FORWARD-LOOKING STATEMENTS

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

Various factors, some of which are beyond Popular’s control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to, the rate of growth or decline in the economy and employment levels, as well as general business and economic conditions in the geographic areas we serve and, in particular, in the Commonwealth of Puerto Rico (the “Commonwealth” or “Puerto Rico”), where a significant portion of our business is concentrated; adverse economic conditions, including high levels of and ongoing increases in inflation rates, that adversely affect housing prices, the job market, consumer confidence and spending habits which may affect in turn, among other things, our level of non-performing assets, charge-offs and provision expense; changes in interest rates and market liquidity, which may reduce interest margins, impact funding sources, reduce loan originations, affect our ability to originate and distribute financial products in the primary and secondary markets and impact the value of our investment portfolio and our ability to return capital to our shareholders; the impact of 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 hurricane recovery assistance and the rate of expenditure of such funds, as well as the financial condition, liquidity and cash management practices of the Puerto Rico Government and its instrumentalities; unforeseen or catastrophic events, including extreme weather events, including hurricanes, other natural disasters, man-made disasters, acts of violence or war or pandemics, epidemics and other health-related crises, including any resurgence of COVID-19, or the fear of any such event occurring, any of which could cause adverse consequences for our business, including, but not limited to, disruptions in our operations; our ability to achieve the expected benefits from our transformation initiative, including our ability to achieve our targeted sustainable return on tangible common equity of 14% by the end of 2025; risks related to Popular’s acquisition of certain information technology and related assets formerly used by Evertec, Inc. to service certain of Banco Popular de Puerto Rico’s key channels, as well as the entry into amended and restated commercial agreements (the “Evertec Business Acquisition Transaction”), including Popular’s ability to successfully transition and integrate the assets acquired as part of the Evertec Business Acquisition 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 Evertec Business Acquisition Transaction or that are not subject to indemnification or reimbursement by Evertec, Inc.; and business and other risks arising from the extension of Popular’s current commercial agreements with Evertec, Inc.; 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; the relative strength or weakness of the consumer and commercial credit sectors and of the real estate markets in Puerto Rico and the other markets in which our borrowers are located; the performance of the stock and bond markets; competition in the financial services industry;

possible legislative, tax or regulatory changes; a failure in or breach of our operational or security systems or infrastructure or those of Evertec, Inc., our provider of core financial transaction processing and information technology services, or of third parties providing services to us, including as a result of cyberattacks, e-fraud, denial-of-services and computer intrusion, that might result in, among other things, loss or breach of customer data, disruption of services, reputational damage or additional costs to Popular; changes in market rates and prices which may adversely impact the value of financial assets and liabilities; potential judgments, claims, damages, penalties, fines, enforcement actions and reputational damage resulting from pending or future litigation and regulatory or government investigations or actions, 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 branches or business units or otherwise change our business mix; and management's ability to identify and manage these and other risks.

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

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

OVERVIEW

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

YEAR 2022 SIGNIFICANT EVENTS

Acquisition of Key Customer Channels and Amendments to Commercial Contracts with Evertec

On July 1, 2022, BPPR completed the announced acquisition of certain assets from Evertec Group, LLC ("Evertec Group"), a wholly owned subsidiary of Evertec, Inc. ("Evertec") (NYSE: EVTC), to service certain BPPR channels (the "Business Acquisition Transaction").

As a result of the closing of the Business Acquisition Transaction, BPPR acquired from Evertec Group certain critical channels, including BPPR's retail and business digital banking and commercial cash management applications. In connection with the Business Acquisition Transaction, BPPR also entered into amended and restated service agreements with Evertec Group pursuant to which Evertec Group will continue to provide various information technology and transaction processing services to Popular, BPPR and their respective subsidiaries.

Under the amended service agreements, Evertec Group no longer has exclusive rights to provide certain of Popular's technology services. The amended service agreements include discounted pricing and lowered caps on contractual pricing escalators tied to the Consumer Price Index. As part of the transaction, BPPR and Evertec also entered into a revenue sharing structure for BPPR in connection with its merchant acquiring relationship with Evertec. Under the terms of the amended and restated Master Service Agreement ("MSA"), Evertec will be entitled to receive monthly payments from the Corporation to the extent that Evertec's revenues, covered under the MSA, fall below certain agreed annualized minimum amounts.

As consideration for the Business Acquisition Transaction, BPPR delivered to Evertec Group 4,589,169 shares of Evertec common stock valued at closing at $169.2 million (based on Evertec's stock price on June 30, 2022 of $36.88). A total of $144.8 million of the consideration for the transaction was attributed to the acquisition of the critical channels of which $28.7 million were attributed to software intangible assets and $116.1 million were attributed to goodwill. The transaction was accounted for as a business combination. The remaining $24.2 million was attributed to the renegotiation of the MSA with Evertec and was recorded as an expense. The Corporation also recorded a credit of $6.9 million in Evertec billings under the MSA during the third quarter of 2022 as a result of the Business Acquisition Transaction, resulting in a net expense charge for the quarter of $17.3 million.

On August 15, 2022, the Corporation completed the sale of its remaining 7,065,634 shares of common stock of Evertec (the "Evertec Stock Sale", and collectively with the Business Acquisition Transaction, the "Evertec Transactions").

Following the Evertec Stock Sale, Popular no longer owns any Evertec common stock. The impact of the gain on the sale of Evertec shares used as consideration for the Business Acquisition Transaction in exchange for the acquired applications on July 1, 2022 and the net expense associated with the renegotiation of the MSA resulted in an after-tax gain of $97.9 million, while the Evertec Stock Sale and the related accounting adjustments resulted in an after-tax gain of $128.8 million, recorded during the third quarter of 2022, for an aggregate after-tax gain of $226.6 million.

Transformation Initiative:

Leveraging the completion of the Evertec Transactions, the Corporation embarked on a broad-based multi-year, technological and business process transformation during the second half of 2022. The needs and expectations of our clients, as well as the competitive landscape, have evolved, requiring us to make important investments in our technological infrastructure and adopt more agile practices. Our technology and business transformation will be a significant priority for the company over the next three years and beyond.

Through December 31, 2022, excluding compensation costs of our employees involved in the initiative, we expensed $24 million toward this effort, primarily in professional fees and technology related expenses. As part of this transformation, we aim to expand our digital capabilities, modernize our technology platform, and implement agile and efficient business processes across the entire company. In 2023, we plan an expense of approximately $50 million toward this effort, excluding employee compensation and capitalized costs. We expect the expenses tied to this transformation initiative, which will continue through 2025 to result in an enhanced digital experience for our clients, as well as better technology and more efficient processes for our employees. We expect this effort to contribute to better efficiency and higher earnings, resulting in a targeted sustainable return on tangible common equity of 14% by the end of 2025.

To facilitate the transparency of the progress with these efforts, effective in the fourth quarter of 2022, the Corporation has separated technology, professional fees and transactional activities as standalone expense categories in the accompanying Consolidated Statement of Operations. Refer to additional information in the Operating expenses section of this MD&A.

Capital Actions

On July 12, 2022, the Corporation completed an accelerated share repurchase ("ASR") program for the repurchase of $400 million of Popular's common stock for which an initial delivery of 3,483,942 shares were delivered in March 2022 (the "March ASR Agreement"). Upon the final settlement of the March ASR Agreement, the Corporation received an additional 1,582,922 shares of common stock. The Corporation repurchased a total of 5,066,864 shares at an average purchase price of $78.9443, which were recorded as treasury stock by $440 million under the March ASR Agreement.

On December 7, 2022, the Corporation completed the settlement of another ASR agreement (the "August ASR Agreement") for the repurchase of $231 million of Popular's common stock, for which an initial 2,339,241 shares were delivered on August 26, 2022. Upon the final settlement of the August ASR Agreement, the Corporation received an additional 840,024 shares of common stock. The Corporation repurchased a total of 3,179,265 shares at an average purchase price of $72.66, which were recorded as treasury stock by $245 million under the August ASR Agreement.

Hurricanes Fiona and Ian

On September 18, 2022, Hurricane Fiona made landfall in the southwest area of Puerto Rico as a Category 1 hurricane, bringing record rainfall and flooding throughout the island and affecting communities where BPPR does business. Hurricane Fiona's rain and winds caused a complete blackout on the island and caused considerable damage to certain sectors in the southwest region. President Biden issued a disaster declaration for the island. While the impact to BPPR's operation was not material, certain customers, highly concentrated in certain municipalities, were impacted by the disaster.

As part of hurricane relief efforts on the island, the Corporation waived late-payment fees on individual lending products from September 16 through October 31, 2022. Popular also waived, through September 30, withdrawal fees payable by our customers at ATMs outside of the Popular network and fees payable by customers of other banking institutions at Popular's ATMs. In addition, the Corporation offered to clients impacted by the hurricane a moratorium of up to three monthly payments, up to December 31, 2022, on personal and commercial credit cards, auto loans, leases and personal loans, subject to certain eligibility requirements. Mortgage clients may also benefit from different payment relief alternatives available, depending on their type of loan. Loan relief options for commercial clients are reviewed on a case-by-case basis.

Separately, on September 28, 2022, Hurricane Ian made a landfall on the west coast of central Florida as a Category 4 hurricane, causing extensive floods and destruction in the impacted areas in Florida. President Biden made a major disaster declaration for certain counties in central Florida. PB and BPPR do not have significant operations in the area but have some limited retail and commercial clients who reside or have business activities in the impacted areas.

For clients impacted by the hurricane that reside in counties in Florida declared as disaster zones by President Biden, Popular offered a moratorium for up to three payments, up to January 31, 2023, subject to certain eligibility requirements. As in the case of Puerto Rico, relief options for commercial clients are reviewed on a case-by-case basis.

Refer to the Credit Risk section of this MD&A for additional information of the loan moratorium offered to clients.

Transfer of Securities from Available-for Sale to Held-To-Maturity

In October 2022, the Corporation transferred U.S. Treasury securities with a fair value of $6.5 billion (par value of $7.4 billion) from its available-for-sale portfolio to its held-to-maturity portfolio. Management changed its intent, given its ability to hold these securities to maturity due to the Corporation's liquidity position and its intention to reduce the impact on accumulated other comprehensive income (loss) ("AOCI") and tangible capital of further increases in interest rates.

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

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

Partial Release of the Deferred Tax Asset Valuation Allowance

During the fourth quarter of 2022, the Corporation recorded a partial reversal of the deferred tax asset valuation allowance of the U.S. operations of $68.2 million. As of December 31, 2022, the deferred tax asset ("DTA") for the U.S. operations, mainly related to net operating losses ("NOLs"), was valued at $278 million, net of the corresponding valuation allowance of $402 million. The reversal during the fourth quarter was determined based on management's expectation of the realization of additional amounts of federal and state NOLs over their remaining carryover period. The determination was based on the U.S. operations' sustained profitability during the years ended December 31, 2021 and 2022, together with evidence of stable credit metrics and the length of the expiration of the net operating losses. As of December 31, 2022, the Corporation had approximately $525 million in DTA related to federal NOLs with expiration dates between 2028 and 2033 and approximately $135 million in DTA related to state NOLs with expiration dates between 2030 and 2036.

Table 1 - Selected Financial Data

(Dollars in thousands, except per common share data)	Years ended December 31, 2022	2021	2020
CONDENSED STATEMENTS OF OPERATIONS			
Interest income	$ 2,465,911	$ 2,122,637	$ 2,091,551
Interest expense	298,552	165,047	234,938
Net interest income	2,167,359	1,957,590	1,856,613
Provision for credit losses (benefit)	83,030	(193,464)	292,536
Non-interest income	897,062	642,128	512,312
Operating expenses	1,746,420	1,549,275	1,457,829
Income tax expense	132,330	309,018	111,938
Net income	$ 1,102,641	$ 934,889	$ 506,622
Net income applicable to common stock	$ 1,101,229	$ 933,477	$ 504,864
PER COMMON SHARE DATA			
Net income per common share - basic	$ 14.65	$ 11.49	$ 5.88
Net income per common share - diluted	14.63	11.46	5.87
Dividends declared	2.20	1.75	1.60
Common equity per share	56.66	74.48	71.30
Market value per common share	66.32	82.04	56.32
Outstanding shares:			
Average - basic	75,147,263	81,263,027	85,882,371
Average - assuming dilution	75,274,003	81,420,154	85,975,259
End of period	71,853,720	79,851,169	84,244,235
AVERAGE BALANCES			
Net loans [1]	$30,405,281	$29,074,036	$28,384,981
Earning assets	69,729,933	68,088,675	56,404,607
Total assets	72,808,604	71,168,650	59,583,455
Deposits	64,716,404	63,102,916	51,585,779
Borrowings	1,119,878	1,255,495	1,321,772
Total stockholders' equity	6,009,225	5,777,652	5,419,938
PERIOD END BALANCE			
Net loans [1]	$32,083,150	$29,299,725	$29,484,651
Allowance for credit losses - loans portfolio	720,302	695,366	896,250
Earning assets	64,251,062	72,103,862	62,989,715
Total assets	67,637,917	75,097,899	65,926,000
Deposits	61,227,227	67,005,088	56,866,340
Borrowings	1,400,319	1,155,166	1,346,284
Total stockholders' equity	4,093,425	5,969,397	6,028,687
SELECTED RATIOS			
Net interest margin (non-taxable equivalent basis)	3.11%	2.88%	3.29%
Net interest margin (taxable equivalent basis) -Non-GAAP	3.46	3.19	3.62
Return on assets	1.51	1.31	0.85
Return on common equity	18.39	16.22	9.36
Tier I capital	16.45	17.49	16.33
Total capital	18.26	19.35	18.81

[1] Includes loans held-for-sale.

Non-GAAP financial measures

Net interest income on a taxable equivalent basis

Net interest income, on a taxable equivalent basis, is presented with its different components in Table 3 for the year ended December 31, 2022 as compared with the same period in 2021, segregated by major categories of interest earning assets and interest-bearing liabilities.

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

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

Financial highlights for the year ended December 31, 2022

The Corporation's net income for the year ended December 31, 2022 amounted to $1.1 billion, compared to a net income of $934.9 million for 2021.

The discussion that follows provides highlights of the Corporation's results of operations for the year ended December 31, 2022 compared to the results of operations of 2021. It also provides some highlights with respect to the Corporation's financial condition, credit quality, capital and liquidity. Table 2 presents a three-year summary of the components of net income as a percentage of average total assets. For a discussion of our 2021 results of operations compared with 2020, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2021.

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

	2022	2021	2020
Net interest income	2.98%	2.75%	3.12%
Provision for credit (losses) benefit	(0.11)	0.27	(0.49)
Mortgage banking activities	0.06	0.07	0.02
Net (loss) gain and valuation adjustments on investment securities	(0.01)	–	0.01
Other non-interest income	1.18	0.83	0.83
Total net interest income and non-interest income, net of provision for credit losses	4.10	3.92	3.49
Operating expenses	(2.40)	(2.18)	(2.45)
Income before income tax	1.70	1.74	1.04
Income tax expense	(0.19)	(0.43)	(0.19)
Net income	1.51%	1.31%	0.85%

Net interest income for the year ended December 31, 2022 was $2.2 billion, an increase of $209.8 million when compared to 2021. The increase in net interest income was mainly driven by higher interest income from money market investments due to higher interest rates, higher income from investment securities and higher interest income from commercial and consumer loans due to higher volumes and yields. The net interest margin for the year ended December 31, 2022 was 3.11% compared to 2.88% for the same period in 2021, driven by higher average volume of earning assets and higher interest rates as the Federal Reserve increased the Federal Funds Rate during 2022. On a taxable equivalent basis, net interest margin was 3.46% in 2022, compared to 3.19% in 2021. Refer to the Net Interest Income section of this MD&A for additional information.

The Corporation's total provision for credit losses reflected an expense of $83.0 million for the year ended December 31, 2022, compared to a reserve release of $193.5 million for 2021. The expense for the year 2022 was mostly driven by changes in the economic scenario, higher loan volumes and changes in credit quality. The Corporation continued to exhibit favorable credit quality trends with low levels of net charge-offs and decreasing non-performing loans. Non-performing assets totaled $528.6 million at December 31, 2022, reflecting a decrease of $104.4 million when compared to December 31, 2021. 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, 2022 amounted to $897.1 million, an increase of $254.9 million, when compared with 2021, mostly due to: the $257.7 million gain related to the Evertec Transactions and related accounting adjustments and higher service fees due to higher credit card fees and merchant network business fees as a result of the revenue sharing agreement entered into in connection with the Evertec Transactions. 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 $1.7 billion for the year 2022, reflecting an increase of $197.1 million, when compared to the same period in 2021, mainly due to higher personnel costs reflecting salary increases and a higher headcount, professional fees, technology and software expenses, reflecting the impact of the investment in the transformation initiative, higher business promotions expense driven by customer loyalty programs and a $17.3 million expense associated with the Evertec Transactions. Refer to the Operating Expenses section of this MD&A for additional information.

Income tax expense amounted to $132.3 million for the year ended December 31, 2022, compared with an income tax expense of $309.0 million for the previous year. The decrease in income tax expense for the year is mainly due to the impact of the partial reversal of the deferred tax asset valuation allowance of the U.S. Operations and, higher taxable income that was exempt or subject to preferential tax rates. 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, 2022, the Corporation's total assets were $67.6 billion, compared with $75.1 billion at December 31, 2021. The decrease of $7.5 billion is mainly driven by lower money market investments due to a decrease in deposits mainly in the Puerto Rico public sector, partially offset by an increase in loans held-in-portfolio mainly in the commercial and consumer portfolios. Refer to the Statement of Financial Condition Analysis section of this MD&A for additional information.

Deposits amounted to $61.2 billion at December 31, 2022, compared with $67.0 billion at December 31, 2021. Table 8 presents a breakdown of deposits by major categories. The decrease in deposits was mainly due to lower Puerto Rico public sector deposits. The Corporation's borrowings amounted to $1.4 billion at December 31, 2022, compared to $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 7 in the Statement of Financial Condition Analysis section of this MD&A for the percentage allocation of the composition of the Corporation's financing to total assets.

Stockholders' equity amounted to $4.1 billion at December 31, 2022, compared to $6.0 billion at December 31, 2021. The decrease was principally due to higher accumulated unrealized losses on debt securities available-for-sale and the impact of two accelerated share repurchase transactions completed during 2022, declared dividends, partially offset by net income for the year. The Corporation and its banking subsidiaries continue to be well-capitalized at December 31, 2022. The Common Equity Tier 1 Capital ratio at December 31, 2022 was 16.39%, compared to 17.42% at December 31, 2021.

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

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

CRITICAL ACCOUNTING POLICIES / ESTIMATES

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

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

Fair Value Measurement of Financial Instruments

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

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

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

Trading Debt Securities and Debt Securities Available-for-Sale

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

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

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

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

Loans and Allowance for Credit Losses

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

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

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

One of the most critical and complex accounting estimates is associated with the determination of the allowance for credit losses ("ACL"). The Corporation establishes an ACL for its loan portfolio based on its estimate of credit losses over the remaining contractual term of the loans, adjusted for expected prepayments, in accordance with Accounting Standards Codification ("ASC") Topic 326. An ACL is recognized for all loans including originated and purchased loans, since inception, with a corresponding charge to the provision for credit losses, except for purchased credit deteriorated ("PCD") loans as explained below. The Corporation follows a methodology to establish the ACL which includes a reasonable and supportable forecast period for estimating credit losses, considering quantitative and qualitative factors as well as the economic outlook. As part of this methodology, management evaluates various macroeconomic scenarios provided by third parties. At December 31, 2022, 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 to the Consolidated Financial Statements. 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. These loans follow the same nonaccrual policies as non-PCD loans. Modifications of PCD loans that meet the definition of a TDR 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 to the Consolidated Financial Statements.

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

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

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

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

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

Goodwill and Other Intangible Assets

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

Goodwill impairment is recognized when the carrying amount of any of the reporting units exceeds its fair value up to the amount of the goodwill. The Corporation estimates the fair value of each reporting unit, consistent with the requirements of the fair value measurements accounting standard, generally using a combination of methods, including market price multiples of comparable companies and transactions, as well as discounted cash flow analyses. Subsequent reversal of goodwill impairment losses is not permitted under applicable accounting standards. For a detailed description of the annual goodwill impairment evaluation performed by the Corporation during the third quarter of 2022, refer to Note 15 to the Consolidated Financial Statements.

Pension and Postretirement Benefit Obligations

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

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

The Corporation periodically reviews its assumption for the long-term expected return on Pension Plans assets. The Pension Plans' assets fair value at December 31, 2022 was \$619.9 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 2023 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, 2023; for example, 8.5% for large cap stocks, 8.8% for small cap stocks, 9.0% for international stocks, 6.1% for long corporate bonds and 4.9% 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 increased its expected return on plan assets for year 2023 to 5.9% and 6.5% for the Pension Plans. Expected rates of return of 4.3% and 5.4% had been used for 2022 and 4.6% and 5.5% had been used for 2021 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 $0.5 million in 2022. The total pension expense included a benefit of $35.4 million for the expected return on assets.

Pension expense is sensitive to changes in the expected return on assets. For example, decreasing the expected rate of return for 2022 from 5.9% to 5.65% would increase the projected 2023 pension expense for the Banco Popular de Puerto Rico Retirement Plan, the Corporation's largest plan, by approximately $1.4 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 to the Consolidated Financial Statements. Also, the compositions of the plan assets are primarily in equity and debt securities, which have readily determinable quoted market prices. The Corporation had recorded a pension liability of $8.3 million at December 31, 2022.

The Corporation uses the spot rate yield curve from the Willis Towers Watson RATE: Link (10/90) Model to discount the expected projected cash flows of the plans. The equivalent single weighted average discount rate ranged from 5.34% to 5.37% for the Pension Plans and 5.42% for the OPEB Plan to determine the benefit obligations at December 31, 2022.

A 50 basis point decrease to each of the rates in the December 31, 2022 Willis Towers Watson RATE: Link (10/90) Model would increase the projected 2023 expense for the Banco Popular de Puerto Rico Retirement Plan by approximately $1.8 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, 2022. The Corporation had recorded a liability for the underfunded postretirement benefit obligation of $118.3 million at December 31, 2022.

STATEMENT OF OPERATIONS ANALYSIS

Net Interest Income

Net interest income is the interest earned from loans, debt securities and money market investments, including loan fees, minus the interest cost of deposits and borrowed money. Various risk factors affect net interest income including the economic environment in which we operate, market related events, the mix and size of the earning assets and related funding, changes in volumes, repricing characteristics, loan fees collected, 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, 2022 was $2.2 billion or $209.8 million higher than in 2021. Net interest income, on a taxable equivalent basis, for the year ended December 31, 2022 was $2.4 billion compared to $2.2 billion in 2021.

The average key index rates for the years 2022 and 2021 were as follows:

	2022	2021
Prime rate	4.86%	3.25%
Fed funds rate	1.86	0.25
3-month Treasury Bill	2.01	0.03
10-year Treasury	2.95	1.44
FNMA 30-year	4.26	1.84

Average outstanding securities balances are based upon amortized cost excluding any unrealized gains or losses on securities. Non-accrual loans have been included in the respective average loans and leases categories. Loan fees collected, and costs incurred in the origination of loans are deferred and amortized over the term of the loan as an adjustment to interest yield. Prepayment penalties, late fees collected and the amortization of premiums / discounts on purchased loans, including the discount accretion on purchased credit deteriorated loans (“PCD”), are also included as part of the loan yield. Interest income for the period ended December 31, 2022, included $44.6 million related to those items, compared to $131.5 million for the same period in 2021. The year over year decrease is related to lower amortized fees resulting from the forgiveness of PPP loans by $55.7 million, lower discount amortization on commercial loans by $16.3 million mainly driven by lower interest from cancellation of PCD loans and $6.6 million lower amortization of the fair value discount of the auto portfolios acquired in previous years.

Table 3 presents the different components of the Corporation’s net interest income, on a taxable equivalent basis, for the year ended December 31, 2022, as compared with the same period in 2021, segregated by major categories of interest earning assets and interest-bearing liabilities. Net interest margin was 3.11% in 2022 or 23 basis points higher than the 2.88% reported in 2021. The higher net interest margin for the year is driven by $1.6 billion higher average volume of earning assets and higher interest rates as the Federal Reserve increased the Federal Funds Rate by 425 basis points during 2022. On a taxable equivalent basis, net interest margin was 3.46% in 2022, compared to 3.19% in 2021, an increase of 27 basis points. The main drivers for the increase in net interest income on a taxable equivalent basis were:

Positive variances:

- Higher interest income from money market investments by $96.9 million due to higher interest rates by 111 basis points, partially offset by lower volume by $6.5 billion, as part of the liquidity was deployed to purchase investment securities and fund loan growth;
- Higher interest income from investment securities by $156.1 million due to a higher volume by $6.8 million;
- Higher interest income from loans by $130.1 million due to:
  - Increase in commercial loan Interest income by $71.4 million driven by a higher average volume of loans by $1.1 billion and higher yield by 7 basis points as the origination of loans occurs in a higher interest rate scenario and the positive impact on the repricing of adjustable-rate loans, partially offset by lower amortized fees resulting from the forgiveness of PPP loans by $55.7 million and lower discount amortization on commercial loans by $16.3 million mainly from cancellation of PCD loans;
  - Higher interest income from consumer loans by $44.8 million resulting from a higher volume by $280 million and higher yield by 49 basis points, driven by the increase in personal loans year over year and increase in credit cards volume.

Partially offset by:

- Higher interest expense on deposits by $141.2 million due to the increase in interest cost by 29 basis points resulting mainly from a higher cost of the fully indexed Puerto Rico government deposits and the increase in cost of Popular U.S. deposits. Under the terms of BPPR’s deposit pricing agreement with Puerto Rico public sector, public funds rates are market linked with a lag minus a specified spread. As such, if short-term interest rates continue to increase, we would expect the costs of public funds to continue to increase. This source of funding still results in an attractive spread under market rates.

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	
2022	2021	Variance	2022	2021	Variance		2022	2021	Variance	Rate	Volume
	(In millions)								(In thousands)		
$ 9,531	$16,000	$(6,469)	1.24%	0.13%	1.11%	Money market investments	$ 118,079	$ 21,147	$ 96,932	$108,780	$ (11,848)
29,743	22,931	6,812	2.23	2.22	0.01	Investment securities [1]	664,278	508,131	156,147	16,116	140,031
51	84	(33)	5.94	5.16	0.78	Trading securities	3,049	4,339	(1,290)	600	(1,890)
39,325	39,015	310	2.00	1.37	0.63	Total money market, investment and trading securities	785,406	533,617	251,789	125,496	126,293
						Loans:					
14,562	13,455	1,107	5.46	5.39	0.07	Commercial	795,115	723,765	71,350	10,997	60,353
778	849	(71)	6.29	5.41	0.88	Construction	48,920	45,821	3,099	7,172	(4,073)
1,475	1,289	186	5.92	6.00	(0.08)	Leasing	87,274	77,356	9,918	(1,093)	11,011
7,322	7,696	(374)	5.34	5.09	0.25	Mortgage	391,133	392,047	(914)	18,584	(19,498)
2,743	2,463	280	11.66	11.17	0.49	Consumer	319,920	275,078	44,842	11,546	33,296
3,525	3,322	203	8.02	8.47	(0.45)	Auto	282,533	280,722	1,811	(14,833)	16,644
30,405	29,074	1,331	6.33	6.19	0.14	Total loans	1,924,895	1,794,789	130,106	32,373	97,733
$69,730	$68,089	$ 1,641	3.89%	3.43%	0.46%	Total earning assets	$2,710,301	$2,328,406	$381,895	$157,869	$224,026
						Interest bearing deposits:					
$25,884	$25,959	$ (75)	0.61%	0.12%	0.49%	NOW and money market [2]	$ 158,664	$ 31,911	$126,753	$127,953	$ (1,200)
15,886	15,429	457	0.20	0.18	0.02	Savings	32,400	27,123	5,277	4,983	294
6,853	7,028	(175)	0.90	0.75	0.15	Time deposits	61,781	52,587	9,194	10,241	(1,047)
48,623	48,416	207	0.52	0.23	0.29	Total interest bearing deposits	252,845	111,621	141,224	143,177	(1,953)
206	92	114	2.78	0.35	2.43	Short-term borrowings	5,737	318	5,419	2,030	3,389
939	1,185	(246)	4.26	4.49	(0.23)	Other medium and long-term debt	39,970	53,107	(13,137)	63	(13,200)
49,768	49,693	75	0.60	0.33	0.27	Total interest bearing liabilities	298,552	165,046	133,506	145,270	(11,764)
16,094	14,687	1,407				Demand deposits					
3,868	3,709	159				Other sources of funds					
$69,730	$68,089	$ 1,641	0.43%	0.24%	0.19%	Total source of funds	298,552	165,046	133,506	145,270	(11,764)
			3.46%	3.19%	0.27%	Net interest margin/ income on a taxable equivalent basis (Non-GAAP)	2,411,749	2,163,360	248,389	$ 12,599	$235,790
			3.29%	3.10%	0.19%	Net interest spread					
						Taxable equivalent adjustment	244,390	205,770	38,620		
			3.11%	2.88%	0.23%	Net interest margin/ income non-taxable equivalent basis (GAAP)	$2,167,359	$1,957,590	$209,769		

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

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

[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, 2022, the Corporation recorded an expense of $84.2 million for its allowance for credit losses ("ACL") related to loans held-in-portfolio and unfunded commitments, compared with a reserve release of $191.3 million for the year ended December 31, 2021. The provision expense related to the loans-held-in-portfolio for the year 2022 was $83.3 million, compared to a reserve release of $183.3 million for the year 2021. The reserve increase is mostly driven by changes in the economic scenario, higher loan volumes and changes in credit quality. The updated economic scenarios used to estimate the ACL on December 31, 2022 considered an expected slowdown in the economy as a result of tight monetary policy, weaker job growth and persistent inflation. The reserve release recorded in 2021 was driven by the release of Covid-related reserves recorded in 2020. The provision for unfunded commitments for the year 2022 reflected an expense of $0.9 million, compared to a reserve release of $8.0 million for the same period of 2021.

The provision expense related to loans held-in-portfolio for the BPPR segment was $69.5 million for the year ended December 31, 2022, compared to a reserve release of $129.0 million for the year ended December 31, 2021, an unfavorable variance of $198.6 million. The provision expense related to loans held-in-portfolio for the Popular U.S. segment was $13.8 million for the year 2022, an unfavorable variance of $68.1 million, compared to a reserve release of $54.3 million for the year 2021.

At December 31, 2022, the total allowance for credit losses for loans held-in-portfolio amounted to $720.3 million, compared to $695.4 million as of December 31, 2021. The ratio of the allowance for credit losses to loans held-in-portfolio was 2.25% at December 31, 2022, compared to 2.38% at December 31, 2021. Refer to Note 9 to the Consolidated Financial Statements, for additional information on the Corporation's methodology to estimate its ACL. As discussed therein, within the process to estimate its ACL, the Corporation applies probability weights to the outcomes of simulations using Moody's Analytics' Baseline, S3 (pessimistic) and S1 (optimistic) scenarios. The baseline scenario is assigned the highest probability, followed by the pessimistic scenario. In addition, refer to the Credit Risk section of this MD&A for a detailed analysis of net charge-offs, non-performing assets, the allowance for credit losses and selected loan losses statistics.

Provision for Credit Losses - Investment Securities

The Corporation's provision for credit losses related to its investment securities held-to-maturity is related to the portfolio of obligations from the Government of Puerto Rico, states and political subdivisions. For the year ended December 31, 2022, the Corporation recorded a reserve release of $1.2 million, compared to a reserve release of $2.2 million for the year ended December 31, 2021. At December 31, 2022, the total allowance for credit losses for this portfolio amounted to $6.9 million, compared to $8.1 million as of December 31, 2021. Refer to Note 7 to the Consolidated Financial Statements for additional information on the ACL for this portfolio.

Non-Interest Income

For the year ended December 31, 2022, non-interest income increased by $254.9 million, when compared with the previous year. The results for the year 2022 included a $257.7 million gain related to the Evertec Transactions and related accounting adjustments. Other factors that contributed to the variance in non-interest income were:

- higher other service fees by $22.8 million, principally at the BPPR segment, due to higher credit card fees by $18.9 million mainly in interchange income resulting from higher customer purchase activity and higher fees from the merchant network business by $6.7 million due to the revenue sharing agreement entered into in connection with the Evertec Transactions;
- a favorable adjustment of $9.2 million in the fair value of the contingent consideration related to purchase price adjustments for the acquisition of the K2 Capital Group LLC business in 2021 ("K2 Acquisition"), as the Corporation updated its estimates related to the ability to realize the earnings targets for the contingent payment; and
- a gain of $8.2 million from the sale of an investment which had been previously written off;

partially offset by:

- lower service charges on deposit accounts by $5.5 million, mainly at BPPR, due to lower overdraft related charges, in part due to the Corporation's determination of eliminating insufficient funds fees and modifying overdraft fees effective on the third quarter of 2022 and lower cash management service charges from commercial clients due to higher earnings credits on transactional accounts driven by the current interest rate environment;
- lower income from mortgage banking activities by 7.7 million mainly due to lower gains from loan securitization and valuation adjustments on loans held for sale by $21.9 million, impacted by the Corporation's determination in the third quarter of 2022 to retain certain guaranteed loans as held for investment; partially offset by a favorable variance of $10.4 million in the fair value adjustments for mortgage servicing rights driven by slower projected prepayments in the serviced portfolio and higher gains from closed derivative positions by $5.3 million;

- an unfavorable variance of $7.5 million on the fair value adjustments to the portfolio of equity securities related to deferred benefit plans, which have an offsetting effect recorded as lower personnel costs; and
- 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.

Operating Expenses

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

Table 4 provides the detail of the reclassifications for each respective year.

Table 4 - Operating Expenses Reclassification

	2021			2020		
Financial statement line item	As reported	Adjustments	Adjusted	As reported	Adjustments	Adjusted
Equipment expenses	$ 92,097	$ (59,178)	$ 32,919	$ 88,932	$ (56,418)	$ 32,514
Professional services	410,865	(284,144)	126,721	394,122	(261,708)	132,414
Technology and software expenses	–	277,979	277,979	–	263,886	263,886
Processing and transactional services	–	121,367	121,367	–	112,039	112,039
Communications	25,234	(11,205)	14,029	23,496	(10,266)	13,230
Other expenses	136,988	(44,819)	92,169	128,882	(47,533)	81,349
Net effect on operating expenses	$665,184	$ –	$665,184	$635,432	$ –	$635,432

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

Table 5 - Operating Expenses

(In thousands)	Years ended December 31, 2022	2021	2020
Personnel costs:			
Salaries	$ 432,910	$ 371,644	$ 370,179
Commissions, incentives and other bonuses	155,889	142,212	78,582
Pension, postretirement and medical insurance	56,085	52,077	44,123
Other personnel costs, including payroll taxes	74,880	65,869	71,321
Total personnel costs	719,764	631,802	564,205
Net occupancy expenses	106,169	102,226	119,345
Equipment expenses	35,626	32,919	32,514
Other taxes	63,603	56,783	54,454
Professional fees	172,043	126,721	132,414
Technology and software expenses	291,902	277,979	263,886
Processing and transactional services:			
Credit and debit cards	45,455	40,383	40,903
Other processing and transactional services	81,690	80,984	71,136
Total processing and transactional services	127,145	121,367	112,039
Communications	14,885	14,029	13,230
Business promotion:			
Rewards and customer loyalty programs	51,832	38,919	30,380
Other business promotion	37,086	34,062	27,228
Total business promotion	88,918	72,981	57,608
FDIC deposit insurance	26,787	25,579	23,868
Other real estate owned (OREO) income	(22,143)	(14,414)	(3,480)
Other operating expenses:			
Operational losses	32,049	38,391	26,331
All other	77,397	53,778	55,018
Total other operating expenses	109,446	92,169	81,349
Amortization of intangibles	3,275	9,134	6,397
Goodwill impairment charge	9,000	–	–
Total operating expenses	$1,746,420	$1,549,275	$1,457,829
Personnel costs to average assets	0.99%	0.89%	0.95%
Operating expenses to average assets	2.40	2.18	2.45
Employees (full-time equivalent)	8,813	8,351	8,522
Average assets per employee (in millions)	$ 8.26	$ 8.52	$ 6.99

Operating expenses for the year ended December 31, 2022 increased by $197.1 million, when compared with the previous year. The increase in operating expenses was driven primarily by:

- Higher personnel costs by $88.0 million mainly due to higher salaries expense by $61.3 million as a result of market adjustments, annual salary revisions and an increase in headcount, higher commission and incentives by $13.7 million, due to higher headcount, salary revisions and, in part, profit-sharing expense and higher payroll taxes and fringe benefits, including health and retirement benefits, reflecting the overall increase in salary base;
- Higher net occupancy expense by $3.9 million mainly due to BPPR's lower rental income due to the sale of two corporate office buildings during the third quarter of 2021, coupled with higher rent expense related to the space remaining occupied by BPPR;
- Higher other taxes by $6.8 million mainly due to an increase in personal property tax expense and a higher base used to estimate an annual Puerto Rico regulatory license fee;
- Higher professional fees by $45.3 million primarily due to Corporate initiatives including $22 million related to a multi-year corporate transformation initiative to expand

the Corporation's digital capabilities, modernize its technology platform and implement agile and efficient business processes;

- Higher technology and software expenses by $13.9 million mainly due to higher software amortization expense by $10.3 million, including $2.4 million related to the software intangible assets acquired as part of the Evertec Transactions, and higher IT professional fees and network management expense by $15.5 million due to various ongoing technology projects; partially offset by a decrease in charges related to internet banking of $9.6 million and lower application hosting expense reflecting savings as a result of the Evertec Transactions;
- Higher processing and transactional services by $5.8 million mainly due to higher credit and debit card processing expense as a result of higher transactional volumes, reflecting an increase in customer purchase activity; partially offset by lower merchant processing due to higher incentives received during the year related to the ATH Network Participation Agreement entered into in connection with the Evertec Transactions;
- Higher business promotion expense by $15.9 million mainly due to higher customer reward program expense in our credit card business by $12.9 million, reflecting an increase in customer purchase activity, higher sponsorship expense by $1.5 million and higher donations by $1.2 million, including hurricane related donations;
- Higher total other operating expenses, including operational losses, by $17.3 million mainly due to the $17.3 million expense related to the Evertec Transactions; net of $6.9 million in credits received in connection with this transaction and higher gain on sale of foreclosed auto units by $6.6 million; offset by $6.5 million of lower sundry losses; and
- a goodwill impairment charge of $9.0 million due to a decrease in Popular Equipment Finance's (PEF) projected earnings considered as part of the Corporation's annual goodwill impairment analysis.

These variances were partially offset by:

- Higher other real estate owned (OREO) income by $7.7 million mainly due to higher gain on sale of commercial properties; and
- Lower amortization of intangibles by $5.9 million due to an impairment write-down of $5.4 million of a trademark during 2021.

Income Taxes

For the year ended December 31, 2022, the Corporation recorded an income tax expense of $132.3 million, compared to $309.0 million for the same period of 2021. The income tax expense for the year ended December 31, 2022, reflects the impact of the reversal of a portion of the deferred tax asset valuation allowance of the U. S. Operations amounting to $68.2 million, higher taxable income subject to preferential tax rates, primarily attributed to the gain from the sale of Evertec shares, and higher tax exempt income recorded during this year.

At December 31, 2022, the Corporation had a net deferred tax asset amounting to $1 billion, net of a valuation allowance of $0.5 billion. The net deferred tax asset related to the U.S. operations was $0.3 billion, net of a valuation allowance of $0.4 billion.

The Inflation Reduction Act of 2022 imposes a new corporate alternative minimum tax ("AMT"), effective for taxable year 2023, to corporations that meet a dual three-year average adjusted financial statement income ("AFSI") threshold of $1 billion on a worldwide basis and $100 million for its U.S. operations. The AFSI is, in general, the GAAP net income per financial statements with certain adjustments, including foreign taxes and tax depreciation. The Corporation is still evaluating the application of these adjustments that could be decisive in whether Popular is subject to the corporate AMT. If it is determined that the Corporation is subject to the corporate AMT, it is not expected to have a material impact on the financial statements of the Corporation.

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 $257.1 million for the quarter ended December 31, 2022, compared with a net income of $206.1 million for the same quarter of 2021.

Net interest income for the fourth quarter of 2022 amounted to $559.6 million, compared with $501.3 million for the fourth quarter of 2021, an increase of $58.3 million. The increase in net interest income was mainly due higher interest rates as the Federal Reserve increased the Federal Funds Rate by 425 basis points during 2022 and higher average balance of loans resulting from the growth during 2022 at both BPPR and PB. The net interest margin increased by 50 basis points to 3.28% due to an increase in market rates and the earning assets mix, that had a higher concentration on loans which carry a higher yield than money market and investment securities. On a taxable equivalent basis, the net interest margin for the fourth quarter of 2022 was 3.64%, compared to 3.02% for the fourth quarter of 2021.

The provision for credit losses was a $49.5 million for the fourth quarter of 2022, compared to a reserve release benefit of $33.1 million for the fourth quarter of 2021. The provision expense recorded in the fourth quarter or 2022 reflects changes in credit metrics, portfolio growth as well as changes in the macroeconomic outlook and considers an expected slowdown in the economy during 2023, as a result of weaker job growth, monetary policy and the persistent inflation. 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 $158.5 million for the quarter ended December 31, 2022, compared with $164.7 million for the same quarter in 2021. The decrease of $6.2 million was mainly due lower income from mortgage banking activities by $10.5 million due to an unfavorable variance of $4.1 million in the fair value adjustments of mortgage servicing rights and lower gains from the sale and securitization of mortgage loans as the Corporation made the determination to retain certain guaranteed loans as held for investment. In addition, service charges on deposit accounts were lower by $6.9 million, due to lower overdraft related charges, in part due to the Corporation's determination of eliminating insufficient funds fees and modifying overdraft fees effective on the third quarter of 2022 and lower cash management service charges from commercial clients due to higher earnings credits on transactional accounts.

Operating expenses totaled $461.7 million for the quarter ended December 31, 2022, compared with $417.4 million for the same quarter in the previous year. The increase of $44.3 million is mainly related to higher personnel costs by $29.7 million, due to a higher headcount and market and annual salary revisions as well as higher incentives and commissions; higher professional services expense by $16.6 million due to various corporate projects, including the transformation initiative; higher technology and software expenses by $7.3 million due to various ongoing technology projects and software amortization, including from the assets acquired from Evertec; partially offset by higher benefit from OREO related activity by $5.3 million due to gains on sale of foreclosed properties; lower operational losses by $7.8 million and lower amortization of intangibles by $5.3 million due to an impairment write-down of $5.4 million of a trademark during 2021.

For the quarter ended December 31, 2022, the Corporation recorded an income tax benefit of $50.3 million, compared with income tax expense of $75.6 million for the same quarter of 2021. The favorable variance in income tax expense was mainly attributable to a partial reversal of the deferred tax asset valuation allowance of the U.S. operation during the fourth quarter of 2022 of $68.2 million and lower income before tax, higher benefit from tax-exempt income, including true-up adjustment of $9.5 million in relation to the fiscal year 2021 tax returns for the P.R. subsidiaries filed in the fourth quarter and related year-to-date adjustments for the same concept.

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 $150.1 million for the year ended December 31, 2022, compared with a net income of $13.4 million for the previous year. The increase in net income was mainly attributed to the $128.8 million in after-tax gains recognized by the Corporation as a result of the Evertec Stock Sale and related accounting adjustments; lower interest expense by $10.4 million from the redemption in the fourth quarter of 2021 of $186.7 million in Trust Preferred Securities issued by Popular Capital Trust I; and higher earnings from equity method investments.

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 $782.0 million for the year ended December 31, 2022, compared with $787.5 million for the year ended December 31, 2021. The principal factors that contributed to the variance in the financial results included the following:

- Higher net interest income by $148.9 million due to higher income from money market and investment securities by $218.3 million mainly due to higher yields driven by the increase in rates by the Federal Reserve and higher average balances of U.S. Treasury securities; higher interest income from loans by $54.7 million, mainly due to higher average balances from consumer, leasing and commercial loans; partially offset by higher interest expense on deposits by $123.7 million mainly due to higher costs on the market- indexed Puerto Rico government deposits, NOW accounts and time deposits. The BPPR segment's net interest margin was 3.05% for 2022 compared with 2.86% for the same period in 2021.
- A provision for loan losses expenses of $70.3 million in 2022, compared to a reserve release of $136.4 million for the year ended 2021, or an unfavorable variance of $206.7 million. The provision for loan losses for 2022 reflects an expected slowdown in the economy in 2023. During 2021, BPPR recorded a reserve for credit losses release of $136.4 million due to improved credit metrics and Covid-related macroeconomic outlook and changes in qualitative reserves;

- Higher non-interest income by $115.0 million mainly due to:
    - Higher other operating income by $112.0 million mostly due to the benefit related to the Evertec Business Acquisition Transaction,
    - Higher other service fees by $21.3 million due to higher merchant acquiring fees related to the revenue sharing agreement entered in connection with the Evertec Transactions and higher credit card fees as a result of higher interchange transaction volumes.
- Higher operating expenses by $167.8 million, mainly due to:
    - Higher other expenses by $75.5 million mainly due to higher allocations from the Corporate group by $56.0 million, mainly advisory and other professional services, and a $17.3 million expense related to Evertec Transactions;
    - Higher personnel costs by $71.8 million driven by higher salaries and benefits due to market salary adjustments and annual salary revisions and a higher headcount; higher incentive compensation, higher profit sharing expenses and higher fringe benefits;
    - Higher business promotions by $15.6 million mainly due to higher customer rewards expense related to higher transactional volumes and higher sponsorships and donations, including hurricane related assistance;
    - Higher technology and software expenses by $5.7 million including $2.4 million related to the software intangible assets acquired as part of the Evertec Transactions, and costs associated with several ongoing projects;
    - Higher processing and transactional services by $5.8 million mainly due to higher credit and debit card processing expense as a result of higher transactional volumes, reflecting an increase in customer purchase activity; partially offset by lower merchant processing due to higher incentives received during the year related to the ATH Network Participation Agreement entered into in connection with the Evertec Transactions;

Partially offset by:

- Higher OREO income by $7.4 million mainly due to higher gain on sale of OREO of $5.9 million.
- Lower professional fees by $3.8 million mainly due to lower consulting fees related to ongoing projects.
- Lower income tax expense by $105.1 million due to lower income before tax and higher income that was exempt or subject to preferential tax rates.

Popular U.S.

For the year ended December 31, 2022, the reportable segment of Popular U.S. reported net income of $170.3 million, compared with a net income of $134.1 million for the year ended December 31, 2021. The principal factors that contributed to the variance in the financial results included the following:

- Higher net interest income by $51.8 million mainly due to higher interest income from loans by $74.2 million mainly due to higher average balances from commercial loans as well as higher yields due to increase in rates; and higher interest income from money market investment securities by $2.9 million due to higher rates, partially offset by lower income from debt securities by $1.6 million and higher cost of deposits by $22.9 million due to higher interest rates. The Popular U.S. reportable segment's net interest margin was 3.68% for 2022 compared with 3.39% for the same period in 2021;
- An unfavorable variance of $69.3 million on the provision for loan losses and unfunded commitments, due to the reserve release of $56.9 million in 2021, which reflected improvements in credit metrics and Covid-related economic outlook, compared to a provision expense of $12.5 million recorded in 2022 which reflected an expected economic slowdown in 2023;
- Higher non-interest income by $7.4 million mainly due to the positive adjustment of $9.2 million on the contingent liability related to the K-2 Acquisition;
- Higher operating expenses by $35.4 million mainly due to:
    - Higher personnel costs by $10.2 million due to salary market and annual adjustments;
    - Higher other expenses by $7.4 million due to higher charges allocated from the Corporate segment, mainly professional fees; and
    - The goodwill impairment charge of $9.0 million recorded at PEF.
- Lower income tax expense by $81.7 million due mainly to a lower income before tax and the partial reversal of the deferred tax asset valuation allowance recorded during the fourth quarter of 2022 of $68.2 million.

STATEMENT OF FINANCIAL CONDITION ANALYSIS

Assets

The Corporation's total assets were $67.6 billion at December 31, 2022, compared to $75.1 billion at December 31,

2021. Refer to the Corporation's Consolidated Statements of Financial Condition at December 31, 2022 and 2021 included in this 2022 Form 10-K. Also, refer to the Statistical Summary 2022-2021 in this MD&A for Condensed Statements of Financial Condition.

Money market investments and debt securities

Money market investments decreased by $11.9 billion at December 31, 2022, when compared to December 31, 2021. This was impacted by the decrease in deposits of $5.8 billion, mainly in the Puerto Rico Public sector, and the deployment of liquidity to purchase debt securities. Debt securities available-for-sale decreased by $7.2 billion, while debt securities held-to-maturity increased by $8.4 billion. As previously mentioned, during 2022 the Corporation transferred U.S. Treasury securities with a fair value of $6.5 billion (par value of $7.4 billion) from its available-for-sale portfolio to its held-to-maturity portfolio. Refer to Notes 6 and 7 to the Consolidated Financial Statements for additional information with respect to the Corporation's debt securities available-for-sale and held-to-maturity.

Loans

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

Loans held-in-portfolio increased by $2.8 billion to $32.1 billion at December 31, 2022, mainly due to growth in the commercial portfolio of $2.0 billion, reflected at both BPPR and PB by approximately $1.0 billion, at each segment and consumer loans at BPPR. The commercial loans growth includes U.S. region loans participated between BPPR and PB. During the year ended December 31, 2022, BPPR participated in loans originated by PB totaling $184 million. Consumer loans at BPPR increased by $532.4 million in the aggregate including credit cards, personal loans and auto loans. The increase in BPPR's consumer portfolio is aligned with the increase in retail sales and consumer spending in Puerto Rico during 2022 and the purchase of national consumer loans through its U.S. branch. The auto loans portfolio at BPPR benefited from the sustained level of auto sales, which although lower than 2021, remained a higher than 2020. In addition, though mortgage loans declined by $29.7 million from the previous year, this was impacted by management's determination to retain certain guaranteed loans in the portfolio, which reduced the portfolio attrition.

The allowance for credit losses for the loan portfolio increased by $24.9 million mainly due to changes in the macroeconomic outlook, credit quality metrics and portfolio growth. Refer to the Credit Quality section of the MD&A for additional information on the Allowance for credit losses for the loan portfolio.

Table 6 - Loans Ending Balances

	At December 31,	
(In thousands)	2022	2021
Loans held-in-portfolio:		
Commercial	$15,739,132	$13,732,701
Construction	757,984	716,220
Leasing	1,585,739	1,381,319
Mortgage	7,397,471	7,427,196
Auto	3,512,530	3,412,187
Consumer	3,084,913	2,570,934
Total loans held-in-portfolio	$32,077,769	$29,240,557
Loans held-for-sale:		
Mortgage	$ 5,381	$ 59,168
Total loans held-for-sale	$ 5,381	$ 59,168
Total loans	$32,083,150	$29,299,725

Other assets

Other assets amounted to $1.8 billion at December 31, 2022, an increase of $0.2 billion when compared to December 31, 2021. At December 31, 2022, this includes $125 million in cash receivable from the maturities of investment securities near the end of the year and $28.7 million in software intangibles acquired as part of the Evertec Transactions. Refer to Note 14 to the Consolidated Financial Statements for a breakdown of the principal categories that comprise the caption of "Other Assets" in the Consolidated Statements of Financial Condition at December 31, 2022 and 2021.

Liabilities

The Corporation's total liabilities were $63.5 billion at December 31, 2022, a decrease of $5.6 billion compared to $69.1 billion at December 31, 2021, mainly due to a decrease 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, 2022 and 2021 is included in Table 7.

Table 7 - Financing to Total Assets

(In millions)	December 31, 2022	December 31, 2021	% increase (decrease) from 2021 to 2022	% of total assets 2022	% of total assets 2021
Non-interest bearing deposits	$15,960	$15,684	1.8%	23.6%	20.9%
Interest-bearing core deposits	41,600	47,954	(13.3)	61.5	63.9
Other interest-bearing deposits	3,667	3,367	8.9	5.4	4.5
Repurchase agreements	149	92	62.0	0.2	0.1
Other short-term borrowings	365	75	N.M.	0.5	0.1
Notes payable	887	989	(10.3)	1.3	1.3
Other liabilities	917	968	(5.3)	1.4	1.3
Stockholders' equity	4,093	5,969	(31.4)	6.1	7.9

Deposits

The Corporation's deposits totaled $61.2 billion at December 31, 2022, compared to $67.0 billion at December 31, 2021.The deposits decrease of $5.8 billion was mainly due to lower Puerto Rico public sector deposits by $5.2 billion. Public sector deposit balances amounted to $15.2 billion at December 31, 2022. The receipt by the Puerto Rico Government of additional Federal assistance, and seasonal tax collections, could increase public deposit balances at BPPR in the near term. However, the rate at which public deposit balances may decline is uncertain and difficult to predict. The amount and timing of any such reduction is likely to be impacted by, for example, the speed at which federal assistance is distributed, the financial condition, liquidity and cash management practices of the Puerto Rico Government and its instrumentalities and the implementation of fiscal and debt adjustment plans approved pursuant to PROMESA or other actions mandated by the Fiscal Oversight and Management Board for Puerto Rico (the "Oversight Board").

Approximately 25% of the Corporation's deposits are public fund deposits from the Government of Puerto Rico, municipalities and government instrumentalities and corporations ("public funds"). These public funds deposits are indexed to short term market rates and fluctuate in cost with changes in those rates with a one-quarter lag, in accordance with contractual terms. As a result, these public funds deposits' costs have generally lagged variable asset repricing. During 2022, the deposit costs for public funds increased by 61% when compared to 2021. We expect these costs to continue to increase if short-term rates continue their recent trend. For example, we expect an increase in costs on these public funds by approximately 120 basis points in the first quarter of 2023 when compared to the last quarter in 2022.

Refer to Table 8 for a breakdown of the Corporation's deposits at December 31, 2022 and 2021.

Table 8 - Deposits Ending Balances

(In thousands)	2022	2021
Demand deposits [1]	$26,382,605	$25,889,732
Savings, NOW and money market deposits (non-brokered)	27,265,156	33,674,134
Savings, NOW and money market deposits (brokered)	798,064	729,073
Time deposits (non-brokered)	6,442,886	6,685,938
Time deposits (brokered CDs)	338,516	26,211
Total deposits	$61,227,227	$67,005,088

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

Borrowings

The Corporation's borrowings amounted to $1.4 billion at December 31, 2022, compared to $1.2 billion at December 31, 2021. 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, 2022, a decrease of $51.3 million when compared to December 31, 2021.

Stockholders' Equity

Stockholders' equity totaled $4.1 billion at December 31, 2022, a decrease of $1.9 billion when compared to December 31, 2021. The decrease was principally due to higher accumulated unrealized losses on debt securities available-for-sale by $2.2 billion and the impact of $631.0 million from the two accelerated share repurchase transactions completed during 2022, declared dividends of $163.7 million on common stock and $1.4 million in dividends on preferred stock, partially offset by net income for the year ended December 31, 2022 of $1.1 billion. Refer to the Consolidated Statements of Financial Condition, Comprehensive Income and of Changes in Stockholders' Equity for information on the composition of stockholders' equity. Also, refer to Note 22 to the Consolidated Financial Statements for a detail of accumulated other comprehensive 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 9 show that the Corporation was "well capitalized" for regulatory purposes, the highest classification, under Basel III for years 2022 and 2021. BPPR and PB were also well-capitalized for all years presented.

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

Table 9 presents the Corporation's capital adequacy information for the years 2022 and 2021.

Table 9 - Capital Adequacy Data

	At December 31,	
(Dollars in thousands)	2022	2021
Risk-based capital:		
Common Equity Tier 1 capital	$ 5,639,686	$ 5,476,031
Additional Tier 1 Capital	22,143	22,143
Tier 1 capital	$ 5,661,829	$ 5,498,174
Supplementary (Tier 2) capital	623,818	585,931
Total capital	$ 6,285,647	$ 6,084,105
Total risk-weighted assets	$34,415,889	$31,441,224
Adjusted average quarterly assets	$70,287,610	$74,238,367
Ratios:		
Common Equity Tier 1 capital	16.39%	17.42%
Tier 1 capital	16.45	17.49
Total capital	18.26	19.35
Leverage ratio	8.06	7.41
Average equity to assets	8.25	8.12
Average tangible equity to assets	7.27	7.20
Average equity to loans	19.76	19.87

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

The decrease in the CET1 capital ratio, Tier 1 capital ratio and, total capital ratio as of December 31, 2022, compared to December 31, 2021, was mostly due to an increase in risk weighted assets driven by the growth in the commercial and consumer loan portfolios, partially offset by the annual earnings net of the accelerated share repurchase agreements to repurchase an aggregate of $400 million and $231 million of Popular's common stock. The increase in leverage capital ratio was mainly due to the decrease in average total assets, driven by the reduction in zero-risk weighted investments in money market FED accounts and zero or low-risk weighted debt securities, 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. As of December 31, 2022, the Corporation had phased-in 25% of the cumulative CECL deferral with the remaining impact to be recognized over the remaining two years. In the first quarter of 2023, the Corporation will phase in a cumulative 50% of the deferral.

On August 26, 2020, federal banking regulators issued a final rule to modify the Basel III regulatory capital rules applicable to banking organizations to allow those organizations participating in the Paycheck Protection Program ("PPP") established under the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") to neutralize the regulatory capital effects of participating in the program. Specifically, the agencies have clarified that banking organizations, including the Corporation and its Bank subsidiaries, are permitted to assign a zero percent risk weight to PPP loans for purposes of determining risk-weighted assets and risk-based capital ratios. Additionally, in order to facilitate use of the Paycheck Protection Program Liquidity Facility (the "PPPL Facility"), which provides Federal Reserve Bank loans to eligible financial institutions such as the Corporation's Bank subsidiaries to fund PPP loans, the agencies further clarified that, for purposes of determining leverage ratios, a banking organization is permitted to exclude from total average assets PPP loans that have been pledged as collateral for a PPPL Facility. As of December 31, 2022, the Corporation has $38 million in PPP loans and no loans were pledged as collateral for PPPL Facilities.

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

Table 10 - Reconciliation Common Equity Tier 1 Capital

	At December 31,	
(In thousands)	2022	2021
Common stockholders' equity	$4,198,409	$6,116,756
AOCI related adjustments due to opt-out election	2,468,193	257,762
Goodwill, net of associated deferred tax liability (DTL)	(691,560)	(591,703)
Intangible assets, net of associated DTLs	(12,944)	(16,219)
Deferred tax assets and other deductions	(322,412)	(290,565)
Common equity tier 1 capital	$5,639,686	$5,476,031
Common equity tier 1 capital to risk-weighted assets	16.39%	17.42%

Non-GAAP financial measures

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

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

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

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

Table 11 provides a reconciliation of total stockholders' equity to tangible common equity and total assets to tangible assets at December 31, 2022 and 2021.

Table 11 - Reconciliation of Tangible Common Equity and Tangible Assets

	At December 31,	
(In thousands, except share or per share information)	2022	2021
Total stockholders' equity	$ 4,093,425	$ 5,969,397
Less: Preferred stock	(22,143)	(22,143)
Less: Goodwill	(827,428)	(720,293)
Less: Other intangibles	(12,944)	(16,219)
Total tangible common equity	$ 3,230,910	$ 5,210,742
Total assets	$67,637,917	$75,097,899
Less: Goodwill	(827,428)	(720,293)
Less: Other intangibles	(12,944)	(16,219)
Total tangible assets	$66,797,545	$74,361,387
Tangible common equity to tangible assets	4.84%	7.01%
Common shares outstanding at end of period	71,853,720	79,851,169
Tangible book value per common share	$ 44.97	$ 65.26
	Year-to-date average	
Total stockholders' equity [1]	$ 6,009,225	$ 5,777,652
Less: Preferred Stock	(22,143)	(22,143)
Less: Goodwill	(757,133)	(679,959)
Less: Other intangibles	(17,113)	(20,861)
Total tangible common equity	$ 5,212,836	$ 5,054,689
Average return on tangible common equity	21.13%	18.47%

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

RISK MANAGEMENT

Market / Interest Rate Risk

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

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

Most of the assets subject to market valuation risk are debt securities classified as available-for-sale. Refer to Notes 6 and 7 to the Consolidated Financial Statements for further information on the debt securities available-for-sale and held-to-maturity portfolios. Debt securities classified as available-for-sale amounted to $17.8 billion as of December 31, 2022. Other assets subject to market risk include loans held-for-sale, which amounted to $5 million, mortgage servicing rights ("MSRs") which amounted to $128 million and securities classified as "trading", which amounted to $28 million, as of December 31, 2022.

Interest Rate Risk ("IRR")

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

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

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

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

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

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

The Corporation processes NII simulations under interest rate scenarios in which the yield curve is assumed to rise and decline by the same magnitude (parallel shifts). The rate scenarios considered in these market risk simulations 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. Additionally, the Corporation is also subject to basis risk in the repricing of its assets and liabilities, including the basis related to using different rate indexes for the repricing of assets and liabilities, as well as the effect of pricing lags which may be contractual or due to historical differences in the timing of management responses to changes in the rate environment. By their nature, these forward-looking computations are only estimates and may be different from what may actually occur in the future. The following table presents the results of the simulations at December 31, 2022 and December 31, 2021, assuming a static balance sheet and parallel changes over flat spot rates over a one-year time horizon:

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

	December 31, 2022		December 31, 2021	
(Dollars in thousands)	Amount Change	Percent Change	Amount Change	Percent Change
Change in interest rate				
+400 basis points	$(38,548)	(1.75)%	$ 257,223	13.21%
+200 basis points	(18,078)	(0.82)	197,354	10.14
+100 basis points	(7,787)	(0.35)	166,920	8.57
-100 basis points	41,763	1.90	(78,408)	(4.03)
-200 basis points	78,381	3.56	(120,661)	(6.20)

As of December 31, 2022, NII simulations show the Corporation has a neutral to slightly liability sensitive position driven by the rapid increase in short-term interest rates throughout the year and its impact on Puerto Rico public sector deposits which are indexed to market rates, as well as the deployment of cash to fund loan growth and purchase investments. These results suggest that changes in net interest income are driven by changes in liability costs, primarily Puerto Rico public sector deposits. In declining rate scenarios net interest income would increase as the decline in the cost of these deposits generates a greater benefit than the changes in asset yields. In rising rate scenarios Popular's sensitivity profile is also impacted by its large proportion of Puerto Rico public sector deposits which are indexed to market rates. As short-term rates have risen, the cost of these deposits now increases in sync with market rates and therefore reduce the benefit banks typically have in rising rate environments. As of December 31, 2022, Popular has a more neutral position as compared to a substantially asset sensitive position as of December 31, 2021. The primary reasons for the reduction in sensitivity are i) the realization of much of the expected benefit in net interest income given the higher interest rates observed during 2022, ii) a decrease in cash balances (which reprice instantaneously) via the deployment into longer term investments and loans, and iii) the market indexed nature of Puerto Rico public sector deposits which represented $15.2 billion or 25% of deposits as of December 31, 2022.

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

Table 13 - Interest Rate Sensitivity

	At December 31, 2022								
	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 assets / liabilities	Total
Assets:									
Money market investments	$ 5,614,595	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 5,614,595
Investment and trading securities	2,085,332	750,646	1,026,603	1,076,243	1,116,553	4,590,807	16,292,815	(392,593)	26,546,406
Loans	5,090,409	2,875,448	1,436,637	1,248,850	1,256,549	4,559,631	15,718,001	(102,375)	32,083,150
Other assets	–	–	–	–	–	–	–	3,393,766	3,393,766
Total	12,790,336	3,626,094	2,463,240	2,325,093	2,373,102	9,150,438	32,010,816	2,898,798	67,637,917
Liabilities and stockholders' equity:									
Savings, NOW and money market and other interest bearing demand deposits	17,880,089	794,797	1,115,771	1,031,454	954,856	3,178,624	13,529,678	–	38,485,269
Certificates of deposit	1,921,505	468,312	640,081	452,482	496,747	1,194,998	1,607,276	–	6,781,401
Federal funds purchased and assets sold under agreements to repurchase	99,558	31,530	17,521	–	–	–	–	–	148,609
Other short-term borrowings	365,000	–	–	–	–	–	–	–	365,000
Notes payable	1,000	–	20,000	299,109	22,261	91,943	452,397	–	886,710
Non-interest bearing deposits	–	–	–	–	–	–	–	15,960,557	15,960,557
Other non-interest bearing liabilities	–	–	–	–	–	–	–	916,946	916,946
Stockholders' equity	–	–	–	–	–	–	–	4,093,425	4,093,425
Total	$20,267,152	$ 1,294,639	$ 1,793,373	$ 1,783,045	$ 1,473,864	$4,465,565	$15,589,351	$ 20,970,928	$67,637,917
Interest rate sensitive gap	(7,476,816)	2,331,455	669,867	542,048	899,238	4,684,873	16,421,465	(18,072,130)	–
Cumulative interest rate sensitive gap	(7,476,816)	(5,145,361)	(4,475,494)	(3,933,446)	(3,034,208)	1,650,665	18,072,130	–	–
Cumulative interest rate sensitive gap to earning assets	(11.55)%	(7.95)%	(6.91)%	(6.08)%	(4.69)%	2.55%	27.92%	–	–

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

Table 14 - Maturity Distribution of Earning Assets

	As of December 31, 2022							
	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	$ 5,614,595	$ –	$ –	$ –	$ –	$ –	$ –	$ 5,614,595
Investment and trading securities	5,972,315	15,917,065	12,593	4,474,589	3,287	–	–	26,379,849
Loans:								
Commercial	4,609,900	5,335,022	3,628,170	1,092,038	930,166	45,176	98,659	15,739,132
Construction	469,212	45,911	193,334	8,261	34,232	–	7,033	757,984
Leasing	426,138	1,127,923	–	31,678	–	–	–	1,585,739
Consumer	1,845,426	3,584,443	298,977	187,647	595,179	85,770	–	6,597,443
Mortgage	581,384	2,074,029	107,067	3,759,026	54,812	826,508	26	7,402,852
Subtotal loans	7,932,060	12,167,328	4,227,549	5,078,651	1,614,390	957,454	105,718	32,083,150
Total earning assets	$19,518,969	$28,084,393	$4,240,142	$9,553,241	$1,617,677	$957,454	$105,718	$64,077,594

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, 2022, the Corporation held trading securities with a fair value of $28 million, representing approximately 0.04% of the Corporation's total assets, compared with $30 million and 0.04%, respectively, at December 31, 2021. As shown in Table 15, the trading portfolio consists principally of mortgage-backed securities and U.S. Treasuries, which at December 31, 2022 were investment grade securities. As of December 31, 2022 and December 31, 2021, 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 net trading account loss of $784 thousand and a net trading account loss of $389 thousand, respectively, for the years ended December 31, 2022 and 2021.

Table 15 - Trading Portfolio

	December 31, 2022		December 31, 2021	
(Dollars in thousands)	Amount	Weighted Average Yield [1]	Amount	Weighted Average Yield [1]
Mortgage-backed securities	$14,223	5.79%	$22,559	5.12%
U.S. Treasury securities	13,069	3.26	6,530	0.03
Collateralized mortgage obligations	160	5.51	257	5.61
Puerto Rico government obligations	64	0.45	85	0.47
Interest-only strips	207	12.00	280	12.00
Total	$27,723	4.63%	$29,711	4.06%

[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 $0.2 million for the last week in December 31, 2022. There are numerous assumptions and estimates associated with VAR modeling, and actual results could differ from these assumptions and estimates. Backtesting is performed to compare actual results against maximum estimated losses, in order to evaluate model and assumptions accuracy.

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

Derivatives

Derivatives may be used by the Corporation as part of its overall interest rate risk management strategy to minimize significant unexpected fluctuations in earnings and cash flows that are caused by interest rate volatility. Derivative instruments that the Corporation may use include, among others, interest rate caps, indexed options, and forward contracts. The Corporation does not use highly leveraged derivative instruments in its interest rate risk management strategy. Credit risk embedded in these transactions is reduced by requiring appropriate collateral from counterparties and entering into netting agreements whenever possible. All outstanding derivatives are recognized in the Corporation's Consolidated Statements of Condition at their fair value. Refer to Note 26 to the Consolidated Financial Statements for further information on the Corporation's involvement in derivative instruments and hedging activities.

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, 2022 amounted to $ 15 million (2021 - $ 88 million). Refer to Note 26 to the Consolidated Financial Statements 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, 2022 and 2021.

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, 2022, the notional amount of the indexed options on deposits approximated \$ 85 million (2021 - \$ 79 million) with a fair value of \$ 18 million (asset) (2021 - \$ 26 million) while the embedded options had a notional value of \$ 79 million (2021 - \$ 72 million) with a fair value of \$ 16 million (liability) (2021 - \$ 23 million).

Refer to Note 26 to the Consolidated Financial Statements for a description of other non-hedging derivative activities utilized by the Corporation during 2022 and 2021.

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 \$ 199.8 million at December 31, 2022. 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, 2022, the Corporation had approximately \$ 57 million in an unfavorable foreign currency translation adjustment as part of accumulated other comprehensive income (loss), compared with an unfavorable adjustment of \$ 67 million at December 31, 2021 and \$ 71 million at December 31, 2020.

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 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 91% of the Corporation's total assets at December 31, 2022 and 89% at December 31, 2021. The ratio of total ending loans to deposits was 52% at December 31, 2022, compared to 44% at December 31, 2021. In addition to traditional deposits, the Corporation maintains borrowing arrangements, which amounted to approximately \$1.4 billion in outstanding balances at December 31, 2022 (December 31, 2021 - \$1.2 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 July 12, 2022, the Corporation completed an ASR program for the repurchase of an aggregate $400 million of Popular's common stock, for which an initial 3,483,942 shares were delivered in March 2022 (the "March ASR Agreement"). Upon the final settlement of the March ASR Agreement, the Corporation received an additional 1,582,922 shares of common stock. The Corporation repurchased a total of 5,066,864 shares at an average purchase price of $78.9443, which were recorded as treasury stock by $440 million under the March ASR Agreement.

On December 7, 2022, the Corporation completed the settlement of another ASR Agreement for the repurchase of an aggregate $231 million of Popular's common stock, for which an initial 2,339,241 shares were delivered on August 26, 2022 (the "August ASR"). Upon the final settlement of the ASR Agreement, the Corporation received an additional 840,024 shares of common stock. The Corporation repurchased a total of 3,179,265 shares at an average purchase price of $72.66, which were recorded as treasury stock by $245 million under the August ASR Agreement. Refer to Note 20 to the Consolidated Financial Statements for additional information.

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 and credit card licensing agreements.

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

The Corporation's ability to compete successfully in the marketplace for deposits, excluding brokered deposits, depends on various factors, including pricing, service, convenience and financial stability as reflected by operating results, 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 8 for a breakdown of deposits by major types. Core deposits are generated from a large base of consumer, corporate and public sector customers. Core deposits include 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 $57.6 billion, or 94% of total deposits, at December 31, 2022, compared with $63.6 billion, or 95% of total deposits, at December 31, 2021. Core deposits financed 90% of the Corporation's earning assets at December 31, 2022, compared with 88% at December 31, 2021.

The distribution by maturity of certificates of deposits with denominations of $250,000 and over at December 31, 2022 is presented in the table that follows:

Table 16 - Distribution by Maturity of Certificate of Deposits of $250,000 and Over

(In thousands)	
3 months or less	$1,809,781
Over 3 to 12 months	333,648
Over 1 year to 3 years	282,506
Over 3 years	119,815
Total	$2,545,750

For the years ended December 31, 2022 and 2021, average deposits, including brokered deposits, represented 93% of average earning assets. Table 17 summarizes average deposits for the past three years.

Table 17 - Average Total Deposits

(In thousands)	For the years ended December 31, 2022	2021
Non-interest bearing demand deposits	$16,093,704	$14,687,093
Savings accounts	16,242,457	15,753,630
NOW, money market and other interest bearing demand accounts	25,539,909	25,648,707
Certificates of deposit	6,840,334	7,013,486
Total interest bearing deposits	48,622,700	48,415,823
Total average deposits	$64,716,404	$63,102,916

The Corporation had $1.1 billion in brokered deposits at December 31, 2022, which financed approximately 2% of its total assets (December 31, 2021 - $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, 2022, total public sector deposits were $15.2 billion, compared to $20.3 billion at December 31, 2021. Generally, these deposits require that the bank pledge high credit quality securities as collateral; therefore, liquidity risks arising from public sector deposit outflows are lower given that the bank receives its collateral in return. This, now unpledged, collateral can either be financed via repurchase agreements or sold for cash. However, there are some timing differences between the time the deposit outflow occurs and when the bank receives its collateral. Additionally, the Corporation mainly utilizes fixed-rate U.S. Treasury debt securities as collateral. While these securities have limited credit risk, they are subject to market value risk based on changes in the interest rate environment. When interest rates increase, the value of this collateral decreases and could result in the Corporation having to provide additional collateral to cover the same amount of deposit liabilities. This additional collateral could reduce unpledged securities otherwise available as liquidity sources to the Corporation.

At December 31, 2022, management believes that the banking subsidiaries had sufficient current and projected liquidity sources to meet their anticipated cash flow obligations, as well as special needs and off-balance sheet commitments, in the ordinary course of business and have sufficient liquidity resources to address a stress event. Although the banking subsidiaries have historically been able to replace maturing deposits and advances, no assurance can be given that they would be able to replace those funds in the future if the Corporation's financial condition or general market conditions were to deteriorate. The Corporation's financial flexibility will be severely constrained if the banking subsidiaries are unable to maintain access to funding or if adequate financing is not available to accommodate future financing needs at acceptable interest rates. The banking subsidiaries also are required to deposit cash or qualifying securities to meet margin requirements on repurchase agreements and other collateralized borrowing facilities. To the extent that the value of securities previously pledged as collateral declines because of market changes, the Corporation will be required to deposit additional cash or securities to meet its margin requirements, thereby adversely affecting its liquidity. Finally, if management is required to rely more heavily on more expensive funding sources to meet its future growth, revenues may not increase proportionately to cover costs. In this case, profitability would be adversely affected.

Bank Holding Companies

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

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

The outstanding balance of notes payable at the BHCs amounted to $497 million at December 31, 2022 and $496 million at December 31, 2021.

The contractual maturities of the BHCs notes payable at December 31, 2022 are presented in Table 18.

Table 18 - Distribution of BHC's Notes Payable by Contractual Maturity

Year	(In thousands)
2023	$299,109
Later years	198,319
Total	$497,428

The Corporation's 6.125% unsecured senior debt securities mature in the September of 2023. Annual debt service at the BHCs is approximately $32 million, and the Corporation's latest quarterly dividend was $0.55 per share or approximately $40 million per quarter. As of December 31, 2022, the BHCs had cash and money markets investments totaling $203 million and borrowing potential of $169 million from its secured facility with BPPR. The BHCs' liquidity position continues to be adequate with sufficient cash on hand, investments and other sources of liquidity which are expected to be enough to meet all interest payments and dividend obligations during the foreseeable future. The Corporation intends to refinance the 6.125% unsecured senior debt prior to its maturity in September. If we are unable to refinance these notes, we could have to declare extraordinary dividends from our banking and other operating subsidiaries to repay such notes. Our ability to declare such dividends could be subject to approval of the Federal Reserve Board.

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

On July 1, 2022, the Corporation exchanged a portion of Evertec shares as part of a transaction in which it acquired certain critical channels from Evertec and renegotiated several service agreements. The Corporation completed the sale of its remaining shares of Evertec on August 15, 2022. Following the Evertec Stock Sale, Popular no longer owns any Evertec common stock.

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. During the period ended December 31, 2022, Popular, Inc. made capital contributions to its wholly owned subsidiaries of $25 million to Popular Re, Inc., $10 million to Popular Securities, LLC and $3 million to Popular Impact Fund, LLC.

Dividends

During the year ended December 31, 2022, the Corporation declared cash dividends of $2.20 per common share outstanding ($163.7 million in the aggregate). The dividends for the Corporation's Series A preferred stock amounted to $1.4 million. During the year ended December 31, 2022, the BHCs received dividends amounting to $450 million from BPPR, $54 million from PNA, $19 million from PIBI, $8 million in dividends from its non-banking subsidiaries and $2 million in dividends from Evertec. In addition, during the year ended December 31, 2022, Popular International Bank Inc., a wholly owned subsidiary of Popular, Inc., received $16 million in dividends from its investment in BHD. 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 $8.0 billion at December 31, 2022 and $3.0 billion at December 31, 2021. 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 to the Consolidated Financial Statements for information on operating leases and to Note 23 to the Consolidated Financial Statements for a detailed discussion related to the Corporation's obligations under credit recourse and representation and warranties arrangements.

The Corporation monitors its cash requirements, including its contractual obligations and debt commitments. 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 $1.4 billion at December 31, 2022 (December 31, 2021 - $1.2 billion).

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, 2022 and December 31, 2021, and the results of their operations for the period ended December 31, 2022 and December 31, 2021. 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 19 - Summarized Statement of Condition

(In thousands)	December 31, 2022	December 31, 2021
Assets		
Cash and money market investments	$ 203,083	$291,540
Investment securities	24,815	25,691
Accounts receivables from non-obligor subsidiaries	16,853	17,634
Other loans (net of allowance for credit losses of $370 (2021 - $96))	27,826	29,349
Investment in equity method investees	5,350	114,955
Other assets	45,278	42,251
Total assets	$ 323,205	$521,420
Liabilities and Stockholders' deficit		
Accounts payable to non-obligor subsidiaries	$ 3,709	$ 6,481
Accounts payable to affiliates and related parties	–	1,254
Notes payable	497,428	496,134
Other liabilities	112,847	97,172
Stockholders' deficit	(290,779)	(79,621)
Total liabilities and stockholders' deficit	$ 323,205	$521,420

Table 20 - Summarized Statement of Operations

	For the years ended	
(In thousands)	December 31, 2022	December 31, 2021
Income:		
Dividends from non-obligor subsidiaries	$458,000	$792,000
Interest income from non-obligor subsidiaries and affiliates	705	848
Earnings from investments in equity method investees	15,688	29,387
Other operating income	145,295	3,136
Total income	$619,688	$825,371
Expenses:		
Services provided by non-obligor subsidiaries and affiliates (net of reimbursement by subsidiaries for services provided by parent of $222,935 (2021 - $162,019))	$ 18,467	$ 13,594
Other operating expenses	23,607	33,524
Total expenses	$ 42,074	$ 47,118
Net income (loss)	$577,614	$778,253

During the year ended December 31, 2022, the Obligor group recorded $1.5 million of dividend distributions from its direct equity method investees, and $72.0 million of dividend distributions from non-obligor subsidiaries which were recorded as a reduction to the investments. During the year ended December 31, 2021, the Obligor group recorded $3.0 million of distributions from its direct equity method investees, of which $2.3 million were related to dividend distributions.

In addition, during the year ending December 31, 2022, the Obligor group recorded $228.1 million in proceeds from the sale of two of its direct equity method investees (2021- $0).

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 Corporation is subject to positive tangible capital requirements to utilize secured loan facilities with the FHLB that could result in a limitation of borrowing amounts or maturity terms, even if the Corporation exceeds well-capitalized regulatory capital levels.

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

Furthermore, various statutory provisions limit the amount of dividends an insured depository institution may pay to its holding company without regulatory approval. A member bank must obtain the approval of the Federal Reserve Board for any dividend, if the total of all dividends declared by the member bank during the calendar year would exceed the total of its net income for that year, combined with its retained net income for the preceding two years, after considering those years' dividend activity, less any required transfers to surplus or to a fund for the retirement of any preferred stock. During the year ended December 31, 2022, BPPR declared cash dividends of $450 million, a portion of which was used by Popular for the payments of the cash dividends on its outstanding common stock and $231 million in accelerated stock repurchases. At December 31, 2022, BPPR needed to obtain prior approval of the Federal Reserve Board before declaring a dividend in excess of $53 million due to its declared dividend activity and transfers to statutory reserves over the three years ended December 31, 2022. In addition, a member bank may not declare or pay a dividend in an amount greater than its undivided profits as reported in its Report of Condition and Income, unless the member bank has received the approval of the Federal Reserve Board. A member bank also may not permit any portion of its permanent capital to be withdrawn unless the withdrawal has been approved by the Federal Reserve Board. Pursuant to these requirements, PB may not declare or pay a dividend without the prior approval of the Federal Reserve Board and the NYSDFS. The ability of a bank subsidiary to up-stream dividends to its BHC could thus be impacted by its financial performance and capital, including tangible and regulatory capital, thus potentially limiting the amount of cash moving up to the BHCs from the banking subsidiaries. This could, in turn, affect the BHCs ability to declare dividends on its outstanding common and preferred stock, repurchase its securities or meet its debt obligations, for example.

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

Obligations Subject to Rating Triggers or Collateral Requirements

The Corporation's banking subsidiaries currently do not 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, 2022 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 $29 million at December 31, 2022. The Corporation could be required to post additional collateral under the agreements. Management expects that it would be able to meet additional collateral requirements if and when needed. The requirements to post collateral under certain agreements or the loss of escrow deposits could reduce the Corporation's liquidity resources and impact its operating results.

Credit Risk

Geographic and Government Risk

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

Commonwealth of Puerto Rico

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

Economic Performance.

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

The latest Puerto Rico Economic Activity Index, published by the Economic Development Bank for Puerto Rico (the "Economic Activity Index"), reflected a 0.6% increase in

December 2022, compared to December 2021. During calendar year 2022, the Economic Activity Index increased by 1.8%, compared to the same period in calendar year 2021. The Economic Activity Index is a coincident indicator of ongoing economic activity but not a direct measurement of real GNP. According to the Puerto Rico Planning Board's latest economic forecast (dated August 2021), Puerto Rico's real GNP is projected to increase 1.7% during the current fiscal year (July 2022-June 2023).

While the Puerto Rico economy has not directly tracked the United States economy in recent years, many of the external factors that impact the Puerto Rico economy are affected by the policies and performance of the United States economy. These external factors include the level of interest rates and the rate of inflation. Inflation in the United States, as measured by the United States Consumer Price Index (published by the U.S. Bureau of Labor Statistics), increased 6.5% in calendar year 2022, mainly driven by pent-up demand and supply-chain disruptions caused by the pandemic. During the same period, inflation in Puerto Rico, as measured by the Puerto Rico Consumer Price Index (published by the Department of Labor and Human Resources of Puerto Rico), increased 6.1% for similar reasons. The rate of inflation has slowed down in recent months, following a mid-2022 peak, as the Federal Reserve has implemented a series of benchmark interest rate increases. The speed and scope of the inflation slowdown will inform if and how much interest rates will continue to increase, as well how these changes will impact the United States and Puerto Rico economies.

Fiscal Challenges.

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

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

Since 2017, Puerto Rico and several of its instrumentalities have availed themselves of the debt restructuring mechanisms of Titles III and VI of PROMESA. The Puerto Rico government emerged from Title III of PROMESA in March 2022. Several instrumentalities, including Government Development Bank for Puerto Rico, the Puerto Rico Sales Tax Financing Corporation, and the Puerto Rico Highways and Transportation Authority, have also completed debt restructurings under Titles III or VI of PROMESA. While the majority of the debt has already been restructured, some PR Government Entities still face significant fiscal challenges. For example, the Puerto Rico Electric Power Authority is still in the process of restructuring its debts under Title III of PROMESA and other PR Government Entities, such as the Puerto Rico Industrial Development Company, have defaulted on their bonds but have not commenced debt restructuring proceedings under PROMESA.

Municipalities.

Puerto Rico's fiscal and economic challenges have also adversely impacted its municipalities. Budgetary subsidies to municipalities have gradually declined in recent years and are scheduled to be ultimately eliminated by fiscal year 2025 as part of the fiscal measures required by the Oversight Board. According to the latest Puerto Rico fiscal plan certified by the Oversight Board, municipalities have made little to no progress towards implementing the fiscal discipline required to reduce reliance on these budgetary appropriations and this lack of fiscal management may threaten the ability of certain municipalities to provide necessary services, such as health, sanitation, public safety and emergency services to their residents, forcing them to prioritize expenditures. Municipalities are subject to PROMESA and, at the Oversight Board's request, are required to submit fiscal plans and annual budgets to the Oversight Board for its review and approval. They are also required to seek Oversight Board approval to issue, guarantee or modify their debts and to enter into contracts with an aggregate value of $10 million or more. With the Oversight Board's approval, municipalities are also eligible to avail themselves of the debt restructuring processes provided by PROMESA. To date, however, no municipality has been subject to any such debt restructuring process.

Exposure of the Corporation

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

At December 31, 2022, the Corporation's direct exposure to PR Government Entities totaled $374 million, of which $327 million were outstanding, compared to $367 million at December 31, 2021, of which $349 million were outstanding. A deterioration in Puerto Rico's fiscal and economic situation could adversely affect the value of our Puerto Rico government obligations, resulting in losses to us. Of the amount outstanding, $302 million consists of loans and $25 million are securities ($319 million and $30 million, respectively, at December 31, 2021). All of the Corporation's direct exposure outstanding at December 31, 2022 were obligations from various Puerto Rico municipalities. In most cases, these were "general obligations" of a municipality, to which the applicable municipality has pledged its good faith, credit and unlimited taxing power, or "special obligations" of a municipality, to which the applicable municipality has pledged basic property tax or sales tax revenues. At December 31, 2022, 73% of the Corporation's exposure to municipal loans and securities was concentrated in the municipalities of San Juan, Guaynabo, Carolina and Bayamón. For additional discussion of the Corporation's direct exposure to the Puerto Rico government and its instrumentalities and municipalities, refer to Note 24 – Commitments and Contingencies to the Consolidated Financial Statements.

In addition, at December 31, 2022, the Corporation had $251 million in loans insured or securities issued by Puerto Rico governmental entities, but for which the principal source of repayment is non-governmental ($275 million at December 31, 2021). These included $209 million in residential mortgage loans insured by the Puerto Rico Housing Finance Authority ("HFA"), a PR Government Entity (December 31, 2021 - $232 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, 2022, $42 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, 2021 - $43 million). In the event that the mortgage loans insured by HFA and held by the Corporation directly or those serving as collateral for the HFA bonds default and the collateral is insufficient to satisfy the outstanding balance of these loans, HFA's ability to honor its insurance will depend, among other factors, on the financial condition of HFA at the time such obligations become due and payable. The Corporation does not consider the government guarantee when estimating the credit losses associated with this portfolio.

BPPR's commercial loan portfolio also includes loans to private borrowers who are service providers, lessors, suppliers or have other relationships with the government. These borrowers could be negatively affected by a deterioration in the fiscal and economic situation of PR Government Entities. Similarly, BPPR's mortgage and consumer loan portfolios include loans to government employees and retirees, which could also be negatively affected by fiscal measures, such as employee layoffs or furloughs or reductions in pension benefits, if the fiscal and economic situation deteriorates.

As of December 31, 2022, BPPR had $15.2 billion in deposits from the Puerto Rico government, its instrumentalities, and municipalities. The rate at which public deposit balances may decline is uncertain and difficult to predict. The amount and timing of any such reduction is likely to be impacted by, for example, the speed at which federal assistance is distributed and the financial condition, liquidity and cash management practices of such entities, as well as on the ability of BPPR to maintain these customer relationships.

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

United States Virgin Islands

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

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

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

At December 31, 2022, the Corporation had approximately $28 million in direct exposure to USVI government entities (December 31, 2021 - $70 million).

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, 2022 it has a loan portfolio amounting to approximately $214 million comprised of various retail and commercial clients, compared to a loan portfolio of $221 million at December 31, 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, $38 million of SBA loans under the Paycheck Protection Program ("PPP") and $72 million commercial loans were insured or guaranteed by the U.S. Government or its agencies at December 31, 2022 (compared to $1.6 billion, $353 million and $67 million, respectively, at December 31, 2021).

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 21.

During 2022, the Corporation showed favorable credit quality trends with low levels of NCOs and decreasing NPLs. We continue to closely monitor changes in the macroeconomic environment and borrower performance, given inflationary pressures and geopolitical uncertainty. However, management believes that the improvement over recent years in the risk profile of the Corporation's loan portfolios positions Popular to operate successfully under the current environment.

Total NPAs decreased by $104 million when compared with December 31, 2021. Total non-performing loans held-in-portfolio ("NPLs") decreased by $108 million from December 31, 2021. BPPR's NPLs decreased by $112 million, mainly driven by lower mortgage and commercial NPLs by $91 million and $38 million, respectively, in part offset by higher auto NPLs by $18 million. The mortgage NPLs decrease was mainly due to the combined effects of collection efforts, increased foreclosure activity and lower inflows compared with pre-pandemic trends. Popular U.S. NPLs increased by $4 million from December 31, 2021, mainly in the commercial portfolio, in part due to an $11 million commercial borrower within the healthcare industry that was placed in non-accrual status and for which a partial charge-off of $8.7 million was recognized during the fourth quarter of 2022. At December 31, 2022, the ratio of NPLs to total loans held-in-portfolio was 1.4% compared to 1.9%, at December 31, 2021. Other real estate owned loans ("OREOs") increased by $4 million. At December 31, 2022, NPLs secured by real estate amounted to $303 million in the Puerto Rico operations and $33 million in Popular U.S. These figures were $428 million and $31 million, respectively, at December 31, 2021.

The Corporation's commercial loan portfolio secured by real estate ("CRE") amounted to $9.9 billion at December 31, 2022, of which $3.1 billion was secured with owner occupied properties, compared with $8.4 billion and $1.8 billion, respectively, at December 31, 2021. During the first quarter of 2022, the Corporation reclassified $0.9 billion of loans from the Commercial Real Estate ("CRE") Non-Owner-Occupied category to the CRE Owner-Occupied category. The selected loans are primarily to skilled and assisted living nursing homes where the majority of the revenues, which are the basis for the repayment of the loans, are generated from medical and related operational activities. These loans meet the type of business and source requirements as defined in the regulatory guidance allowing this classification. CRE NPLs amounted to $54 million at December 31, 2022, compared with $77 million at December 31, 2021. The CRE NPL ratios for the BPPR and Popular U.S. segments were 1.04% and 0.12%, respectively, at December 31, 2021, compared with 1.95% and 0.04%, respectively, at December 31, 2021.

In addition to the NPLs included in Table 21, at December 31, 2022, there were $374 million of performing loans, mostly commercial loans, which in management's opinion, are currently subject to potential future classification as non-performing (December 31, 2021 - $214 million).

For the year ended December 31, 2022, total inflows of NPLs held-in-portfolio, excluding consumer loans, decreased by approximately $74 million, when compared to the inflows for the same period in 2021. Inflows of NPLs held-in-portfolio at the BPPR segment decreased by $76 million compared to the same period in 2021, driven by lower mortgage and commercial inflows by $38 million each. Inflows of NPLs held-in-portfolio at the Popular U.S. segment increased by $2 million from the same period in 2021.

Table 21 - Non-Performing Assets

(Dollars in thousands)	December 31, 2022 BPPR	Popular U.S.	Popular, Inc.	December 31, 2021 BPPR	Popular U.S.	Popular, Inc.
Non-accrual loans:						
Commercial	$ 82,171	$10,868	$ 93,039	$120,047	$ 5,532	$125,579
Construction	–	–	–	485	–	485
Leasing	5,941	–	5,941	3,102	–	3,102
Mortgage	242,391	20,488	262,879	333,887	21,969	355,856
Auto	40,978	–	40,978	23,085	–	23,085
Consumer	30,528	6,076	36,604	33,683	6,087	39,770
Total non-performing loans held-in-portfolio	402,009	37,432	439,441	514,289	33,588	547,877
Other real estate owned ("OREO")	88,773	353	89,126	83,618	1,459	85,077
Total non-performing assets	$490,782	$37,785	$528,567	$597,907	$35,047	$632,954
Accruing loans past-due 90 days or more [2]	$351,248	$ 366	$351,614	$480,649	$ 118	$480,767
Non-performing loans to loans held-in-portfolio			1.37%			1.87%
Interest lost			$ 27,920			$ 38,123

[1] There were no non-performing loans held-for-sale as of December 31, 2022 and 2021.

[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 $14 million at December 31, 2022 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, 2021 - $13 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 $190 million of residential mortgage loans insured by FHA or guaranteed by the VA that are no longer accruing interest as of December 31, 2022 (December 31, 2021 - $304 million). Furthermore, the Corporation has approximately $42 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, 2021 - $50 million).

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

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

Table 23 - Activity in Non-Performing Loans Held-in-Portfolio (Excluding Consumer Loans)

	For the year ended December 31, 2021		
(In thousands)	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 24 - Activity in Non-Performing Commercial Loans Held-In-Portfolio

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

Table 25 - 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 26 - Activity in Non-Performing Construction Loans Held-In-Portfolio

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

Table 27 - 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 28 - Activity in Non-Performing Mortgage Loans Held-in-Portfolio

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

Table 29 - 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

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, 2022 and 2021, are presented below.

Table 30 - Loan Delinquencies

(Dollars in thousands)	2022			2021		
	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	$ 119,476	$15,739,132	0.76%	$ 161,251	$13,732,701	1.17%
Construction	–	757,984	–	485	716,220	0.07
Leasing	21,487	1,585,739	1.36	14,379	1,381,319	1.04
Mortgage [1]	937,253	7,397,471	12.67	1,141,082	7,427,196	15.36
Consumer	216,401	6,597,443	3.28	173,896	5,983,121	2.91
Loans held-for-sale	–	5,381	–		59,168	–
Total	$1,294,617	$32,083,150	4.04%	$1,491,093	$29,299,725	5.09%

[1] Loans delinquent 30 days or more includes $0.5 billion of residential mortgage loans insured by FHA or guaranteed by the VA as of December 31, 2021 (December 31, 2020 - $0.6 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, 2022, the allowance for credit losses amounted to $720 million, an increase of $25 million, when compared with December 31, 2021. Given that any one economic outlook is inherently uncertain, the Corporation leverages multiple scenarios to estimate its ACL. The baseline scenario continues to be assigned the highest probability, followed by the pessimistic scenario. The Corporation evaluates, at least on an annual basis, the assumptions tied to the CECL accounting framework. These include the reasonable and supportable period as well as the reversion window. During the third quarter of 2022, as part of its evaluation procedures, the Corporation decided to extend the reversion window from 1 year to 3 years. The extension in the reversion window results in a better representation of historical movements for key macroeconomic variables that impact the ACL. This change in assumptions contributed to a reduction of $11 million in the ACL. The reasonable and supportable period assumptions remained unchanged at 2-years.

The baseline scenario assumes a 2023 annualized GDP growth for Puerto Rico and the United States of 1.3% and 0.7%. For 2022, annualized expected growth was 2.6% and 1.8% for Puerto Rico and United States, respectively. The reduction in 2023 is due to the expected slowdown in the economy as a result of tight monetary policy, weaker job growth and persistent inflation. The 2023 average unemployment rate is forecasted at 7.8% and 4.0% for Puerto Rico and United States, respectively, compared to 2022 average levels of 6.4% for Puerto Rico and 3.7% for the United States. In 2023, weaker job growth due to the expected slowdown in the economy will contribute to the increase in unemployment rate.

The ACL for BPPR increased by $21 million to $616 million, when compared to December 31, 2021, mostly driven by changes in the economic scenario, higher loan volumes and changes in credit quality The ACL for Popular U.S. increased by $4 million to $105 million, when compared to December 31, 2021.

The provision for credit losses for the year ended December 31, 2022, amounted to an expense of $83.3 million, compared to a benefit of $183.3 million for the year ended December 31, 2021, as the prior year included reductions in reserves due to post-pandemic improvements in the macroeconomic outlook and lower NCOs. Refer to Note 9 – Allowance for credit losses – loans held-in-portfolio to the Consolidated Financial Statements, and to the Provision for Credit Losses section of this MD&A for additional information.

The following table presents net charge-offs to average loans held-in-portfolio ("HIP") ratios by loan category for the years ended December 31, 2022 and 2021:

Table 31 - Net Charge-Offs (Recoveries) to Average Loans HIP

	December 31, 2022			December 31, 2021		
	BPPR	Popular U.S.	Popular Inc.	BPPR	Popular U.S.	Popular Inc.
Commercial	(0.14)%	0.11%	(0.02)%	(0.24)%	(0.02)%	(0.15)%
Construction	(0.48)	(0.19)	(0.25)	1.27	(0.02)	0.19
Mortgage	(0.26)	–	(0.22)	0.04	–	0.04
Leasing	0.26	–	0.26	0.11	–	0.11
Consumer	1.22	1.33	1.22	0.58	0.99	0.60
Total	0.23%	0.12%	0.20%	0.09%	0.01%	0.07%

NCOs for the year ended December 31, 2022 amounted to $59.3 million, increasing by $38.6 million when compared to the same period in 2021. The BPPR segment increased by $29.4 million mainly driven by higher consumer NCOs by $40.5 million, mostly auto loans, in part offset by lower mortgage NCOs by $18.5 million. The increase in the consumer NCOs was mostly related to post-pandemic normalization, as NCOs continue at historical low levels. The PB segment NCOs increased by $9.2 million, mainly driven by higher commercial NCOs by $8.6 million, due to the $8.7 million charge-off during the fourth quarter of 2022 on the above-mentioned healthcare NPL.

Table 32 - Allowance for Credit Losses - Loan Portfolios

	December 31, 2022					
(Dollars in thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Total ACL	$ 235,376	$ 4,246	$ 135,254	$ 20,618	$ 324,808	$ 720,302
Total loans held-in-portfolio	$15,739,132	$757,984	$7,397,471	$1,585,739	$6,597,443	$32,077,769
ACL to loans held-in-portfolio	1.50%	0.56%	1.83%	1.30%	4.92%	2.25%
Total Non-performing loans held-in-portfolio	$ 93,039	$ -	$ 262,879	$ 5,941	$ 77,582	$ 439,441
ACL to non-performing loans held-in-portfolio	252.99%	N.M.	51.45%	347.05%	418.66%	163.91%

N.M. - Not meaningful.

Table 33 - 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 34 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 34 - Allocation of the Allowance for Credit Losses - Loans

At December 31,				
	2022		2021	
(Dollars in millions)	ACL	% of loans in each category to total loans	ACL	% of loans in each category to total loans
Commercial	$235.4	49.1%	$215.8	47.0%
Construction	4.2	2.4	6.4	2.4
Mortgage	135.3	23.1	154.5	25.4
Leasing	20.6	4.9	17.6	4.7
Consumer	324.8	20.5	301.1	20.5
Total [1]	$720.3	100.0%	$695.4	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 $1.6 billion at December 31, 2022, decreasing by $12 million, from December 31, 2021. A total of $725 million of these TDRs are related to guaranteed loans, which are in accruing status. The Corporation has offered to clients impacted by the hurricanes Fiona and Ian a moratorium of up to three monthly payments on personal and commercial credit cards, auto loans, leases, and personal loans, subject to certain eligibility requirements. Mortgage clients also benefited from different payment relief alternatives available, depending on their type of loan. Loan relief options for commercial clients were reviewed on a case-by-case basis. As of December 31, 2022, approximately 2,428 loans with a $94.8 million amortized cost were granted a moratorium of which 218 loans with a $7.7 million amortized cost have been classified as TDR.

TDRs in the BPPR segment amounted to $1.6 billion, a decrease of $12 million, mostly related to lower consumer TDRs by $11 million. The Popular U.S. segment TDRs have remained essentially flat since December 31, 2021. TDRs in accruing status increased by $26 million from December 31, 2021, mostly related to an increase of $26 million in BPPR's mortgage TDRs, while non-accruing TDRs decreased by $39 million, mostly related to lower mortgage and commercial TDRs by $26 million and $10 million, respectively.

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 Enterprise Risk Management Department in the Financial and Operational Risk Management Division (the "FORM Division"), in coordination with the Chief Risk Officer, create the framework to identify and manage multiple and cross-enterprise risks, and to articulate the RAS and supporting metrics. Our risk management program monitors the following principal risks: credit, interest rate, market, liquidity, operational, cyber and information security, climate, legal, regulatory affairs, regulatory and financial compliance, BSA/ AML & sanctions, strategic and reputational.

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

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

The Corporate Compliance Committee, comprised of senior management team members and representatives from the Regulatory and Financial Compliance Division and the Financial Crimes Compliance Division, among others, are responsible for overseeing and assessing the adequacy of the risk management processes that underlie Popular's compliance program for identifying, assessing, measuring, monitoring, testing, mitigating, and reporting compliance risks. They also supervise Popular's reporting obligations under the compliance program 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 ESG Committee whose purpose and responsibility is to oversee the Corporation's ESG strategies and support the development and consistent application of policies, processes and procedures that measure, limit and manage ESG matters and risks. The ESG Committee also assesses ESG-related considerations in the credit approval process of commercial credit applications.

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

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

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

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

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

Statistical Summary 2022-2021
Statements of Financial Condition

(In thousands)	At December 31, 2022	2021
Assets:		
Cash and due from banks	$ 469,501	$ 428,433
Money market investments:		
Time deposits with other banks	5,614,595	17,536,719
Total money market investments	5,614,595	17,536,719
Trading account debt securities, at fair value	27,723	29,711
Debt securities available-for-sale, at fair value	17,804,374	24,968,269
Debt securities held-to-maturity, at amortized cost	8,525,366	79,461
Less – Allowance for credit losses	6,911	8,096
Debt securities held-to-maturity, net	8,518,455	71,365
Equity securities	195,854	189,977
Loans held-for-sale, at lower of cost or fair value	5,381	59,168
Loans held-in-portfolio:		
Loans held-in-portfolio	32,372,925	29,506,225
Less – Unearned income	295,156	265,668
Allowance for credit losses	720,302	695,366
Total loans held-in-portfolio, net	31,357,467	28,545,191
Premises and equipment, net	498,711	494,240
Other real estate	89,126	85,077
Accrued income receivable	240,195	203,096
Mortgage servicing rights, at fair value	128,350	121,570
Other assets	1,847,813	1,628,571
Goodwill	827,428	720,293
Other intangible assets	12,944	16,219
Total assets	$67,637,917	$75,097,899
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	$15,960,557	$15,684,482
Interest bearing	45,266,670	51,320,606
Total deposits	61,227,227	67,005,088
Assets sold under agreements to repurchase	148,609	91,603
Other short-term borrowings	365,000	75,000
Notes payable	886,710	988,563
Other liabilities	916,946	968,248
Total liabilities	63,544,492	69,128,502
Stockholders' equity:		
Preferred stock	22,143	22,143
Common stock	1,047	1,046
Surplus	4,790,993	4,650,182
Retained earnings	3,834,348	2,973,745
Treasury stock – at cost	(2,030,178)	(1,352,650)
Accumulated other comprehensive loss, net of tax	(2,524,928)	(325,069)
Total stockholders' equity	4,093,425	5,969,397
Total liabilities and stockholders' equity	$67,637,917	$75,097,899

Statistical Summary 2020-2022
Statements of Operations

(In thousands)	For the years ended December 31, 2022	2021	2020
Interest income:			
Loans	$1,876,166	$1,747,827	$1,742,390
Money market investments	118,080	21,147	19,721
Investment securities	471,665	353,663	329,440
Total interest income	2,465,911	2,122,637	2,091,551
Less - Interest expense	298,552	165,047	234,938
Net interest income	2,167,359	1,957,590	1,856,613
Provision for credit losses (benefit)	83,030	(193,464)	292,536
Net interest income after provision for credit losses	2,084,329	2,151,054	1,564,077
Mortgage banking activities	42,450	50,133	10,401
Net gain on sale of debt securities	–	23	41
Net (loss) gain, including impairment, on equity securities	(7,334)	131	6,279
Net (loss) gain on trading account debt securities	(784)	(389)	1,033
Net (loss) gain on sale of loans, including valuation adjustments on loans held-for-sale	–	(73)	1,234
Adjustment to indemnity reserves on loans sold	919	4,406	390
Other non-interest income	861,811	587,897	492,934
Total non-interest income	897,062	642,128	512,312
Operating expenses:			
Personnel costs	719,764	631,802	564,205
All other operating expenses	1,026,656	917,473	893,624
Total operating expenses	1,746,420	1,549,275	1,457,829
Income before income tax	1,234,971	1,243,907	618,560
Income tax expense	132,330	309,018	111,938
Net Income	$1,102,641	$ 934,889	$ 506,622
Net Income Applicable to Common Stock	$1,101,229	$ 933,477	$ 504,864

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

*On a Taxable Equivalent Basis**

	2022			2021			2020		
(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	$ 9,530,698	$ 118,079	1.24%	$15,999,741	$ 21,147	0.13%	$ 8,597,652	$ 19,723	0.23%
U.S. Treasury securities	21,141,431	448,961	2.12	12,396,773	266,670	2.16	12,107,819	257,308	2.13
Obligations of U.S. Government sponsored entities	41	2	5.66	7,972	120	1.50	70,424	2,818	4.00
Obligations of Puerto Rico, States and political subdivisions	67,965	7,824	11.51	75,607	7,608	10.06	82,051	5,705	6.95
Collateralized mortgage obligations and mortgage-backed securities	8,342,672	198,566	2.38	10,255,525	224,706	2.19	6,913,416	194,794	2.82
Other	190,489	8,925	4.68	194,640	9,027	4.64	178,818	7,369	4.12
Total investment securities	29,742,598	664,278	2.23	22,930,517	508,131	2.22	19,352,528	467,994	2.42
Trading account securities	51,357	3,049	5.94	84,380	4,339	5.16	69,446	4,165	6.00
Loans (net of unearned income)	30,405,280	1,924,895	6.33	29,074,036	1,794,789	6.19	28,384,981	1,785,022	6.29
Total interest earning assets/Interest income	$69,729,933	$2,710,301	3.89%	$68,088,674	$2,328,406	3.43%	$56,404,607	$2,276,904	4.04%
Total non-interest earning assets	3,078,671			3,079,976			3,178,848		
Total assets	$72,808,604			$71,168,650			$59,583,455		
Liabilities and Stockholders' Equity									
Interest bearing liabilities:									
Savings, NOW, money market and other interest bearing demand accounts	$41,769,576	$ 191,064	0.46%	$41,387,504	$ 59,034	0.15%	$32,077,578	$ 92,417	0.29%
Time deposits	6,853,127	61,781	0.90	7,028,334	52,587	0.75	7,970,474	83,438	1.05
Federal funds purchased	7	–	3.92	1	–	0.25	342	1	0.25
Securities purchased under agreement to resell	107,305	2,309	2.15	91,394	317	0.35	143,718	2,336	1.63
Other short-term borrowings	99,083	3,428	3.46	343	1	0.35	21,557	120	0.56
Notes payable	938,778	39,970	4.26	1,184,737	53,107	4.49	1,178,169	56,626	4.81
Total interest bearing liabilities/ Interest expense	49,767,876	298,552	0.60	49,692,313	165,046	0.33	41,391,838	234,938	0.57
Total non-interest bearing liabilities	17,031,503			15,698,685			12,771,679		
Total liabilities	66,799,379			65,390,998			54,163,517		
Stockholders' equity	6,009,225			5,777,652			5,419,938		
Total liabilities and stockholders' equity	$72,808,604			$71,168,650			$59,583,455		
Net interest income on a taxable equivalent basis		$2,411,749			$2,163,360			$2,041,966	
Cost of funding earning assets			0.43%			0.24%			0.42%
Net interest margin			3.46%			3.19%			3.62%
Effect of the taxable equivalent adjustment		244,390			205,770			185,353	
Net interest income per books		$2,167,359			$1,957,590			$1,856,613	

* 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.