to raise financing in the U.S. money markets or from secured lending sources, subject to changes in their fair market value and customary adjustments (haircuts).

Additional liquidity may be provided through loan maturities, prepayments and sales. The loan portfolio can also be used to obtain funding in the capital markets. In particular, mortgage loans and some types of consumer loans, have secondary markets which the Corporation could use.

Off-Balance Sheet arrangements and other commitments

In the ordinary course of business, the Corporation engages in financial transactions that are not recorded on the balance sheet or may be recorded on the balance sheet in amounts that are different than the full contract or notional amount of the transaction. As a provider of financial services, the Corporation routinely enters into commitments with off-balance sheet risk to meet the financial needs of its customers. These commitments may include loan commitments and standby letters of credit. These commitments are subject to the same credit policies and approval process used for on-balance sheet instruments. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial position. Refer to Note 24 to the Consolidated Financial Statements for information on the Corporation's commitments to extent credit and other non-credit commitments.

Other types of off-balance sheet arrangements that the Corporation enters in the ordinary course of business include derivatives, operating leases and provision of guarantees, indemnifications, and representation and warranties. Refer to Note 33 to the Consolidated Financial Statements for information on operating leases and to Note 23 to the Consolidated Financial Statements for a detailed discussion related to the Corporation's obligations under credit recourse and representation and warranties arrangements.

The Corporation monitors its cash requirements, including its contractual obligations and debt commitments.

FDIC Special Assessments

On November 16, 2023, the Federal Deposit Insurance Corporation ("FDIC") approved a final rule that imposes a special assessment (the "FDIC Special Assessment") to recover the losses to the deposit insurance fund ("DIF") resulting from the FDIC's use, in March 2023, of the systemic risk exception to the least-cost resolution test under the Federal Deposit Insurance Act in connection with the receiverships of several failed banks.

Under the final rule, the assessment base for the special assessment is equal to an insured depository institution's ("IDI") estimated uninsured deposits, as reported in the IDI's December 31, 2022 Call Report, excluding the first $5 billion in estimated uninsured deposits. For a holding company that has more than one IDI subsidiary, such as Popular, the $5 billion exclusion is allocated among the company's IDI subsidiaries in proportion to each IDI's estimated uninsured deposits. The special assessments will be collected at an annual rate of approximately 13.4 basis points per year (3.35 basis points per quarter) over eight quarters in 2024 and 2025, with the first assessment period beginning January 1, 2024. In their December 31, 2022 Call Reports, BPPR and PB reported estimated uninsured deposits of approximately $28.1 billion, including $16.2 billion in fully collateralized public sector deposits, and $3.5 billion, respectively. The Corporation recorded an expense of $71.4 million, $45.3 million net of tax, in the fourth quarter of 2023, representing the full amount of the assessment.

By statute, the FDIC is required to recover the loss arising from the use of a systemic risk determination through one or more special assessments. As of December 31, 2023, the FDIC's loss estimate described in the final rule had increased by approximately $4.1 billion to $20.4 billion, or approximately 25%. The exact amount of losses will be determined when the FDIC terminates the related receiverships considered in the final rule. Accordingly, the special assessment amount and collection period may change as the estimated loss is periodically adjusted or if the total amount collected varies. If the most recent increase in the FDIC's estimate remains unchanged and is assessed in the same manner, the Corporation estimates that the incremental expense for the FDIC Special Assessment could be approximately $18 million.

Financial information of guarantor and issuers of registered guaranteed securities

The Corporation (not including any of its subsidiaries, “PIHC”) is the parent holding company of Popular North America “PNA” and has other subsidiaries through which it conducts its financial services operations. PNA is an operating, 100% subsidiary of Popular, Inc. Holding Company (“PIHC”) and is the holding company of its wholly-owned subsidiaries: Equity One, Inc. and PB, including PB’s wholly-owned subsidiaries Popular Equipment Finance, LLC, Popular Insurance Agency, U.S.A., and E-LOAN, Inc.

PNA has issued junior subordinated debentures guaranteed by PIHC (together with PNA, the “obligor group”) purchased by statutory trusts established by the Corporation. These debentures were purchased by the statutory trust using the proceeds from trust preferred securities issued to the public (referred to as “capital securities”), together with the proceeds of the related issuances of common securities of the trusts.

PIHC fully and unconditionally guarantees the junior subordinated debentures issued by PNA. PIHC’s obligation to make a guarantee payment may be satisfied by direct payment of the required amounts to the holders of the applicable capital securities or by causing the applicable trust to pay such amounts to such holders. Each guarantee does not apply to any payment of distributions by the applicable trust except to the extent such trust has funds available for such payments. If PIHC does not make interest payments on the debentures held by such trust, such trust will not pay distributions on the applicable capital securities and will not have funds available for such payments. PIHC’s guarantee of PNA’s junior subordinated debentures is unsecured and ranks subordinate and junior in right of payment to all the PIHC’s other liabilities in the same manner as the applicable debentures as set forth in the applicable indentures; and equally with all other guarantees that the PIHC issues. The guarantee constitutes a guarantee of payment and not of collection, which means that the guaranteed party may sue the guarantor to enforce its rights under the respective guarantee without suing any other person or entity.

The principal sources of funding for PIHC and PNA have included dividends received from their banking and non-banking subsidiaries, asset sales and proceeds from the issuance of debt and equity. As further described below, in the Risk to Liquidity section, various statutory provisions limit the amount of dividends an insured depository institution may pay to its holding company without regulatory approval.

The following summarized financial information presents the financial position of the obligor group, on a combined basis at December 31, 2023 and December 31, 2022, and the results of their operations for the years ended December 31, 2023 and December 31, 2022. Investments in and equity in the earnings from the other subsidiaries and affiliates that are not members of the obligor group have been excluded.

The summarized financial information of the obligor group is presented on a combined basis with intercompany balances and transactions between entities in the obligor group eliminated. The obligor group's amounts due from, amounts due to and transactions with subsidiaries and affiliates have been presented in separate line items, if they are material. In addition, related parties transactions are presented separately.

Table 21 - Summarized Statement of Condition

(In thousands)		December 31, 2023		December 31, 2022
Assets				
Cash and money market investments	$	388,025	$	203,083
Investment securities		29,973		24,815
Accounts receivables from non-obligor subsidiaries		14,469		16,853
Other loans (net of allowance for credit losses of $51 (2022 - $370))		26,906		27,826
Investment in equity method investees		5,265		5,350
Other assets		51,315		45,278
Total assets	$	515,953	$	323,205
Liabilities and Stockholders' deficit				
Accounts payable to non-obligor subsidiaries	$	7,023	$	3,709
Notes payable		592,283		497,428
Other liabilities		114,660		112,847
Stockholders' deficit		(198,013)		(290,779)
Total liabilities and stockholders' deficit	$	515,953	$	323,205

Table 22 - Summarized Statement of Operations

		For the years ended		
(In thousands)		December 31, 2023		December 31, 2022
Income:				
Dividends from non-obligor subsidiaries	$	208,000	$	458,000
Interest income from non-obligor subsidiaries and affiliates		15,579		705
(Losses) earnings from investments in equity method investees		(84)		15,688
Other operating income		4,664		145,295
Total income	$	228,159	$	619,688
Expenses:				
Services provided by non-obligor subsidiaries and affiliates (net of reimbursement by subsidiaries for services provided by parent of $215,479 (2022 - $222,935))	$	13,513	$	18,467
Other operating expenses		34,978		23,607
Total expenses	$	48,491	$	42,074
Net income	$	179,668	$	577,614

During the year ended December 31, 2023, the obligor group recorded in aggregate $64.0 million of dividend distributions from non-obligor subsidiaries which were recorded as a reduction to the investment (2022 - $72.0 million). During the year ended December 31, 2022, the Obligor group recorded $1.5 million of distributions from its direct equity method investees.

In addition, during the year ended December 31, 2022, the Obligor group recorded $228.1 million in proceeds from the sale of two of its direct equity method investees.

Risks to Liquidity

Total lines of credit outstanding, or available borrowing capacity under lines of credit are not necessarily a measure of the total credit available on a continuing basis. Some of these lines could be subject to collateral requirements, changes to the value of the collateral, standards of creditworthiness, leverage ratios and other regulatory requirements, among other factors. Derivatives, such as those embedded in long-term repurchase transactions or interest rate swaps, and off-balance sheet exposures, such as recourse, performance bonds or credit card arrangements, are subject to collateral requirements. As their fair value increases, the collateral requirements may increase, thereby reducing the balance of unpledged securities.

The importance of the Puerto Rico market for the Corporation is an additional risk factor that could affect its financing activities. In the case of a deterioration in economic and fiscal conditions in Puerto Rico, the credit quality of the Corporation could be affected and result in higher credit costs. Refer to the Geographic and Government Risk section of this MD&A for some highlights on the current status of the Puerto Rico economy and the ongoing fiscal crisis.

Factors that the Corporation does not control, such as the economic outlook and credit ratings of its principal markets and regulatory changes, could also affect its ability to obtain funding. In order to prepare for the possibility of such scenario, management has adopted contingency plans for raising financing under stress scenarios when important sources of funds that are usually fully available are temporarily unavailable. These plans call for using alternate funding mechanisms, such as the pledging of certain asset classes and accessing secured credit lines and loan facilities put in place with the FHLB and the FRB. The Corporation is subject to positive tangible capital requirements to utilize secured loan facilities with the FHLB that could result in a limitation of borrowing amounts or maturity terms, even if the Corporation exceeds well-capitalized regulatory capital levels.

The credit ratings of Popular's debt obligations are a relevant factor for liquidity because they impact the Corporation's ability to borrow in the capital markets, its cost and access to funding sources. Credit ratings are based on the financial strength, credit quality and concentrations in the loan portfolio, the level and volatility of earnings, capital adequacy, the quality of management, geographic concentration in Puerto Rico, the liquidity of the balance sheet, the availability of a significant base of core retail and commercial deposits, and the Corporation's ability to access a broad array of wholesale funding sources, among other factors.

Furthermore, various statutory provisions limit the amount of dividends an insured depository institution may pay to its holding company without regulatory approval. A member bank must obtain the approval of the Federal Reserve Board for any dividend, if the total of all dividends declared by the member bank during the calendar year would exceed the total of its net income for that year, combined with its retained net income for the preceding two years, after considering those years' dividend activity, less any required transfers to surplus or to a fund for the retirement of any preferred stock. During the year ended December 31, 2023, BPPR declared cash dividends of $200 million. At December 31, 2023, BPPR can declare a dividend of approximately $387 million without prior approval of the Federal Reserve Board due to its retained income, declared dividend activity and transfers to statutory reserves over the measurement period. In addition, a member bank may not declare or pay a dividend in an amount greater than its undivided profits as reported in its Report of Condition and Income, unless the member bank has received the approval of the Federal Reserve Board. A member bank also may not permit any portion of its permanent capital to be withdrawn unless the withdrawal has been approved by the Federal Reserve Board. Pursuant to these requirements, PB may not declare or pay a dividend without the prior approval of the Federal Reserve Board and the NYSDFS. The ability of a bank subsidiary to up-stream dividends to its BHC could thus be impacted by its financial performance and capital, including tangible and regulatory capital, thus potentially limiting the amount of cash moving up to the BHCs from the banking subsidiaries. This could, in turn, affect the BHCs ability to declare dividends on its outstanding common and preferred stock, repurchase its securities or meet its debt obligations, for example.

The Corporation's banking subsidiaries have historically not used unsecured capital market borrowings to finance its operations, and therefore are less sensitive to the level and changes in the Corporation's overall credit ratings.

Obligations Subject to Rating Triggers or Collateral Requirements

The Corporation's banking subsidiaries currently do not issue unsecured senior debt, as these banking subsidiaries are funded primarily with deposits and secured borrowings. The banking subsidiaries had $7.8 million in deposits at December 31, 2023 that are subject to rating triggers.

In addition, certain mortgage servicing and custodial agreements that BPPR has with third parties include rating covenants. In the event of a credit rating downgrade, the third parties have the right to require the institution to engage a substitute cash custodian for escrow deposits and/or increase collateral levels securing the recourse obligations. Also, as discussed in Note 23 to the Consolidated Financial Statements, the Corporation services residential mortgage loans subject to credit recourse provisions.

Certain contractual agreements require the Corporation to post collateral to secure such recourse obligations if the institution's required credit ratings are not maintained. Collateral pledged by the Corporation to secure recourse obligations amounted to approximately $27.1 million at December 31, 2023. The Corporation could be required to post additional collateral under the agreements. Management expects that it would be able to meet additional collateral requirements if and when needed. The requirements to post collateral under certain agreements or the loss of escrow deposits could reduce the Corporation's liquidity resources and impact its operating results.

Credit Risk

Geographic and Government Risk

The Corporation is exposed to geographic and government risk. The Corporation's assets and revenue composition by geographical area and by business segment reporting are presented in Note 37 to the Consolidated Financial Statements.

Commonwealth of Puerto Rico

A significant portion of our financial activities and credit exposure is concentrated in the Commonwealth of Puerto Rico ("Puerto Rico"), which has faced severe economic and fiscal challenges in the past and may face additional challenges in the future.

Economic Performance.

Puerto Rico's economy suffered a severe and prolonged recession from 2007 to 2017, with real gross national product ("GNP") contracting approximately 15% during this period. In 2017, Hurricane María caused significant damage and destruction across the island, resulting in further economic contraction. Puerto Rico's economy has been gradually recovering since 2018, in part aided by the large amount of federal disaster relief and recovery assistance funds injected into the Puerto Rico economy in connection with Hurricane María and other recent natural disasters. This growth was interrupted by the economic shock caused by the COVID-19 pandemic in 2020, but has since resumed, in part aided by additional federal assistance from pandemic-related stimulus measures.

The latest Puerto Rico Economic Activity Index, published by the Economic Development Bank for Puerto Rico (the "Economic Activity Index"), reflected a 5.9% year-over-year increase and a 0.2% month-over-month decrease in November 2023. The Economic Activity Index is a coincident indicator of ongoing economic activity but not a direct measurement of real GNP. The Puerto Rico Planning Board estimates that Puerto Rico's real GNP grew 0.8% during fiscal year 2023 (July 2022-June 2023) and projects 1.8% real GNP growth for fiscal year 2024 (July 2023-June-2024).

While the Puerto Rico economy has not directly tracked the United States economy in recent years, many of the external factors that impact the Puerto Rico economy are affected by the policies and performance of the United States economy. These external factors include the level of interest rates and the rate of inflation. Inflation in the United States, as measured by the United States Consumer Price Index (published by the U.S. Bureau of Labor Statistics), increased 3.4% during the 12-month period ended December 2023. Inflation in Puerto Rico, as measured by the Puerto Rico Consumer Price Index (published by the Department of Labor and Human Resources of Puerto Rico), increased 2.0% during the 12-month period ended December 2023. The rate of inflation gradually decreased from a mid-2022 peak, as the Federal Reserve implemented a series of benchmark interest rate increases.

Fiscal Challenges.

As the Puerto Rico economy contracted, the government's public debt rose rapidly, in part from borrowing to cover deficits to pay debt service, pension benefits and other government expenditures. By 2016, the Puerto Rico government had over $120 billion in combined debt and unfunded pension liabilities, had lost access to the capital markets, and was in the midst of a fiscal crisis.

Puerto Rico's escalating fiscal and economic challenges and imminent widespread defaults in its public debt prompted the U.S. Congress to enact the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") in June 2016. PROMESA created the "Oversight Board" with ample powers over Puerto Rico's fiscal and economic affairs and those of its public corporations, instrumentalities and municipalities (collectively, "PR Government Entities"). Pursuant to PROMESA, the Oversight Board will be in place until market access is restored and balanced budgets are produced for at least four consecutive years. PROMESA also established two mechanisms for the restructuring of the obligations of PR Government Entities: (a) Title III, which provides an in-court process that incorporates many of the powers and provisions of the U.S. Bankruptcy Code and permits adjustment of a broad range of obligations, and (b) Title VI, which provides for a largely out-of-court process through which modifications to financial debt can be accepted by a supermajority of creditors and bind holdouts.

Since 2017, Puerto Rico and several of its instrumentalities have availed themselves of the debt restructuring mechanisms of Titles III and VI of PROMESA. The Puerto Rico government emerged from Title III of PROMESA in March 2022. Several instrumentalities, including Government Development Bank for Puerto Rico, the Puerto Rico Sales Tax Financing Corporation, the Puerto Rico Highways and Transportation Authority, and the Puerto Rico Industrial Development Company, have also completed debt restructurings under Titles III or VI of PROMESA. While the majority of the debt has already been restructured, some PR Government Entities still face significant fiscal challenges. For example, the Puerto Rico Electric Power Authority is still in the process of restructuring its debts under Title III of PROMESA.

Municipalities.

Puerto Rico's fiscal and economic challenges have also adversely impacted its municipalities. Budgetary subsidies to municipalities have gradually declined in recent years and were scheduled to be ultimately eliminated by fiscal year 2025 as part of the fiscal measures required by the Oversight Board. However, over the past years, the Oversight Board has authorized and funded new appropriations and investments to offset the decline in intergovernmental transfers to municipalities. Beyond those sources of alternate funding, municipalities have also received significant federal disaster and COVID-relief funding in recent years. According to the latest Puerto Rico fiscal plan certified by the Oversight Board, taken together, the funding available to municipalities in the near-term is substantial. The fiscal plan notes, however, that the desired progress to achieve fiscal discipline and implement critical reforms has not been achieved, and that municipalities must work with the Executive branch to analyze the financial needs of each individual municipality and focus on the necessary enhancements in municipal shared services and other municipal and government initiatives. Pursuant to the fiscal plan, once the transformational measures and milestones related to these initiatives are achieved, additional funding from the central government may bemade available to municipalities to improve fiscal sustainability.

Municipalities are subject to PROMESA and, at the Oversight Board's request, are required to submit fiscal plans and annual budgets to the Oversight Board for its review and approval. They are also required to seek Oversight Board approval to issue, guarantee or modify their debts and to enter into contracts with an aggregate value of $10 million or more. With the Oversight Board's approval, municipalities are also eligible to avail themselves of the debt restructuring processes provided by PROMESA. To date, however, no municipality has been subject to any such debt restructuring process.

Exposure of the Corporation

The credit quality of BPPR's loan portfolio reflects, among other things, the general economic conditions in Puerto Rico and other adverse conditions affecting Puerto Rico consumers and businesses. Deterioration in the Puerto Rico economy has resulted in the past, and could result in the future, in higher delinquencies, greater charge-offs and increased losses, which could materially affect our financial condition and results of operations.

At December 31, 2023, the Corporation's direct exposure to PR Government Entities totaled $362 million, of which $333 million were outstanding, compared to $374 million at December 31, 2022, of which $327 million were outstanding. A deterioration in Puerto Rico's fiscal and economic situation could adversely affect the value of our Puerto Rico government obligations, resulting in losses to us. Of the amount outstanding, $314 million consists of loans and $19 million are securities ($302 million and $25 million, respectively, at December 31, 2022). All of the Corporation's direct exposure outstanding at December 31, 2023 were obligations from various Puerto Rico municipalities. In most cases, these were "general obligations" of a municipality, to which the applicable municipality has pledged its good faith, credit and unlimited taxing power, or "special obligations" of a municipality, to which the applicable municipality has pledged basic property tax or sales tax revenues. At December 31, 2023, 76% of the Corporation's exposure to municipal loans and securities was concentrated in the municipalities of San Juan, Guaynabo, Carolina and Caguas. For additional discussion of the Corporation's direct exposure to the Puerto Rico government and its instrumentalities and municipalities, refer to Note 24 – Commitments and Contingencies to the Consolidated Financial Statements.

In addition, at December 31, 2023, the Corporation had $238 million in loans insured or securities issued by Puerto Rico governmental entities, but for which the principal source of repayment is non-governmental ($251 million at December 31, 2022). These included $191 million in residential mortgage loans insured by the Puerto Rico Housing Finance Authority ("HFA"), a PR

Government Entity (December 31, 2022 - $209 million). These mortgage loans are secured by first mortgages on Puerto Rico residential properties and the HFA insurance covers losses in the event of a borrower default and upon the satisfaction of certain other conditions. The Corporation also had at December 31, 2023, $40 million in bonds issued by HFA which are secured by second mortgage loans on Puerto Rico residential properties, and for which HFA also provides insurance to cover losses in the event of a borrower default, and upon the satisfaction of certain other conditions (December 31, 2022 - $42 million). In the event that the mortgage loans insured by HFA and held by the Corporation directly or those serving as collateral for the HFA bonds default and the collateral is insufficient to satisfy the outstanding balance of these loans, HFA's ability to honor its insurance will depend, among other factors, on the financial condition of HFA at the time such obligations become due and payable. The Corporation does not consider the government guarantee when estimating the credit losses associated with this portfolio.

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 a deterioration in the fiscal and economic situation of PR Government Entities. Similarly, BPPR's mortgage and consumer loan portfolios include loans to government employees and retirees, which could also be negatively affected by fiscal measures, such as employee layoffs or furloughs or reductions in pension benefits, if the fiscal and economic situation deteriorates.

As of December 31, 2023, BPPR had $18.1 billion in deposits from the Puerto Rico government, its instrumentalities, and municipalities. The rate at which public deposit balances may decline is uncertain and difficult to predict. The amount and timing of any such reduction is likely to be impacted by, for example, the speed at which federal assistance is distributed and the financial condition, liquidity and cash management practices of such entities, as well as on the ability of BPPR to maintain these customer relationships.

The Corporation may also have direct exposure with regards to avoidance and other causes of action initiated by the Oversight Board on behalf of the Commonwealth or other Title III debtors. For additional information regarding such exposure, refer to Note 24 to the Consolidated Financial Statements.

United States Virgin Islands

The Corporation has operations in the United States Virgin Islands (the "USVI") and has credit exposure to USVI government entities.

The USVI has been experiencing a number of fiscal and economic challenges, which could adversely affect the ability of its public corporations and instrumentalities to service their outstanding debt obligations. PROMESA does not apply to the USVI and, as such, there is currently no federal legislation permitting the restructuring of the debts of the USVI and its public corporations and instrumentalities.

To the extent that the fiscal condition of the USVI continues to deteriorate, the U.S. Congress or the Government of the USVI may enact legislation allowing for the restructuring of the financial obligations of USVI government entities or imposing a stay on creditor remedies, including by making PROMESA applicable to the USVI.

At December 31, 2023, the Corporation had approximately $28 million in direct exposure to USVI government entities (December 31, 2022 - $28 million).

British Virgin Islands

The Corporation has operations in the British Virgin Islands ("BVI"), which was negatively affected by the COVID-19 pandemic, particularly as a reduction in the tourism activity which accounts for a significant portion of its economy. Although the Corporation has no significant exposure to a single borrower in the BVI, at December 31, 2023, it has a loan portfolio amounting to approximately $205 million comprised of various retail and commercial clients, compared to a loan portfolio of $214 million at December 31, 2022.

U.S. Government

As further detailed in Notes 6 and 7 to the Consolidated Financial Statements, a substantial portion of the Corporation's investment securities represented exposure to the U.S. Government in the form of U.S. Government sponsored entities, as well as agency mortgage-backed and U.S. Treasury securities. In addition, $1.9 billion of residential mortgages, $9.2 million of SBA loans under the Paycheck Protection Program ("PPP") and $80 million commercial loans were insured or guaranteed by the U.S. Government or its agencies at December 31, 2023 (compared to $1.6 billion, $38 million and $72 million, respectively, at December 31, 2022).

Non-Performing Assets

Non-performing assets ("NPAs") include primarily past-due loans that are no longer accruing interest, renegotiated loans, and real estate property acquired through foreclosure. A summary, including certain credit quality metrics, is presented in Table 23.

During 2023, the Corporation continued to reflect credit quality normalization. Non-performing loans ("NPLs") and net charge offs ("NCOs") continued below historical pre-pandemic averages. Consumer portfolios, however, reflected certain credit quality deterioration, particularly the personal loans and credit cards portfolios, with delinquencies and NCOs near or exceeding pre-pandemic levels. The auto loans portfolio also showed credit normalization, however, metrics remained below pre-pandemic levels. The commercial and mortgage portfolios continue to operate with historically low levels of NCOs and NPLs. We continue to closely monitor changes in the macroeconomic environment and on borrower performance given higher interest rates and inflationary pressures. However, management believes that the improvements over recent years in risk management practices and the risk profile of the Corporation's loan portfolios position Popular to continue to operate successfully under the current environment.

Total NPAs decreased by $91 million when compared with December 31, 2022. Total non-performing loans held-in-portfolio ("NPLs") decreased by $82 million from December 31, 2022. BPPR's NPLs decreased by $73 million, mainly driven by lower mortgage NPLs by $67 million. Popular U.S. NPLs decreased by $9 million from December 31, 2022, mainly driven by lower mortgage NPLs. At December 31, 2023, the ratio of NPLs to total loans held-in-portfolio was 1.0% compared to 1.4%, at December 31, 2022. Other real estate owned loans ("OREOs") decreased by $9 million. At December 31, 2023, NPLs secured by real estate amounted to $231 million in the Puerto Rico operations and $24 million in Popular U.S. These figures were $303 million and $33 million, respectively, at December 31, 2022.

The Corporation's commercial loan portfolio secured by real estate ("CRE") amounted to $10.6 billion at December 31, 2023, of which $3.1 billion was secured with owner occupied properties, compared with $9.9 billion and $3.1 billion, respectively, at December 31, 2022. CRE NPLs amounted to $48 million at December 31, 2023, compared with $54 million at December 31, 2022. The CRE NPL ratios for the BPPR and Popular U.S. segments were 0.86% and 0.13%, respectively, at December 31, 2023, compared with 1.04% and 0.12%, respectively, at December 31, 2022.

In addition to the NPLs included in Table 23, at December 31, 2023, there were $510 million of performing loans, mostly commercial loans, which in management's opinion, are currently subject to potential future classification as non-performing (December 31, 2022 - $374 million).

For the year ended December 31, 2023, total inflows of NPLs held-in-portfolio, excluding consumer loans, remained flat at $213 million, when compared to the inflows for the same period in 2022. Inflows of NPLs held-in-portfolio at the BPPR segment increased by $22 million compared to the same period in 2022, driven by higher commercial and construction inflows by $25 million and $9 million, respectively, in part offset by lower mortgage inflows by $12 million. Commercial increase incudes an $18 million inflow during the fourth quarter of 2023. Inflows of NPLs held-in-portfolio at the Popular U.S. segment decreased by $21 million from the same period in 2022, mainly driven by lower commercial inflows.

Table 23 - Non-Performing Assets

(Dollars in thousands)	December 31, 2023 BPPR	December 31, 2023 Popular U.S.	December 31, 2023 Popular, Inc.	December 31, 2022 BPPR	December 31, 2022 Popular U.S.	December 31, 2022 Popular, Inc.
Non-accrual loans:						
Commercial						
Commercial multi-family	$ 1,991	$ -	$ 1,991	$ 242	$ -	$ 242
Commercial real estate non-owner occupied	8,745	1,117	9,862	23,662	1,454	25,116
Commercial real estate owner occupied	29,430	6,274	35,704	23,990	5,095	29,085
Commercial and industrial	32,826	3,772	36,598	34,277	4,319	38,596
Total Commercial	72,992	11,163	84,155	82,171	10,868	93,039
Construction	6,378	-	6,378	-	-	-
Leasing	8,632	-	8,632	5,941	-	5,941
Mortgage	175,106	11,191	186,297	242,391	20,488	262,879
Consumer						
Home equity lines of credit	-	3,733	3,733	-	4,110	4,110
Personal	19,031	2,805	21,836	18,082	1,958	20,040
Auto	45,615	-	45,615	40,978	-	40,978
Other Consumer	964	1	965	12,446	8	12,454
Total Consumer	65,610	6,539	72,149	71,506	6,076	77,582
Total non-performing loans held-in-portfolio	328,718	28,893	357,611	402,009	37,432	439,441
Other real estate owned ("OREO")	80,176	240	80,416	88,773	353	89,126
Total non-performing assets[1]	$ 408,894	$ 29,133	$ 438,027	$ 490,782	$ 37,785	$ 528,567
Accruing loans past due 90 days or more [2]	$ 268,362	$ 109	$ 268,471	$ 351,248	$ 366	$ 351,614
Non-performing loans to loans held-in-portfolio			1.02 %		%	1.37
Interest Lost			18,697			27,920

[1] There were no non-performing loans held-for-sale as of December 31, 2023 and December 31, 2022.

[2] It is the Corporation's policy to report delinquent residential mortgage loans insured by FHA or guaranteed by the VA as accruing loans past due 90 days or more as opposed to non-performing since the principal repayment is insured. These balances include $106 million of residential mortgage loans insured by FHA or guaranteed by the VA that are no longer accruing interest as of December 31, 2023 (December 31, 2022 - $190 million). Furthermore, at December 31,2023 the Corporation had approximately $38 million in reverse mortgage loans which are guaranteed by FHA, but which are currently not accruing interest. Due to the guaranteed nature of the loans, it is the Corporation's policy to exclude these balances from non-performing assets (December 31, 2022 - $42 million).

Table 24 - Activity in Non-Performing Loans Held-in-Portfolio (Excluding Consumer Loans)

	For the year ended December 31, 2023		
(In thousands)	BPPR	Popular U.S.	Popular, Inc.
Beginning balance - NPLs	$ 324,562	$ 31,356	$ 355,918
Plus:			
New non-performing loans	180,426	31,484	211,910
Advances on existing non-performing loans	-	681	681
Less:			
Non-performing loans transferred to OREO	(36,684)	(58)	(36,742)
Non-performing loans charged-off	(10,128)	(4,837)	(14,965)
Loans returned to accrual status / loan collections	(203,700)	(36,272)	(239,972)
Ending balance - NPLs	$ 254,476	$ 22,354	$ 276,830

Table 25 - Activity in Non-Performing Loans Held-in-Portfolio (Excluding Consumer Loans)

	For the year ended December 31, 2022		
(In thousands)	BPPR	Popular U.S.	Popular, Inc.
Beginning balance - NPLs	$ 454,419	$ 27,501	$ 481,920
Plus:			
New non-performing loans	158,128	50,754	208,882
Advances on existing non-performing loans	-	2,825	2,825
Less:			
Non-performing loans transferred to OREO	(38,580)	(85)	(38,665)
Non-performing loans charged-off	(7,413)	(9,062)	(16,475)
Loans returned to accrual status / loan collections	(241,992)	(40,577)	(282,569)
Ending balance - NPLs	$ 324,562	$ 31,356	$ 355,918

Table 26 - Activity in Non-Performing Commercial Loans Held-In-Portfolio

	For the year ended December 31, 2023		
(In thousands)	BPPR	Popular U.S.	Popular, Inc.
Beginning balance - NPLs	$82,171	$10,868	$93,039
Plus:			
New non-performing loans	44,542	15,533	60,075
Advances on existing non-performing loans	-	550	550
Less:			
Non-performing loans transferred to OREO	(5,930)	-	(5,930)
Non-performing loans charged-off	(7,664)	(4,837)	(12,501)
Loans returned to accrual status / loan collections	(40,127)	(10,951)	(51,078)
Ending balance - NPLs	$72,992	$11,163	$84,155

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

	For the year ended December 31, 2022		
(In thousands)	BPPR	Popular U.S.	Popular, Inc.
Beginning balance - NPLs	$120,047	5,532	$125,579
Plus:			
New non-performing loans	19,476	33,861	53,337
Advances on existing non-performing loans	-	2,525	2,525
Less:			
Non-performing loans transferred to OREO	(4,763)	-	(4,763)
Non-performing loans charged-off	(5,872)	(8,935)	(14,807)
Loans returned to accrual status / loan collections	(46,717)	(22,115)	(68,832)
Ending balance - NPLs	$82,171	$10,868	$93,039

Table 28 - Activity in Non-Performing Construction Loans Held-In-Portfolio

	For the year ended December 31, 2023		
(In thousands)	BPPR	Popular U.S.	Popular, Inc.
Beginning balance - NPLs	$-	$-	$-
New non-performing loans	9,284	-	9,284
Less:			
Non-performing loans charged-off	(2,537)	-	(2,537)
Loans returned to accrual status / loan collections	(369)	-	(369)
Ending balance - NPLs	$6,378	$-	$6,378

Table 29 - Activity in Non-Performing Construction Loans Held-in-Portfolio

	For the year ended December 31, 2022		
(In thousands)	BPPR	Popular U.S.	Popular, Inc.
Beginning balance - NPLs	$485	$-	$485
Less:			
Loans returned to accrual status / loan collections	(485)	-	(485)
Ending balance - NPLs	$-	$-	$-

Table 30 - Activity in Non-Performing Mortgage Loans Held-in-Portfolio

	For the year ended December 31, 2023		
(In thousands)	BPPR	Popular U.S.	Popular, Inc.
Beginning balance - NPLs	$242,391	$20,488	$262,879
Plus:			
New non-performing loans	126,600	15,951	142,551
Advances on existing non-performing loans	-	131	131
Less:			
Non-performing loans transferred to OREO	(30,754)	(58)	(30,812)
Non-performing loans charged-off	73	-	73
Loans returned to accrual status / loan collections	(163,204)	(25,321)	(188,525)
Ending balance - NPLs	$175,106	$11,191	$186,297

Table 31 - Activity in Non-Performing Mortgage Loans Held-in-Portfolio

	For the year ended December 31, 2022		
(In thousands)	BPPR	Popular U.S.	Popular, Inc.
Beginning balance - NPLs	$333,887	$21,969	$355,856
Plus:			
New non-performing loans	138,652	16,893	155,545
Advances on existing non-performing loans	-	300	300
Less:			
Non-performing loans transferred to OREO	(33,817)	(85)	(33,902)
Non-performing loans charged-off	(1,541)	(127)	(1,668)
Loans returned to accrual status / loan collections	(194,790)	(18,462)	(213,252)
Ending balance - NPLs	$242,391	$20,488	$262,879

Loan Delinquencies

Another key measure used to evaluate and monitor the Corporation's asset quality is loan delinquencies. Loans delinquent 30 days or more and delinquencies, as a percentage of their related portfolio category at December 31, 2023 and 2022, are presented below.

Table 32 - Loan Delinquencies

(Dollars in thousands)	2023			2022		
	Loans delinquent 30 days or more	Total loans	Total delinquencies as a percentage of total loans	Loans delinquent 30 days or more	Total loans	Total delinquencies as a percentage of total loans
Commercial						
Commercial multi-family	$ 13,657	$ 2,415,620	0.57 %	$ 2,844	$ 2,321,713	0.12 %
Commercial real estate non-owner occupied	17,051	5,087,421	0.34	26,969	4,499,670	0.60
Commercial real estate owner occupied	69,239	3,080,635	2.25	30,059	3,078,549	0.98
Commercial and industrial	58,953	7,126,121	0.83	59,604	5,839,200	1.02
Total Commercial	158,900	17,709,797	0.90	119,476	15,739,132	0.76
Construction	6,378	959,280	0.66	-	757,984	-
Leasing	35,491	1,731,809	2.05	21,487	1,585,739	1.36
Mortgage [1]	859,537	7,695,917	11.17	937,253	7,397,471	12.67
Consumer						
Credit cards	46,436	1,135,747	4.09	24,065	1,041,870	2.31
Home equity lines of credit	5,465	65,953	8.29	4,684	71,916	6.51
Personal	59,682	1,945,247	3.07	45,299	1,823,579	2.48
Auto	173,119	3,660,780	4.73	129,089	3,512,530	3.68
Other	3,063	160,441	1.91	13,264	147,548	8.99
Total Consumer	287,765	6,968,168	4.13	216,401	6,597,443	3.28
Loans held-for-sale	-	4,301	-	-	5,381	-
Total	$ 1,348,071	$ 35,069,272	3.84 %	$ 1,294,617	$ 32,083,150	4.04 %

[1] Loans delinquent 30 days or more includes $0.5 billion of residential mortgage loans insured by FHA or guaranteed by the VA as of December 31, 2023 (December 31, 2022 - $0.5 billion). Refer to Note 8 to the Consolidated Financial Statements for additional information of guaranteed loans.

Allowance for Credit Losses ("ACL")

The allowance for credit losses ("ACL"), represents management's estimate of expected credit losses through the remaining contractual life of the different loan segments, impacted by expected prepayments. The ACL is maintained at a sufficient level to provide for estimated credit losses on collateral dependent loans as well as loans modified for borrowers with financial difficulties separately from the remainder of the loan portfolio. The Corporation's management evaluates the adequacy of the ACL on a quarterly basis. In this evaluation, management considers current conditions, macroeconomic economic expectations through a reasonable and supportable period, historical loss experience, portfolio composition by loan type and risk characteristics, results of periodic credit reviews of individual loans, and regulatory requirements, amongst other factors.

The Corporation must rely on estimates and exercise judgment regarding matters where the ultimate outcome is unknown, such as economic developments affecting specific customers, industries, or markets. Other factors that can affect management's estimates are recalibration of statistical models used to calculate lifetime expected losses, changes in underwriting standards, financial accounting standards and loan impairment measurements, among others. Changes in the financial condition of individual borrowers, in economic conditions, and in the condition of the various markets in which collateral may be sold, may also affect the required level of the allowance for credit losses. Consequently, the business financial condition, liquidity, capital, and results of operations could also be affected.

At December 31, 2023, the allowance for credit losses amounted to $729 million, an increase of $9 million, when compared with December 31, 2022. The ACL for BPPR increased by $24 million to $640 million, when compared to December 31, 2022, mostly driven by changes in the economic scenario, higher loan volumes and changes in credit quality. The ACL for Popular U.S. decreased by $15 million to $89 million, when compared to December 31, 2022, due to the implementation of a new model for the U.S. commercial real estate portfolio. The new model is based on more granular regional information for the Corporation's portfolio and accounted for $15 million of PB's reduction in ACL.

Given that any one economic outlook is inherently uncertain, the Corporation leverages multiple scenarios to estimate its ACL. The baseline scenario continues to be assigned the highest probability, followed by the pessimistic scenario. The Corporation evaluates, at least on an annual basis, the assumptions tied to the CECL accounting framework. These include the reasonable and supportable period as well as the reversion window.

GDP growth is expected to slow during 2024 for both regions, when compared to 2023, as a result of the Fed's monetary policy. The 2024 GDP growth is expected to be 1.2% for Puerto Rico and 1.7% for the United States. The average 2024 unemployment rate is expected to increase to 6.79% in Puerto Rico and 3.95% in the United States.

The provision for credit losses for the year ended December 31, 2023, amounted to $201.5 million, compared to an expense of $83.3 million for the year ended December 31, 2022, mostly related to higher NCOs. Refer to Note 9 – Allowance for credit losses – loans held-in-portfolio to the Consolidated Financial Statements, and to the Provision for Credit Losses section of this MD&A for additional information.

The following table presents net charge-offs to average loans held-in-portfolio ("HIP") ratios by loan category for the years ended December 31, 2023 and 2022:

Table 33 - Net Charge-Offs (Recoveries) to Average Loans HIP

	December 31, 2023			December 31, 2022		
	BPPR	Popular U.S.	Popular Inc.	BPPR	Popular U.S.	Popular Inc.
Commercial	(0.10)%	0.02 %	(0.05)%	(0.14)%	0.11 %	(0.02)%
Construction	1.59	-	0.32	(0.48)	(0.19)	(0.25)
Mortgage	(0.22)	(0.02)	(0.19)	(0.26)	-	(0.22)
Leasing	0.43	-	0.43	0.26	-	0.26
Consumer	2.18	6.20	2.35	1.22	1.33	1.22
Total	0.55 %	0.19 %	0.44 %	0.23%	0.12%	0.20%

NCOs for the year ended December 31, 2023 amounted to $146.4 million, increasing by $87.1 million when compared to the same period in 2022. The BPPR segment increased by $78.6 million mainly driven by higher consumer NCOs by $68.3 million, reflective of certain credit quality deterioration, particularly the personal loans and credit cards portfolios, with delinquencies and NCOs near or exceeding pre-pandemic levels. The auto loans portfolio also showed credit normalization, however, metrics remained below pre-pandemic levels. The PB segment NCOs increased by $8.5 million, mainly driven by higher consumer NCOs by $13.5 million.

Table 34 - Allowance for Credit Losses - Loan Portfolios

	December 31, 2023				
(Dollars in thousands)	Total ACL	Total loans held-in-portfolio	ACL to loans held-in-portfolio	Total non-performing loans held-in-portfolio	ACL to non-performing loans held-in-portfolio
Commercial					
Commercial multi-family	$ 13,740	$ 2,415,620	0.57 %	1,991	690.11 %
Commercial real estate non-owner occupied	65,453	5,087,421	1.29 %	9,862	663.69 %
Commercial real estate owner occupied	56,864	3,080,635	1.85 %	35,704	159.27 %
Commercial and industrial	122,356	7,126,121	1.72 %	36,598	334.32 %
Total Commercial	$ 258,413	$ 17,709,797	1.46 %	84,155	307.07 %
Construction	12,686	959,280	1.32 %	6,378	198.90 %
Leasing	9,708	1,731,809	0.56 %	8,632	112.47 %
Mortgage	83,214	7,695,917	1.08 %	186,297	44.67 %
Consumer					
Credit cards	80,487	1,135,747	7.09 %	-	N.M.
Home equity lines of credit	1,978	65,953	3.00 %	3,733	52.99 %
Personal	117,790	1,945,247	6.06 %	21,836	539.43 %
Auto	157,931	3,660,780	4.31 %	45,615	346.23 %
Other Consumer	7,134	160,441	4.45 %	965	739.27 %
Total Consumer	$ 365,320	$ 6,968,168	5.24 %	72,149	506.34 %
Total	$ 729,341	$ 35,064,971	2.08 %	357,611	203.95 %

N.M - Not meaningful.

Table 35 - Allowance for Credit Losses - Loan Portfolios

	December 31, 2022				
(Dollars in thousands)	Total ACL	Total loans held-in-portfolio	ACL to loans held-in-portfolio	Total non-performing loans held-in-portfolio	ACL to non-performing loans held-in-portfolio
Commercial					
Commercial multi-family	$ 26,311	$ 2,321,713	1.13 %	242	N.M.
Commercial real estate non-owner occupied	71,540	4,499,670	1.59 %	25,116	284.84 %
Commercial real estate owner occupied	57,081	3,078,549	1.85 %	29,085	196.26 %
Commercial and industrial	80,444	5,839,200	1.38 %	38,596	208.43 %
Total Commercial	$ 235,376	$ 15,739,132	1.50 %	93,039	252.99 %
Construction	4,246	757,984	0.56 %	-	N.M.
Leasing	20,618	1,585,739	1.30 %	5,941	347.05 %
Mortgage	135,254	7,397,471	1.83 %	262,879	51.45 %
Consumer					
Credit cards	58,670	1,041,870	5.63 %	-	N.M.
Home equity lines of credit	2,542	71,916	3.53 %	4,110	61.85 %
Personal	118,426	1,823,579	6.49 %	20,040	590.95 %
Auto	129,735	3,512,530	3.69 %	40,978	316.60 %
Other Consumer	15,435	147,548	10.46 %	12,454	123.94 %
Total Consumer	$ 324,808	$ 6,597,443	4.92 %	77,582	418.66 %
Total	$ 720,302	$ 32,077,769	2.25 %	439,441	163.91 %

N.M - Not meaningful.

Table 36 details the breakdown of the allowance for credit losses by loan categories. The breakdown is made for analytical purposes, and it is not necessarily indicative of the categories in which future loan losses may occur.

Table 36 - Allocation of the Allowance for Credit Losses - Loans

At December 31,				
	2023		2022	
(Dollars in millions)	ACL	% of loans in each category to total loans	ACL	% of loans in each category to total loans
Commercial				
Commercial multi-family	$13.7	6.9%	$26.3	7.2%
Commercial real estate non-owner occupied	65.4	14.5	71.5	14.0
Commercial real estate owner occupied	56.9	8.8	57.1	9.6
Commercial and industrial	122.4	20.3	80.5	18.3
Total Commercial	$258.4	50.5%	$235.4	49.1%
Construction	12.7	2.7	4.2	2.4
Leasing	9.7	5.0	20.6	4.9
Mortgage	83.2	21.9	135.3	23.1
Consumer				
Credit cards	80.5	3.2	58.7	3.2
Home equity lines of credit	2.0	0.2	2.5	0.2
Personal	117.8	5.5	118.4	5.7
Auto	157.9	10.4	129.7	11.0
Other Consumer	7.1	0.6	15.5	0.4
Total Consumer	$365.3	19.9%	$324.8	20.5%
Total [1]	$729.3	100.0%	$720.3	100.0%

[1] Note: For purposes of this table the term loans refers to loans held-in-portfolio excluding loans held-for-sale.

Loan Modifications

For the twelve months ended December 31, 2023, modified loans to borrowers with financial difficulty amounted to $466 million, of which $424 million were in accruing status. The BPPR segment's modifications to borrowers with financial difficulty amounted to $379 million, mainly comprised of commercial and mortgage loans of $283 million and $91 million, respectively. A total of $60 million of the mortgage modifications were related to government guaranteed loans. The Popular U.S. segment's modifications to borrowers with financial difficulty amounted to $87 million, of which $75 million were commercial loans.

Refer to Note 9 to the Consolidated Financial Statements for additional information on modifications made to borrowers experiencing financial difficulties.

Enterprise Risk Management

The Corporation's Board of Directors has established a Risk Management Committee ("RMC") to, among other things, assist the Board in its (i) oversight of the Corporation's overall risk framework and (ii) to monitor, review, and approve policies to measure, limit and manage the Corporation's risks.

The Corporation has established a three lines of defense framework: (a) business line management constitutes the first line of defense by identifying and managing the risks associated with business activities, (b) components of the Risk Management Group and the Corporate Security Group, among others, act as the second line of defense by, among other things, measuring and reporting on the Corporation's risk activities, and (c) the Corporate Auditing Division, as the third line of defense, reporting directly to the Audit Committee of the Board, by independently providing assurance regarding the effectiveness of the risk framework.

The Enterprise Risk Management Committee (the "ERM Committee") is a management committee whose purpose is to oversee and monitor Market, Interest, Liquidity, Regulatory and Financial Compliance, BSA/AML & Sanctions, Regulatory, Strategic, Operational (including Fraud and Third Party Risk, among others), Information Technology and Cyber Security, Legal, Credit, Climate and Reputational risks, as defined in the Risk Appetite Statement of the Risk Management Policy and within the Corporation's Enterprise Risk Management ("ERM") framework. The ERM Committee and the Enterprise Risk Management Department in the Financial and Operational Risk Management Division (the "FORM Division"), in coordination with the Chief Risk Officer, create the framework to identify and manage multiple and cross-enterprise risks, and to articulate the RAS and supporting metrics.

The Enterprise Risk Management Department has established a process to ensure that an appropriate standard readiness assessment is performed before we launch a new product or service. Similar procedures are followed with the Treasury Division for transactions involving the purchase and sale of assets, and by the Mergers and Acquisitions Division for acquisition transactions.

The Asset/Liability Committee ("ALCO"), composed of senior management representatives from the business lines and corporate functions, and the Corporate Finance Group, are responsible for planning and executing the Corporation's market, interest rate risk, funding activities and strategy, as well as for implementing approved policies and procedures. The ALCO also reviews the Corporation's capital policy and the attainment of the capital management objectives. In addition, the Financial Risk, Corporate Insurance & Advisory Department independently measures, monitors and reports compliance with liquidity and market risk policies, and oversees controls surrounding interest risk measurements.

The Corporate Compliance Committee, comprised of senior management team members and representatives from the Regulatory and Financial Compliance Division and the Financial Crimes Compliance Division, among others, are responsible for overseeing and assessing the adequacy of the risk management processes that underlie Popular's compliance program for identifying, assessing, measuring, monitoring, testing, mitigating, and reporting compliance risks. They also supervise Popular's reporting obligations under the compliance program to ensure the adequacy, consistency and timeliness of the reporting of compliance-related risks across the Corporation.

The Regulatory Affairs team is responsible for maintaining an open dialog with the banking regulatory agencies to ensure regulatory risks are properly identified, measured, monitored, as well as communicated to the appropriate regulatory agency as necessary to keep them apprised of material matters within the purview of these agencies.

The Credit Strategy Committee, composed of senior level management representatives from the business lines and corporate functions, and the Corporate Credit Risk Management Division, are responsible for monitoring credit risk management activities both at the corporate level and across all Popular subsidiaries to ensure the development and consistent application of credit risk policies, processes and procedures that measure, limit and manage credit risks, while seeking to maintain the effectiveness and efficiency of the operating and businesses processes.

The Corporation's Operational Risk Committee ("ORCO") composed of senior level management representatives from the business lines and corporate functions, provide executive oversight of the operational risk management activities of Popular and its subsidiaries to ensure the development and consistent application of operational risk policies, processes, and procedures that measure, limit, and manage operational risks while maintaining the effectiveness and efficiency of the operating and business processes. The FORM Division, within the Risk Management Group, serves as ORCO's operating arm and is responsible for establishing baseline processes to measure, monitor, limit and manage operational risk.

The Corporate Security Group ("CSG"), under the direction of the Chief Security Officer, leads all efforts pertaining to cybersecurity, enterprise fraud and data privacy, including developing strategies and oversight processes with policies and programs that mitigate compliance, operational, strategic, financial and reputational risks associated with the Corporation's and our customers' data and assets.

The Information Technology and Cyber Risk Committee, composed of senior management representatives from the business lines and corporate functions, the Information Technology Division and the CSG, are responsible for the oversight and monitoring of information technology and cybersecurity risks, mitigation strategies, actions and controls, key risk metrics, and information technology and cyber incidents that may result in operational, compliance and reputational risks. The Chief Security Officer also co-chairs the Information Technology & Cyber Security Risk Committee along with the Chief Information & Digital Strategy Officer.

The Corporate Legal Division, in this context, has the responsibility of assessing, monitoring, managing and reporting with respect to legal risks, including those related to litigation, investigations and other material legal matters.

The Corporation has also established an ESG Committee whose purpose and responsibility is to oversee the Corporation's ESG strategies and support the development and consistent application of policies, processes and procedures that measure, limit and manage ESG matters and risks. The ESG Committee also assesses ESG-related considerations in the credit approval process of commercial credit applications.

The processes of strategic risk planning and the evaluation of reputational risk are on-going processes through which continuous data gathering and analysis are performed. In order to ensure strategic risks are properly identified and monitored, the Corporate Strategy and Transformation Division, which reports to the Corporation's Chief Operations Officer, performs periodic assessments regarding corporate strategic priority initiatives, such as the Corporation's transformation initiative and other emerging issues. The Acquisitions and Corporate Investments Division continuously assesses potential strategic transactions. The Corporate Communications Division is responsible for the monitoring, management and implementation of action plans with respect to reputational risk issues.

Popular's capital planning process integrates the Corporation's risk profile as well as its strategic focus, operating environment, and other factors that could materially affect capital adequacy in hypothetical highly-stressed business scenarios. Capital ratio targets and triggers take into consideration the different risks evaluated under Popular's risk management framework.

In addition to establishing a formal process to manage risk, our corporate culture is also critical to an effective risk management function. Through our Code of Ethics, the Corporation provides a framework for all our employees to conduct themselves with the highest integrity.

ADOPTION OF NEW ACCOUNTING STANDARDS AND ISSUED BUT NOT YET EFFECTIVE ACCOUNTING STANDARDS

Refer to Note 3, "New Accounting Pronouncements" to the Consolidated Financial Statements.

Statistical Summary 2023-2022
Statements of Financial Condition

(In thousands)	At December 31, 2023	2022
Assets:		
Cash and due from banks	$ 420,462	$ 469,501
Money market investments:		
Time deposits with other banks	6,998,871	5,614,595
Total money market investments	6,998,871	5,614,595
Trading account debt securities, at fair value	31,568	27,723
Debt securities available-for-sale, at fair value	16,729,044	17,804,374
Debt securities held-to-maturity, at amortized cost	8,194,335	8,525,366
Less – Allowance for credit losses	5,780	6,911
Debt securities held-to-maturity, net	8,188,555	8,518,455
Equity securities	193,726	195,854
Loans held-for-sale, at fair value	4,301	5,381
Loans held-in-portfolio:		
Loans held-in-portfolio	35,420,879	32,372,925
Less – Unearned income	355,908	295,156
Allowance for credit losses	729,341	720,302
Total loans held-in-portfolio, net	34,335,630	31,357,467
Premises and equipment, net	565,284	498,711
Other real estate	80,416	89,126
Accrued income receivable	263,433	240,195
Mortgage servicing rights, at fair value	118,109	128,350
Other assets	2,014,564	1,847,813
Goodwill	804,428	827,428
Other intangible assets	9,764	12,944
Total assets	$ 70,758,155	$ 67,637,917
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	$ 15,419,624	$ 15,960,557
Interest bearing	48,198,619	45,266,670
Total deposits	63,618,243	61,227,227
Assets sold under agreements to repurchase	91,384	148,609
Other short-term borrowings	-	365,000
Notes payable	986,948	886,710
Other liabilities	914,627	916,946
Total liabilities	65,611,202	63,544,492
Stockholders' equity:		
Preferred stock	22,143	22,143
Common stock	1,048	1,047
Surplus	4,843,399	4,790,993
Retained earnings	4,194,851	3,834,348
Treasury stock – at cost	(2,018,957)	(2,030,178)
Accumulated other comprehensive loss, net of tax	(1,895,531)	(2,524,928)
Total stockholders' equity	5,146,953	4,093,425
Total liabilities and stockholders' equity	$ 70,758,155	$ 67,637,917

Statistical Summary 2021-2023
Statements of Operations

(In thousands)	For the years ended December 31, 2023	2022	2021
Interest income:			
Loans	$ 2,331,654	$ 1,876,166	$ 1,747,827
Money market investments	366,625	118,080	21,147
Investment securities	547,028	471,665	353,663
Total interest income	3,245,307	2,465,911	2,122,637
Less - Interest expense	1,113,783	298,552	165,047
Net interest income	2,131,524	2,167,359	1,957,590
Provision for credit losses (benefit)	208,609	83,030	(193,464)
Net interest income after provision for credit losses (benefit)	1,922,915	2,084,329	2,151,054
Mortgage banking activities	21,497	42,450	50,133
Net gain on sale of debt securities	-	-	23
Net gain (loss), including impairment, on equity securities	3,482	(7,334)	131
Net gain (loss) on trading account debt securities	1,382	(784)	(389)
Net loss on sale of loans, including valuation adjustments on loans held-for-sale	(115)	-	(73)
Adjustment to indemnity reserves on loans sold	2,319	919	4,406
Other non-interest income	622,159	861,811	587,897
Total non-interest income	650,724	897,062	642,128
Operating expenses:			
Personnel costs	778,045	719,764	631,802
All other operating expenses	1,120,055	1,026,656	917,473
Total operating expenses	1,898,100	1,746,420	1,549,275
Income before income tax	675,539	1,234,971	1,243,907
Income tax expense	134,197	132,330	309,018
Net Income	$ 541,342	$ 1,102,641	$ 934,889
Net Income Applicable to Common Stock	$ 539,930	$ 1,101,229	$ 933,477

Statistical Summary 2020-2022
Average Balance Sheet and Summary of Net Interest Income

On a Taxable Equivalent Basis*

	2023			2022			2021		
(Dollars in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets									
Interest earning assets:									
Money market investments	$ 7,051,718	$ 366,625	5.20 %	$ 9,530,698	$ 118,079	1.24 %	$ 15,999,741	$ 21,147	0.13 %
U.S. Treasury securities	20,305,488	441,179	2.17	21,141,431	448,961	2.12	12,396,773	266,670	2.16
Obligations of U.S. Government sponsored entities	-	-	-	41	2	5.66	7,972	120	1.50
Obligations of Puerto Rico, States and political subdivisions	64,682	5,863	9.06	67,965	7,824	11.51	75,607	7,608	10.06
Collateralized mortgage obligations and mortgage-backed securities	7,360,071	157,196	2.14	8,342,672	198,566	2.38	10,255,525	224,706	2.19
Other	196,226	11,519	5.87	190,489	8,925	4.68	194,640	9,027	4.64
Total investment securities	27,926,467	615,757	2.20	29,742,598	664,278	2.23	22,930,517	508,131	2.22
Trading account securities	31,876	1,377	4.32	51,357	3,049	5.94	84,380	4,339	5.16
Loans (net of unearned income)	33,164,961	2,387,351	7.20	30,405,280	1,924,895	6.33	29,074,036	1,794,789	6.19
Total interest earning assets/Interest income	$ 68,175,022	$ 3,371,110	4.94%	$ 69,729,933	$ 2,710,301	3.89%	$ 68,088,674	$ 2,328,406	3.43 %
Total non-interest earning assets	3,059,214			3,078,671			3,079,976		
Total assets	$ 71,234,236			$ 72,808,604			$ 71,168,650		
Liabilities and Stockholders' Equity									
Interest bearing liabilities:									
Savings, NOW, money market and other interest bearing demand accounts	$ 39,463,481	$ 862,981	2.19 %	$ 41,769,576	$ 191,064	0.46 %	$ 41,387,504	$ 59,034	0.15 %
Time deposits	7,775,846	187,043	2.41	6,853,127	61,781	0.90	7,028,334	52,587	0.75
Federal funds purchased	6	-	5.25	7	-	3.92	1	-	0.25
Securities purchased under agreement to resell	115,808	6,019	5.20	107,305	2,309	2.15	91,394	317	0.35
Other short-term borrowings	27,302	1,310	4.80	99,083	3,428	3.46	343	1	0.35
Notes payable	1,109,163	56,430	5.09	938,778	39,970	4.26	1,184,737	53,107	4.49
Total interest bearing liabilities/Interest expense	48,491,606	1,113,783	2.30	49,767,876	298,552	0.60	49,692,313	165,046	0.33
Total non-interest bearing liabilities	16,142,027			17,031,503			15,698,685		
Total liabilities	64,633,633			66,799,379			65,390,998		
Stockholders' equity	6,600,603			6,009,225			5,777,652		
Total liabilities and stockholders' equity	$ 71,234,236			$ 72,808,604			$ 71,168,650		
Net interest income on a taxable equivalent basis		$ 2,257,327			$ 2,411,749			$ 2,163,360	
Cost of funding earning assets			1.63 %			0.43 %			0.24 %
Net interest margin			3.31 %			3.46 %			3.19 %
Effect of the taxable equivalent adjustment		125,803			244,390			205,770	
Net interest income per books		$ 2,131,524			$ 2,167,359			$ 1,957,590	

** Shows the effect of the tax exempt status of some loans and investments on their yield, using the applicable statutory income tax rates. The computation considers the interest expense disallowance required by the Puerto Rico Internal Revenue Code. This adjustment is shown in order to compare the yields of the tax exempt and taxable assets on a taxable basis.*

Note: Average loan balances include the average balance of non-accruing loans. No interest income is recognized for these loans in accordance with the Corporation's policy. Average balances exclude unrealized gains or losses on debt securities available-for-sale and unrealized losses on debt securities transfer to held-to-maturities.