Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

The information included in this report contains certain 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; 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 the pending debt restructuring proceedings under Title III of the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA") and of other actions taken or to be taken to address Puerto Rico's fiscal 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 in connection with the COVID-19 pandemic and the rate of expenditure of such funds, as well as the timeline and implementation of the Plan of Adjustment for the Puerto Rico debt restructuring under Title III of PROMESA; risks related to Popular's planned acquisition of certain information technology and related assets currently used by EVERTEC, Inc. to service certain of Banco Popular de Puerto Rico's key channels, as well as the planned entry into amended and restated commercial agreements and the sale or conversion into non-voting of Popular's ownership stake in Evertec (the "Transaction"), including: the length of time necessary to consummate the Transaction; the ability to satisfy the conditions to the closing thereof; the receipt of any regulatory approvals necessary to effect the Transaction and the contemplated return to shareholders of net gains resulting from a sale of EVERTEC, Inc. shares; the ability to successfully transition and integrate the assets acquired as part of the Transaction, as well as related operations, employees and third party contractors; unexpected costs, including, without limitation, costs due to exposure to any unrecorded liabilities or issues not identified during due diligence investigation of the Transaction or that are not subject to indemnification or reimbursement by EVERTEC, Inc.; risks that Popular may be affected by operational and other risks arising from the acquisition of the acquired assets, including the transition and integration thereof, or by adverse effects on relationships with customers, employees and service providers; and business and other risks arising from the extension of Popular's current commercial agreements with EVERTEC, Inc., as well as the sale or conversion of EVERTEC, Inc. shares owned by Popular; the scope and duration of the COVID-19 pandemic (including the appearance of new strains of the virus), actions taken by governmental authorities in response to the pandemic, and the direct and indirect impact of the pandemic on us, our customers, service providers and third parties; changes in interest rates and market liquidity, which may reduce interest margins, impact funding sources and affect our ability to originate and distribute financial products in the primary and secondary markets; the fiscal and monetary policies of the federal government and its agencies; changes in federal bank regulatory and supervisory policies, including required levels of capital and the impact of proposed capital standards on our capital ratios; additional Federal Deposit Insurance Corporation ("FDIC") assessments; regulatory approvals that may be necessary to undertake certain actions or consummate strategic transactions such as acquisitions and dispositions; unforeseen or catastrophic events, including extreme weather events, other natural disasters, man-made disasters, acts of violence or war, or the emergence of pandemics epidemics and other health-related crises, which could cause a disruption in our operations or other adverse consequences for our business; the relative strength or weakness of the consumer and commercial credit sectors and of the real estate markets in Puerto Rico and the other markets in which borrowers are located; the performance of the stock and bond markets; competition in the financial services industry; possible legislative, tax or regulatory changes; and a failure in or breach of our operational or security systems or infrastructure or those of EVERTEC, Inc., our provider of core financial transaction processing and information technology services, or of other third parties providing services to us, including as a result of cyberattacks, e-fraud, denial-of-services and computer intrusion, that might result in loss or breach of customer data, disruption of services, reputational damage or additional costs to Popular. Other possible events or factors that could cause results or performance to differ materially from those expressed in these forward-looking statements include the following: negative economic conditions that adversely affect housing prices, the job market, consumer confidence and spending habits which may affect, among other things, the level of non-performing assets, charge-offs and provision expense; changes in market rates and prices which may adversely impact the value of financial assets and liabilities; potential judgments, claims, damages, penalties, fines, enforcement actions and reputational damage resulting from pending or future litigation and regulatory or government investigations or actions, including as a result of our participation in and execution of government programs related to the COVID-19 pandemic; changes in accounting standards, rules and interpretations; our ability to grow our core businesses; decisions to downsize, sell or close units or otherwise change our business mix; and management's ability to identify and manage these and other risks. Moreover, the outcome of legal and regulatory proceedings, as discussed in "Part I, Item 3. Legal Proceedings" of the Corporation's Form 10-K for the year ended December 31, 2021, is inherently uncertain and depends on judicial interpretations of law and the findings of regulators, judges and/or juries. The description of the Corporation's business and risk factors contained in Part I, Items 1 and 1A of the Corporation's Form 10-K for the year ended December 31, 2021 discusses additional information about the business of the Corporation and the material risk factors and uncertainties to which the Corporation is subject that, in addition to the other information in this report, readers should consider.

All forward-looking statements included in this report are based upon information available to the Corporation as of the date of this report, 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 and commercial banking services 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.

The Corporation has several investments which it accounts for under the equity method. These include the 16.19% interest in EVERTEC, a 15.84% interest in Centro Financiero BHD Leon, S.A. ("BHD Leon"), among other investments in limited partnerships which mainly hold loans and investment securities. EVERTEC provides transaction processing services throughout the Caribbean and Latin America, and also provides to the Corporation core banking and transaction processing and other services. BHD León is a diversified financial services institution operating in the Dominican Republic. For the year ended December 31, 2021, the Corporation recorded approximately $58.3 million in earnings from these investments on an aggregate basis. The carrying amounts of these investments as of December 31, 2021 were $299.0 million. Refer to Note 27 to the Consolidated Financial Statements for additional information.

SIGNIFICANT EVENTS

Acquisition of K2 Capital Group LLC

On October 15, 2021, Popular Equipment Finance LLC ("PEF"), a newly-formed wholly-owned subsidiary of PB, completed the acquisition of certain assets and the assumption of certain liabilities of Minnesota-based K2 Capital Group LLC's ("K2") equipment leasing and financing business (the "Acquired Business"). PEF made a payment to K2 of approximately $157 million in cash, representing a premium of $49 million over the book value of K2's net assets, which has been recorded as goodwill. An additional approximate $29 million in earnout payments could be payable to K2 over the next three years, contingent upon the achievement of certain agreed-upon financial targets during such period.

Specializing in the healthcare industry, the Acquired Business provides a variety of lease products, including operating and finance leases, and also offers private label vendor finance programs to equipment manufacturers and healthcare organizations. The acquisition provides PB with a national equipment leasing platform that complements its existing healthcare lending business.

As part of the transaction, PEF acquired approximately $115 million in net assets that consisted mainly of commercial finance leases. The transaction was accounted for as a business combination. Refer to Note 4 to the Consolidated Financial Statements for additional information.

Capital Actions

2021 Increase in Common Stock Dividend

On May 6, 2021, the Corporation's Board of Directors approved a quarterly cash dividend of $0.45 per share, an increase from the previous $0.40 per share quarterly dividend, on its outstanding common stock. During the year ended December 31, 2021, the Corporation declared cash dividend of $1.75 per common share outstanding ($142.3 million in the aggregate).

Accelerated Share Repurchase

On September 9, 2021, the Corporation completed its previously announced accelerated share repurchase program for the repurchase of an aggregate $350 million of Popular's common stock. Under the terms of the accelerated share repurchase agreement (the "ASR Agreement"), on May 4, 2021, the Corporation made an initial payment of $350 million and received an initial delivery of 3,785,831 shares of Popular's Common Stock (the "Initial Shares"). The transaction was accounted for as a treasury stock transaction. As a result of the receipt of the Initial Shares, the Corporation recognized in shareholders' equity approximately $280 million in treasury stock and $70 million as a reduction in capital surplus. Upon the final settlement of the ASR Agreement, the Corporation received an additional 828,965 shares of Popular's common stock and recognized $61 million as treasury stock with a corresponding increase in its capital surplus account. The Corporation repurchased a total of 4,614,796 shares at an average purchase price of $75.84 under the ASR Agreement.

Redemption of Trust Preferred Securities

On November 1, 2021, the Corporation redeemed all outstanding 6.70% Cumulative Monthly Income Trust Preferred Securities (the "Trust Preferred Securities") issued by the Popular Capital Trust I (the "Trust") (liquidation amount of $25 per security and amounting to $186,663,800 (or $181,063,250 after excluding the Corporation's participation in the Trust of $5,600,550) in the aggregate). The redemption price for the Trust Preferred Securities was equal to $25 per security plus accrued and unpaid distributions up to and excluding the redemption date in the amount of $0.139583 per security, for a total payment per security in the amount of $25.139583. Upon redemption, Popular delisted the Trust Preferred Securities (NASDAQ: BPOPN) from the Nasdaq Global Select Market.

2022 Capital Plan

On January 12, 2022 the Corporation announced the following capital actions:

- an increase in the Corporation's quarterly common stock dividend from $0.45 per share to $0.55 per share, commencing with the dividend payable in the second quarter of 2022, subject to the approval by the Corporation's Board of Directors; and
- common stock repurchases of up to $500 million during 2022.

The Corporation's planned common stock repurchases may be executed in the open market or in privately negotiated transactions. The timing and exact amount of such repurchases will be subject to various factors, including market conditions and the Corporation's capital position and financial performance.

Refer to Table 1 for selected financial data for the past three years.

Table 1 - Selected Financial Data

(Dollars in thousands, except per common share data)	Years ended December 31, 2021	2020	2019
CONDENSED STATEMENTS OF OPERATIONS			
Interest income	$ 2,122,637	$ 2,091,551	$ 2,260,793
Interest expense	165,047	234,938	369,099
Net interest income	1,957,590	1,856,613	1,891,694
Provision for credit losses (benefit)	(193,464)	292,536	165,779
Non-interest income	642,128	512,312	569,883
Operating expenses	1,549,275	1,457,829	1,477,482
Income tax expense	309,018	111,938	147,181
Net income	$ 934,889	$ 506,622	$ 671,135
Net income applicable to common stock	$ 933,477	$ 504,864	$ 667,412
PER COMMON SHARE DATA			
Net income per common share - basic	$ 11.49	$ 5.88	$ 6.89
Net income per common share - diluted	11.46	5.87	6.88
Dividends declared	1.75	1.60	1.20
Common equity per share	74.48	71.30	62.42
Market value per common share	82.04	56.32	58.75
Outstanding shares:			
Average - basic	81,263,027	85,882,371	96,848,835
Average - assuming dilution	81,420,154	85,975,259	96,997,800
End of period	79,851,169	84,244,235	95,589,629
AVERAGE BALANCES			
Net loans [1]	$29,074,036	$28,384,981	$26,806,368
Earning assets	68,088,675	56,404,607	44,944,793
Total assets	71,168,650	59,583,455	50,341,827
Deposits	63,102,916	51,585,779	42,218,796
Borrowings	1,255,495	1,321,772	1,404,459
Total stockholders' equity	5,777,652	5,419,938	5,713,517
PERIOD END BALANCE			
Net loans [1]	$29,299,725	$29,484,651	$27,466,076
Allowance for credit losses - loans portfolio	695,366	896,250	477,708
Earning assets	72,103,862	62,989,715	48,674,705
Total assets	75,097,899	65,926,000	52,115,324
Deposits	67,005,088	56,866,340	43,758,606
Borrowings	1,155,166	1,346,284	1,294,986
Total stockholders' equity	5,969,397	6,028,687	6,016,779
SELECTED RATIOS			
Net interest margin (non-taxable equivalent basis)	2.88%	3.29%	4.03%
Net interest margin (taxable equivalent basis) -Non-GAAP	3.19	3.62	4.43
Return on assets	1.31	0.85	1.33
Return on common equity	16.22	9.36	11.78
Tier I capital	17.49	16.33	17.76
Total capital	19.35	18.81	20.31

[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 on Table 3 for the year ended December 31, 2021 as compared with the same period in 2020, 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.

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

Financial highlights for the year ended December 31, 2021

The Corporation's net income for the year ended December 31, 2021 amounted to $934.9 million, compared to a net income of $506.6 million for 2020.

The discussion that follows provides highlights of the Corporation's results of operations for the year ended December 31, 2021 compared to the results of operations of 2020. 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.

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

	2021	2020	2019
Net interest income	2.75%	3.12%	3.76%
Provision for credit losses (benefit)	0.27	(0.49)	(0.33)
Mortgage banking activities	0.07	0.02	0.06
Net gain and valuation adjustments on investment securities	–	0.01	–
Other non-interest income	0.83	0.83	1.07
Total net interest income and non-interest income, net of provision for credit losses	3.92	3.49	4.56
Operating expenses	(2.18)	(2.45)	(2.94)
Income before income tax	1.74	1.04	1.62
Income tax expense	0.43	0.19	0.29
Net income	1.31%	0.85%	1.33%

Net interest income for the year ended December 31, 2021 was $2.0 billion, an increase of $101.0 million when compared to 2020. The increase in net interest income was mainly driven by higher interest income from commercial loans due to income from loans under the Small Business Administration ("SBA") Paycheck Protection Program ("PPP"), and higher income from investment securities. In addition, lower interest expense on deposits, despite the higher volume, contributed to the higher net interest income. The net interest margin for the year ended December 31, 2021 was 2.88% compared to 3.29% for the same period in 2020 and was impacted by prolonged low interest rates as well as the change in the earning assets composition. On a taxable equivalent basis, net interest margin was 3.19% in 2021, compared to 3.62% in 2020. Refer to the Net Interest Income section of this MD&A for additional information.

The Corporation's total provision for credit losses reflected a benefit of $193.5 million for the year ended December 31, 2021, compared to a provision expense of $292.5 million for 2020. The benefit for the year 2021 was due to improvements in credit quality and the macroeconomic outlook. The Corporation continued to exhibit strong credit quality trends and low credit costs with low levels of net charge-offs and lower non-performing loans. Non-performing assets totaled $633 million at December 31, 2021, reflecting a decrease of $191 million when compared to December 31, 2020. 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, troubled debt restructurings, net charge-offs and credit quality metrics.

Non-interest income for the year ended December 31, 2021 amounted to $642.1 million, an increase of $129.8 million, when compared with 2020, mostly due to: higher service fees and service charges on deposit accounts due to economic disruptions related to the pandemic, the waiver of service charges and late fees during 2020, higher income from mortgage banking activities and higher other operating income principally due to higher net earnings from the combined portfolio of investments under the equity method. 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 $1.5 billion for the year 2021, reflecting an increase of $91.4 million, when compared to the same period in 2020, mainly due to higher personnel costs. Refer to the Operating Expenses section of this MD&A for additional information.

Income tax expense amounted to $309.0 million for the year ended December 31, 2021, compared with an income tax expense of $111.9 million for the previous year. The increase in income tax expense for the year is mainly due to a higher pre-tax income. 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, 2021, the Corporation's total assets were $75.1 billion, compared with $65.9 billion at December 31, 2020. The increase of $9.2 billion is mainly driven by higher money market investments and debt securities available-for-sale due to the additional funds available to invest resulting from the increase in deposits across various sectors, partially offset by paydowns of agency mortgage-backed securities. Refer to the Statement of Condition Analysis section of this MD&A for additional information.

Deposits amounted to $67.0 billion at December 31, 2021, compared with $56.9 billion at December 31, 2020. Table 7 presents a breakdown of deposits by major categories. The increase in deposits was mainly due to higher Puerto Rico public sector deposits and higher balances in retail and commercial demand deposits accounts. The Corporation's borrowings remained flat at $1.2 billion at December 31, 2021. Refer to Note 17 to the Consolidated Financial Statements for detailed information on the Corporation's borrowings.

Refer to Table 6 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 remained flat at $6.0 billion at December 31, 2021, compared with December 31, 2020. The net activity for the year was mainly due to net income of $934.9 million for the year 2021 offset by unrealized losses on debt securities available-for-sale and by capital return transactions, including an accelerated share repurchase transaction completed during 2021. The Corporation and its banking subsidiaries continue to be well-capitalized at December 31, 2021. The Common Equity Tier 1 Capital ratio at December 31, 2021 was 17.42%, compared to 16.26% at December 31, 2020.

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 may be 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. Financial assets that were fair valued using broker quotes amounted to $6 million at December 31, 2021, of which $1 million were Level 3 assets and $5 million were Level 2 assets. Level 3 assets consisted principally of tax-exempt GNMA mortgage-backed securities. Fair value for these securities was based on an internally-prepared matrix derived from local broker quotes. The main input used in the matrix pricing was non-binding local broker quotes obtained from limited trade activity. Therefore, these securities were classified as Level 3.

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. During the year ended December 31, 2021, the Corporation did not adjust any prices obtained from pricing service providers or broker dealers.

Inputs are evaluated to ascertain that they consider current market conditions, including the relative liquidity of the market. When a market quote for a specific security is not available, the pricing service provider generally uses observable data to derive an exit price for the instrument, such as benchmark yield curves and trade data for similar products. To the extent trading data is not available, the pricing service provider relies on specific information including dialogue with brokers, buy side clients, credit ratings, spreads to established benchmarks and transactions on similar securities, to draw correlations based on the characteristics of the evaluated instrument. If for any reason the pricing service provider cannot observe data required to feed its model, it discontinues pricing the instrument. During the year ended December 31, 2021, none of the Corporation's debt securities were subject to pricing discontinuance by the pricing service providers. The pricing methodology and approach of our primary pricing service providers is concluded to be consistent with the fair value measurement guidance.

Furthermore, management assesses the fair value of its portfolio of investment securities at least on a quarterly basis. 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, 2021, 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.

A restructuring constitutes a TDR when the Corporation separately concludes that the restructuring constitutes a concession and the debtor is experiencing financial difficulties. For information on the Corporation's TDR policy, refer to Note 2. The established framework captures the impact of concessions through discounting modified contractual cash flows, both principal and interest, at the loan's original effective rate. The impact of these concessions is combined with the expected credit losses generated by the quantitative loss models in order to arrive at the ACL.

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. Upon transition to the individual loan measurement, these loans follow the same nonaccrual policies as non-PCD loans and are therefore no longer excluded from non-performing status. Modifications of PCD loans that meet the definition of a TDR subsequent to the adoption of ASC Topic 326 are accounted and reported as such following the same processes 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 accounting principles generally accepted in the United States (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.

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 its 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.

After consideration of the effect on U.S. federal tax of unrecognized U.S. state tax benefits, the total amount of unrecognized tax benefits, including U.S. and Puerto Rico that, if recognized through earnings, would affect the Corporation's effective tax rate, was approximately $5.5 million at December 31, 2021 and $10.2 million at December 31, 2020. Refer to Note 35 to the Consolidated Financial Statements for further information on this subject matter. The Corporation anticipates a reduction in the total amount of unrecognized tax benefits within the next 12 months, which could amount to approximately $1.4 million, including interest.

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. No impairment was recognized by the Corporation from the annual test as of July 31, 2021. For a detailed description of the annual goodwill impairment evaluation performed by the Corporation during the third quarter of 2021, refer to Note 15.

At December 31, 2021, goodwill amounted to $720 million. During the year ended December 31, 2021, the Corporation recognized an impairment loss of $5.4 million associated with a trademark. Note 15 to the Consolidated Financial Statements provides the assignment of goodwill by reportable segment.

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, 2021 was $860.5 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 2022 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, 2022; for example, 8.5% for large cap stocks, 8.8% for small cap stocks, 8.9% for international stocks, 3.5% for long corporate bonds and 2.4% 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 decreased its expected return on plan assets for year 2022 to 4.3% and 5.4% for the Pension Plans. Expected rates of return of 4.6% and 5.5% had been used for 2021 and 5.0% and 5.8% had been used for 2020 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 a net benefit of $3.8 million in 2021. The total pension expense included a benefit of $38.7 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 2021 from 4.3% to 4.05% would increase the projected 2022 pension expense for the Banco Popular de Puerto Rico Retirement Plan, the Corporation's largest plan, by approximately $2.0 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. 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. 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 $17.8 million and a pension liability of $8.8 million at December 31, 2021.

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 2.79% to 2.83% for the Pension Plans and 2.94% for the OPEB Plan to determine the benefit obligations at December 31, 2021.

A 50 basis point decrease to each of the rates in the December 31, 2021 Willis Towers Watson RATE: Link (10/90) Model would increase the projected 2022 expense for the Banco Popular de Puerto Rico Retirement Plan by approximately $2.6 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, 2021. The Corporation had recorded a liability for the underfunded postretirement benefit obligation of $160.0 million at December 31, 2021.

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 borrowings. Various risk factors affect net interest income including the economic environment in which we operate, market driven events, the mix and size of the earning assets and related funding, changes in volumes, repricing characteristics, loans fees collected, moratoriums granted on loan payments and delay charges, 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, 2021 was $2.0 billion or $101.0 million higher than in 2020. Net interest income, on a taxable equivalent basis, for the year ended December 31, 2021 was $2.2 billion compared to $2.0 billion in 2020.

Due to the Corporation's current asset sensitive position, an increase in interest rates should have a favorable impact on the Corporation's results. See the Risk Management: Market/ Interest Rate Risk section of this MD&A for additional information related to the Corporation's interest rate risk.

The average key index rates for the years 2021 and 2020 were as follows:

	2021	2020
Prime rate	3.25%	3.53%
Fed funds rate	0.25	0.35
3-month LIBOR	0.16	0.65
3-month Treasury Bill	0.03	0.35
10-year Treasury	1.44	0.89
FNMA 30-year	1.84	1.01

Average outstanding securities balances are based upon amortized cost excluding any unrealized gains or losses on securities available-for-sale. Non-accrual loans have been included in the respective average loans and leases categories. Loan fees collected, and costs incurred in the origination of loans are deferred and amortized over the term of the loan as an adjustment to interest yield. Prepayment penalties, late fees collected and the amortization of premiums / discounts on purchased loans, 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, 2021 included a favorable impact of $131.6 million, related to those items, compared to $98.5 million for the same period in 2020. The year over year increase is related to higher amortized fees resulting mainly from the SBA forgiveness of PPP loans by $53.9 million, partially offset by $15.4 million lower amortization of the fair value discount of the auto and credit card 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, 2021, as compared with the same period in 2020, segregated by major categories of interest earning assets and interest-bearing liabilities. Net interest margin was 2.88% in 2021 or 41 basis points lower than the 3.29% reported in 2020. The lower net interest margin for the year is driven by the increase of $11.5 billion in average deposits which were mostly redeployed in overnight Fed Funds and U.S. Treasury and agency debt securities. These assets, although accretive to net interest income, are low yielding assets and have the effect of compressing the net interest margin. Also impacting the net interest margin was a full year of low short-term rates as the Federal Reserve decreased by 150 basis points the Federal Funds Rate in the first quarter of 2020. On a taxable equivalent basis, net interest margin was 3.19% in 2021, compared to 3.62% in 2020. The main drivers for the increase in net interest income on a taxable equivalent basis were:

Positive variances:

- Higher interest income from money market and investment securities due to a higher volume by $11.0 billion, which resulted from an increase in deposits in most categories, partially offset by lower yield by 39 basis points driven by a lower interest rate environment. These larger balances resulted from an increase in deposits in most categories;
- Higher interest income from commercial loans driven by higher interest and fees from PPP loans by $54.0 million when compared to 2020, partially offset the repricing of adjustable rates loans and origination in a low interest rate environment;
- The auto and lease financing portfolios increased by $478 million or 12% driven by continued demand for automobiles in Puerto Rico after the COVID-19 related lockdown and higher household liquidity resulting from COVID-19 relief federal assistances;
- Mortgage loans interest income increased 6% when compared to the year 2020, driven by the $807.6 million bulk loan repurchases from our GSE loan servicing portfolios that occurred at the end of September 2020, partially offset by lower yields also related to the lower rates of the repurchased portfolio; and
- Lower interest expense on deposits due to the decrease in interest cost by 21 basis points resulting from the decrease in market rates in March 2020, increased liquidity in the financial industry as a result of retail and commercial federal support programs and the subsequent effect on these liabilities. The decrease in the cost of interest-bearing deposits was 51 basis points when compared to the year 2020 in the U.S. segment and 13 basis points in P.R. The impact from lower rates was partially offset by higher average balance of interest-bearing deposits by $8.4 billon when compared to the year 2020.

Partially offset by:

- Lower interest income from consumer loans due to lower average volume both on the installment loan and credit card portfolios, resulting also from a higher household liquidity in the market, as discussed above.

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	
2021	2020	Variance	2021	2020	Variance		2021	2020	Variance	Rate	Volume
(In millions)							*(In thousands)*				
$16,000	$ 8,598	$ 7,402	0.13%	0.23%	(0.10)%	Money market investments	$ 21,147	$ 19,722	$ 1,425	$(10,745)	$ 12,170
22,931	19,353	3,578	2.22	2.42	(0.20)	Investment securities [1]	508,131	467,994	40,137	(43,723)	83,860
84	69	15	5.16	6.00	(0.84)	Trading securities	4,339	4,165	174	(646)	820
39,015	28,020	10,995	1.37	1.76	(0.39)	Total money market, investment and trading securities	533,617	491,881	41,736	(55,114)	96,850
						Loans:					
13,455	13,245	210	5.39	5.23	0.16	Commercial	723,765	692,372	31,393	20,297	11,096
849	913	(64)	5.41	5.74	(0.33)	Construction	45,821	52,438	(6,617)	(3,059)	(3,558)
1,289	1,112	177	6.00	6.05	(0.05)	Leasing	77,356	67,247	10,109	(522)	10,631
7,696	7,255	441	5.09	5.23	(0.14)	Mortgage	392,047	379,794	12,253	(10,414)	22,667
2,463	2,839	(376)	11.17	11.34	(0.17)	Consumer	275,078	322,009	(46,931)	(5,612)	(41,319)
3,322	3,021	301	8.47	8.97	(0.50)	Auto	280,722	271,162	9,560	(16,500)	26,060
29,074	28,385	689	6.19	6.29	(0.10)	Total loans	1,794,789	1,785,022	9,767	(15,810)	25,577
$68,089	$56,405	$11,684	3.43%	4.04%	(0.61)%	Total earning assets	$2,328,406	$2,276,903	$ 51,503	$(70,924)	$122,427
						Interest bearing deposits:					
$25,959	$19,678	$ 6,281	0.12%	0.28%	(0.16)%	NOW and money market [2]	$ 31,911	$ 54,652	$ (22,741)	$(37,171)	$ 14,430
15,429	12,399	3,030	0.18	0.30	(0.12)	Savings	27,123	37,765	(10,642)	(19,220)	8,578
7,028	7,971	(943)	0.75	1.05	(0.30)	Time deposits	52,587	83,438	(30,851)	(20,755)	(10,096)
48,416	40,048	8,368	0.23	0.44	(0.21)	Total interest bearing deposits	111,621	175,855	(64,234)	(77,146)	12,912
92	166	(74)	0.35	1.48	(1.13)	Short-term borrowings	318	2,457	(2,139)	(1,411)	(728)
1,185	1,178	7	4.49	4.81	(0.32)	Other medium and long-term debt	53,107	56,626	(3,519)	(2,927)	(592)
49,693	41,392	8,301	0.33	0.57	(0.24)	Total interest bearing liabilities	165,046	234,938	(69,892)	(81,484)	11,592
14,687	11,538	3,149				Demand deposits					
3,709	3,475	234				Other sources of funds					
$68,089	$56,405	$11,684	0.24%	0.42%	(0.18)%	Total source of funds	165,046	234,938	(69,892)	(81,484)	11,592
			3.19%	3.62%	(0.43)%	Net interest margin/ income on a taxable equivalent basis (Non-GAAP)	2,163,360	2,041,965	121,395	$ 10,560	$110,835
			3.10%	3.47%	(0.37)%	Net interest spread					
						Taxable equivalent adjustment	205,770	185,353	20,418		
			2.88%	3.29%	(0.41)%	Net interest margin/ income non-taxable equivalent basis (GAAP)	$1,957,590	$1,856,612	$100,977		

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 outstanding securities balances are based upon amortized cost excluding any unrealized gains or losses on securities available-for-sale.

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

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

For the year ended December 31, 2021, the Corporation recorded a release of $191.3 million for its reserve for credit losses related to loans held-in-portfolio and unfunded commitments, compared with a provision expense of $294.9 million for the year ended December 31, 2020. The reserve release related to the loans-held-in-portfolio for the year 2021 was $183.3 million, compared to a provision expense of $282.3 million for the year 2020. The decrease reflects the improvements in credit quality, changes in the macroeconomic outlook, and changes in qualitative reserves. The provision for unfunded commitments for the year 2021 reflected a benefit of $8.0 million, compared to a provision expense of $12.6 million for the same period of 2020.

The reserve release related to loans held-in-portfolio for the BPPR segment was $129.0 million for the year ended December 31, 2021, compared to a provision expense of $205.9 million for the year ended December 31, 2020, a favorable variance of $334.9 million. The reserve release related to loans held-in-portfolio for the Popular U.S. segment was $54.3 million for the year 2021, a favorable variance of $130.8 million, compared to a provision expense of $76.5 million for the year 2020.

At December 31, 2021, the total allowance for credit losses for loans held-in-portfolio amounted to $695.4 million, compared to $896.3 million as of December 31, 2020. The ratio of the allowance for credit losses to loans held-in-portfolio was 2.38% at December 31, 2021, compared to 3.05% at December 31, 2020. Refer to Note 9 to the Consolidated Financial Statements, for additional information on the Corporation's methodology to estimate its allowance for credit losses ("ACL"). 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.

As discussed in Note 9 to the Consolidated Financial Statements, within the process to estimate its allowance for credit losses ("ACL"), the Corporation applies probability weights to the outcomes of simulations using Moody's Analytics' Baseline, S3 (pessimistic) and S1 (optimistic) scenarios.

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, 2021, the Corporation recorded a reserve release of $2.2 million, compared to a reserve release of $2.4 million for the year ended December 31, 2020. At December 31, 2021, the total allowance for credit losses for this portfolio amounted to $8.1 million, compared to $10.3 million as of December 31, 2020. Refer to Note 7 for additional information on the ACL for this portfolio.

Non-Interest Income

For the year ended December 31, 2021, non-interest income increased by $129.8 million, when compared with the previous year, primarily driven by:

- higher service charges on deposit accounts by $14.9 million principally due to higher fees on transactional cash management services at BPPR in part due to the business disruptions and the waiver of fees related to the COVID-19 pandemic during 2020;
- higher other service fees by $53.4 million, principally at the BPPR segment, due to higher credit and debit card fees by $43.4 million mainly in interchange income resulting from higher transactional volumes in part due to the business disruptions and the waiver of service charges and late fees related to the COVID-19 pandemic during 2020; higher insurance fees by $5.8 million, from which $3.0 million were related to contingent insurance commissions recognized during the fourth quarter; and higher trust fees by $3.1 million;
- higher income from mortgage banking activities by $39.7 million mainly due to the impact of the bulk loan repurchases from the Corporation's GNMA, FNMA and FHLMC loan servicing portfolio during 2020 which resulted in an unfavorable adjustment of $8.8 million and $10.5 million on the valuation of mortgage servicing rights ("MSRs") and servicing advances losses, respectively, and an offsetting positive adjustment in servicing fees of $3.4 million; lower unfavorable fair value adjustments on MSRs by $23.0 million due to changes in assumptions; and higher realized gains on closed derivatives positions by $11.9 million also contributed to the year over year income improvements; partially offset by lower gains from securitization transactions by $8.9 million; and
- higher other operating income by $26.7 million principally due to higher net earnings from the combined portfolio of investments under the equity method by $15.1 million, the gain of $7.0 million recognized in the third quarter of 2021 by BPPR as a result of the sale and partial leaseback of two corporate office buildings, and higher daily auto rental revenues by $3.9 million;

partially offset by:

- lower net gain on equity securities by $6.1 million mainly related to a $4.1 million gain on sale of certain equity securities at PB during the third quarter of 2020.

Operating Expenses

Table 4 provides a breakdown of operating expenses by major categories.

Table 4 - Operating Expenses

(In thousands)	Years ended December 31, 2021	2020	2019
Personnel costs:			
Salaries	$ 371,644	$ 370,179	$ 351,788
Commissions, incentives and other bonuses	113,095	78,582	97,764
Pension, postretirement and medical insurance	52,077	44,123	41,804
Other personnel costs, including payroll taxes	94,986	71,321	99,269
Total personnel costs	631,802	564,205	590,625
Net occupancy expenses	102,226	119,345	96,339
Equipment expenses	92,097	88,932	84,215
Other taxes	56,783	54,454	51,653
Professional fees:			
Collections, appraisals and other credit related fees	13,199	12,588	16,300
Programming, processing and other technology services	272,386	253,565	247,332
Legal fees, excluding collections	10,712	10,611	12,877
Other professional fees	114,568	117,358	107,902
Total professional fees	410,865	394,122	384,411
Communications	25,234	23,496	23,450
Business promotion	72,981	57,608	75,372
FDIC deposit insurance	25,579	23,868	18,179
Other real estate owned (OREO) (income) expenses	(14,414)	(3,480)	4,298
Other operating expenses:			
Credit and debit card processing, volume, interchange and other expenses	45,088	45,108	38,059
Operational losses	38,391	26,331	21,414
All other	53,509	57,443	80,097
Total other operating expenses	136,988	128,882	139,570
Amortization of intangibles	9,134	6,397	9,370
Total operating expenses	$1,549,275	$1,457,829	$1,477,482
Personnel costs to average assets	0.89%	0.95%	1.17%
Operating expenses to average assets	2.18	2.45	2.93
Employees (full-time equivalent)	8,351	8,522	8,560
Average assets per employee (in millions)	$ 8.52	$ 6.99	$ 5.88

Operating expenses for the year ended December 31, 2021 increased by $91.4 million, when compared with the previous year. The increase in operating expenses was driven primarily by:

- Higher personnel cost by $67.6 million mainly due to higher incentives related to the profit-sharing plan by $29.1 million and higher commission and performance-based incentives by $34.5 million due to improved performance metrics and salary increases, higher fringe benefit expense, mainly medical insurance by $8.0 million, partially offset by higher deferred salaries as a result of higher loan originations during 2021;
- Higher equipment expense by $3.2 million due to higher amortization of software costs;
- Higher professional fees by $16.7 million primarily due to higher processing service fees due to higher volume of transactions;
- Higher business promotions by $15.4 million due to higher customer reward program expense in our credit card business and higher advertising expense;
- Higher other operating expenses by $8.1 million mainly due higher sundry losses by $12.1 million, including $3.7 million related to the termination of a white label credit card contract and higher legal reserves; and higher impairment losses on undeveloped properties by $3.2 million; partially offset by lower pension plan cost by $10.0 million due to annual changes in actuarial assumptions and higher gain on sale of repossess auto units by $2.8 million; and

- Higher amortization of intangibles by $2.7 million due to a write-down on impairment of a trademark.

These variances were partially offset by:

- Lower net occupancy expense by $17.1 million due to $19.0 million in costs related to the termination of real property leases associated with PB's New York branch realignment, including the impairment of the right-of-use assets recorded during 2020; and
- Lower OREO expense by $10.9 million mainly due to higher gains on sale of mortgage properties.

Income Taxes

For the year ended December 31, 2021, the Corporation recorded an income tax expense of $309.0 million, compared to $111.9 million for the same period of 2020. The income tax expense for the year ended December 31, 2021 reflects the impact of higher pre-tax income, resulting primarily from a lower provision for credit losses partially offset by higher net exempt interest income and higher income from U.S. operations subject to a lower statutory tax rate.

At December 31, 2021, the Corporation had a net deferred tax asset amounting to $0.7 billion, net of a valuation allowance of $0.5 billion. The net deferred tax asset related to the U.S. operations was $0.2 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 $206.1 million for the quarter ended December 31, 2021, compared with a net income of $176.3 million for the same quarter of 2020.

Net interest income for the fourth quarter of 2021 amounted to $501.3 million, compared with $471.6 million for the fourth quarter of 2020, an increase of $29.7 million. The increase in net interest income was mainly due to increase in average balance of earning assets, mainly due to increase in deposits. The net interest margin declined by 26 basis points to 2.78% due to declines in market rates and the earning assets mix, which were concentrated in overnight Fed Funds, U.S. Treasuries and agency securities, which are all lower yielding assets.

The provision for credit losses was a benefit of $33.1 million compared to a provision expense of $21.2 million for the fourth quarter of 2020. The benefit recorded in the fourth quarter of 2021 was reflective of improvements in the credit metrics and the macroeconomic outlook as well as releases in qualitative reserves.

Non-interest income amounted to $164.7 million for the quarter ended December 31, 2020, compared with $144.8 million for the same quarter in 2020. The increase of $19.9 million was mainly due to other service fees, due to higher volume of transactions, and higher income from mortgage banking activities.

Operating expenses totaled $417.4 million for the quarter ended December 31, 2021, compared with $375.9 million for the same quarter in the previous year. The increase of $41.5 million is mainly related to higher personnel costs due to higher salaries, incentives and commissions, higher business promotion expenses, and higher other operating expenses due to the reclassification during the fourth quarter in 2020 of $10.0 million in provision for unfunded commitments from the other expenses line to the provision for credit losses caption, partially offset by lower net occupancy expenses related to the termination of real property leases associated with PB's New York branch rationalization, amounting to $19.0 million, including the impairment of the right-of-use assets and related costs recorded in the last quarter of 2020.

Income tax expense amounted to $75.6 million for the quarter ended December 31, 2021, compared with income tax expense of $43.0 million for the same quarter of 2020. The increase is mainly due to higher pre-tax income during the quarter ended December 31, 2021, compared to the quarter ended December 31, 2020.

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 $13.4 million for the year ended December 31, 2021, compared to a net income of $8.5 million for the previous year. The increase in the net income was mainly attributed to lower net interest expense by $1.4 million, mainly due to lower interest expense after the redemption on November 1, 2021 of the trust preferred securities issued by the Popular Capital Trust I; higher non-interest income by $10.1 million mainly due to higher income from the portfolio of equity method investments, partially offset by higher operating expenses by $6.4 million mainly due to higher amortization of intangibles due to the impairment of a trademark.

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 $787.5 million for the year ended December 31, 2021, compared with $499.0 million for the year ended December 31, 2020. The results for 2021 included reserve for credit losses release of $136.4 million. The results for 2020 were impacted by the COVID-19 pandemic as well as the implementation of the CECL accounting pronouncement under which provision for credit losses of $211.0 million was recorded throughout the year. The principal factors that contributed to the variance in the financial results included the following:

- Higher net interest income by $81.0 million due to higher income from investment securities by $35.2 million mainly due to higher average balances, higher income from loans by $15.3 million, mainly from interest and fees from commercial PPP loans and higher volume of mortgage loans and leases, partially offset by lower income from consumer loans, mainly credit cards; and lower interest expense from deposits by $29.2 million. The BPPR segment's net interest margin was 2.86% for 2021 compared with 3.40% for the same period in 2020. The decrease was mainly due to the earning asset composition;
- A reversal of $136.4 million of the reserve for credit losses, due to improved credit metrics and improved macroeconomic outlook, compared to a provision expense of $211.0 million in 2020, which reflected the implementation of CECL and the impact of the COVID-19 pandemic in the macroeconomic outlook;
- Higher non-interest income by $119.4 million mainly due to:
    - Higher service charges on deposit accounts by $14.8 million due to the impact in 2020 of lower transactions and the temporary waiver of fees in response to the COVID-19 pandemic;
    - Higher other service fees by $51.7 million due to higher debit and credit card transactions and the temporary waiver of fees in response to the COVID-19 pandemic in 2020 and higher contingent insurance revenues in 2021;
    - Higher mortgage banking activities by $39.9 million due to lower unfavorable fair value adjustments on mortgage servicing rights, and the negative net impact that resulted from the from the bulk repurchase of loans from the Corporation's GNMA, FNMA and FHLMC loan servicing portfolio in 2020; and
    - Higher other operating income by $10.7 million due to higher income from the portfolio of equity method investments, the gain from the sale of two corporate office buildings in 2021 and higher income from daily auto rental activities.
- Higher operating expenses by $112.0 million, mainly due to:
    - Higher personnel costs by $43.6 million mainly due to higher salaries, incentives and profit-sharing plan expense;
    - Higher professional fees by $20.3 million mainly due to processing service fees due to higher volume of transactions;
    - Higher business promotions by $13.6 million mainly due to higher customer reward program expense in our credit card business and higher advertising expense;
    - Higher other operating expenses by $34.3 million due to higher sundry losses, including $3.7 million related to the termination of a white label credit card contract, impairment losses on long-lived assets of $5.3 million recorded in 2021, higher legal reserves and higher corporate expense allocations;

  Partially offset by:

    - Lower OREO expenses by $11.1 million mainly due to higher gains on sales of residential properties.
- Higher income tax expense by $147.3 million mainly due to higher income before tax.

Popular U.S.

For the year ended December 31, 2021, the reportable segment of Popular U.S. reported net income of $134.1 million, compared with a net loss of $0.7 million for the year ended December 31, 2020. The principal factors that contributed to the variance in the financial results included the following:

- Higher net interest income by $18.6 million mainly due to lower interest expense on deposits by $36.5 million, due to lower rates and lower average balance of certificates of deposits, partially offset by lower income from loans by $9.8 million mainly from consumer and construction loans, and lower income from investment securities by $10.2 million. The Popular U.S. reportable segment's net interest margin was 3.39% for 2021 compared with 3.21% for the same period in 2020;
- A release of $56.9 million of the reserve for credit losses, due to improvements credit metrics and the macroeconomic outlook, compared to a provision expense of $81.5 million in 2020, mainly due to the implementation of CECL and the effects of the pandemic;
- Lower operating expenses by $26.7 million mainly due to:
    - Lower occupancy expenses by $22.7 million mainly due to the impact of the NY branch

rationalization in 2020 that resulted in $19.0 million in lease termination costs, including the impairment of the right of use assets; and

- Lower professional fees by $5.1 million mainly due intersegment allocated services;

Partially offset by:

- Higher personnel costs by $6.9 million due to higher salaries, incentives and profit-sharing plan expenses.

- Income taxes unfavorable variance of $49.1 million mainly due to higher income before tax.

STATEMENT OF FINANCIAL CONDITION ANALYSIS

Assets

The Corporation's total assets were $75.1 billion at December 31, 2021, compared to $65.9 billion at December 31, 2020. Refer to the Corporation's Consolidated Statements of Financial Condition at December 31, 2021 and 2020 included in this 2021 Annual Report on Form 10-K. Also, refer to the Statistical Summary 2021-2020 in this MD&A for Condensed Statements of Financial Condition.

Money market investments and debt securities available-for-sale

Money market investments and debt securities available-for-sale increased by $5.9 billion and $3.4 billion, respectively, at December 31, 2021. This was largely driven by the additional funds available to invest resulting from the increase in deposits across various sectors, partially offset by paydowns of agency mortgage-backed securities. Refer to Note 6 to the Consolidated Financial Statements for additional information with respect to the Corporation's debt securities available-for-sale.

Loans

Refer to Table 5 for a breakdown of the Corporation's loan portfolio. Also, refer to Note 8 in the Consolidated Financial Statements for detailed information about the Corporation's loan portfolio composition and loan purchases and sales.

Loans held-in-portfolio decreased by $0.1 billion to $29.2 billion at December 31, 2021, mainly due to a decrease in commercial loans at BPPR of $0.6 billion principally related to the repayment of PPP loans, a decrease in mortgage loans at BPPR of $0.5 billion mainly due to paydowns and a decrease in construction loans of $0.2 billion, partially offset by an increase in commercial loans at PB of $0.7 billion principally in the healthcare industry from which $0.1 billion was related to the acquisition by PEF of K2's lease financing business and growth in auto loans and leases at BPPR by $0.5 billion.

The allowance for credit losses for the loan portfolio decreased by $0.2 billion due to improvements in credit quality, changes in the macroeconomic outlook, and changes in qualitative reserves. Refer to the Credit Quality section of the MD&A for additional information on the Allowance for credit losses for the loan portfolio.

Table 5 - Loans Ending Balances

	At December 31,	
(In thousands)	2021	2020
Loans held-in-portfolio:		
Commercial	$13,732,701	$13,614,310
Construction	716,220	926,208
Leasing	1,381,319	1,197,661
Mortgage	7,427,196	7,890,680
Auto	3,412,187	3,132,228
Consumer	2,570,934	2,624,109
Total loans held-in-portfolio	$29,240,557	$29,385,196
Loans held-for-sale:		
Commercial	$ –	$ 2,738
Mortgage	59,168	96,717
Total loans held-for-sale	$ 59,168	$ 99,455
Total loans	$29,299,725	$29,484,651

Other assets

Other assets amounted to $1.6 billion at December 31, 2021, a decrease of $0.1 billion when compared to December 31, 2020. Refer to Note 14 for a breakdown of the principal categories that comprise the caption of "Other Assets" in the Consolidated Statements of Financial Condition at December 31, 2021 and 2020.

Liabilities

The Corporation's total liabilities were $69.1 billion at December 31, 2021, an increase of $9.2 billion compared to $59.9 billion at December 31, 2020, mainly due to increases 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, 2021 and 2020 is included in Table 6.

Table 6 - Financing to Total Assets

(In millions)	December 31, 2021	December 31, 2020	% increase (decrease) from 2020 to 2021	% of total assets 2021	% of total assets 2020
Non-interest bearing deposits	$15,684	$13,129	19.5%	20.9%	19.9%
Interest-bearing core deposits	47,954	38,599	24.2	63.9	58.5
Other interest-bearing deposits	3,367	5,138	(34.5)	4.5	7.8
Repurchase agreements	92	121	(24.0)	0.1	0.2
Other short-term borrowings	75	–	N.M.	0.1	–
Notes payable	989	1,225	(19.3)	1.3	1.9
Other liabilities	968	1,685	(42.6)	1.3	2.6
Stockholders' equity	5,969	6,029	(1.0)	7.9	9.1

Deposits

The Corporation's deposits totaled $67.0 billion at December 31, 2021, compared to $56.9 billion at December 31, 2020.The deposits increase of $10.1 billion was mainly due to higher Puerto Rico public sector deposits by $5.2 billion and higher retail and commercial demand deposits by $3.9 billion at BPPR. Public sector deposit balances amounted to $20.3 billion at December 31, 2021. A significant portion of Puerto Rico public sector deposits are expected to be used by Puerto Rico pursuant to the Plan of Adjustment for Puerto Rico confirmed by the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") Title III Court, which is expected to become effective on or about March 15, 2022. However, the receipt by the P.R. Government of additional COVID-19 and hurricane recovery-related Federal assistance and seasonal tax collections could increase public deposit balances at BPPR in the near term. The rate at which public deposit balances will decline is uncertain and difficult to predict. The amount and timing of any such reduction is likely to be impacted by, for example, the implementation of the Plan of Adjustment under Title III of PROMESA and the speed at which the COVID-19 federal assistance is distributed. Refer to Table 7 for a breakdown of the Corporation's deposits at December 31, 2021 and 2020.

Table 7 - Deposits Ending Balances

(In thousands)	2021	2020
Demand deposits	$25,889,732	$22,532,729
Savings, NOW and money market deposits (non-brokered)	33,674,134	26,390,565
Savings, NOW and money market deposits (brokered)	729,073	635,198
Time deposits (non-brokered)	6,685,938	7,130,749
Time deposits (brokered CDs)	26,211	177,099
Total deposits	$67,005,088	$56,866,340

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

Borrowings

The Corporation's borrowings amounted to $1.2 billion at December 31, 2021, compared to $1.3 billion at December 31, 2020. 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 $1.0 billion at December 31, 2021, a decrease of $0.7 billion when compared to December 31, 2020, mainly due to the settlement of purchases of debt securities.

Stockholders' Equity

Stockholders' equity totaled $6.0 billion at December 31, 2021, a decrease of $59.3 million when compared to December 31, 2020, principally due to higher accumulated unrealized losses on debt securities available-for-sale by $557.0 million and the impact of the $350.0 million accelerated share repurchase transaction, offset by net income for the year ended December 31, 2021 of $934.9 million, less declared dividends of $142.3 million on common stock and $1.4 million in dividends on preferred stock and a reduction in the adjustment of pension and postretirement benefit plans of $36.1 million. Refer to the Consolidated Statements of Financial Condition, Comprehensive Income and of Changes in Stockholders' Equity for information on the composition of stockholders' equity. Also, refer to Note 22 for a detail of accumulated other comprehensive loss (income), 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 8 show that the Corporation was "well capitalized" for regulatory purposes, the highest classification, under Basel III for years 2021 and 2020. 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 8 presents the Corporation's capital adequacy information for the years 2021 and 2020.

Table 8 - Capital Adequacy Data

	At December 31,	
(Dollars in thousands)	2021	2020
Risk-based capital:		
Common Equity Tier 1 capital	$ 5,476,031	$ 4,992,096
Additional Tier 1 Capital	22,143	22,143
Tier 1 capital	$ 5,498,174	$ 5,014,239
Supplementary (Tier 2) capital	585,931	759,680
Total capital	$ 6,084,105	$ 5,773,919
Total risk-weighted assets	$31,441,224	$30,702,091
Adjusted average quarterly assets	$74,238,367	$64,305,022
Ratios:		
Common Equity Tier 1 capital	17.42%	16.26%
Tier 1 capital	17.49	16.33
Total capital	19.35	18.81
Leverage ratio	7.41	7.80
Average equity to assets	8.12	9.10
Average tangible equity to assets	7.20	8.02
Average equity to loans	19.87	19.09

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 increase in the CET1 capital ratio, Tier 1 capital ratio and, total capital ratio as of December 31, 2021, compared to December 31, 2020, was mostly due to the year earnings, partially offset by the accelerated share repurchase agreement to repurchase an aggregate of $350 million of Popular's common stock and the slight increase in risk weighted assets. The decrease in leverage capital ratio was mainly due to the increase in average total assets, driven by investments in zero or low-risk weighted debt securities and overnight Fed Funds that therefore did not have a significant impact on the risk-weighted 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.

On April 9, 2020, federal banking regulators issued an interim 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, 2021, the Corporation has $353 million in PPP loans and no loans were pledged as collateral for PPPL Facilities.

Table 9 reconciles the Corporation's total common stockholders' equity to common equity Tier 1 capital.

Table 9 - Reconciliation Common Equity Tier 1 Capital

	At December 31,	
(In thousands)	2021	2020
Common stockholders' equity	$6,116,756	$6,224,942
AOCI related adjustments due to opt-out election	257,762	(261,245)
Goodwill, net of associated deferred tax liability (DTL)	(591,703)	(591,931)
Intangible assets, net of associated DTLs	(16,219)	(22,466)
Deferred tax assets and other deductions	(290,565)	(357,204)
Common equity tier 1 capital	$5,476,031	$4,992,096
Common equity tier 1 capital to risk-weighted assets	17.42%	16.26%

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.

Table 10 provides a reconciliation of total stockholders' equity to tangible common equity and total assets to tangible assets at December 31, 2021 and 2020.

Table 10 - Reconciliation of Tangible Common Equity and Tangible Assets

(In thousands, except share or per share information)	At December 31, 2021	2020
Total stockholders' equity	$ 5,969,397	$ 6,028,687
Less: Preferred stock	(22,143)	(22,143)
Less: Goodwill	(720,293)	(671,122)
Less: Other intangibles	(16,219)	(22,466)
Total tangible common equity	$ 5,210,742	$ 5,312,956
Total assets	$75,097,899	$65,926,000
Less: Goodwill	(720,293)	(671,122)
Less: Other intangibles	(16,219)	(22,466)
Total tangible assets	$74,361,387	$65,232,412
Tangible common equity to tangible assets	7.01%	8.14%
Common shares outstanding at end of period	79,851,169	84,244,235
Tangible book value per common share	$ 65.26	$ 63.07
	Year-to-date average	
Total stockholders' equity [1]	$ 5,777,652	$ 5,419,938
Less: Preferred Stock	(22,143)	(26,277)
Less: Goodwill	(679,959)	(671,121)
Less: Other intangibles	(20,861)	(25,154)
Total tangible common equity	$ 5,054,689	$ 4,697,386
Average return on tangible common equity	18.47%	10.75%

[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 for further information on the debt securities available-for-sale and held-to-maturity portfolios. Debt securities classified as available-for-sale amounted to $25.0 billion as of December 31, 2021. Other assets subject to market risk include loans held-for-sale, which amounted to $59 million, mortgage servicing rights ("MSRs") which amounted to $122 million and securities classified as "trading", which amounted to $30 million, as of December 31, 2021.

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 amount (parallel shifts). The rate scenarios considered in these market risk simulations reflect instantaneous parallel changes of -100, -200, +100, +200 and +400 basis points during the succeeding twelve-month period. Simulation analyses are based on many assumptions, including 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. 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, 2021 and December 31, 2020, assuming a static balance sheet and parallel changes over flat spot rates over a one-year time horizon:

Table 11 - Net Interest Income Sensitivity (One Year Projection)

	December 31, 2021		December 31, 2020	
(Dollars in thousands)	Amount Change	Percent Change	Amount Change	Percent Change
Change in interest rate				
+400 basis points	$ 257,223	13.21%	$167,474	9.19%
+200 basis points	197,354	10.14	81,690	4.49
+100 basis points	166,920	8.57	39,361	2.16
-100 basis points	(78,408)	(4.03)	(53,952)	(2.96)
-200 basis points	(120,661)	(6.20)	(71,517)	(3.93)

As of December 31, 2021, NII simulations show the Corporation maintains an asset sensitive position and is expected to benefit from an overall rising rate environment. The increases in sensitivity for the period are primarily driven by the significant deposit increases seen in 2021, which have resulted in a higher level of short-term investments and cash reserves maintained at the Federal Reserve. These assets reprice immediately under the NII simulations, thus improving the NII benefit in rising rate scenarios. The declining rate scenarios show a smaller and asymmetric impact in sensitivity as rates continue to be close to their lower bound and Popular does not allow rates to turn negative in its IRR simulations.

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 12 - Interest Rate Sensitivity

	At December 31, 2021								
	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	$17,536,719	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$17,536,719
Investment and trading securities	301,103	436,980	664,755	678,066	712,179	3,936,869	17,980,634	548,736	25,259,322
Loans	4,907,214	2,492,007	1,412,901	1,359,602	1,307,655	4,272,336	13,548,010	–	29,299,725
Other assets	–	–	–	–	–	–	–	3,002,133	3,002,133
Total	22,745,036	2,928,987	2,077,656	2,037,668	2,019,834	8,209,205	31,528,644	3,550,869	75,097,899
Liabilities and stockholders' equity:									
Savings, NOW and money market and other interest bearing demand deposits	23,065,038	809,349	1,137,611	1,053,198	976,622	3,260,426	14,306,213	–	44,608,457
Certificates of deposit	1,940,456	496,482	642,437	647,957	357,661	971,300	1,655,856	–	6,712,149
Federal funds purchased and assets	31,550	30,295	20,102	9,656	–	–	–	–	91,603
sold under agreements to repurchase	75,000	–	–	–	–	–	–	–	75,000
Notes payable	1,000	–	100,000	–	2,148	341,103	544,312	–	988,563
Non-interest bearing deposits	–	–	–	–	–	–	–	15,684,482	15,684,482
Other non-interest bearing liabilities	–	–	–	–	–	–	–	968,248	968,248
Stockholders' equity	–	–	–	–	–	–	–	5,969,397	5,969,397
Total	$25,113,044	$1,336,126	$1,900,150	$1,710,811	$1,336,431	$4,572,829	$16,506,381	$ 22,622,127	$75,097,899
Interest rate sensitive gap	(2,368,008)	1,592,861	177,506	326,857	683,403	3,636,376	15,022,263	(19,071,258)	–
Cumulative interest rate sensitive gap	(2,368,008)	(775,147)	(597,641)	(270,784)	412,619	4,048,995	19,071,258	–	–
Cumulative interest rate sensitive gap to earning assets	(3.31)%	(1.08)%	(0.84)%	(0.38)%	0.58%	5.66%	26.66%	–	–

Table 13, which presents the maturity distribution of earning assets, takes into consideration prepayment assumptions.

Table 13 - Maturity Distribution of Earning Assets

	As of December 31, 2021							
	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	$17,536,719	$ –	$ –	$ –	$ –	$ –	$ –	$17,536,719
Investment and trading securities	2,714,995	14,688,701	14,430	7,164,229	4,952	482,039	–	25,069,345
Loans:								
Commercial	5,067,977	4,223,468	2,631,141	910,162	735,828	80,071	84,054	13,732,701
Construction	497,519	32,857	149,412	4,693	31,739	–	–	716,220
Leasing	408,552	959,267	–	13,500	–	–	–	1,381,319
Consumer	1,640,359	3,292,532	268,033	182,496	527,827	71,873	–	5,983,121
Mortgage	787,698	2,623,120	121,010	3,381,618	26,056	546,863	–	7,486,364
Subtotal loans	8,402,106	11,131,244	3,169,597	4,492,468	1,321,449	698,807	84,054	29,299,725
Total earning assets	$28,653,820	$25,819,945	$3,184,027	$11,656,696	$1,326,401	$1,180,847	$84,054	$71,905,789

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, 2021, the Corporation held trading securities with a fair value of $30 million, representing approximately 0.04% of the Corporation's total assets, compared with $37 million and 0.1%, respectively, at December 31, 2020. As shown in Table 14, the trading portfolio consists principally of mortgage-backed securities which at December 31, 2021 were investment grade securities. As of December 31, 2021 and December 31, 2020, the trading portfolio also included $0.1 million in Puerto Rico government obligations. Trading instruments are recognized at fair value, with changes resulting from fluctuations in market prices, interest rates or exchange rates reported in current period earnings. The Corporation recognized a net trading account loss of $389 thousand for the year ended December 31, 2021 and a net trading account gain of $1 million for the year ended December 31, 2020.

Table 14 - Trading Portfolio

(Dollars in thousands)	December 31, 2021 Amount	December 31, 2021 Weighted Average Yield [1]	December 31, 2020 Amount	December 31, 2020 Weighted Average Yield [1]
Mortgage-backed securities	$22,559	5.12%	$24,338	5.19%
U.S. Treasury securities	6,530	0.03	11,506	0.04
Collateralized mortgage obligations	257	5.61	346	5.65
Puerto Rico government obligations	85	0.47	103	0.48
Interest-only strips	280	12.00	381	12.00
Total	$29,711	4.06%	$36,674	3.64%

[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, 2021. 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 for further information on the Corporation's involvement in derivative instruments and hedging activities.

Cash Flow Hedges

The Corporation manages the variability of cash payments due to interest rate fluctuations by the effective use of derivatives designated as cash flow hedges and that are linked to specified hedged assets and liabilities. The cash flow hedges relate to forward contracts or TBA mortgage-backed securities that are sold and bought for future settlement to hedge mortgage-backed securities and loans prior to securitization. The seller agrees to deliver on a specified future date a specified instrument at a specified price or yield. These securities are hedging a forecasted transaction and are designated for cash flow hedge accounting. The notional amount of derivatives designated as cash flow hedges at December 31, 2021 amounted to $ 88 million (2020 - $ 189 million). Refer to Note 26 for additional quantitative information on these derivative contracts.

Fair Value Hedges

The Corporation did not have any derivatives designated as fair value hedges during the years ended December 31, 2021 and 2020.

Trading and Non-Hedging Derivative Activities

The Corporation enters into derivative positions based on market expectations or to benefit from price differentials between financial instruments and markets mostly to economically hedge a related asset or liability. The Corporation also enters into various derivatives to provide these types of derivative products to customers. These free-standing derivatives are carried at fair value with changes in fair value recorded as part of the results of operations for the period.

Following is a description of the most significant of the Corporation's derivative activities that are not designated for hedge accounting.

The Corporation has over-the-counter option contracts which are utilized in order to limit the Corporation's exposure on customer deposits whose returns are tied to the S&P 500 or to certain other equity securities or commodity indexes. In these certificates, the customer's principal is guaranteed by the Corporation and insured by the FDIC to the maximum extent permitted by law. The instruments pay a return based on the increase of these indexes, as applicable, during the term of the instrument. Accordingly, this product gives customers the opportunity to invest in a product that protects the principal invested but allows the customer the potential to earn a return based on the performance of the indexes. The risk of issuing certificates of deposit with returns tied to the applicable indexes is economically hedged by the Corporation. Indexed options are purchased from financial institutions with strong credit standings, whose return is designed to match the return payable on the certificates of deposit issued. By hedging the risk in this manner, the effective cost of these deposits is fixed. The contracts have a maturity and an index equal to the terms of the pool of retail deposits that they are economically hedging.

The purchased indexed options are used to economically hedge the bifurcated embedded option. These option contracts do not qualify for hedge accounting, and therefore, cannot be designated as accounting hedges. At December 31, 2021, the notional amount of the indexed options on deposits approximated $79 million (2020 - $69 million) with a fair value of $26 million (asset) (2020 - $21 million) while the embedded options had a notional value of $72 million (2020 - $63 million) with a fair value of $23 million (liability) (2020 - $18 million).

Refer to Note 26 for a description of other non-hedging derivative activities utilized by the Corporation during 2021 and 2020.

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 $180.3 million at December 31, 2021. 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 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, 2021, the Corporation had approximately $67 million in an unfavorable foreign currency translation adjustment as part of accumulated other comprehensive income (loss), compared with an unfavorable adjustment of $71 million at December 31, 2020 and $57 million at December 31, 2019.

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 commitments 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 to exogenous events such as the current COVID-19 pandemic, its credit rating is downgraded, or some other event causes counterparties to avoid exposure to the institution. Factors that the Corporation does not control, such as the economic outlook, adverse ratings of its principal markets and regulatory changes, could also affect its ability to obtain funding.

Liquidity is managed by the Corporation at the level of the holding companies that own the banking and non-banking subsidiaries. It is also managed at the level of the banking and non-banking subsidiaries. As further explained below, a principal source of liquidity for the bank holding companies (the "BHCs") are dividends received from banking and non-banking subsidiaries. The Corporation has adopted policies and limits to monitor more effectively the Corporation's liquidity position and that of the banking subsidiaries. Additionally, contingency funding plans are used to model various stress events of different magnitudes and affecting different time horizons that assist management in evaluating the size of the liquidity buffers needed if those stress events occur. However, such models may not predict accurately how the market and customers might react to every event, and are dependent on many assumptions.

Deposits, including customer deposits, brokered deposits and public funds deposits, continue to be the most significant source of funds for the Corporation, funding 89% of the Corporation's total assets at December 31, 2021 and 86% at December 31, 2020. The ratio of total ending loans to deposits was 44% at December 31, 2021, compared to 52% at December 31, 2020. In addition to traditional deposits, the Corporation maintains borrowing arrangements, which amounted to approximately $1.2 billion in outstanding balances at December 31, 2021 (December 31, 2020 - $1.3 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.

On September 9, 2021, the Corporation completed an accelerated share repurchase program for the repurchase of an aggregate $350 million of Popular's common stock, refer to Note 31 for additional information.

On November 1, 2021, the Corporation redeemed all outstanding 6.70% Cumulative Monthly Income Trust Preferred Securities issued by the Popular Capital Trust I, refer to Note 17 for additional information.

On January 12, 2022, Popular, Inc. announced the plan to increase its quarterly common stock dividend from $0.45 per share to $0.55 per share, commencing with the dividend payable in the second quarter of 2022, subject to the approval by its Board of Directors, and repurchase up to $500 million of its common stock during 2022.

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.

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, credit card licensing agreements and support to several mutual funds administered by BPPR.

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, credit ratings (by nationally recognized credit rating agencies), and importantly, FDIC deposit insurance. Although a downgrade in the credit ratings of the Corporation's banking subsidiaries may impact their ability to raise retail and commercial deposits or the rate that it is required to pay on such deposits, management does not believe that the impact should be material. Deposits at all of the Corporation's banking subsidiaries are federally insured (subject to FDIC limits) and this is expected to mitigate the potential effect of a downgrade in the credit ratings.

Deposits are a key source of funding as they tend to be less volatile than institutional borrowings and their cost is less sensitive to changes in market rates. Refer to Table 7 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 all non-interest bearing deposits, savings deposits and certificates of deposit under $250,000, excluding brokered deposits with denominations under $250,000. Core deposits have historically provided the Corporation with a sizable source of relatively stable and low-cost funds. Core deposits totaled $63.6 billion, or 95% of total deposits, at December 31, 2021, compared with $51.7 billion, or 91% of total deposits, at December 31, 2020. Core deposits financed 88% of the Corporation's earning assets at December 31, 2021, compared with 82% at December 31, 2020.

The distribution by maturity of certificates of deposits with denominations of $250,000 and over at December 31, 2021 is presented in the table that follows:

Table 15 - Distribution by Maturity of Certificate of Deposits of $250,000 and Over

(In thousands)	
3 months or less	$1,772,700
Over 3 to 12 months	500,200
Over 1 year to 3 years	219,395
Over 3 years	133,795
Total	$2,626,090

Average deposits, including brokered deposits, for the year ended December 31, 2021 represented 93% of average earning assets, compared with 91% for the year ended December 31, 2020. Table 16 summarizes average deposits for the past three years.

Table 16 - Average Total Deposits

(In thousands)	For the years ended December 31, 2021	2020
Non-interest bearing demand deposits	$14,687,093	$11,537,700
Savings accounts	15,753,630	12,620,755
NOW, money market and other interest bearing demand accounts	25,648,707	19,466,357
Certificates of deposit	7,013,486	7,960,967
Total interest bearing deposits	48,415,823	40,048,079
Total average deposits	$63,102,916	$51,585,779

The Corporation had $0.8 billion in brokered deposits at December 31, 2021, which financed approximately 1% of its total assets (December 31, 2020 - $0.8 billion and 1%, 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, 2021, total public sector deposits were $20.3 billion, compared to $15.1 billion at December 31, 2020. 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.

At December 31, 2021, 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. To the extent that the value of securities previously pledged as collateral declines because of market changes, the Corporation will be required to deposit additional cash or securities to meet its margin requirements, thereby adversely affecting its liquidity. Finally, if management is required to rely more heavily on more expensive funding sources to meet its future growth, revenues may not increase proportionately to cover costs. In this case, profitability would be adversely affected.

Bank Holding Companies

The principal sources of funding for the 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 and capitalizing its banking subsidiaries.

The BHCs have in the past borrowed in the money markets and in the corporate debt market primarily to finance their non-banking subsidiaries; however, the cash needs of the Corporation's non-banking subsidiaries other than to repay indebtedness and interest are now minimal. These sources of funding 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. 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.

The outstanding balance of notes payable at the BHCs amounted to $496 million at December 31, 2021 and $682 at December 31, 2020.

The contractual maturities of the BHCs notes payable at December 31, 2021 are presented in Table 17.

Table 17 - Distribution of BHC's Notes Payable by Contractual Maturity

Year	(In thousands)
2023	$297,842
Later years	198,292
Total	$496,134

Annual debt service at the BHCs is approximately $32 million, and the Corporation's latest quarterly dividend was $0.45 per share. On February 23, 2022, the Board of Directors of the Corporation declared a $0.55 cash dividend per common share, payable on April 1, 2022. The BHCs liquidity position continues to be adequate with sufficient cash on hand, investments and other sources of liquidity which are expected to be enough to meet all BHCs obligations during the foreseeable future. As of December 31, 2021, the BHCs had cash and money markets investments totaling $292 million, borrowing potential of $157 million from its secured facility with BPPR. In addition to these liquidity sources, the stake in EVERTEC had a market value of $583 million as of December 31, 2021 and it represents an additional source of contingent liquidity.

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. Popular, Inc. made capital contributions to its wholly owned subsidiary Popular Securities amounting to $9 million during the year 2021 and $10 million on February 24, 2022.

Dividends

During the year ended December 31, 2021, the Corporation declared cash dividend of $1.75 per common share outstanding $ 142.3 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, 2021, the BHC's received dividends amounting to $761 million from BPPR, $4 million from PIBI which main source of income is derived from its investment in BHD, $31 million in dividends from its non-banking subsidiaries and $2 million in dividends from EVERTEC. Dividends from BPPR constitute Popular, Inc.'s primary source of liquidity.

Other Funding Sources and Capital

The debt securities portfolio provides an additional source of liquidity, which may be realized through either securities sales 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. The Corporation's unpledged debt securities amounted to $3.0 billion at December 31, 2021 and $3.4 billion at December 31, 2020. A substantial portion of these debt securities could be used to raise financing in the U.S. money markets or from secured lending sources.

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

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 for information on operating leases and to Note 23 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. As discussed above, liquidity is managed by the Corporation in order to meet its short- and long-term cash obligations. Note 17 to the Consolidated Financial Statements has information on the Corporation's borrowings by maturity, which amounted to $1.2 billion at December 31, 2021.

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, 2021 and December 31, 2020, and the results of their operations for the period ended December 31, 2021 and December 31, 2020. 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 18 - Summarized Statement of Condition

(In thousands)	December 31, 2021	December 31, 2020
Assets		
Cash and money market investments	$291,540	$ 190,830
Investment securities	25,691	27,630
Accounts receivables from non-obligor subsidiaries	17,634	16,338
Other loans (net of allowance for credit losses of $96 (2020 - $311))	29,349	31,162
Investment in equity method investees	114,955	88,272
Other assets	42,251	46,547
Total assets	$521,420	$ 400,779
Liabilities and Stockholders' deficit		
Accounts payable to non-obligor subsidiaries	$ 6,481	$ 3,946
Accounts payable to affiliates and related parties	1,254	977
Notes payable	496,134	681,503
Other liabilities	97,172	79,208
Stockholders' deficit	(79,621)	(364,855)
Total liabilities and stockholders' deficit	$521,420	$ 400,779

Table 19 - Summarized Statement of Operations

	For the years ended	
(In thousands)	December 31, 2021	December 31, 2020
Income:		
Dividends from non-obligor subsidiaries	$792,000	$586,000
Interest income from non-obligor subsidiaries and affiliates	848	2,383
Earnings from investments in equity method investees	29,387	17,912
Other operating income	3,136	4,340
Total income	$825,371	$610,635
Expenses:		
Services provided by non-obligor subsidiaries and affiliates (net of reimbursement by subsidiaries for services provided by parent of $162,019 (2020 - $138,729))	$ 13,594	$ 13,191
Other operating expenses	33,524	29,652
Total expenses	$ 47,118	$ 42,843
Net income	$778,253	$567,792

During the year ended December 31, 2021, the Obligor group recorded $3.0 million of distribution from its direct equity method investees (2020 - $2.3 million), of which $2.3 million are related to dividend distributions (2020 - $2.3 million). During the year ended December 31, 2020, the Obligor group received dividend distributions from a non-obligor subsidiary amounting $12.5 million which was recorded as a reduction to the investment.

Risks to Liquidity

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

The importance of the Puerto Rico market for the Corporation is an additional risk factor that could affect its financing activities. In the case of a deterioration in economic 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 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, 2021, BPPR declared cash dividends of $761 million. At December 31, 2021, BPPR would have needed to obtain prior approval of the Federal Reserve Board before declaring a dividend due to its declared dividend activity and transfers to statutory reserves over the three year's ended December 31, 2021. 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, 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, 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 use borrowings that are rated by the major rating agencies, as these banking subsidiaries are funded primarily with deposits and secured borrowings. The banking subsidiaries had $9 million in deposits at December 31, 2021 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 $32 million at December 31, 2021. 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 33 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 (the "Commonwealth" or "Puerto Rico"), which faces severe economic and fiscal challenges.

COVID-19 Pandemic

On December 2019, a novel strain of coronavirus (COVID-19) surfaced in Wuhan, China and has since spread globally to other countries and jurisdictions, including the mainland United States and Puerto Rico. In March 2020, the World Health Organization declared COVID-19 a pandemic. The pandemic has significantly disrupted and negatively impacted the global economy, disrupted global supply chains, created significant volatility in financial markets, and increased unemployment levels worldwide, including in the markets in which we do business.

In Puerto Rico, former Governor Wanda Vázquez issued an executive order in March 2020 declaring a health emergency, ordering residents to shelter in place, implementing a mandatory curfew, and requiring the closure of non-essential businesses. Although the most restrictive measures have been eased or lifted, allowing for the gradual reopening of the economy, certain measures remain in place and additional measures may be implemented in the future as a result of a resurgence in the spread of the virus or new strains of the virus. Since the beginning of the pandemic, most businesses have had to make significant adjustments to protect customers and employees, including transitioning to telework and suspending or modifying certain operations in compliance with health and safety guidelines. The Puerto Rico Legislative Assembly enacted legislation in April 2020 requiring financial institutions to offer moratoriums on consumer financial products to clients impacted by the COVID-19 pandemic, which was effective through August 2020. The Federal Government has also approved several economic stimulus measures that seek to cushion the economic fallout of the pandemic, including providing direct subsidies, expanding eligibility for and increasing unemployment benefits and guaranteeing through the SBA PPP loans to small and medium businesses.

The COVID-19 pandemic and the restrictions imposed to curb the spread of the disease have had and may continue to have a material adverse effect on economic activity worldwide, including in Puerto Rico. The extent to which the COVID-19 pandemic will continue to adversely affect economic activity will depend on future developments, which are highly uncertain and difficult to predict, including the scope and duration of the pandemic (including the appearance of new strains of the virus), the restrictions imposed by governmental authorities and other third parties in response to the same, the pace of global vaccination efforts, and the amount of federal and local assistance offered to offset the impact of the pandemic. Pursuant to the 2022 Fiscal Plan (as defined below), economic stimulus measures have more than offset the estimated income loss due to reduced economic activity in Puerto Rico and are estimated to have caused a temporary increase in personal income on a net basis. However, there can be no assurance that these measures will be sufficient to offset the pandemic's economic impact in the medium- and long-term.

Economic Performance

The Commonwealth's economy entered a recession in the fourth quarter of fiscal year 2006 and its gross national product ("GNP") contracted (in real terms) every fiscal year between

2007 and 2018, with the exception of fiscal year 2012. Pursuant to the latest Puerto Rico Planning Board (the "Planning Board") estimates, dated March 2021, the Commonwealth's real GNP increased by 1.8% in fiscal year 2019 due to the influx of federal funds and private insurance payments to repair damage caused by Hurricanes Irma and María. However, the Planning Board estimates that the Commonwealth's real GNP decreased by approximately 3.2% in fiscal year 2020 due primarily to the adverse impact of the COVID-19 pandemic and the measures taken by the government in response to the same. The Planning Board projected that the negative effects of COVID-19 would continue through fiscal year 2021, resulting in a contraction in real GNP of approximately -2%, followed by 0.8% GNP growth in the current fiscal year.

Fiscal Crisis

The Commonwealth's central government and many of its instrumentalities, public corporations and municipalities continue to face significant fiscal challenges, which have been primarily the result of economic contraction, persistent and significant budget deficits, a high debt burden, unfunded legacy obligations, and lack of access to the capital markets, among other factors. As a result, the Commonwealth and certain of its instrumentalities have been unable to make debt service payments on their outstanding bonds and notes since 2016. The escalating fiscal and economic crisis and imminent widespread defaults prompted the U.S. Congress to enact the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") in June 2016. As further discussed below under "Pending Title III Proceedings," the Commonwealth and several of its instrumentalities are currently in the process of restructuring their debts through the debt restructuring mechanisms provided by PROMESA.

PROMESA

PROMESA, among other things, created a seven-member federally-appointed oversight board (the "Oversight Board") with ample powers over the fiscal and economic affairs of the Commonwealth, its public corporations, instrumentalities and municipalities and established two mechanisms for the restructuring of the obligations of such entities. Pursuant to PROMESA, the Oversight Board will remain in place until market access is restored and balanced budgets, in accordance with modified accrual accounting, are produced for at least four consecutive years. In August 2016, President Obama appointed the seven original voting members of the Oversight Board through the process established in PROMESA, which authorizes the President to select the members from several lists required to be submitted by congressional leaders. In 2020, when President Donald Trump reappointed three of the original members and appointed four new members to the Oversight Board.

In October 2016, the Oversight Board designated the Commonwealth and all of its public corporations and instrumentalities as "covered entities" under PROMESA. The only Commonwealth government entities that were not subject to such initial designation were the Commonwealth's municipalities. In May 2019, however, the Oversight Board designated all of the Commonwealth's municipalities as covered entities. At the Oversight Board's request, covered entities 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. Finally, covered entities are potentially eligible to avail themselves of the debt restructuring processes provided by PROMESA. For additional discussion of risk factors related to the Puerto Rico fiscal challenges, see "Part I – Item 1A – Risk Factors" in this Form 10-K.

Fiscal Plans

Commonwealth Fiscal Plan. The Oversight Board has certified several fiscal plans for the Commonwealth since 2017. The most recent fiscal plan for the Commonwealth certified by the Oversight Board is dated January 27, 2022 (the "2022 Fiscal Plan").

Pursuant to the 2022 Fiscal Plan, while the COVID-19 pandemic and the measures taken in response to the same severely reduced economic activity and caused an unprecedented increase in unemployment in Puerto Rico, pandemic-related federal and local stimulus funding have more than offset the estimated income loss due to reduced economic activity and are estimated to have caused a temporary increase in personal income on a net basis. The 2022 Fiscal Plan's economic projections incorporate adjustments for these short-term income effects for purposes of estimating tax receipts. For example, the 2022 Fiscal Plan estimates that, for fiscal years 2022 and 2023, real GNP will grow 2.6% and 0.9%, respectively, but projects that growth adjusted for income effects for such years will be approximately 5.2% and 0.6%, respectively.

The 2022 Fiscal Plan incorporates the debt service costs of the Commonwealth's restructured debt as contemplated by the Plan of Adjustment (as defined and further explained below). Therefore, it projects an unrestricted surplus after debt service average of $1 billion annually between fiscal years 2022 to 2031. This surplus declines over time as federal disaster relief funding slows, nominal GNP growth declines, revenues decline, and healthcare expenditures rise. The 2022 Fiscal Plan estimates that fiscal measures could drive approximately $6.3 billion in savings and extra revenue over fiscal years 2022 through 2026 and that structural reforms could drive a cumulative 0.90% increase in growth by fiscal year 2051 (equal to approximately $33 billion).

The 2022 Fiscal Plan provides for the gradual reduction and the ultimate elimination of Commonwealth budgetary subsidies to municipalities, which constitute a material portion of the operating revenues of some municipalities. Since fiscal year 2017, Commonwealth appropriations to municipalities have decreased by approximately 64% (from approximately $370 million in fiscal year 2017 to approximately $132 million in fiscal year 2020). In response to the COVID-19 crisis, reductions in appropriations to municipalities were paused in fiscal year 2021. Municipalities have also received extraordinary appropriations and other funds from federally-funded programs during the current fiscal year, which has helped temporarily offset the impact of the reduced Commonwealth support. However, the 2022 Fiscal Plan contemplates additional reductions in appropriations to municipalities starting in fiscal year 2022, before eventually phasing out all appropriations in fiscal year 2025. Further, while the Commonwealth had enacted legislation in 2019 suspending the municipality's obligations to contribute to the Commonwealth's health plan and pay-as-you go retirement system, such legislation was challenged by the Oversight Board and eventually declared null by the Title III court in April 2020. As a result, municipalities are required to cover their own employees' healthcare costs and retirement benefits and had to reimburse the Commonwealth for such costs corresponding to the period during which the law was in effect. Finally, the 2022 Fiscal Plan notes that municipalities have made little or no progress towards implementing fiscal discipline required to reduce reliance on Commonwealth appropriations and that this lack of fiscal management threatens the ability of municipalities to provide necessary services, such as health, sanitation, public safety, and emergency services to their residents, forcing them to prioritize expenditures.

Other Fiscal Plans. Pursuant to PROMESA, the Oversight Board has also requested and certified fiscal plans for several public corporations and instrumentalities. The certified fiscal plan for the Puerto Rico Electric Power Authority ("PREPA"), Puerto Rico's electric power utility, contemplated the transformation of Puerto Rico's electric system through, among other things, the establishment of a public-private partnership with respect to PREPA's transmission and distribution system (the "T&D System"), and calls for significant structural reforms at PREPA. The procurement process for the establishment of a public-private partnership with respect to the T&D System was completed in June 2020. The selected proponent, LUMA Energy LLC ("LUMA"), and PREPA entered into a 15-year agreement whereby, since June 1, 2021, LUMA is responsible for operating, maintaining and modernizing the T&D System.

On April 23, 2021, the Oversight Board certified the latest version of the fiscal plan (the "CRIM Fiscal Plan") for the Municipal Revenue Collection Center ("CRIM"), the government entity responsible for collecting property taxes and distributing them among the municipalities. The CRIM Fiscal Plan outlines a series of measures centered around improving the competitiveness of Puerto Rico's property tax regime and the enhancement of property tax collections, including identifying and appraising new properties as well as improvements to existing properties, and implementing operational and technological initiatives.

Pending Title III Proceedings

On May 3, 2017, the Oversight Board, on behalf of the Commonwealth, filed a petition in the U.S. District Court to restructure the Commonwealth's liabilities under Title III of PROMESA. The Oversight Board subsequently filed analogous petitions with respect to the Puerto Rico Sales Tax Financing Corporation ("COFINA"), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico ("ERS"), the Puerto Rico Highways and Transportation Authority, PREPA and the Puerto Rico Public Buildings Authority ("PBA"). On February 12, 2019, the government completed a restructuring of COFINA's debts pursuant to a plan of adjustment confirmed by the U.S. District Court.

On November 3, 2021, the Oversight Board filed the Eighth Amended Title III Joint Plan of Adjustment for the Commonwealth, et. al. (the "Plan of Adjustment") in the pending debt restructuring proceedings under Title III of PROMESA. The Plan of Adjustment seeks to restructure approximately $35 billion of debt and other claims against the Commonwealth, PBA and ERS. In October 2021, the Commonwealth's government enacted legislation establishing the framework for the issuance of new securities by the Commonwealth in connection with the Plan of Adjustment. On January 18, 2022, the U.S. District Court confirmed the Plan of Adjustment, which is expected to become effective on or about March 15, 2022 upon the satisfaction of certain conditions to effectiveness.

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. The effects of the prolonged recession have been reflected in limited loan demand, an increase in the rate of foreclosures and delinquencies on loans granted in Puerto Rico. While PROMESA provided a process to address the Commonwealth's fiscal crisis, the complexity and uncertainty of the Title III proceedings for the Commonwealth and various of its instrumentalities and the adjustment measures required by the fiscal plans still present significant economic risks. In addition, the COVID-19 outbreak has affected many of our individual customers and customers' businesses. This, when added to Puerto Rico's ongoing fiscal crisis and recession, could cause credit losses that adversely affect us and may negatively affect consumer confidence, result in reductions in consumer spending, and adversely impact our interest and non-interest revenues. If global or local economic conditions worsen or the Government of Puerto Rico and the Oversight Board are unable to adequately manage the Commonwealth's fiscal and economic challenges, including by controlling the COVID-19 pandemic and consummating an orderly restructuring of the Commonwealth's debt obligations while continuing to provide essential services, these adverse effects could continue or worsen in ways that we are not able to predict.

At December 31, 2021, the Corporation's direct exposure to the Puerto Rico government's instrumentalities and municipalities totaled $367 million of which $349 million were outstanding, compared to $377 million at December 31, 2020 which was fully outstanding on such date. Further deterioration of the Commonwealth'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, $319 million consists of loans and $30 million are securities ($342 million and $35 million, respectively, at December 31, 2020). Substantially all of the amount outstanding at December 31, 2021 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 other revenues. At December 31, 2021, 75% of the Corporation's exposure to municipal loans and securities was concentrated in the municipalities of San Juan, Guaynabo, Carolina and Bayamón. On July 1, 2021, the Corporation received scheduled principal payments amounting to $32 million from various obligations from Puerto Rico municipalities. 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.

In addition, at December 31, 2021, the Corporation had $275 million in loans insured or securities issued by Puerto Rico governmental entities, but for which the principal source of repayment is non-governmental ($317 million at December 31, 2020). These included $232 million in residential mortgage loans insured by the Puerto Rico Housing Finance Authority ("HFA"), a governmental instrumentality that has been designated as a covered entity under PROMESA (December 31, 2020 - $260 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, 2021, $43 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, 2020 - $46 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. Although the Governor is currently authorized by local legislation to impose a temporary moratorium on the financial obligations of the HFA, a moratorium on such obligations has not been imposed as of the date hereof.

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

BPPR also has a significant amount of deposits from the Commonwealth, its instrumentalities, and municipalities. The amount of such deposits may fluctuate depending on the financial condition and liquidity 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 of 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 have been and maybe be further exacerbated as a result of the effects of the COVID-19 pandemic, and 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, 2021, the Corporation has operations in the United States Virgin Islands (the "USVI") and has approximately $70 million in direct exposure to USVI government entities (December 31, 2020 - $105 million). The USVI has been experiencing a number of fiscal and economic challenges that could adversely affect the ability of its public corporations and instrumentalities to service their outstanding debt obligations.

British Virgin Islands

The Corporation has operations in the British Virgin Islands ("BVI"), which has been 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, 2021 it has a loan portfolio amounting to approximately $221 million comprised of various retail and commercial clients, compared to a loan portfolio of $251 million at December 31, 2020, which included a $19 million loan with the BVI Government that was paid off during the second quarter of 2021.

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, $1.6 billion of residential mortgages, $353 million of SBA loans under the PPP and $67 million commercial loans were insured or guaranteed by the U.S. Government or its agencies at December 31, 2021 (compared to $1.8 billion, $1.3 billion and $60 million, respectively, at December 31, 2020).

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 20.

During 2021, the Corporation continued to exhibit strong credit quality and low credit costs, with low level of NCOs and decreasing NPLs, outperforming pre-pandemic trends. These improvements have been aided by the significant government stimulus and the rebound of the economy, as well as payoffs related to troubled loan resolutions. We continue to closely monitor COVID-19 pandemic related risks on borrower performance and changes in the pace of economic recovery as new variants continue to emerge. However, management believes that the improvement over the last few years in the risk profile of the Corporation's loan portfolios positions Popular to operate successfully under the current environment.

Total NPAs decreased by $191 million when compared with December 31, 2020. Total non-performing loans held-in-portfolio ("NPLs") decreased by $190 million from December 31, 2020. BPPR's NPLs decreased by $186 million, mainly driven by lower commercial, mortgage, and construction NPLs by $84 million, $80 million, and $21 million, respectively. The commercial and construction NPLs decrease reflects payoffs related to troubled loan resolutions, and loans that were returned to accrual status during the period. The mortgage NPLs decrease was mainly due to the combined effects of collection efforts, increased foreclosure activity and the on-going low levels of early delinquency compared with pre-pandemic trends. Popular U.S. NPLs decreased by $4 million from December 31, 2020, mostly related to a $7 million construction loan sold and lower consumer NPLs by $3 million, in part offset by mortgage NPLs increase by $7 million, mostly driven by loans that did not resume payment at the end of the COVID-related deferral period. At December 31, 2021, the ratio of NPLs to total loans held-in-portfolio was 1.9% compared to 2.5% in the fourth quarter of 2020. Other real estate owned loans ("OREOs") increased by $2 million, mostly related to end of the foreclosure moratorium period.

At December 31, 2021, NPLs secured by real estate amounted to $428 million in the Puerto Rico operations and $31 million in Popular U.S. These figures were $630 million and $34 million, respectively, at December 31, 2020.

The Corporation's commercial loan portfolio secured by real estate ("CRE") amounted to $8.4 billion at December 31, 2021, of which $1.8 billion was secured with owner occupied properties, compared with $7.8 billion and $1.9 billion, respectively, at December 31, 2020. CRE NPLs amounted to $77 million at December 31, 2021, compared with $173 million at December 31, 2020. The CRE NPL ratios for the BPPR and Popular U.S. segments were 1.95% and 0.04%, respectively, at December 31, 2021, compared with 4.51% and 0.07%, respectively, at December 31, 2020.

In addition to the NPLs included in Table 20, at December 31, 2021, there were $214 million of performing loans, mostly commercial loans, which in management's opinion, are currently subject to potential future classification as non-performing (December 31, 2020 - $228 million).

For the year ended December 31, 2021, total inflows of NPLs held-in-portfolio, excluding consumer loans, decreased by approximately $132 million, when compared to the inflows for the same period in 2020. Inflows of NPLs held-in-portfolio at the BPPR segment decreased by $129 million compared to the same period in 2020, driven by lower mortgage inflows by $114 million. Inflows of NPLs held-in-portfolio at the Popular U.S. segment decreased by $3 million from the same period in 2020.

Table 20 - Non-Performing Assets

(Dollars in thousands)	December 31, 2021 BPPR	December 31, 2021 Popular U.S.	December 31, 2021 Popular, Inc.	December 31, 2020 BPPR	December 31, 2020 Popular U.S.	December 31, 2020 Popular, Inc.
Non-accrual loans:						
Commercial	$120,047	$ 5,532	$125,579	$ 204,092	$ 5,988	$ 210,080
Construction	485	–	485	21,497	7,560	29,057
Leasing	3,102	–	3,102	3,441	–	3,441
Mortgage	333,887	21,969	355,856	414,343	14,864	429,207
Auto	23,085	–	23,085	15,736	–	15,736
Consumer	33,683	6,087	39,770	41,268	8,985	50,253
Total non-performing loans held-in-portfolio	514,289	33,588	547,877	700,377	37,397	737,774
Non-performing loans held-for-sale [1]	–	–	–	–	2,738	2,738
Other real estate owned ("OREO")	83,618	1,459	85,077	81,512	1,634	83,146
Total non-performing assets	$597,907	$35,047	$632,954	$ 781,889	$41,769	$ 823,658
Accruing loans past-due 90 days or more [2]	$480,649	$ 118	$480,767	$1,028,061	$ 3	$1,028,064
Non-performing loans to loans held-in-portfolio			1.87%			2.51%
Interest lost			$ 38,123			$ 45,040

[1] There were no non-performing loans held-for-sale as of December 31, 2021 (December 31, 2020 - $3 million in commercial loans).

[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. The balance of these loans includes $13 million at December 31, 2021 related to the rebooking of loans previously pooled into GNMA securities, in which the Corporation had a buy-back option as further described below (December 31, 2020 - $57 million). Under the GNMA program, issuers such as BPPR have the option but not the obligation to repurchase loans that are 90 days or more past due. For accounting purposes, these loans subject to the repurchase option are required to be reflected (rebooked) on the financial statements of BPPR with an offsetting liability. These balances include $304 million of residential mortgage loans insured by FHA or guaranteed by the VA that are no longer accruing interest as of December 31, 2021 (December 31, 2020 - $329 million). Furthermore, the Corporation has approximately $50 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, 2020 - $60 million).

Table 21 - Activity in Non-Performing Loans Held-in-Portfolio (Excluding Consumer Loans)

(In thousands)	For the year ended December 31, 2021 BPPR	Popular U.S.	Popular, Inc.
Beginning balance	$ 639,932	$ 28,412	$ 668,344
Plus:			
New non-performing loans	234,258	51,494	285,752
Advances on existing non-performing loans	–	84	84
Less:			
Non-performing loans transferred to OREO	(34,419)	–	(34,419)
Non-performing loans charged-off	(35,963)	(1,592)	(37,555)
Loans returned to accrual status / loan collections	(349,389)	(42,124)	(391,513)
Loans transferred to held-for-sale	–	(8,773)	(8,773)
Ending balance NPLs	$ 454,419	$ 27,501	$ 481,920

Table 22 - Activity in Non-Performing Loans Held-in-Portfolio (Excluding Consumer Loans)

	For the year ended December 31, 2020		
(In thousands)	BPPR	Popular U.S.	Popular, Inc.
Beginning balance	$ 431,082	$ 16,621	$ 447,703
Transition of PCI to PCD loans under CECL	245,703	18,547	264,250
Plus:			
New non-performing loans	362,786	54,092	416,878
Advances on existing non-performing loans	–	825	825
Less:			
Non-performing loans transferred to OREO	(11,762)	–	(11,762)
Non-performing loans charged-off	(44,675)	(3,204)	(47,879)
Loans returned to accrual status / loan collections	(343,202)	(47,790)	(390,992)
Loans transferred to held-for-sale	–	(10,679)	(10,679)
Ending balance NPLs	$ 639,932	$ 28,412	$ 668,344

Table 23 - Activity in Non-Performing Commercial Loans Held-In-Portfolio

	For the year ended December 31, 2021		
(In thousands)	BPPR	Popular U.S.	Popular, Inc.
Beginning balance - NPLs	$ 204,092	$ 5,988	$ 210,080
Plus:			
New non-performing loans	57,132	13,510	70,642
Advances on existing non-performing loans	–	52	52
Less:			
Non-performing loans transferred to OREO	(9,261)	–	(9,261)
Non-performing loans charged-off	(14,935)	(1,042)	(15,977)
Loans returned to accrual status / loan collections	(116,981)	(11,203)	(128,184)
Loans transferred to held-for-sale	–	(1,773)	(1,773)
Ending balance - NPLs	$ 120,047	$ 5,532	$ 125,579

Table 24 - Activity in Non-Performing Commercial Loans Held-in-Portfolio

	For the year ended December 31, 2020		
(In thousands)	BPPR	Popular U.S.	Popular, Inc.
Beginning balance - NPLs	$147,255	5,504	$ 152,759
Transition of PCI to PCD loans under CECL	112,517	18,547	131,064
Plus:			
New non-performing loans	50,834	15,496	66,330
Advances on existing non-performing loans	–	633	633
Less:			
Non-performing loans transferred to OREO	(2,304)	–	(2,304)
Non-performing loans charged-off	(23,755)	(1,646)	(25,401)
Loans returned to accrual status / loan collections	(80,455)	(21,867)	(102,322)
Loans transferred to held-for-sale	–	(10,679)	(10,679)
Ending balance - NPLs	$204,092	$ 5,988	$ 210,080

Table 25 - Activity in Non-Performing Construction Loans Held-In-Portfolio

	For the year ended December 31, 2021		
(In thousands)	BPPR	Popular U.S.	Popular, Inc.
Beginning balance - NPLs	$ 21,497	$ 7,560	$ 29,057
Plus:			
New non-performing loans	481	12,141	12,622
Less:			
Non-performing loans charged-off	(6,620)	(523)	(7,143)
Loans returned to accrual status / loan collections	(14,873)	(12,178)	(27,051)
Loans in accrual status transfer to held-for-sale	–	(7,000)	(7,000)
Ending balance - NPLs	$ 485	$ –	$ 485

Table 26 - Activity in Non-Performing Construction Loans Held-in-Portfolio

	For the year ended December 31, 2020		
(In thousands)	BPPR	Popular U.S.	Popular, Inc.
Beginning balance - NPLs	$ 119	$ 26	$ 145
Plus:			
New non-performing loans	21,514	9,069	30,583
Less:			
Non-performing loans charged-off	–	(1,509)	(1,509)
Loans returned to accrual status / loan collections	(136)	(26)	(162)
Ending balance - NPLs	$21,497	$ 7,560	$29,057

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

	For the year ended December 31, 2021		
(In thousands)	BPPR	Popular U.S.	Popular, Inc.
Beginning balance - NPLs	$ 414,343	$ 14,864	$ 429,207
Plus:			
New non-performing loans	176,645	25,843	202,488
Advances on existing non-performing loans	–	32	32
Less:			
Non-performing loans transferred to OREO	(25,158)	–	(25,158)
Non-performing loans charged-off	(14,408)	(27)	(14,435)
Loans returned to accrual status / loan collections	(217,535)	(18,743)	(236,278)
Ending balance - NPLs	$ 333,887	$ 21,969	$ 355,856

Table 28 - Activity in Non-Performing Mortgage Loans Held-in-Portfolio

	For the year ended December 31, 2020		
(In thousands)	BPPR	Popular U.S.	Popular, Inc.
Beginning balance - NPLs	$ 283,708	$ 11,091	$ 294,799
Transition of PCI to PCD loans under CECL	133,186	–	133,186
Plus:			
New non-performing loans	290,438	29,527	319,965
Advances on existing non-performing loans	–	192	192
Less:			
Non-performing loans transferred to OREO	(9,458)	–	(9,458)
Non-performing loans charged-off	(20,920)	(49)	(20,969)
Loans returned to accrual status / loan collections	(262,611)	(25,897)	(288,508)
Ending balance - NPLs	$ 414,343	$ 14,864	$ 429,207

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, 2021 and 2020, are presented below.

Table 29 - Loan Delinquencies

(Dollars in thousands)	2021			2020		
	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	$ 161,251	$13,732,701	1.17%	$ 249,484	$13,614,310	1.83%
Construction	485	716,220	0.07	50,369	926,208	5.44
Leasing	14,379	1,381,319	1.04	14,009	1,197,661	1.17
Mortgage [1]	1,141,082	7,427,196	15.36	1,775,902	7,890,680	22.51
Consumer	173,896	5,983,121	2.91	179,789	5,756,337	3.12
Loans held-for-sale	–	59,168	–	3,108	99,455	3.13
Total	$1,491,093	$29,299,725	5.09%	$2,272,661	$29,484,651	7.71%

[1] Loans delinquent 30 days or more includes $0.6 billion of residential mortgage loans insured by FHA or guaranteed by the VA as of December 31, 2021 (December 31, 2020 - $1.1 billion). Refer to Note 8 to the Consolidated Financial Statements for additional information of guaranteed loans.

Allowance for Credit Losses ("ACL")

The Corporation adopted the new CECL accounting standard effective on January 1, 2020. 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 troubled debt restructurings 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, 2021, the allowance for credit losses amounted to $695 million, a decrease of $201 million, when compared with December 31, 2020, mainly prompted by improvements in credit quality and the macroeconomic outlook. Since the December 31, 2020, scenarios, updated economic assumptions have included a more optimistic view of the economy, prompting substantial reductions in reserves across different portfolios, also contributing to lower qualitative reserves. 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. During the fourth quarter of 2021, in response to recent events that impacted both epidemiological and fiscal assumptions, the weight assigned to the pessimistic scenario was increased, contributing to an increase of approximately $13 million in reserves.

The ACL for BPPR decreased by $146 million to $594 million, when compared to December 31, 2020. The ACL for Popular U.S. decreased by $55 million to $101 million, when compared to December 31, 2020. The decrease in ACL was mainly driven by continued borrower performance and improvements in the macroeconomic outlook, coupled with releases of qualitative reserves. The current baseline forecast continues to show a favorable economic scenario. The 2022 expected GDP growth rate for Puerto Rico is approximately 4%, with the unemployment rate expected to average around 7.4% for the year. In the case of the United States, the baseline scenario expects GDP growth for 2022 of approximately 4.6%, with unemployment rate expected to average around 3.7%. For 2023 both regions expect GDP growth with average unemployment rate levels remaining stable in comparison to 2022.

The provision for credit losses for the year ended December 31, 2021, amounted to a benefit of $183.3 million, a favorable variance of $465.7 million from the same period in the prior year, mainly driven by the abovementioned improvements in credit quality and the macroeconomic outlook, and lower NCOs. Refer to Note 9 – Allowance for credit losses – loans held-in-portfolio, 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, 2021 and 2020:

Table 30 - Net Charge-Offs (Recoveries) to Average Loans HIP

	December 31, 2021			December 31, 2020		
	BPPR	Popular U.S.	Popular Inc.	BPPR	Popular U.S.	Popular Inc.
Commercial	(0.24)%	(0.02)%	(0.15)%	0.21%	(0.04)%	0.11%
Construction	1.27	(0.02)	0.19	(0.57)	0.04	(0.07)
Mortgage	0.04	–	0.04	0.32	–	0.27
Leasing	0.11	–	0.11	0.66	–	0.66
Consumer	0.58	0.99	0.60	2.44	3.07	2.48
Total	0.09%	0.01%	0.07%	0.85%	0.13%	0.66%

NCOs for the year ended December 31, 2021 amounted to $20.7 million, decreasing by $165.7 million when compared to the same period in 2020. The BPPR segment decreased by $156.9 million mainly driven by lower consumer, commercial, and mortgage NCOs by $101.5 million, $35.2 million and $16.9 million, respectively. The PB segment decreased by 8.8 million, mainly driven by lower consumer NCOs by $9.4 million. The decrease in NCOs was due to the effect of a favorable economic environment and continued borrower performance, as reflected in the ongoing low level of delinquencies and NPLs when compared to pre-pandemic trends.

Table 31 - Allowance for Credit Losses - Loan Portfolios

	December 31, 2021					
(Dollars in thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Total ACL	$ 215,805	$ 6,363	$ 154,478	$ 17,578	$ 301,142	$ 695,366
Total loans held-in-portfolio	$13,732,701	$716,220	$7,427,196	$1,381,319	$5,983,121	$29,240,557
ACL to loans held-in-portfolio	1.57%	0.89%	2.08%	1.27%	5.03%	2.38%
Total Non-performing loans held-in-portfolio	$ 125,579	$ 485	$ 355,856	$ 3,102	$ 62,855	$ 547,877
ACL to non-performing loans held-in-portfolio	171.85%	N.M.	43.41%	566.67%	479.11%	126.92%

N.M. - Not meaningful.

Table 32 - Allowance for Credit Losses - Loan Portfolios

	December 31, 2020					
(Dollars in thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Total ACL	$ 333,380	$ 14,237	$ 215,716	$ 16,863	$ 316,054	$ 896,250
Total loans held-in-portfolio	$13,614,310	$926,208	$7,890,680	$1,197,661	$5,756,337	$29,385,196
ACL to loans held-in-portfolio	2.45%	1.54%	2.73%	1.41%	5.49%	3.05%
Total Non-performing loans held-in-portfolio	$ 210,080	$ 29,057	$ 429,207	$ 3,441	$ 65,989	$ 737,774
ACL to non-performing loans held-in-portfolio	158.69%	49.00%	50.26%	490.06%	478.95%	121.48%

Table 33 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 33 - Allocation of the Allowance for Credit Losses - Loans

At December 31,				
	2021		2020	
(Dollars in millions)	ACL	% of loans in each category to total loans	ACL	% of loans in each category to total loans
Commercial	$215.8	47.0%	$333.4	46.3%
Construction	6.4	2.4	14.3	3.2
Mortgage	154.5	25.4	215.7	26.8
Leasing	17.6	4.7	16.9	4.1
Consumer	301.1	20.5	316.0	19.6
Total [1]	$695.4	100.0%	$896.3	100.0%

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

Troubled debt restructurings

The Corporation's troubled debt restructurings ("TDRs") loans amounted to $1.7 billion at December 31, 2021, decreasing by $12 million, from December 31, 2020. A total of $716 million of these TDRs are related to guaranteed loans, which are in accruing status. TDRs in the BPPR segment amounted to $1.6 billion, a decrease of $9 million, mostly related to a combined decrease of $58 million in the commercial and construction TDRs and lower consumer TDRs by $11 million, in part offset by higher mortgage TDRs by $61 million, of which $61 million were related to government guaranteed loans. The Popular U.S. segment TDRs have remained essentially flat since December 31, 2020. TDRs in accruing status increased by $74 million from December 31, 2020, mostly related to an increase of $83 million in BPPR's mortgage TDRs, in part offset by a decrease of $10 million in BPPR's consumer TDRs, while non-accruing TDRs decreased by $86 million, of which $60 million were related to commercial and construction TDRs.

Refer to Note 9 to the Consolidated Financial Statements for additional information on modifications considered TDRs, including certain qualitative and quantitative data about TDRs performed in the past twelve months.

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: (a) monitor the principal risks as defined in the Risk Appetite Statement ("RAS") of the Risk Management Policy affecting our business and within the Corporation's Enterprise Risk Management ("ERM") framework, (b) review key risk indicators and related developments at the business level consistent with the RAS, and (c) lead the incorporation of a uniform Governance, Risk and Compliance framework across the Corporation. The ERM Committee and the Market Risk & ERM Unit 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. Our risk management program monitors the following principal risks: credit, interest rate, market, liquidity, operational, cyber and information security, legal, regulatory affairs, regulatory and financial compliance, BSA/ AML & sanctions, strategic and reputational.

The Market Risk & ERM Unit 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 Market Risk Unit 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, the Financial Crimes Compliance Division and the Corporate Risk Services 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 so as 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 in order 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 managing the Corporation's overall credit exposure by establishing policies, standards and guidelines that define, quantify and monitor credit risk and assessing the adequacy of the allowance for credit losses.

The Corporation's Operational Risk Committee ("ORCO") and the Cyber Security Committee, which are composed of senior level management representatives from the business lines and corporate functions, provide executive oversight to facilitate consistency of effective policies, best practices, controls and monitoring tools for managing and assessing all types of operational risks across the Corporation. 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 CSG also leads the Cyber Security Committee.

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 Environmental, Social and Governance ("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 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 Strategic Planning Division performs periodic assessments regarding corporate strategic priority initiatives as well as 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 2020-2021
Statements of Financial Condition

(In thousands)	At December 31, 2021	2020
Assets:		
Cash and due from banks	$ 428,433	$ 491,065
Money market investments:		
Time deposits with other banks	17,536,719	11,640,880
Total money market investments	17,536,719	11,640,880
Trading account debt securities, at fair value	29,711	36,674
Debt securities available-for-sale, at fair value	24,968,269	21,561,152
Debt securities held-to-maturity, at amortized cost	79,461	92,621
Less – Allowance for credit losses	8,096	10,261
Debt securities held-to-maturity, net	71,365	82,360
Equity securities	189,977	173,737
Loans held-for-sale, at lower of cost or fair value	59,168	99,455
Loans held-in-portfolio:		
Loans held-in-portfolio	29,506,225	29,588,430
Less – Unearned income	265,668	203,234
Allowance for credit losses	695,366	896,250
Total loans held-in-portfolio, net	28,545,191	28,488,946
Premises and equipment, net	494,240	510,241
Other real estate	85,077	83,146
Accrued income receivable	203,096	209,320
Mortgage servicing rights, at fair value	121,570	118,395
Other assets	1,628,571	1,737,041
Goodwill	720,293	671,122
Other intangible assets	16,219	22,466
Total assets	$75,097,899	$65,926,000
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	$15,684,482	$13,128,699
Interest bearing	51,320,606	43,737,641
Total deposits	67,005,088	56,866,340
Assets sold under agreements to repurchase	91,603	121,303
Other short-term borrowings	75,000	–
Notes payable	988,563	1,224,981
Other liabilities	968,248	1,684,689
Total liabilities	69,128,502	59,897,313
Stockholders' equity:		
Preferred stock	22,143	22,143
Common stock	1,046	1,045
Surplus	4,650,182	4,571,534
Retained earnings	2,973,745	2,260,928
Treasury stock – at cost	(1,352,650)	(1,016,954)
Accumulated other comprehensive (loss) income, net of tax	(325,069)	189,991
Total stockholders' equity	5,969,397	6,028,687
Total liabilities and stockholders' equity	$75,097,899	$65,926,000

Statistical Summary 2019-2021
Statements of Operations

(In thousands)	For the years ended December 31, 2021	2020	2019
Interest income:			
Loans	$1,747,827	$1,742,390	$1,802,968
Money market investments	21,147	19,721	89,823
Investment securities	353,663	329,440	368,002
Total interest income	2,122,637	2,091,551	2,260,793
Less - Interest expense	165,047	234,938	369,099
Net interest income	1,957,590	1,856,613	1,891,694
Provision for credit losses (benefit)	(193,464)	292,536	165,779
Net interest income after provision for credit losses (benefit)	2,151,054	1,564,077	1,725,915
Mortgage banking activities	50,133	10,401	32,093
Net gain (loss) on sale of debt securities	23	41	(20)
Net gain, including impairment on equity securities	131	6,279	2,506
Net (loss) profit on trading account debt securities	(389)	1,033	994
Net (loss) gain on sale of loans, including valuation adjustments on loans held-for-sale	(73)	1,234	–
Adjustment (expense) to indemnity reserves on loans sold	4,406	390	(343)
Other non-interest income	587,897	492,934	534,653
Total non-interest income	642,128	512,312	569,883
Operating expenses:			
Personnel costs	631,802	564,205	590,625
All other operating expenses	917,473	893,624	886,857
Total operating expenses	1,549,275	1,457,829	1,477,482
Income before income tax	1,243,907	618,560	818,316
Income tax expense	309,018	111,938	147,181
Net Income	$ 934,889	$ 506,622	$ 671,135
Net Income Applicable to Common Stock	$ 933,477	$ 504,864	$ 667,412

Statistical Summary 2019-2021
Average Balance Sheet and Summary of Net Interest Income

*On a Taxable Equivalent Basis**

	2021			2020			2019		
(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	$15,999,741	$ 21,147	0.13%	$ 8,597,652	$ 19,723	0.23%	$ 4,166,293	$ 89,824	2.16%
U.S. Treasury securities	12,396,773	266,670	2.16	12,107,819	257,308	2.13	9,823,518	302,025	3.07
Obligations of U.S. Government sponsored entities	7,972	120	1.50	70,424	2,818	4.00	234,553	5,911	2.52
Obligations of Puerto Rico, States and political subdivisions	75,607	7,608	10.06	82,051	5,705	6.95	93,313	6,394	6.85
Collateralized mortgage obligations and mortgage-backed securities	10,255,525	224,706	2.19	6,913,416	194,794	2.82	5,582,051	178,964	3.21
Other	194,640	9,027	4.64	178,818	7,369	4.12	171,223	8,487	4.96
Total investment securities	22,930,517	508,131	2.22	19,352,528	467,994	2.42	15,904,658	501,781	3.15
Trading account securities	84,380	4,339	5.16	69,446	4,165	6.00	67,596	5,103	7.55
Loans (net of unearned income)	29,074,045	1,794,789	6.19	28,384,981	1,785,022	6.29	26,806,368	1,850,894	6.90
Total interest earning assets/Interest income	$68,088,683	$2,328,406	3.43%	$56,404,607	$2,276,904	4.04%	$46,944,915	$2,447,602	5.21%
Total non-interest earning assets	3,079,942			3,178,848			3,396,912		
Total assets	$71,168,625			$59,583,455			$50,341,827		
Liabilities and Stockholders' Equity									
Interest bearing liabilities:									
Savings, NOW, money market and other interest bearing demand accounts	$41,387,504	$ 59,034	0.15%	$32,077,578	$ 92,417	0.29%	$25,575,455	$ 192,200	0.75%
Time deposits	7,028,334	52,587	0.75	7,970,474	83,438	1.05	7,770,430	112,658	1.45
Federal funds purchased	1	–	0.25	342	1	0.25	–	–	2.63
Securities purchased under agreement to resell	91,394	317	0.35	143,718	2,336	1.63	222,565	5,882	2.64
Other short-term borrowings	343	1	0.35	21,557	120	0.56	8,703	217	2.50
Notes payable	1,184,737	53,107	4.49	1,178,169	56,626	4.81	1,194,119	58,142	4.77
Total interest bearing liabilities/Interest expense	49,692,313	165,046	0.33	41,391,838	234,938	0.57	34,771,272	369,099	1.06
Total non-interest bearing liabilities	15,698,660			12,771,679			9,857,038		
Total liabilities	65,390,973			54,163,517			44,628,310		
Stockholders' equity	5,777,652			5,419,938			5,713,517		
Total liabilities and stockholders' equity	$71,168,625			$59,583,455			$50,341,827		
Net interest income on a taxable equivalent basis		$2,163,360			$2,041,966			$2,078,503	
Cost of funding earning assets			0.24%			0.42%			0.78%
Net interest margin			3.19%			3.62%			4.43%
Effect of the taxable equivalent adjustment		205,770			185,353			186,809	
Net interest income per books		$1,957,590			$1,856,613			$1,891,694	

* 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.