FORWARD-LOOKING STATEMENTS

The information included in this report contains certain forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, including, without limitation, statements about Popular Inc.'s (the "Corporation," "Popular," "we," "us," "our") business, financial condition, results of operations, plans, objectives, future performance and the effects of the COVID-19 pandemic on our business. Forward-looking statements in this Annual Report also include the expected benefits of the Popular Bank New York branches optimization strategy, as well as related estimates of pre-tax charges and anticipated annual operating expense savings. These statements are not guarantees of future performance, are based on management's current expectations and, by their nature, involve risks, uncertainties, estimates and assumptions. Potential factors, some of which are beyond the Corporation's control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Risks and uncertainties include without limitation the effect of competitive and economic factors, and our reaction to those factors, the adequacy of the allowance for loan losses, delinquency trends, market risk and the impact of interest rate changes, capital markets conditions, capital adequacy and liquidity, and the effect of legal and regulatory proceedings and new accounting standards on the Corporation's financial condition and results of operations. All statements contained herein that are not clearly historical in nature are forward-looking, and the words "anticipate," "believe," "continues," "expect," "estimate," "intend," "project" and similar expressions and future or conditional verbs such as "will," "would," "should," "could," "might," "can," "may" or similar expressions are generally intended to identify forward-looking statements.

Various factors, some of which are beyond Popular's control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to, the rate of growth or decline in the economy and employment levels, as well as general business and economic conditions in the geographic areas we serve and, in particular, in the Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico"), where a significant portion of our business is concentrated; the impact of the current fiscal and economic challenges of Puerto Rico and the measures taken and to be taken by the Puerto Rico Government and the Federally-appointed oversight board on the economy, our customers and our business; the impact of the pending debt restructuring proceedings under Title III of the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA") and of other actions taken or to be taken to address Puerto Rico's fiscal challenges on the value of our portfolio of Puerto Rico government securities and loans to governmental entities and of our commercial, mortgage and consumer loan portfolios where private borrowers could be directly affected by governmental action; the amount of Puerto Rico public sector deposits held at the Corporation, whose future balances are uncertain and difficult to predict and may be impacted by factors such as the amount of Federal funds received by the P.R. Government in connection with the COVID-19 pandemic and the rate of expenditure of such funds, as well as the timeline and outcome of current Puerto Rico debt restructuring proceedings under Title III of PROMESA; the scope and duration of the COVID-19 pandemic, actions taken by governmental authorities in response to the pandemic, and the direct and indirect impact of the pandemic on us, our customers, service providers and third parties; changes in interest rates and market liquidity, which may reduce interest margins, impact funding sources and affect our ability to originate and distribute financial products in the primary and secondary markets; the fiscal and monetary policies of the federal government and its agencies; changes in federal bank regulatory and supervisory policies, including required levels of capital and the impact of proposed capital standards on our capital ratios; additional Federal Deposit Insurance Corporation ("FDIC") assessments; regulatory approvals that may be necessary to undertake certain actions or consummate strategic transactions such as acquisitions and dispositions; unforeseen or catastrophic events, including extreme weather events, other natural disasters, man-made disasters or the emergence of pandemics epidemics and other health-related crises, which could cause a disruption in our operations or other adverse consequences for our business; the relative strength or weakness of the consumer and commercial credit sectors and of the real estate markets in Puerto Rico and the other markets in which borrowers are located; the performance of the stock and bond markets; competition in the financial services industry; possible legislative, tax or regulatory changes; and a failure in or breach of our operational or security systems or infrastructure or those of EVERTEC, Inc., our provider of core financial transaction processing and information technology services, or of other third parties providing services to us, including as a result of cyberattacks, e-fraud, denial-of-services and computer intrusion, that might result in loss or breach of customer data, disruption of services, reputational damage or additional costs to Popular. Other possible events or factors that could cause results or performance to differ materially from those expressed in these forward-looking statements include the following: negative economic conditions that adversely affect housing prices, the job market, consumer confidence and spending habits which may affect, among other things, the level of non-performing assets, charge-offs and provision expense; changes in market rates and prices which may adversely impact the value of financial assets and liabilities; potential judgments, claims, damages, penalties, fines, enforcement actions and reputational damage resulting from pending or future litigation and regulatory or government investigations or actions, including as a result of our participation in and execution of government programs related to the COVID-19 pandemic; changes in accounting standards, rules and interpretations; our ability to grow our core businesses; decisions to downsize, sell or close units or otherwise change our business mix; and management's ability to identify and manage these and other risks. Further, statements about the potential effects of the COVID-19 pandemic on our business, financial condition, liquidity and results of operation may constitute forward-looking statements and are subject to the risk that actual effects may differ, possibly materially, from what is reflected in those forward-looking statements due to factors and future developments that are uncertain, unpredictable and in many cases beyond our control, including actions taken by governmental authorities in response to the pandemic and the direct and indirect impact of the pandemic on us, our customers, service providers and third parties. Moreover, the outcome of legal and regulatory proceedings, as discussed in "Part I, Item 3. Legal Proceedings" of the Corporation's Form 10-K for the year ended December 31, 2020, is inherently uncertain and depends on judicial interpretations of law and the findings of regulators, judges and/or juries. The description of the Corporation's business and risk factors contained in Part I, Items 1 and 1A of the Corporation's Form 10-K for the year ended December 31, 2020 discusses additional information about the business of the Corporation and the material risk factors and uncertainties to which the Corporation is subject that, in addition to the other information in this report, readers should consider.

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

OVERVIEW

The Corporation is a diversified, publicly-owned financial holding company subject to the supervision and regulation of the Board of Governors of the Federal Reserve System. The Corporation has operations in Puerto Rico, the United States ("U.S.") mainland, and the U.S. and British Virgin Islands. In Puerto Rico, the Corporation provides retail, mortgage, and commercial banking services through its principal banking subsidiary, Banco Popular de Puerto Rico ("BPPR"), as well as investment banking, broker-dealer, auto and equipment leasing and financing, and insurance services through specialized subsidiaries. In the U.S. mainland, the Corporation provides retail, mortgage and commercial banking services through its New York-chartered banking subsidiary, Popular Bank ("PB" or "Popular U.S.") which has branches located in New York, New Jersey and Florida. Note 36 to the Consolidated Financial Statements presents information about the Corporation's business segments.

The Corporation has several investments which it accounts for under the equity method. These include the 16.16% interest in EVERTEC, a 15.84% interest in Centro Financiero BHD Leon, S.A. ("BHD Leon"), among other investments in limited partnerships which mainly hold loans and investment securities. EVERTEC provides transaction processing services throughout the Caribbean and Latin America, and also provides to the Corporation core banking and transaction processing and other services. BHD León is a diversified financial services institution operating in the Dominican Republic. For the year ended December 31, 2020, the Corporation recorded approximately $43.3 million in earnings from these investments on an aggregate basis. The carrying amounts of these investments as of December 31, 2020 were $250.5 million.

SIGNIFICANT EVENTS

Coronavirus (COVID-19) Pandemic

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

The disruptions related to the COVID-19 pandemic had an impact on the macroeconomic environment and therefore on the financial results of the Corporation. Although certain measures initially imposed in response to the pandemic by the governments of Puerto Rico, the United States and United States Virgin Islands, including lockdowns, business closures, mandatory curfews and limits to public activities, were thereafter gradually relaxed throughout 2020 to allow for the gradual reopening of the economy, certain restrictions remain in place, which result in many businesses not being able to operate at their full capacity. The Corporation's results for the third and fourth quarters of 2020 reflect the benefit of increased economic activity resulting from such reopening and the related improvement in the macroeconomic environment, as well as the impact of the various government stimulus programs launched in response to the pandemic.

Beginning in March 2020, the Corporation implemented several financial relief programs in response to the pandemic, including loan payment moratoriums, suspensions of foreclosures and other collection activity, as well as waivers of certain fees and service charges.

The following is a summary of the main steps the Corporation undertook in response to the COVID-19 outbreak:

Employees

- Broadened remote working capabilities through the use of technology;
- Executed actions to support employees working in our offices, including sanitation measures, social distance, staggered shifts and the distribution of masks and gloves;
- Provided special compensation incentives to front-line employees (in our branches and call centers); and
- Expanded health insurance benefits, including free COVID-19 tests and the availability of telephone consultations to employees and covered family members. Extended health insurance coverage to part-time employees.

Customers

- Published dedicated phoneline and online tool to request financial assistance for customers impacted by COVID-19;
- Offered payment moratoriums for eligible customers in mortgage, consumer loans, credit cards, auto loans and leases and certain commercial credit facilities, subject to certain terms and conditions;
- Suspended residential property foreclosures and evictions, as well as most other collection activity;
- Waived ATM fees and early withdrawal penalties on Certificates of Deposits;
- Offered expedited lines of credit of up to $100,000 for BPPR commercial clients with favorable terms; and
- Mobilized to offer Small Business Administration loans under the Paycheck Protection Program ("PPP") to affected businesses; funded approximately $1.4 billion of PPP loans.

Community

- Established a fund with an initial contribution of $1 million to support efforts in three primary areas: a) medical equipment and healthcare projects that combat COVID-19; b) entrepreneurs, small and medium businesses, providing financial advice and business continuity support; and c) non-profit organizations to ensure the continuity of their services.

During the third quarter of 2020, the Corporation reinstated the imposition of the fees it elected to waive in connection with such financial relief programs and resumed delinquent loan collection efforts. During 2020, the Corporation had granted loan payment moratoriums to 127,117 eligible retail customers with an aggregate book value of $4.4 billion, and to 5,099 eligible commercial clients with an aggregate book value of $3.9 billion as detailed below. These include loan payment moratoriums of government guaranteed loans that qualified for disaster relief programs as well as other available alternatives. While COVID-19-related moratoriums were offered beginning in March of 2020, certain clients benefitted from loan payment moratoriums offered by the Corporation since mid-January 2020 as a result of seismic activity in the Southern region of the island in January 2020. At December 31, 2020, 127,857 loans with an aggregate book value of $7.8 billion had already completed their payment moratorium period, while 4,359 loans with an aggregate book value of $0.5 billion remained under the moratorium. As of the end of the year, 97% of COVID-19 payment deferrals had expired. After excluding government guaranteed loans, 115,079 of remaining loans, or 94%, with an aggregate book value of $6.9 billion were current on their payments as of December 31, 2020. Loans considered current exclude those loans for which the COVID-19 related modification has expired but have subsequently been subject to other loss mitigation alternatives. Certain hardhit sectors, such as the hospitality sector, may require additional concessions in 2021. Refer to the Credit Risk section of the MD&A for additional information regarding the moratoriums granted by loan portfolio.

The delinquency status of loans subject to the Corporation's payment moratorium programs remains unaltered during the payment deferral period and the Corporation continues to accrue interest income during such term.

The extent to which the pandemic further impacts our business, results of operations and financial condition (including our regulatory capital, liquidity ratios and realizability of deferred tax assets), as well as the operations of our clients, customers, service providers and suppliers, will depend on future developments, which are highly uncertain, including the scope and duration of the pandemic, the speed and strength of economic recovery and actions taken by governmental authorities and other third parties in response thereto.

Impact of the adoption of the current expected credit loss model ("CECL")

The Corporation adopted the new CECL accounting standard effective on January 1, 2020, as discussed in Note 3- "New Accounting Pronouncements". As a result of the adoption of the CECL model, the Corporation recorded a net increase in its allowance for credit losses related to its loan portfolio, unfunded commitments and credit recourse guarantees amounting to $306 million. The Corporation also recognized an allowance for credit losses of approximately $13 million related to its held-to-maturity debt securities portfolio. The adjustments to reflect the increase in the allowance for credit losses was recorded as a decrease to the opening balance of retained earnings at January 1, 2020, net of deferred tax asset, except for approximately $17 million related to purchased credit impaired ("PCI") loans previously accounted under ASC Subtopic 310-30, which resulted in a reclassification between certain contra loan balance accounts to the allowance for credit losses.

As part of the adoption of CECL, the Corporation made the election to break the existing pools of PCI loans, which were excluded from non-performing status, in accordance with the applicable accounting guidance. Upon being measured at the individual loan level, these loans are no longer excluded from non-performing status, resulting in an increase of $278 million in NPLs as of January 1, 2020. This increase included $144 million in loans that were over 90 days past due and $134 million in loans that were not delinquent in their payment terms but were reported as non-performing due to other credit quality considerations.

The Corporation availed itself of the option to phase in over a period of three years, beginning on January 1, 2022, the day-one effects on regulatory capital arising from the adoption of CECL. Refer to the Regulatory Capital section of this MD&A for additional information on regulatory capital.

Common Stock Repurchase Plan

On May 27, 2020, the Corporation completed a $500 million accelerated share repurchase transaction ("ASR") with respect to its common stock. On March 19, 2020 (the "early termination date"), the dealer counterparty to the ASR exercised its right under the ASR agreement to terminate the transaction because the trading price of the Corporation's common stock fell below a specified level due to the effects of the COVID-19 pandemic on the global markets. As a result of such early termination, the final settlement of the ASR, which was originally expected to occur during the fourth quarter of 2020, occurred during the second quarter of 2020.

Under the ASR, the Corporation prepaid $500 million and received from the dealer counterparty an initial delivery of 7,055,919 shares of common stock on February 3, 2020. As part of the final settlement of the ASR, the Corporation received an additional 4,763,216 shares of common stock after the early termination date. In total, the Corporation repurchased 11,819,135 shares at an average price per share of $42.3043 under the ASR. The Corporation accounted for the ASR as a treasury stock transaction. This transaction increased by $2.20 the Corporation's tangible book value per share.

Redemption of Series B Preferred Stock

On February 24, 2020, the Corporation redeemed all outstanding shares of its 8.25% Non-Cumulative Monthly Income Preferred Stock, Series B ("Series B Preferred Stock"). The Series B Preferred Stock was redeemed at the redemption price of $25.00 per share, plus $0.1375 in accrued and unpaid dividends on each share, for a total payment per share in the amount of $25.1375 and a total aggregate payment of $28.2 million.

Increase in Common Stock Dividends

On January 9, 2020, the Corporation announced an increase in its quarterly common stock dividend from $0.30 to $0.40 per share, payable commencing in the second quarter of 2020, subject to the approval of the Corporation's Board of Directors. The quarterly cash dividend of $0.40 per share has been paid on April 1, 2020, July 1, 2020, October 1, 2020 and January 4, 2021 to shareholders of record. On February 26, 2021, the Corporation's Board of Directors approved a $0.40 quarterly cash dividend per share to be paid on April 1, 2021 to shareholders of record at the close of business on March 18, 2021.

Loan Repurchase Transaction

During the quarter ended September 30, 2020, the Corporation completed bulk loan repurchases from its Ginnie Mae ("GNMA"), Fannie Mae ("FNMA") and Freddie Mac ("FHMLC") (combined "GSEs") loan servicing portfolios with an aggregate balance of $807.6 million. At September 30, 2020, loans with an aggregate unpaid principal balance of $106 million, corresponding to the portfolio acquired from FNMA and FHMLC, had been modified under the Corporation's COVID-19 relief or other loss mitigation programs.

The following table presents a summary of the impact of the transactions, excluding the effects on operations subsequent to the acquisition. The transactions were executed to limit future exposures to principal and interest advances as well as sundry losses and to deploy liquidity to increase interest income.

Table 1 - Loan Repurchase Transaction

Transaction highlights (in thousands)	FHLMC & FNMA	GNMA [1]	Total
Balance Sheet:			
Repurchased mortgage loans	$119,764	$687,871	$807,635
Loan premium [2]	6,297	–	6,297
Allowance for credit losses (“ACL”) [2]	(4,144)	–	(4,144)
Advanced interest receivable	816	20,575	21,391
Income Statement:			
Adjustments to indemnity reserves	$ 5,052	$ –	$ 5,052
Mortgage banking activities:			
Mortgage servicing fees	208	3,145	3,353
Mortgage servicing rights fair value adjustments	(936)	(7,819)	(8,755)
Losses on repurchased loans, including interest advances	–	(10,548)	(10,548)
Total mortgage banking activities	(728)	(15,222)	(15,950)
Pre-tax income (loss)	$ 4,324	$ (15,222)	$ (10,898)

[1] A portion of the acquired loans amounting to $324 million was already recorded as part of the Corporation’s loan portfolio balance, in accordance with U.S. GAAP, due to the delinquency status of the loans and the Corporation’s right but not the obligation to repurchase the assets.

[2] The repurchased FNMA loans were previously sold with credit recourse and are considered Purchased Credit Deteriorated (“PCD”) at the time of repurchase. Therefore, the establishment of the related ACL is recorded as an addition to the purchase price and the loan premium amortized (decrease interest income) over the life of the loan.

Popular Bank’s New York Branches Realignment

On October 27, 2020, Popular Bank (“PB”), the United States mainland banking subsidiary of the Corporation, authorized and approved a strategic realignment of its New York Metro branch network that resulted in eleven (11) branch closures and related staffing reductions. The branch closures were completed on January 29, 2021.

This strategic realignment, which will allow PB to reduce its operating expenses, leverage resources to enhance its focus on small and medium size businesses, as well as support changing customer behaviors, was approved after an assessment of PB’s current branch network, including its usage, proximity to its other branches and customer needs. PB will maintain in its New York Metro region its largest regional retail network in the mainland US, with twenty-seven (27) branches located throughout Brooklyn, Bronx, Manhattan and Queens, as well as in northern New Jersey.

During the fourth quarter of 2020, the Corporation recorded a total pre-tax charge of approximately $23.2 million related to the branch realignment. This aggregate pre-tax charge included approximately $2.1 million associated with severance and related benefit costs for the 83 impacted employees and charges of approximately $21.1 million related to the abandonment of real property leases, including the impairment of right-of-use assets. The Corporation expects to incur an additional $2.0 million in expenses during 2021 related to this initiative and anticipates annual operating expense savings of approximately $12.3 million as a result of this strategic realignment.

Refer to Table 2 for selected financial data for the past five years.

Table 2 - Selected Financial Data

(Dollars in thousands, except per common share data)	Years ended December 31, 2020	2019	2018	2017	2016
CONDENSED STATEMENTS OF OPERATIONS					
Interest income	$ 2,091,551	$ 2,260,793	$ 2,021,848	$ 1,725,944	$ 1,634,573
Interest expense	234,938	369,099	286,971	223,980	212,518
Net interest income	1,856,613	1,891,694	1,734,877	1,501,964	1,422,055
Provision for credit losses	292,536	165,779	228,072	325,424	170,016
Non-interest income	512,312	569,883	652,494	419,167	297,936
Operating expenses	1,457,829	1,477,482	1,421,562	1,257,196	1,255,635
Income tax expense	111,938	147,181	119,579	230,830	78,784
Income from continuing operations	506,622	671,135	618,158	107,681	215,556
Income from discontinued operations, net of tax	–	–	–	–	1,135
Net income	$ 506,622	$ 671,135	$ 618,158	$ 107,681	$ 216,691
Net income applicable to common stock	$ 504,864	$ 667,412	$ 614,435	$ 103,958	$ 212,968
PER COMMON SHARE DATA					
Net income:					
Basic:					
From continuing operations	$ 5.88	$ 6.89	$ 6.07	$ 1.02	$ 2.05
From discontinued operations	–	–	–	–	0.01
Total	$ 5.88	$ 6.89	$ 6.07	$ 1.02	$ 2.06
Diluted:					
From continuing operations	$ 5.87	$ 6.88	$ 6.06	$ 1.02	$ 2.05
From discontinued operations	–	–	–	–	0.01
Total	$ 5.87	$ 6.88	$ 6.06	$ 1.02	$ 2.06
Dividends declared	$ 1.60	$ 1.20	$ 1.00	$ 1.00	$ 0.60
Common equity per share	71.30	62.42	53.88	49.51	49.60
Market value per common share	56.32	58.75	47.22	35.49	43.82
Outstanding shares:					
Average - basic	85,882,371	96,848,835	101,142,258	101,966,429	103,275,264
Average - assuming dilution	85,975,259	96,997,800	101,308,643	102,045,336	103,377,283
End of period	84,244,235	95,589,629	99,942,845	102,068,981	103,790,932
AVERAGE BALANCES					
Net loans [1]	$28,384,981	$26,806,368	$ 25,062,730	$ 23,511,293	$ 23,062,242
Earning assets	56,404,607	44,944,793	43,275,366	37,668,573	33,713,158
Total assets	59,583,455	50,341,827	46,639,858	41,404,139	37,613,742
Deposits	51,585,779	42,218,796	38,487,422	33,182,522	29,066,010
Borrowings	1,321,772	1,404,459	1,879,229	2,000,840	2,339,399
Total stockholders' equity	5,419,938	5,713,517	5,444,152	5,345,244	5,278,477
PERIOD END BALANCE					
Net loans [1]	$29,484,651	$27,466,076	$ 26,559,311	$ 24,942,463	$ 23,435,446
Allowance for loan losses	896,250	477,708	569,348	623,426	540,651
Earning assets	62,989,715	48,674,705	44,325,489	40,680,553	34,861,193
Total assets	65,926,000	52,115,324	47,604,577	44,277,337	38,661,609
Deposits	56,866,340	43,758,606	39,710,039	35,453,508	30,496,224
Borrowings	1,346,284	1,294,986	1,537,673	2,023,485	2,055,477
Total stockholders' equity	6,028,687	6,016,779	5,435,057	5,103,905	5,197,957
SELECTED RATIOS					
Net interest margin (non-taxable equivalent basis)	3.29%	4.03%	4.01%	3.99%	4.22%
Net interest margin (taxable equivalent basis) -Non-GAAP	3.62	4.43	4.34	4.28	4.48
Return on assets	0.85	1.33	1.33	0.26	0.58
Return on common equity	9.36	11.78	11.39	1.96	4.07
Tier I capital	16.33	17.76	16.90	16.30	16.48
Total capital	18.81	20.31	19.54	19.22	19.48

[1] Includes loans held-for-sale and covered loans.

Non-GAAP financial measures

Net interest income on a taxable equivalent basis

Net interest income, on a taxable equivalent basis, is presented with its different components on Table 4 for the year ended December 31, 2020 as compared with the same period in 2019, segregated by major categories of interest earning assets and interest-bearing liabilities.

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

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

Financial highlights for the year ended December 31, 2020

The Corporation's net income for the year ended December 31, 2020 amounted to $506.6 million, compared to a net income of $671.1 million for 2019. The 24% year-over-year decrease was largely driven by a higher provision expense, lower fees and lower net interest income related to the economic disruption caused by the pandemic.

The discussion that follows provides highlights of the Corporation's results of operations for the year ended December 31, 2020 compared to the results of operations of 2019. It also provides some highlights with respect to the Corporation's financial condition, credit quality, capital and liquidity. Table 2 presents a five-year summary of the components of net income (loss) as a percentage of average total assets.

Table 3 - Components of Net Income as a Percentage of Average Total Assets

	2020	2019	2018	2017	2016
Net interest income	3.12%	3.76%	3.72%	3.63%	3.78%
Provision for credit losses	(0.49)	(0.33)	(0.49)	(0.79)	(0.45)
Mortgage banking activities	0.02	0.06	0.11	0.06	0.15
Net gain and valuation adjustments on investment securities	0.01	–	–	–	–
Other-than-temporary impairment losses on debt securities	–	–	–	(0.02)	–
Net gain on sale of loans, including valuation adjustments on loans held-for-sale	–	–	–	–	0.02
Indemnity reserve on loans sold expense	–	–	(0.03)	(0.05)	(0.05)
FDIC loss share income (expense)	–	–	0.20	(0.02)	(0.55)
Other non-interest income	0.83	1.07	1.12	1.05	1.22
Total net interest income and non-interest income, net of provision for credit losses	3.49	4.56	4.63	3.86	4.12
Operating expenses	(2.45)	(2.94)	(3.05)	(3.04)	(3.34)
Income before income tax	1.04	1.62	1.58	0.82	0.78
Income tax expense	0.19	0.29	0.26	0.56	0.20
Net income	0.85%	1.33%	1.32%	0.26%	0.58%

Net interest income for the year ended December 31, 2020 was $1.9 billion, a decrease of $35.1 million when compared to 2019. The decrease in net interest income was mainly driven by lower interest income from money market investments and loans (mostly commercial and consumer loans), partially offset by lower interest expense on deposits, despite the higher volume. The net interest margin for the year ended December 31, 2020 was 3.29% compared to 4.03% for the same period in 2019 and was impacted by declines in market rates as well as the change in the earning assets composition. On a taxable equivalent basis, net interest margin was 3.62% in 2020, compared to 4.43% in 2019. Refer to the Net Interest Income section of this MD&A for additional information.

The Corporation's total provision for credit losses amounted to $292.5 million for the year ended December 31, 2020, compared with $165.8 million for 2019. The increase in the provision for credit losses is due to the adoption of the new CECL accounting standard effective January 1, 2020, and deterioration in the economic outlook resulting from the impact of COVID-19. Non-performing assets totaled $824 million at December 31, 2020, reflecting an increase of $174 million when compared to December 31, 2019. As part of the adoption of CECL, the Corporation made the election to break the existing pools of PCI loans and measure them on an individual loan level. 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, 2020 amounted to $512.3 million, a decrease of $57.6 million, when compared with 2019, mostly due to lower service fees and service charges on deposit accounts due to economic disruptions related to the pandemic, and the waiver of service charges and late fees. Refer to the Non-Interest Income section of this MD&A for additional information on the major variances of the different categories of non-interest income.

Total operating expenses amounted to $1.5 billion for the year 2020, a decrease of $19.7 million, when compared to the same period in 2019 as the Corporation took certain cost saving measures to mitigate the effects of the pandemic on its results of operations. Refer to the Operating Expenses section of this MD&A for additional information.

Income tax expense amounted to $111.9 million for the year ended December 31, 2020, compared with an income tax expense of $147.2 million for the previous year. The decrease in income tax expense for the year is mainly due to a lower pre-tax income. Refer to the Income Taxes section in this MD&A and Note 34 to the consolidated financial statements for additional information on income taxes.

At December 31, 2020, the Corporation's total assets were $65.9 billion, compared with $52.1 billion at December 31, 2019. The increase of $13.8 billion is mainly driven higher investments in debt securities available-for-sale, as the Corporation deployed the liquidity provided by the increase in deposit balances; and the increase in loans held-in-portfolio mainly driven by loans funded under the Small Business Administration ("SBA") Paycheck Protection Program ("PPP"), in addition to the bulk mortgage loan repurchases from the Corporation's GSEs loan servicing portfolios. Refer to the Statement of Condition Analysis section of this MD&A for additional information.

Deposits amounted to $56.9 billion at December 31, 2020, compared with $43.8 billion at December 31, 2019. Table 8 presents a breakdown of deposits by major categories. The increase in deposits was mainly due to higher Puerto Rico public sector deposits and higher balances in retail and commercial demand and savings deposits accounts. The Corporation's borrowings remained flat at $1.3 billion at December 31, 2020. Refer to Note 16 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 remained flat at $6.0 billion at December 31, 2020, compared with December 31, 2019. The net activity for the year was mainly due to net income of $506.6 million for the year 2020, unrealized gains on debt securities available-for-sale offset by capital transactions including an accelerated share repurchase and the redemption of 2008 Series B preferred stock completed during 2020. The Corporation and its banking subsidiaries continue to be well-capitalized at December 31, 2020. The Common Equity Tier 1 Capital ratio at December 31, 2020 was 16.26%, compared to 17.76% at December 31, 2019.

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

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

CRITICAL ACCOUNTING POLICIES / ESTIMATES

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

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

Fair Value Measurement of Financial Instruments

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

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

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

Broker quotes used for fair value measurements inherently reflect any lack of liquidity in the market since they represent an exit price from the perspective of the market participants. Financial assets that were fair valued using broker quotes amounted to $6 million at December 31, 2020, of which $1 million were Level 3 assets and $ 5 million were Level 2 assets. Level 3 assets consisted principally of tax-exempt GNMA mortgage-backed securities. Fair value for these securities was based on an internally-prepared matrix derived from local broker quotes. The main input used in the matrix pricing was non-binding local broker quotes obtained from limited trade activity. Therefore, these securities were classified as Level 3.

Trading Debt Securities and Debt Securities Available-for-Sale

The majority of the values for trading debt securities and debt securities available-for-sale are obtained from third-party pricing services and are validated with alternate pricing sources when available. Securities not priced by a secondary pricing source are documented and validated internally according to their significance to the Corporation's financial statements. Management has established materiality thresholds according to the investment class to monitor and investigate material deviations in prices obtained from the primary pricing service provider and the secondary pricing source used as support for the valuation results. During the year ended December 31, 2020, the Corporation did not adjust any prices obtained from pricing service providers or broker dealers.

Inputs are evaluated to ascertain that they consider current market conditions, including the relative liquidity of the market. When a market quote for a specific security is not available, the pricing service provider generally uses observable data to derive an exit price for the instrument, such as benchmark yield curves and trade data for similar products. To the extent trading data is not available, the pricing service provider relies on specific information including dialogue with brokers, buy side clients, credit ratings, spreads to established benchmarks and transactions on similar securities, to draw correlations based on the characteristics of the evaluated instrument. If for any reason the pricing service provider cannot observe data required to feed its model, it discontinues pricing the instrument. During the year ended December 31, 2020, none of the Corporation's debt securities were subject to pricing discontinuance by the pricing service providers. The pricing methodology and approach of our primary pricing service providers is concluded to be consistent with the fair value measurement guidance.

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

Refer to Note 27 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"). Since the adoption of CECL on January 1, 2020, 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 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, 2020, 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.

Prior to the adoption of CECL, the Corporation followed a systematic methodology to establish and evaluate the adequacy of the ACL to provide for probable losses in the loan portfolio in accordance with the guidance of loss contingencies in ASC Subtopic 450-20 and loan impairment guidance in ASC Section 310-10-35. This methodology included the consideration of factors such as current economic conditions, portfolio risk characteristics, prior loss experience and results of periodic credit reviews of individual loans. Previously, under ASC Section 310-10-35, an allowance for loan impairment was recognized to the extent that the carrying value of an impaired loan exceeded the present value of the expected future cash flows discounted at the loan's effective rate, the observable market price of the loan, if available, or the fair value of the collateral if the loan was collateral dependent.

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

Loans Acquired with Deteriorated Credit Quality

PCD loans are defined as those with evidence of a more-than-insignificant deterioration in credit quality since origination. PCD loans are initially recorded at its purchase price plus an estimated ACL. Upon the acquisition of a PCD loan, the Corporation recognizes the estimate of the expected credit losses over the remaining contractual term of each individual loan as an ACL with a corresponding addition to the loan purchase price. The amount of the purchased premium or discount which is not related to credit risk is amortized over the life of the loan through net interest income using the effective interest method or a method that approximates the effective interest method. Changes in expected credit losses are recorded as an increase or decrease to the ACL with a corresponding charge (reverse) to the provision for credit losses in the Consolidated Statements of Operations. Upon transition to the individual loan measurement, these loans follow the same nonaccrual policies as non-PCD loans and are therefore no longer excluded from non-performing status. Modifications of PCD loans that meet the definition of a TDR subsequent to the adoption of ASC Topic 326 are accounted and reported as such following the same processes as non-PCD loans.

Prior to the adoption of CECL, loans acquired with deteriorated credit quality were accounted for under ASC 310-30. Loans accounted for under ASC 310-30 included loans for which it was probable, at the date of acquisition, that the Corporation would not collect all contractually required principal and interest payments and loans which the Corporation elected to account under ASC 310-30 by analogy. Under ASC Subtopic 310-30, these loans were aggregated into pools based on loans that have common risk characteristics. Once the pools were defined, the Corporation maintained the integrity of the pool of multiple loans accounted for as a single asset. Under ASC Subtopic 310-30, the difference between the undiscounted cash flows expected at acquisition and the fair value in the loans, or the "accretable yield," was recognized as interest income using the effective yield method over the estimated life of the loan if the timing and amount of the future cash flows of the pool was reasonably estimable. Therefore, these loans were not considered non-performing. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date were recognized as a reduction of any ACL established after the acquisition and then as an increase in the accretable yield for the loans prospectively. Decreases in expected cash flows after the acquisition date were recognized by recording an ACL. Charge-offs on loans accounted under ASC Subtopic 310-30 were recorded only to the extent that losses exceeded the non-accretable difference established with purchase accounting.

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 34.

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

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

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

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

After consideration of the effect on U.S. federal tax of unrecognized U.S. state tax benefits, the total amount of unrecognized tax benefits, including U.S. and Puerto Rico that, if recognized through earnings, would affect the Corporation's effective tax rate, was approximately $10.2 million at December 31, 2020 and $10.5 million at December 31, 2019. Refer to Note 34 to the Consolidated Financial Statements for further information on this subject matter. The Corporation anticipates a reduction in the total amount of unrecognized tax benefits within the next 12 months, which could amount to approximately $13.6 million, including interest.

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

Goodwill and Other Intangible Assets

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

Goodwill impairment is recognized when the carrying amount of any of the reporting units exceeds its fair value up to the amount of the goodwill. Prior to the adoption of ASU 2017-04 on January 1, 2020, the goodwill impairment test consisted of a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, the goodwill of the reporting unit is not considered impaired and the second step of the impairment test is unnecessary. If needed, the second step consists of comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. The Corporation estimates the fair value of each reporting unit, consistent with the requirements of the fair value measurements accounting standard, generally using a combination of methods, including market price multiples of comparable companies and transactions, as well as discounted cash flow analyses. Subsequent reversal of goodwill impairment losses is not permitted under applicable accounting standards. No impairment was recognized by the Corporation from the annual test as of July 31, 2020.For a detailed description of the annual goodwill impairment evaluation performed by the Corporation during the third quarter of 2020, refer to Note 14.

At December 31, 2020, goodwill amounted to $671 million. Note 14 to the Consolidated Financial Statements provides the assignment of goodwill by reportable segment.

Pension and Postretirement Benefit Obligations

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

The estimated benefit costs and obligations of the Pension Plans and Postretirement Health Care Benefit Plan ("OPEB Plan") are impacted by the use of subjective assumptions, which can materially affect recorded amounts, including expected returns on plan assets, discount rates, termination rates, retirement rates and health care trend rates. Management applies judgment in the determination of these factors, which normally undergo evaluation against current industry practice and the actual experience of the Corporation. The Corporation uses an independent actuarial firm for assistance in the determination of the Pension Plans and OPEB Plan costs and obligations. Detailed information on the Plans and related valuation assumptions are included in Note 29 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, 2020 was $878.8 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 2021 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; for example, 8.5% for large cap stocks, 8.8% for small cap stocks, 8.9% for international stocks, 3.3% for long corporate bonds and 2.0% for long Treasury bonds at January 1, 2021. A range of expected investment returns is developed, and this range relies both on forecasts and on broad-market historical benchmarks for expected returns, correlations, and volatilities for each asset class.

As a consequence of recent reviews, the Corporation decreased its expected return on plan assets for year 2021 to 4.60% and 5.50% for the Pension Plans. Expected rates of return of 5.0% and 5.8% had been used for 2020 and 5.3% and 6.0% had been used for 2019 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 $6.2 million in 2020. The total pension expense included a benefit of $38.1 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 2020 from 4.60% to 4.35% would increase the projected 2021 pension expense for the Banco Popular de Puerto Rico Retirement Plan, the Corporation's largest plan, by approximately $2.0 million.

If the projected benefit obligation exceeds the fair value of plan assets, the Corporation shall recognize a liability equal to the unfunded projected benefit obligation and vice versa, if the fair value of plan assets exceeds the projected benefit obligation, the Corporation recognizes an asset equal to the overfunded projected benefit obligation. This asset or liability may result in a taxable or deductible temporary difference and its tax effect shall be recognized as an income tax expense or benefit which shall be allocated to various components of the financial statements, including other comprehensive income. The determination of the fair value of pension plan obligations involves judgment, and any changes in those estimates could impact the Corporation's Consolidated Statements of Financial Condition. Management believes that the fair value estimates of the Pension Plans assets are reasonable given the valuation methodologies used to measure the investments at fair value as described in Note 27. 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 liability for the underfunded pension benefit obligation of $35.6 million at December 31, 2020.

The Corporation uses the spot rate yield curve from the Willis Towers Watson RATE: Link (10/90) Model to discount the expected projected cash flows of the plans. The equivalent single weighted average discount rate ranged from 2.41% to 2.48% for the Pension Plans and 2.65% for the OPEB Plan to determine the benefit obligations at December 31, 2020.

A 50 basis point decrease to each of the rates in the December 31, 2020 Willis Towers Watson RATE: Link (10/90) Model would increase the projected 2021 expense for the Banco Popular de Puerto Rico Retirement Plan by approximately $2.1 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, 2020. The Corporation had recorded a liability for the underfunded postretirement benefit obligation of $179.2 million at December 31, 2020.

STATEMENT OF OPERATIONS ANALYSIS

Net Interest Income

Net interest income is the difference between the revenue generated from earning assets, including loan fees, less the interest cost of deposits and borrowed money. Several risk factors might influence net interest income including the economic environment in which we operate, market driven events, changes in volumes, repricing characteristics, loans fees collected, moratoriums granted on loan payments and delay charges, interest collected on nonaccrual loans, as well as strategic decisions made by the Corporation's management. Net interest income for the year ended December 31, 2020 was $1.9 billion, a decline of $35.1 million when compared to 2019. Net interest income, on a taxable equivalent basis, for the year ended December 31, 2020 was $2.0 billion compared to $2.1 billion in 2019.

Due to the Corporation's current asset sensitive position, low current or expected interest rates will negatively impact our results. See the Risk Management: Market/Interest Rate Risk section of this MD&A for additional information related to the Corporation's interest rate risk.

The average key index rates for the years 2020 and 2019 were as follows:

	2020	2019
Prime rate	3.53%	5.28%
Fed funds rate	0.35	2.15
3-month LIBOR	0.65	2.33
3-month Treasury Bill	0.35	2.09
10-year Treasury	0.89	2.14
FNMA 30-year	1.01	2.85

Average outstanding securities balances are based upon amortized cost excluding any unrealized gains or losses on securities available-for-sale. Non-accrual loans have been included in the respective average loans and leases categories. Loan fees collected, and costs incurred in the origination of loans are deferred and amortized over the term of the loan as an adjustment to interest yield. Prepayment penalties, late fees collected and the amortization of premiums / discounts on purchased loans are also included as part of the loan yield.

Interest income for the period ended December 31, 2020 included a favorable impact of $55.3 million, related to those items, compared to $55.9 million for the same period in 2019, excluding the discount accretion on loans accounted for under ASC Subtopic 310-30. The decrease of $0.6 million is mainly due to lower amortization of fees related to the discount portfolio from Reliable.

Table 3 presents the different components of the Corporation's net interest income, on a taxable equivalent basis, for the year ended December 31, 2020, as compared with the same period in 2019, segregated by major categories of interest earning assets and interest-bearing liabilities. Net interest margin decreased by 74 basis points to 3.29% in 2020, compared to 4.03% in 2019. The lower net interest margin for the year is driven by the decrease of 225 basis points in the Federal Funds Rate that occurred during the second half of 2019 (75 basis points) and in the first quarter of 2020 (150 basis points) and the increase in average deposits by $9.4 billion which were redeployed mostly in overnight Fed Funds, U.S. Treasury and agency debt securities and $1.4 billion in loans funded under the SBA PPP Program. These assets, although accretive to net interest income, are low yielding assets and compressed the net interest margin. Management took actions to deploy a portion of this liquidity by acquiring investment securities, including U.S. agency mortgage backed securities and executing the $807.6 million in bulk loan repurchases from its GNMA, FNMA and FHMLC loan servicing portfolios. On a taxable equivalent basis, net interest margin was 3.62% in 2020, compared to 4.43% in 2019. Net interest income decreased by $35.1 million year over year and $36.5 million on a taxable equivalent basis. The main variances in net interest income on a taxable equivalent basis were:

Negative variances:

- Lower interest income from money market investments due to lower market rates, partially offset by higher volume driven mainly by the increase in deposits;
- Lower interest income from investment securities due to lower rates, partially offset by a higher volume of U.S. Treasuries and U.S. agency mortgage backed agencies to deploy liquidity and to benefit from the Puerto Rico tax exemption of these assets and higher yield; and,
- Lower interest income from loans mainly driven by a lower amortization on the discount on the portfolio acquired from Wells Fargo in 2018, waived fees on past due loans associated to the moratorium granted in connection with the COVID-19 pandemic and the impact of the decrease in rates in variable rate loans and new production. These negative variances were partially offset by higher volume of loans, mainly PPP, both in Puerto Rico and the U.S., auto loan financing in BPPR and commercial and mortgage loan growth in PB.

Positive variances:

- Lower interest expense on deposits driven by lower interest cost, in both BPPR and PB, which resulted from the decrease in market rates, as discussed above and management actions to reduce costs. The cost of interest deposits decreased 47 basis points at the consolidated level and also decreased 47 basis points in BPPR and PB. These decreases in interest expense were partially offset by a higher average balance of interest-bearing deposits in most categories mainly driven by the inflow of deposits from the relief and assistance programs provided by the Puerto Rico and Federal governments in response to the pandemic.

Table 4 - Analysis of Levels & Yields on a Taxable Equivalent Basis from Continuing Operations (Non-GAAP)

Years ended December 31,											
Average Volume			Average Yields / Costs				Interest			Variance Attributable to	
2020	2019	Variance	2020	2019	Variance		2020	2019	Variance	Rate	Volume
(In millions)							*(In thousands)*				
$ 8,598	$ 4,166	$4,432	0.23%	2.16%	(1.93)%	Money market investments	$ 19,722	$ 89,824	$ (70,102)	$(119,126)	$ 49,024
19,353	15,905	3,448	2.42	3.15	(0.73)	Investment securities [1]	467,994	501,781	(33,787)	(129,254)	95,467
69	68	1	6.00	7.55	(1.55)	Trading securities	4,165	5,103	(938)	(1,074)	136
28,020	20,139	7,881	1.76	2.96	(1.20)	Total money market, investment and trading securities	491,881	596,708	(104,827)	(249,454)	144,627
						Loans:					
13,245	12,171	1,074	5.23	6.11	(0.88)	Commercial	692,372	743,682	(51,310)	(113,207)	61,897
913	801	112	5.74	6.59	(0.85)	Construction	52,438	52,767	(329)	(7,253)	6,924
1,112	989	123	6.05	6.06	(0.01)	Leasing	67,247	59,935	7,312	(92)	7,404
7,255	7,121	134	5.23	5.36	(0.13)	Mortgage	379,794	381,493	(1,699)	(8,823)	7,124
2,839	2,885	(46)	11.34	11.81	(0.47)	Consumer	322,009	340,848	(18,839)	(14,150)	(4,690)
3,021	2,839	182	8.97	9.59	(0.62)	Auto	271,162	272,169	(1,007)	(17,927)	16,921
28,385	26,806	1,579	6.29	6.90	(0.61)	Total loans	1,785,022	1,850,894	(65,872)	(161,452)	95,580
$56,405	$46,945	$9,460	4.04%	5.21%	(1.17)%	Total earning assets	$2,276,903	$2,447,602	$(170,699)	$(410,906)	$240,207
						Interest bearing deposits:					
$19,678	$15,327	$4,351	0.28%	0.96%	(0.68)%	NOW and money market [2]	$ 54,652	$ 146,684	$ (92,032)	$(118,302)	$ 26,270
12,399	10,249	2,150	0.30	0.44	(0.14)	Savings	37,765	45,516	(7,751)	(17,891)	10,140
7,971	7,770	201	1.05	1.45	(0.40)	Time deposits	83,438	112,658	(29,220)	(29,338)	118
40,048	33,346	6,702	0.44	0.91	(0.47)	Total deposits	175,855	304,858	(129,003)	(165,531)	36,528
166	231	(65)	1.48	2.64	(1.16)	Short-term borrowings	2,457	6,099	(3,642)	(2,101)	(1,541)
1,178	1,194	(16)	4.81	4.77	0.04	Other medium and long-term debt	56,626	58,142	(1,516)	(933)	(583)
41,392	34,771	6,621	0.57	1.06	(0.49)	Total interest bearing liabilities	234,938	369,099	(134,161)	(168,565)	34,404
11,538	8,873	2,665				Demand deposits					
3,475	3,301	174				Other sources of funds					
$56,405	$46,945	$9,460	0.42%	0.78%	(0.36)%	Total source of funds	234,938	369,099	(134,161)	(168,565)	34,404
			3.62%	4.43%	(0.81)%	Net interest margin/ income on a taxable equivalent basis (Non-GAAP)	2,041,965	2,078,503	(36,538)	$(242,341)	$205,803
			3.47%	4.15%	(0.68)%	Net interest spread					
						Taxable equivalent adjustment	185,353	186,809	(1,456)		
			3.29%	4.03%	(0.74)%	Net interest margin/ income non-taxable equivalent basis (GAAP)	$1,856,612	$1,891,694	$ (35,082)		

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

[1] Average outstanding securities balances are based upon amortized cost excluding any unrealized gains or losses on securities available-for-sale.
[2] Includes interest bearing demand deposits corresponding to certain government entities in Puerto Rico.

Provision for Credit Losses - Loan Portfolio

The Corporation's provision for credit losses was $282.3 million for the year ended December 31, 2020, compared to $165.8 million for the year ended December 31, 2019, an increase of $116.6 million. The increase in the provision for credit losses for the year 2020 when compared to the prior year reflects the impact of the adoption of the new CECL accounting standard, as well as the estimated impact of the COVID-19 pandemic. In addition, the Corporation recorded a provision for estimated credit losses for unfunded loan commitments amounting to $12.6 million, compared to $0.5 million for 2019. As discussed in Note 8, during 2019, the provision for unfunded commitments was recorded as a component of other expenses.

The provision for credit losses for the BPPR loan portfolio segment was $205.9 million for the year 2020, compared to $135.8 million for the year 2019, an increase of $70.1 million. The Popular U.S. segment provision for credit losses amounted to $76.5 million for the year 2020, an increase of $46.5 million when compared to $30.0 million for the year 2019.

As discussed in Note 8 to the Consolidated Financial Statements, within the process to estimate its allowance for credit losses ("ACL"), the Corporation applies probability weights to the outcomes of simulations using Moody's Analytics' Baseline, S3 (pessimistic) and S1 (optimistic) scenarios.

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

During the year ended December 31, 2020, the Corporation recorded a release of $2.4 million on its ACL related to its investment securities portfolio of obligations from the Government of Puerto Rico, states and political subdivisions after the adoption of the new CECL accounting standard on January 1st, 2020. At December 31, 2020, the total allowance for credit losses for this portfolio amounted to $10.3 million.

Non-Interest Income

For the year ended December 31, 2020, non-interest income decreased by $57.6 million, when compared with the previous year primarily driven by:

- lower service charges on deposit accounts by $13.1 million, mainly in the BPPR segment, due to lower transactions and the temporary waiver of fees during part of the year as part of the financial relief programs implemented in response to the COVID-19 pandemic;
- lower other service fees by $27.3 million, principally at the BPPR segment, due to lower credit and debit card fees by $10.3 million as a result of lower transactional volumes and the temporary waiver of service charges and late charges during part of the year as a result of the pandemic, lower insurance fees by $10.2 million in part due to lower contingent insurance commissions by $7.0 million and lower other fees by $5.9 million in part due to lower retail auto loan servicing fee income; and
- lower income from mortgage banking activities by $21.7 million mainly due to higher unfavorable fair value adjustments on mortgage servicing rights by $14.6 million in part due to the $8.8 million negative fair value adjustment recognized during the third quarter of 2020 as a result of the bulk repurchase completed by BPPR from its GNMA, FNMA and FHLMC servicing portfolio; a $10.5 million loss in interest advances related to GNMA loans recognized in connection with the bulk repurchase during the third quarter of 2020; and higher realized losses on closed derivatives positions by $4.3 million; partially offset by higher gains from securitization transactions by $10.1 million;

partially offset by:

- an increase in net gain on equity securities of $3.8 million mainly related to a $4.1 million gain on sale of certain equity securities at PB during the third quarter of 2020.

Operating Expenses

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

Table 5 - Operating Expenses

(In thousands)	Years ended December 31, 2020	2019	2018	2017	2016
Personnel costs:					
Salaries	$ 370,179	$ 351,788	$ 326,509	$ 313,394	$ 308,135
Commissions, incentives and other bonuses	78,582	97,764	90,000	70,099	73,684
Pension, postretirement and medical insurance	44,123	41,804	39,660	40,065	41,203
Other personnel costs, including payroll taxes	71,321	99,269	106,819	53,204	54,373
Total personnel costs	564,205	590,625	562,988	476,762	477,395
Net occupancy expenses	119,345	96,339	88,329	89,194	85,653
Equipment expenses	88,932	84,215	71,788	65,142	62,225
Other taxes	54,454	51,653	46,284	43,382	42,304
Professional fees:					
Collections, appraisals and other credit related fees	12,588	16,300	14,700	14,415	14,607
Programming, processing and other technology services	253,565	247,332	216,128	199,873	205,466
Legal fees, excluding collections	10,611	12,877	19,072	11,763	42,393
Other professional fees	117,358	107,902	99,944	66,437	60,577
Total professional fees	394,122	384,411	349,844	292,488	323,043
Communications	23,496	23,450	23,107	22,466	23,897
Business promotion	57,608	75,372	65,918	58,445	53,014
FDIC deposit insurance	23,868	18,179	27,757	26,392	24,512
Loss on early extinguishment of debt	–	–	12,522	–	–
Other real estate owned (OREO) (income) expenses	(3,480)	4,298	23,338	48,540	47,119
Other operating expenses:					
Credit and debit card processing, volume, interchange and other expenses	45,108	38,059	27,979	26,201	20,796
Operational losses	26,331	21,414	35,798	39,612	35,995
All other	57,443	80,097	76,584	59,194	43,737
Total other operating expenses	128,882	139,570	140,361	125,007	100,528
Amortization of intangibles	6,397	9,370	9,326	9,378	12,144
Goodwill and trademark impairment losses	–	–	–	–	3,801
Total operating expenses	$1,457,829	$1,477,482	$1,421,562	$1,257,196	$1,255,635
Personnel costs to average assets	0.95%	1.17%	1.21%	1.15%	1.27%
Operating expenses to average assets	2.45	2.93	3.05	3.04	3.34
Employees (full-time equivalent)	8,522	8,560	8,474	7,784	7,828
Average assets per employee (in millions)	$ 6.99	$ 5.88	$ 5.50	$ 5.32	$ 4.81

Operating expenses for the year ended December 31, 2020 decreased by $19.7 million, when compared with the previous year. The year 2020 reflected $23.2 million in expenses related to PB's New York branches realignment. Excluding this item, operating expenses would have decreased by $42.9 million. The decrease in operating expenses was driven primarily by:

- Lower personnel cost by $26.4 million due to lower incentives related to the profit-sharing plan by $28.8 million and lower commission, incentive and other bonuses by $19.2 million; partially offset by higher salaries by $18.4 million due to annual salary revision and $2.1 million in severance expense related to PB's branch realignment;
- Lower business promotions by $17.8 million mainly due to lower advertising expense by $7.9 million as a result of expenses during 2019 associated with the integration of the business acquired from Wells Fargo and adjustments in promotional activity due to the pandemic and lower consumer reward program expense by $4.4 million;
- Lower OREO expense by $7.8 million due to the temporary suspension of foreclosure activity as part of the pandemic relief measures; and
- Lower other operating expenses by $10.7 million mainly due to lower pension plan cost by $13.4 million due to annual changes in actuarial assumptions, lower transportation and traveling expenses by $4.0 million due

to the pandemic and lower claims foreclosure expenses by $3.0 million; partially offset by higher credit and debit card processing expenses by $7.0 million and higher reserves for operational losses by $4.9 million.

These variances were partially offset by:

- Higher net occupancy expense by $23.0 million due to $19.0 million in costs related to the termination of real property leases associated with PB's New York branch realignment, including the impairment of the right-of-use assets;
- Higher equipment expense by $4.7 million due to higher software license costs;
- Higher professional fees by $9.7 million mainly due to higher advisory expenses by $8.3 million related to corporate initiatives, higher programming, processing and other technology services by $6.2 million and higher audit and tax services by $3.2 million mainly related to work on new accounting pronouncements; partially offset by lower collections, appraisals and other credit related fees by $3.7 million due to the temporary suspension of collection efforts related to the pandemic and lower legal fees by $4.6 million; and
- Higher FDIC deposit insurance by $5.7 million due to an increase in the assessment base.

INCOME TAXES

For the year ended December 31, 2020, the Corporation recorded an income tax expense of $111.9 million, compared to $147.2 million for the same period of 2019. The income tax expense for the year ended December 31, 2020 reflects the impact of lower pre-tax income, resulting primarily from a higher provision for credit losses and the impact of the COVID-19 pandemic.

At December 31,2020, the Corporation had a deferred tax asset amounting to $0.8 billion, net of a valuation allowance of $0.5 billion. The deferred tax asset related to the U.S. operations was $0.3 billion, net of a valuation allowance of $0.4 billion.

Refer to Note 34 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 $176.3 million for the quarter ended December 31, 2020, compared with a net income of $166.8 million for the same quarter of 2019.

Net interest income for the fourth quarter of 2020 amounted to $471.6 million, compared with $467.4 million for the fourth quarter of 2019, an increase of $4.2 million. The increase in net interest income was mainly due to increase in average balance of earning assets, mainly due to increase in deposits. The net interest margin declined by 79 basis points to 3.04% due to declines in market rates and the change in earning assets mix, which were concentrated in overnight Fed Funds, U.S. Treasuries and MBS as well PPP loans, which are all lower yielding assets.

The provision for credit losses amounted to $21.2 million for the quarter ended December 31, 20120, calculated under the CECL model, compared to $47.2 million for the fourth quarter of 2019. The provision for loans held-in portfolio at BPPR and PB segments decreased by $16.1 million and $20.4 million, respectively, reflective of improvements in the macroeconomic scenarios during the fourth quarter. In addition, the Corporation recognized $12.2 million in provision for unfunded commitments, including a reclassification of $10.0 million from other operating expenses and a reduction to the reserve for credit losses in our investment portfolio of $2.2 million, during the fourth quarter of 2020.

Non-interest income amounted to $144.8 million for the quarter ended December 31, 2020, compared with $152.4 million for the same quarter in 2019. The decrease of $7.6 million was mainly due to lower other service fees and lower mortgage banking activities.

Operating expenses totaled $375.9 million for the quarter ended December 31, 2020, compared with $390.6 million for the same quarter in the previous year. The decrease of $14.7 million is mainly related to lower personnel costs, business promotion expenses, and lower other operating expenses due to the reclassification of $10.0 million in provision for unfunded commitments from the other expenses line to the provision for credit losses caption, partially offset by higher net occupancy expenses related to the termination of real property leases associated with PB's New York branch rationalization, amounting to $19.0 million, including the impairment of the right-of-use assets and related costs.

Income tax expense amounted to $43.0 million for the quarter ended December 31, 2020, compared with income tax expense of $15.3 million for the same quarter of 2019. The increase is mainly due to higher pre-tax income and lower net exempt interest income during the quarter ended December 31, 2020, compared to the quarter ended December 31, 2019. In addition, during the fourth quarter of 2019, the Corporation recorded a tax benefit of approximately $18 million related to the revision of the amount of exempt income for prior years. The effective tax rate ("ETR") for the fourth quarter of 2020 was 20%.

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 36 to the Consolidated Financial Statements.

The Corporate group reported a net income of $8.5 million for the year ended December 31, 2020, compared to a net income of $6.1 million for the previous year. The increase in the net income was mainly attributed to higher non-interest income by $2.5 million and lower operating expenses by $1.0 million mainly due to lower profit-sharing plan expense, partially offset by higher net-interest loss by $1.8 million due to lower income from money market 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 $499.0 million for the year ended December 31, 2020, compared with $609.9 million for the year ended December 31, 2019. The results for 2020 were impacted by the COVID-19 pandemic as well as the implementation of the CECL accounting pronouncement. The principal factors that contributed to the variance in the financial results included the following:

- Lower net interest income by $40.4 million due to lower interest income from loans by $51.0 million and lower income from money market investments and debt securities by $97.9 million, reflective of lower rates; partially offset by lower interest expense from deposits by $107.6 million. The BPPR segment's net interest margin was 3.40% for 2020 compared with 4.30% for the same period in 2019;
- Higher provision for credit losses by $75.5 million mainly due to the implementation of CECL and the impact of the COVID-19 pandemic in the macroeconomic outlook;
- Lower non-interest income by $60.8 million mainly due to:
    - Lower service charges on deposit accounts by $9.7 million due to lower transactions and the temporary waiver of fees in response to the COVID-19 pandemic;
    - Lower other service fees by $25.2 million due to lower debit and credit card transactions and the temporary waiver of fees, lower contingent insurance revenues and lower auto loans servicing income;
    - Lower mortgage banking activities by $23.2 million due to unfavorable fair value adjustments on mortgage servicing rights, and interest losses on GNMA loans as a result of the bulk loan repurchase completed in the third quarter.
- Lower operating expenses by $42.8 million, mainly due to:
    - Lower personnel costs by $20.9 million mainly due to lower profit-sharing plan expense;
    - Lower professional fees by $19.8 million mainly due to lower consulting and advisory services, as these have been centralized at the Corporate segment;
    - Lower business promotions by $13.2 million mainly due to the expenses during 2019 associated with the integration of the business acquired from Wells Fargo, lower consumer reward program expense and lower expenses related to product marketing campaigns;
    - Lower OREO expenses by $9.7 million due to the temporary suspension of foreclosure activity as part of the pandemic relief measures and lower gains on sales of foreclosed properties;

  Partially offset by:

    - Higher other operating expenses by $10.4 million due to higher Corporate expense allocations related to consulting and advisory fees, offset by lower pension plan expenses due to changes in the actuarial assumptions and lower traveling and foreclosure claims expenses due to the pandemic.
- Lower income tax expense by $22.3 million due to lower income before tax.

Popular U.S.

For the year ended December 31, 2020, the reportable segment of Popular U.S. reported net loss of $0.7 million, compared with a net income of $55.3 million for the year ended December 31, 2019. The principal factors that contributed to the variance in the financial results included the following:

- Higher net interest income by $7.0 million mainly due to lower income from loans by $9.6 million due to lower rates, offset by higher volumes of PPP loans, and lower income from money market investments and debt securities by $12.6 million, reflective of lower market rates, partially offset by lower interest expense from deposits by $26.3 million. The Popular U.S. reportable segment's net interest margin was 3.21% for 2020 compared with 3.32% for the same period in 2019;
- Higher provision for credit losses by $51.5 million mainly due to the implementation of CECL;

- Higher operating expenses by $24.5 million mainly due to:
  - Higher occupancy expenses due to the impact of the NY branch rationalization resulting in $19.0 million in lease termination costs, including the impairment of the right of use assets,
  - Higher other operating expenses by $14.7 million due to higher Corporate expense allocations related to consulting and advisory fees;

  Partially offset by:
  - Lower personnel costs by $6.9 million due to lower profit-sharing plan expense and lower medical and other fringe benefits expenses.
- Income taxes favorable variance of $11.8 million mainly due to lower income before tax.

STATEMENT OF FINANCIAL CONDITION ANALYSIS

Assets

The Corporation's total assets were $65.9 billion at December 31, 2020, compared to $52.1 billion at December 31, 2019. Refer to the Corporation's Consolidated Statements of Financial Condition at December 31, 2020 and 2019 included in this 2020 Annual Report on Form 10-K. Also, refer to the Statistical Summary 2016-2020 in this MD&A for Condensed Statements of Financial Condition for the past five years.

Money market, trading and investment securities

Money market investments totaled $11.6 billion at December 31, 2020, compared to $3.3 billion at December 31, 2019. The increase was mainly due to an increase in deposits mainly in public funds from the Government of Puerto Rico.

Debt securities available-for-sale increased by $3.9 billion to $21.6 billion at December 31, 2020 mainly due to purchases of U.S. agency mortgage-backed securities, partially offset by maturities and paydowns of U.S. Treasury securities. Refer to Note 5 to the Consolidated Financial Statements for additional information with respect to the Corporation's debt securities available-for-sale.

Loans

Refer to Table 6 for a breakdown of the Corporation's loan portfolio. Also, refer to Note 7 in 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 $2.0 billion to $29.4 billion at December 31, 2020 mainly driven by growth of commercial loans due to originations of PPP loans at both BPPR and PB and an increase of $0.7 billion in mortgage loans mainly due to bulk loan repurchases from the Corporation's GSEs loan servicing portfolios.

The allowance for credit losses for the loan portfolio increased by $0.4 billion, which includes the impact of the adoption of CECL. 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)	2020	2019	2018	2017	2016
Loans not covered under FDIC loss sharing agreements:					
Commercial	$13,606,280	$12,312,751	$12,043,019	$11,488,861	$10,798,507
Construction	918,765	831,092	779,449	880,029	776,300
Legacy [1]	15,473	22,105	25,949	32,980	45,293
Lease financing	1,197,661	1,059,507	934,773	809,990	702,893
Mortgage	7,890,680	7,183,532	7,235,258	7,270,407	6,696,361
Consumer	5,756,337	5,997,886	5,489,441	3,810,527	3,754,393
Total non-covered loans held-in-portfolio	29,385,196	27,406,873	26,507,889	24,292,794	22,773,747
Loans covered under FDIC loss sharing agreements:					
Mortgage	–	–	–	502,930	556,570
Consumer	–	–	–	14,344	16,308
Loans covered under FDIC loss sharing agreements	–	–	–	517,274	572,878
Total loans held-in-portfolio	29,385,196	27,406,873	26,507,889	24,810,068	23,346,625
Loans held-for-sale:					
Commercial	2,738	–	–	–	–
Mortgage	96,717	59,203	51,422	132,395	88,821
Total loans held-for-sale	99,455	59,203	51,422	132,395	88,821
Total loans	$29,484,651	$27,466,076	$26,559,311	$24,942,463	$23,435,446

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

Other assets

Other assets amounted to $1.7 billion at December 31, 2020, a decrease of $0.1 billion when compared to December 31, 2019. Refer to Note 13 for a breakdown of the principal categories that comprise the caption of "Other Assets" in the Consolidated Statements of Financial Condition at December 31, 2020 and 2019.

Liabilities

The Corporation's total liabilities were $59.9 billion at December 31, 2020, an increase of $13.8 billion compared to $46.1 billion at December 31, 2019, mainly due to increases in deposits as discussed below. Refer to the Corporation's Consolidated Statements of Financial Condition included in this Form 10-K.

Deposits and Borrowings

The composition of the Corporation's financing to total assets at December 31, 2020 and 2019 is included in Table 7.

Table 7 - Financing to Total Assets

(In millions)	December 31, 2020	December 31, 2019	% increase (decrease) from 2019 to 2020	% of total assets 2020	% of total assets 2019
Non-interest bearing deposits	$13,129	$ 9,160	43.3%	19.9%	17.6%
Interest-bearing core deposits	38,599	29,610	30.4	58.5	56.8
Other interest-bearing deposits	5,138	4,988	3.0	7.8	9.6
Repurchase agreements	121	193	(37.3)	0.2	0.4
Notes payable	1,225	1,102	11.2	1.9	2.1
Other liabilities	1,685	1,045	61.2	2.6	2.0
Stockholders' equity	6,029	6,017	0.2	9.1	11.5

Deposits

The Corporation's deposits totaled $56.9 billion at December 31, 2020, compared to $43.8 billion at December 31, 2019.The deposits increase of $13.1 billion was mainly due to an increase at BPPR of retail and commercial demand and savings accounts by $8.2 billion and Puerto Rico public sector deposits by $4.5 billion. Public sector deposit balances are expected to decline over the long term. However, the receipt by the P.R. Government of additional COVID-19-related Federal assistance and seasonal tax collections are likely to increase public deposit balances at BPPR in the near term. The rate at which public deposit balances will decline is uncertain and difficult to predict. The amount and timing of any such reduction is likely to be impacted by, for example, the timeline of current debt restructuring efforts under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") and the speed at which the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") assistance is distributed. Generally, these deposits require high credit quality securities as collateral. Therefore, while there can be timing differences between the deposit outflow and the release of collateral, generally the liquidity risks from public deposit outflows are lower. Refer to Table 8 for a breakdown of the Corporation's deposits at December 31, 2020 and 2019.

Table 8 - Deposits Ending Balances

(In thousands)	2020	2019	2018	2017	2016
Demand deposits [1]	$22,532,729	$16,566,145	$16,077,023	$12,460,081	$ 9,053,897
Savings, NOW and money market deposits (non-brokered)	26,390,565	19,169,899	15,616,247	15,054,242	13,327,298
Savings, NOW and money market deposits (brokered)	635,198	347,765	400,004	424,307	405,487
Time deposits (non-brokered)	7,130,749	7,546,621	7,500,544	7,411,140	7,486,717
Time deposits (brokered CDs)	177,099	128,176	116,221	103,738	222,825
Total deposits	$56,866,340	$43,758,606	$39,710,039	$35,453,508	$30,496,224

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

Borrowings

The Corporation's borrowings amounted to $1.3 billion at December 31, 2020 and 2019. Refer to Note 16 to the Consolidated Financial Statements for detailed information on the Corporation's borrowings. Also, refer to the Off-Balance Sheet Arrangements and Other Commitments section in this MD&A for additional information on the Corporation's contractual obligations.

Other liabilities

The Corporation's other liabilities amounted to $1.7 billion at December 31, 2020, an increase of $0.6 billion when compared to December 31, 2019, mainly due to an increase of $0.7 billion in unsettled purchases of debt securities.

Stockholders' Equity

Stockholders' equity increased by $11.9 million to $6.0 billion at December 31, 2020, when compared to December 31, 2019. The change in stockholders' equity was impacted by the net income of $506.6 million and unrealized gains on debt securities available-for-sale offset by capital transactions including an accelerated share repurchase and the redemption of 2008 Series B preferred stock, as discussed in Note 19. 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 21 for a detail of accumulated other comprehensive loss, an integral component of stockholders' equity.

REGULATORY CAPITAL

The Corporation and its bank subsidiaries are subject to capital adequacy standards established by the Federal Reserve Board. The risk-based capital standards applicable to Popular, Inc. and the Banks, BPPR and PB, are based on the final capital framework of Basel III. The capital rules of Basel III include a "Common Equity Tier 1" ("CET1") capital measure and specifies that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements. Note 20 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 2016 through 2020. BPPR and PB were also well-capitalized for all years presented.

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

Table 9 presents the Corporation's capital adequacy information for the years 2016 through 2020.

Table 9 - Capital Adequacy Data

	At December 31,				
(Dollars in thousands)	2020	2019	2018	2017	2016
Risk-based capital:					
Common Equity Tier 1 capital	$ 4,992,096	$ 5,121,240	$ 4,631,511	$ 4,226,519	$ 4,121,208
Additional Tier 1 Capital	22,143	–	–	–	–
Tier 1 capital	$ 5,014,239	$ 5,121,240	$ 4,631,511	$ 4,226,519	$ 4,121,208
Supplementary (Tier 2) capital	759,680	737,375	722,688	758,746	748,007
Total capital	$ 5,773,919	$ 5,858,615	$ 5,354,199	$ 4,985,265	$ 4,869,215
Total risk-weighted assets	$30,702,091	$28,840,368	$27,403,718	$25,935,696	$25,001,334
Adjusted average quarterly assets	$64,305,022	$51,057,484	$46,876,424	$42,185,805	$37,785,070
Ratios:					
Common Equity Tier 1 capital	16.26%	17.76%	16.90%	16.30%	16.48%
Tier 1 capital	16.33	17.76	16.90	16.30	16.48
Total capital	18.81	20.31	19.54	19.22	19.48
Leverage ratio	7.80	10.03	9.88	10.02	10.91
Average equity to assets	9.10	11.35	11.67	12.91	14.03
Average tangible equity to assets	8.02	10.11	10.37	11.48	12.45
Average equity to loans	19.09	21.31	21.72	22.73	22.89

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, total capital ratio and leverage ratio as of December 31, 2020 compared to December 31, 2019 was mostly due to the accelerated common stock repurchase of $500 million and the increase in risk weighted assets driven by the increase from 100% to 250% in the risk weight assets of MSAs and temporary difference deferred tax asset not deducted from capital, resulting from the adoption of the aforementioned simplification final rule, partially offset by the year's earnings.

Pursuant to the adoption of CECL on January 1, 2020, the Corporation elected to use the five-year transition period option as provided in the final interim regulatory capital rules effective March 31,2020. The five-year transition period provision delays for two years the estimated impact of CECL on regulatory capital, followed by a three-year transition period to phase out the aggregate amount of the capital benefits provided during the initial two-year delay.

On April 9, 2020, federal banking regulators issued an interim final rule to modify the Basel III regulatory capital rules applicable to banking organizations to allow those organizations participating in the Paycheck Protection Program ("PPP") established under the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") to neutralize the regulatory capital effects of participating in the program. Specifically, the agencies have clarified that banking organizations, including the Corporation and its Bank subsidiaries, are permitted to assign a zero percent risk weight to PPP loans for purposes of determining risk-weighted assets and risk-based capital ratios. Additionally, in order to facilitate use of the Paycheck Protection Program Liquidity Facility (the "PPPL Facility"), which provides Federal Reserve Bank loans to eligible financial institutions such as the Corporation's Bank subsidiaries to fund PPP loans, the agencies further clarified that, for purposes of determining leverage ratios, a banking organization is permitted to exclude from total average assets PPP loans that have been pledged as collateral for a PPPL Facility. As of December 31, 2020, the Corporation has $1.3 billion in PPP loans and $1 million 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)	2020	2019
Common stockholders' equity	$6,224,942	$5,966,619
AOCI related adjustments due to opt-out election	(261,245)	113,155
Goodwill, net of associated deferred tax liability (DTL)	(591,931)	(596,994)
Intangible assets, net of associated DTLs	(22,466)	(28,780)
Deferred tax assets and other deductions	(357,204)	(332,763)
Common equity tier 1 capital	$4,992,096	$5,121,237
Common equity tier 1 capital to risk-weighted assets	16.26%	17.76%

Non-GAAP financial measures

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

Table 11 provides a reconciliation of total stockholders' equity to tangible common equity and total assets to tangible assets at December 31, 2020 and 2019

Table 11 - Reconciliation Tangible Common Equity and Assets

	At December 31,	
(In thousands, except share or per share information)	2020	2019
Total stockholders' equity	$ 6,028,687	$ 6,016,779
Less: Preferred stock	(22,143)	(50,160)
Less: Goodwill	(671,122)	(671,122)
Less: Other intangibles	(22,466)	(28,780)
Total tangible common equity	$ 5,312,956	$ 5,266,717
Total assets	$65,926,000	$52,115,324
Less: Goodwill	(671,122)	(671,122)
Less: Other intangibles	(22,466)	(28,780)
Total tangible assets	$65,232,412	$51,415,422
Tangible common equity to tangible assets	8.14%	10.24%
Common shares outstanding at end of period	84,244,235	95,589,629
Tangible book value per common share	$ 63.07	$ 55.10
	Year-to-date average	
Total stockholders' equity [1]	$ 5,419,938	$ 5,713,517
Less: Preferred Stock	(26,277)	(50,160)
Less: Goodwill	(671,121)	(669,200)
Less: Other intangibles	(25,154)	(23,563)
Total tangible common equity	$ 4,697,386	$ 4,970,594
Average return on tangible common equity	10.75%	13.43%

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

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. 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 22 for a detailed discussion related to the Corporation's obligations under credit recourse and representation and warranties arrangements.

Contractual Obligations and Commercial Commitments

The Corporation has various financial obligations, including contractual obligations and commercial commitments, which require future cash payments on debt and lease agreements.

As previously indicated, the Corporation also enters into derivative contracts under which it is required either to receive or pay cash, depending on changes in interest rates. These contracts are carried at fair value on the consolidated statements of financial condition with the fair value representing the net present value of the expected future cash receipts and payments based on market rates of interest as of the statement of condition date. The fair value of the contract changes daily as interest rates change. The Corporation may also be required to post additional collateral on margin calls on the derivatives and repurchase transactions.

At December 31, 2020, the aggregate contractual cash obligations, including borrowings, by maturities, are presented in Table 12.

Table 12 - Contractual Obligations

	Payments Due by Period				
(In thousands)	Less than 1 year	1 to 3 years	3 to 5 years	After 5 years	Total
Certificates of deposits	$4,486,877	$1,622,562	$1,130,140	$ 68,269	$7,307,848
Assets sold under agreement to repurchase	121,303	–	–	–	121,303
Long-term debt	50,040	443,991	231,864	499,086	1,224,981
Operating leases	34,322	47,962	40,648	51,807	174,739
Finance leases	3,897	6,894	7,290	8,850	26,931
Total contractual cash obligations	$4,696,439	$2,121,409	$1,409,942	$628,012	$8,855,802

Under the Corporation's repurchase agreements, Popular is required to deposit cash or qualifying securities to meet margin requirements. To the extent that the value of securities previously pledged as collateral declines because of changes in interest rates, the Corporation will be required to deposit additional cash or securities to meet its margin requirements, thereby adversely affecting its liquidity.

At December 31, 2020, the Corporation's liability on its pension, restoration and postretirement benefit plans amounted to approximately $215 million, compared with $221 million at December 31, 2019. The Corporation's expected contributions to the pension and benefit restoration plans are minimal, while the expected contributions to the postretirement benefit plan to fund current benefit payment requirements are estimated at $6.3 million for 2021. Obligations to these plans are based on current and projected obligations of the plans, performance of the plan assets, if applicable, and any participant contributions. Refer to Note 29 to the consolidated financial statements for further information on these plans. Management believes that the effect of the pension and postretirement plans on liquidity is not significant to the Corporation's overall financial condition. The BPPR's non-contributory defined pension and benefit restoration plans are frozen with regards to all future benefit accruals.

At December 31, 2020, the liability for uncertain tax positions was $14.7 million, compared with $16.3 million as of the end of 2019. This liability represents an estimate of tax positions that the Corporation has taken in its tax returns which may ultimately not be sustained upon examination by the tax authorities. The ultimate amount and timing of any future cash settlements is difficult to predict with reasonable certainty. Under the statute of limitations, the liability for uncertain tax positions expires as follows: 2021 - $11.3 million, 2022 - $1.1 million and 2023 - $1.1 million. Additionally, $1.4 million is not subject to the statute of limitations. As a result of examinations, the Corporation anticipates a reduction in the total amount of unrecognized tax benefits within the next 12 months, which could amount to approximately $13.6 million, including interests.

The Corporation also utilizes lending-related financial instruments in the normal course of business to accommodate the financial needs of its customers. The Corporation's exposure to credit losses in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit and commercial letters of credit is represented by the contractual notional amount of these instruments. The Corporation uses credit procedures and policies in making those commitments and conditional obligations as it does in extending loans to customers. Since many of the commitments expire without being drawn upon or a default occurring, the total contractual amounts are not representative of the Corporation's actual future credit exposure or liquidity requirements for these commitments.

The following table presents the contractual amounts related to the Corporation's off-balance sheet lending and other activities at December 31, 2020:

Table 13 - Off-Balance Sheet Lending and Other Activities

	Amount of commitment - Expiration Period				
(In thousands)	2021	Years 2022 - 2023	Years 2024 - 2025	Years 2026 - thereafter	Total
Commitments to extend credit	$8,258,033	$798,038	$142,469	$90,891	$9,289,431
Commercial letters of credit	1,864	–	–	–	1,864
Standby letters of credit	21,516	750	–	–	22,266
Commitments to originate or fund mortgage loans	96,645	141	–	–	96,786
Total	$8,378,058	$798,929	$142,469	$90,891	$9,410,347

Refer to Note 23 to the Consolidated Financial Statements for additional information on credit commitments and contingencies.

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 5 and 6 for further information on the debt securities available-for-sale and held-to-maturity portfolios. Debt securities classified as available-for-sale amounted to $21.6 billion as of December 31, 2020. Other assets subject to market risk include loans held-for-sale, which amounted to $99 million, mortgage servicing rights ("MSRs") which amounted to $118 million and securities classified as "trading", which amounted to $37 million, as of December 31, 2020.

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

The Corporation processes NII simulations under interest rate scenarios in which the yield curve is assumed to rise and decline by the same amount (parallel shifts). The rate scenarios considered in these market risk simulations reflect instantaneous parallel changes of -100, -200, +100, +200 and +400 basis points during the succeeding twelve-month period. Simulation analyses are based on many assumptions, including relative levels of market interest rates across all yield curve points and indexes, interest rate spreads, loan prepayments and deposit elasticity. Thus, they should not be relied upon as indicative of actual results. Further, the estimates do not contemplate actions that management could take to respond to changes in interest rates. By their nature, these forward-looking computations are only estimates and may be different from what may actually occur in the future. The following table presents the results of the simulations at December 31, 2020 and December 31, 2019, assuming a static balance sheet and parallel changes over flat spot rates over a one-year time horizon:

Table 14 - Net Interest Income Sensitivity (One Year Projection)

	December 31, 2020		December 31, 2019	
(Dollars in thousands)	Amount Change	Percent Change	Amount Change	Percent Change
Change in interest rate				
+400 basis points	$167,474	9.19%	$ 64,351	3.37%
+200 basis points	81,690	4.49	32,766	1.72
+100 basis points	39,361	2.16	16,379	0.86
-100 basis points	(53,952)	(2.96)	(35,213)	(1.84)
-200 basis points	(71,517)	(3.93)	(131,874)	(6.91)

As of December 31, 2020, NII simulations show the Corporation maintains an asset sensitive position and is expected to benefit from an overall rising rate environment. The changes in sensitivity for the period are primarily driven by large deposit increases of over $13 billion along with reductions in the rates paid for deposit products. Overall, rates are now considered to be close to their "lower bound" because we currently assume, in our interest risk models, that rates will not reach negative values. This has the effect of reducing sensitivity in most products given that rates are close to zero in most curve tenors and therefore have little room to fall further in the declining rates scenarios. We would expect this "flooring" effect on sensitivity to declining rates to reverse itself if rates were to rise, because it would mean that rates would once again have more room to fall. In contrast, the sensitivity to rising rate scenarios notably increased as most of the increase in deposits remained in short-term assets and cash at the close of the quarter.

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 15 - Interest Rate Sensitivity

	At December 31, 2020								
	By repricing dates								
(Dollars in thousands)	0-30 days	Within 31 - 90 days	After three months but within six months	After six months but within nine months	After nine months but within one year	After one year but within two years	After two years	Non-interest bearing funds	Total
Assets:									
Money market investments	$11,640,880	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$11,640,880
Investment and trading securities	1,818,381	2,588,213	784,071	862,936	854,535	3,435,958	11,122,995	386,834	21,853,923
Loans	4,941,389	2,079,245	1,343,712	1,209,007	1,239,635	5,265,158	13,562,962	(156,457)	29,484,651
Other assets	–	–	–	–	–	–	–	2,946,546	2,946,546
Total	18,400,650	4,667,458	2,127,783	2,071,943	2,094,170	8,701,116	24,685,957	3,176,923	65,926,000
Liabilities and stockholders' equity:									
Savings, NOW and money market and other interest bearing demand deposits	17,598,227	828,430	1,157,540	1,063,674	978,445	3,202,224	11,601,253	–	36,429,793
Certificates of deposit	2,267,508	597,874	728,850	428,325	515,564	1,064,814	1,704,913	–	7,307,848
Federal funds purchased and assets sold under agreements to repurchase	71,738	39,586	9,979	–	–	–	–	–	121,303
Notes payable	1,000	–	47,000	–	2,040	104,156	1,070,785	–	1,224,981
Non-interest bearing deposits	–	–	–	–	–	–	–	13,128,699	13,128,699
Other non-interest bearing liabilities	–	–	–	–	–	–	–	1,684,689	1,684,689
Stockholders' equity	–	–	–	–	–	–	–	6,028,687	6,028,687
Total	$19,938,473	$1,465,890	$1,943,369	$1,491,999	$1,496,049	$4,371,194	$14,376,951	$ 20,842,075	$65,926,000
Interest rate sensitive gap	(1,537,823)	3,201,568	184,414	579,944	598,121	4,329,922	10,309,006	(17,665,152)	–
Cumulative interest rate sensitive gap	(1,537,823)	1,663,745	1,848,159	2,428,103	3,026,224	7,356,146	17,665,152	–	–
Cumulative interest rate sensitive gap to earning assets	(2.45)%	2.65%	2.95%	3.87%	4.82%	11.72%	28.15%	–	–

Table 16, which presents the maturity distribution of earning assets, takes into consideration prepayment assumptions.

Table 16 - Maturity Distribution of Earning Assets

	As of December 31, 2020					
	Maturities					
		After one year through five years		After five years		
(In thousands)	One year or less	Fixed interest rates	Variable interest rates	Fixed interest rates	Variable interest rates	Total
Money market securities	$11,640,880	–	–	–	–	$11,640,880
Investment and trading securities	6,964,725	$11,926,420	$ 18,044	$2,764,145	$ 6,852	21,680,186
Loans:						
Commercial	3,488,348	4,618,758	2,689,723	1,708,516	1,119,146	13,624,491
Construction	728,477	12,877	167,137	–	10,274	918,765
Lease financing	368,549	821,595	–	7,517	–	1,197,661
Consumer	1,715,735	2,995,186	247,122	146,600	651,694	5,756,337
Mortgage	890,422	2,951,385	149,145	3,976,529	19,916	7,987,397
Subtotal loans	7,191,531	11,399,801	3,253,127	5,839,162	1,801,030	29,484,651
Total earning assets	$25,797,136	$23,326,221	$3,271,171	$8,603,307	$1,807,882	$62,805,717

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, 2020, the Corporation held trading securities with a fair value of $37 million, representing approximately 0.1% of the Corporation's total assets, compared with $40 million and 0.1%, respectively, at December 31, 2019. As shown in Table 17, the trading portfolio consists principally of mortgage-backed securities which at December 31, 2020 were investment grade securities. As of December 31, 2020, the trading portfolio also included $0.1 million in Puerto Rico government obligations ($0.6 million as of December 31, 2019). Trading instruments are recognized at fair value, with changes resulting from fluctuations in market prices, interest rates or exchange rates reported in current period earnings. The Corporation recognized a net trading account gain of $1 million for the year ended December 31, 2020 and a net trading account gain of $994 thousand for the year ended December 31, 2019.

Table 17 - Trading Portfolio

(Dollars in thousands)	December 31, 2020 Amount	December 31, 2020 Weighted Average Yield [1]	December 31, 2019 Amount	December 31, 2019 Weighted Average Yield [1]
Mortgage-backed securities	$24,338	5.19%	$28,556	5.28%
U.S. Treasury securities	11,506	0.04	7,083	1.22
Collateralized mortgage obligations	346	5.65	606	5.72
Puerto Rico government obligations	103	0.48	633	2.60
Interest-only strips	381	12.00	440	12.05
Other	—	—	3,003	2.79
Total	$36,674	3.64%	$40,321	4.42%

[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 $0.8 million for the last week in December 31, 2020. 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 fluctuations in interest rates. Derivative instruments that the Corporation may use include, among others, interest rate swaps, caps, floors, indexed options, and forward contracts. The Corporation does not use highly leveraged derivative instruments in its interest rate risk management strategy. The Corporation enters into interest rate swaps, interest rate caps and foreign exchange contracts for the benefit of commercial customers. 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 statement of condition at their fair value. Refer to Note 25 to the consolidated financial statements for further information on the Corporation's involvement in derivative instruments and hedging activities.

The Corporation's derivative activities are entered primarily to offset the impact of market volatility on the economic value of assets or liabilities. The net effect on the market value of potential changes in interest rates of derivatives and other financial instruments is analyzed. The effectiveness of these hedges is monitored to ascertain that the Corporation is reducing market risk as expected. Derivative transactions are generally executed with instruments with a high correlation to the hedged asset or liability. The underlying index or instrument of the derivatives used by the Corporation is selected based on its similarity to the asset or liability being hedged. As a result of interest rate fluctuations, fixed and variable interest rate hedged assets and liabilities will appreciate or depreciate in fair value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by the Corporation's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Management will assess if circumstances warrant liquidating or replacing the derivatives position in the hypothetical event that high correlation is reduced. Based on the Corporation's derivative instruments outstanding at December 31, 2020, it is not anticipated that such a scenario would have a material impact on the Corporation's financial condition or results of operations.

Certain derivative contracts also present credit risk and liquidity risk because the counterparties may not comply with the terms of the contract, or the collateral obtained might be illiquid or become so. The Corporation controls credit risk through approvals, limits and monitoring procedures, and through master netting and collateral agreements whenever possible. Further, as applicable under the terms of the master agreements, the Corporation may obtain collateral, where appropriate, to reduce credit risk. The credit risk attributed to the counterparty's nonperformance risk is incorporated in the fair value of the derivatives. Additionally, as required by the fair value measurements guidance, the fair value of the Corporation's own credit standing is considered in the fair value of the derivative liabilities. For information on the gain (loss) resulting from the inclusion of the credit risk in the fair value of the derivatives, refer to Note 25 to the consolidated financial statements.

The Corporation performs appropriate due diligence and monitors the financial condition of counterparties that represent a significant volume of credit exposure. Additionally, the Corporation has exposure limits to prevent any undue funding exposure.

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, 2020 amounted to $ 189 million (2019 - $ 98 million).

Refer to Note 25 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, 2020 and 2019.

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. Refer to Note 25 to the consolidated financial statements for additional quantitative and qualitative information on these derivative instruments.

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. The Corporation offers certificates of deposit with returns linked to these indexes to its retail customers, principally in connection with individual retirement accounts (IRAs), and certificates of deposit. At December 31, 2020, these deposits amounted to $63 million (2019 - $ 67 million), or less than 1% (2019 – less than 1%) of the Corporation's total deposits. 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 option contracts are initially accounted for at cost (i.e., amount of premium paid) and recorded as a derivative asset. The derivative asset is marked-to-market on a quarterly basis with changes in fair value charged to earnings. The deposits are hybrid instruments containing embedded options that must be bifurcated in accordance with the derivatives and hedging activities guidance. The initial value of the embedded option (component of the deposit contract that pays a return based on changes in the applicable indexes) is bifurcated from the related certificate of deposit and is initially recorded as a derivative liability and a corresponding discount on the certificate of deposit is recorded. Subsequently, the discount on the deposit is accreted and included as part of interest expense while the bifurcated option is marked-to-market with changes in fair value charged to earnings.

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, 2020, the notional amount of the indexed options on deposits approximated $ 69 million (2019 - $ 69 million) with a fair value of $ 21 million (asset) (2019 - $ 18 million) while the embedded options had a notional value of $63 million (2019 - $ 67 million) with a fair value of $ 18 million (liability) (2019 - $ 16 million).

Refer to Note 25 to the consolidated financial statements for a description of other non-hedging derivative activities utilized by the Corporation during 2020 and 2019.

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 $153.1 million at December 31, 2020. 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, 2020, the Corporation had approximately $71 million in an unfavorable foreign currency translation adjustment as part of accumulated other comprehensive income (loss), compared with an unfavorable adjustment of $ 57 million at December 31, 2019 and $ 50 million at December 31, 2018.

Liquidity

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

An institution's liquidity may be pressured if, for example, it experiences a sudden and unexpected substantial cash outflow due to exogenous events such as the current COVID-19 pandemic, its credit rating is downgraded, or some other event causes counterparties to avoid exposure to the institution. Factors that the Corporation does not control, such as the economic outlook, adverse ratings of its principal markets and regulatory changes, could also affect its ability to obtain funding.

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

Deposits, including customer deposits, brokered deposits and public funds deposits, continue to be the most significant source of funds for the Corporation, funding 86% of the Corporation's total assets at December 31, 2020 and 84% at December 31, 2019. The ratio of total ending loans to deposits was 52% at December 31, 2020, compared to 63% at December 31, 2019. In addition to traditional deposits, the Corporation maintains borrowing arrangements, which amounted to approximately $1.3 billion at December 31, 2020 (December 31, 2019 - $1.3 billion). A detailed description of the Corporation's borrowings, including their terms, is included in Note 16 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.

As previously mentioned, during 2020 the Corporation executed actions corresponding to its capital and liquidity strategic plans. These included the $500 million accelerated share repurchase transaction with respect to its common stock and an increase in quarterly common stock dividend from $0.30 per share to $0.40 per share. Refer to additional details of these transactions in Notes 19 - Stockholders Equity and Note 30 - Net Income Per Common Share.

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

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

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

The Corporation's ability to compete successfully in the marketplace for deposits, excluding brokered deposits, depends on various factors, including pricing, service, convenience and financial stability as reflected by operating results, credit ratings (by nationally recognized credit rating agencies), and importantly, FDIC deposit insurance. Although a downgrade in the credit ratings of the Corporation's banking subsidiaries may impact their ability to raise retail and commercial deposits or the rate that it is required to pay on such deposits, management does not believe that the impact should be material. Deposits at all of the Corporation's banking subsidiaries are federally insured (subject to FDIC limits) and this is expected to mitigate the potential effect of a downgrade in the credit ratings.

Deposits are a key source of funding as they tend to be less volatile than institutional borrowings and their cost is less sensitive to changes in market rates. Refer to Table 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 $100,000, excluding brokered deposits with denominations under $100,000. Core deposits have historically provided the Corporation with a sizable source of relatively stable and low-cost funds. Core deposits totaled $ 51.7 billion, or 91% of total deposits, at December 31, 2020, compared with $38.8 billion, or 89% of total deposits, at December 31, 2019. Core deposits financed 82% of the Corporation's earning assets at December 31, 2020, compared with 80% at December 31, 2019.

The distribution by maturity of certificates of deposits with denominations of $100,000 and over at December 31, 2020 is presented in the table that follows:

Table 18 - Distribution by Maturity of Certificate of Deposits of $100,000 and Over

(In thousands)	
3 months or less	$2,390,610
3 to 6 months	285,597
6 to 12 months	484,180
Over 12 months	1,229,761
Total	$4,390,148

Average deposits, including brokered deposits, for the year ended December 31, 2020 represented 91% of average earning assets, compared with 94% for the year ended December 31, 2019. Table 19 summarizes average deposits for the past five years.

Table 19 - Average Total Deposits

	For the years ended December 31,				
(In thousands)	2020	2019	2018	2017	2016
Non-interest bearing demand deposits	$11,537,700	$ 8,872,897	$ 8,790,314	$ 7,338,455	$ 6,607,639
Savings accounts	12,620,755	10,425,345	9,621,162	8,268,969	7,528,057
NOW, money market and other interest bearing demand accounts	19,466,357	15,159,364	12,516,921	9,958,772	7,024,810
Certificates of deposit	7,960,967	7,761,190	7,559,024	7,616,326	7,905,504
Total interest bearing deposits	40,048,079	33,345,899	29,697,107	25,844,067	22,458,371
Total average deposits	$51,585,779	$42,218,796	$38,487,421	$33,182,522	$29,066,010

The Corporation had $ 0.8 billion in brokered deposits at December 31, 2020, which financed approximately 1% of its total assets(December 31, 2019 - $0.5 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, 2020, total public sector deposits were $15.1 billion, compared to $10.6 billion at December 31, 2019. Generally, these deposits require that the bank pledge high credit quality securities as collateral; therefore liquidity risks arising from public sector deposit outflows are lower given that the bank receives its collateral in return. This, now unpledged, collateral can either be financed via repurchase agreements or sold for cash. However, there are some timing differences between the time the deposit outflow occurs and when the bank receives its collateral.

At December 31, 2020, management believes that the banking subsidiaries had sufficient current and projected liquidity sources to meet their anticipated cash flow obligations, as well as special needs and off-balance sheet commitments, in the ordinary course of business and have sufficient liquidity resources to address a stress event. Although the banking subsidiaries have historically been able to replace maturing deposits and advances, no assurance can be given that they would be able to replace those funds in the future if the Corporation's financial condition or general market conditions were to deteriorate. The Corporation's financial flexibility will be severely constrained if the banking subsidiaries are unable to maintain access to funding or if adequate financing is not available to accommodate future financing needs at acceptable interest rates. The banking subsidiaries also are required to deposit cash or qualifying securities to meet margin requirements. To the extent that the value of securities previously pledged as collateral declines because of market changes, the Corporation will be required to deposit additional cash or securities to meet its margin requirements, thereby adversely affecting its liquidity. Finally, if management is required to rely more heavily on more expensive funding sources to meet its future growth, revenues may not increase proportionately to cover costs. In this case, profitability would be adversely affected.

Bank Holding Companies

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

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

The BHCs have in the past borrowed in the money markets and in the corporate debt market primarily to finance their non-banking subsidiaries; however, the cash needs of the Corporation's non-banking subsidiaries other than to repay indebtedness and interest are now minimal. These sources of funding have become more costly due to the Corporation's principal credit rating being below "investment grade", which affects the Corporation's ability to raise funds in the capital markets. The Corporation has an automatic shelf registration statement filed and effective with the Securities and Exchange Commission, which permits the Corporation to issue an unspecified amount of debt or equity securities.

The outstanding balance of notes payable at the BHCs amounted to $682 million at December 31, 2020 and $680 million at December 31, 2019.

The contractual maturities of the BHCs notes payable at December 31, 2020 are presented in Table 20.

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

Year	(In thousands)
2023	296,574
Later years	384,929
Total	$681,503

Annual debt service at the BHCs is approximately $44 million, and the Corporation's latest quarterly dividend was $0.40 per share. The BHCs liquidity position continues to be adequate with sufficient cash on hand, investments and other sources of liquidity which are expected to be enough to meet all BHCs obligations during the foreseeable future. As of December 31, 2020, the BHCs had cash and money markets investments totaling $191 million, borrowing potential of $153 million from its secured facility with BPPR. In addition to these liquidity sources, the stake in EVERTEC had a market value of $458 million as of December 31, 2020 and it represents an additional source of contingent liquidity.

Non-Banking Subsidiaries

The principal sources of funding for the non-banking subsidiaries include internally generated cash flows from operations, loan sales, repurchase agreements, capital injections and borrowed funds from their direct parent companies or the holding companies. The principal uses of funds for the non-banking subsidiaries include repayment of maturing debt, operational expenses and payment of dividends to the BHCs. The liquidity needs of the non-banking subsidiaries are minimal since most of them are funded internally from operating cash flows or from intercompany borrowings or capital contributions from their holding companies. During 2020, Popular Securities received capital contributions amounting to $10 million from Popular, Inc.

Dividends

During the year ended December 31, 2020, the Corporation declared quarterly dividends on its outstanding common stock of $0.40 per share, for a year-to-date total of $ 136.6 million. The dividends for the Corporation's Series A and Series B preferred stock amounted to $1.8 million. On February 24, 2020, the Corporation redeemed all the outstanding shares of 2008 Series B Preferred Stock. Refer to Note 19 for additional information. During the year ended December 31, 2020, the BHC's received dividends amounting to $578 million from BPPR, $13 million from PIBI which main source of income is derived from its investment in BHD, $8 million in dividends from its non-banking subsidiaries and $2 million in dividends from EVERTEC. Dividends from BPPR constitute Popular, Inc.'s primary source of liquidity.

Other Funding Sources and Capital

The debt securities portfolio provides an additional source of liquidity, which may be realized through either securities sales or repurchase agreements. The Corporation's debt securities portfolio consists primarily of liquid U.S. government debt securities, U.S. government sponsored agency debt securities, U.S. government sponsored agency mortgage-backed securities, and U.S. government sponsored agency collateralized mortgage obligations that can be used to raise funds in the repo markets. The availability of the repurchase agreement would be subject to having sufficient unpledged collateral available at the time the transactions are to be consummated, in addition to overall liquidity and risk appetite of the various counterparties. The Corporation's unpledged debt securities amounted to $3.4 billion at December 31, 2020 and $5.4 billion at December 31, 2019. 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.

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 Popular Bank, including Popular Bank's wholly-owned subsidiaries Popular Equipment Finance, Inc., Popular Insurance Agency, U.S.A., and E-LOAN, Inc.

As described in Note 17, Trust Preferred Securities, 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, 2020 and the results of their operations for the period ended December 31, 2020. Investments in and equity in the earnings from the other subsidiaries and affiliates that are not members of the obligor group have been excluded.

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

Table 21 - Summarized Statement of Condition

(In thousands)	December 31, 2020
Assets	
Cash and money market investments	$ 190,830
Investment securities	27,630
Accounts receivables from non-obligor subsidiaries	16,338
Other loans (net of allowance for credit losses of $311)	31,162
Investment in equity method investees	88,272
Other assets	46,547
Total assets	$ 400,779
Liabilities and Stockholders' deficit	
Accounts payable to non-obligor subsidiaries	$ 3,946
Accounts payable to affiliates and related parties	977
Notes payable	681,503
Other liabilities	79,208
Stockholders' deficit	(364,855)
Total liabilities and stockholders' deficit	$ 400,779

Table 22 - Summarized Statement of Operations

(In thousands)	December 31, 2020
Income:	
Dividends from non-obligor subsidiaries	$586,000
Interest income from non-obligor subsidiaries and affiliates	2,383
Earnings from investments in equity method investees	17,912
Other operating income	4,340
Total income	$610,635
Expenses:	
Services provided by non-obligor subsidiaries and affiliates (net of reimbursement by subsidiaries for services provided by parent of $138,729)	$ 13,191
Other operating expenses	29,652
Total expenses	$ 42,843
Net income	$567,792

Obligor group received dividend distributions from its direct equity method investees amounting to $2.3 million for the year ended December 31, 2020 and dividend distributions from a non-obligor subsidiary amounting to $12.5 million which was recorded as a reduction to the investment.

Risks to Liquidity

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

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

Factors that the Corporation does not control, such as the economic outlook and credit ratings of its principal markets and regulatory changes, could also affect its ability to obtain funding. In order to prepare for the possibility of such scenario, management has adopted contingency plans for raising financing under stress scenarios when important sources of funds that are usually fully available are temporarily unavailable. These plans call for using alternate funding mechanisms, such as the pledging of certain asset classes and accessing secured credit lines and loan facilities put in place with the FHLB and the FRB.

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

Furthermore, various statutory provisions limit the amount of dividends an insured depository institution may pay to its holding company without regulatory approval. A member bank must obtain the approval of the Federal Reserve Board for any dividend, if the total of all dividends declared by the member bank during the calendar year would exceed the total of its net income for that year, combined with its retained net income for the preceding two years, less any required transfers to surplus or to a fund for the retirement of any preferred stock. In addition, a member bank may not declare or pay a dividend in an amount greater than its undivided profits as reported in its Report of Condition and Income, unless the member bank has received the approval of the Federal Reserve Board. A member bank also may not permit any portion of its permanent capital to be withdrawn unless the withdrawal has been approved by the Federal Reserve Board. Pursuant to these requirements, PB may not declare or pay a dividend without the prior approval of the Federal Reserve Board and the NYSDFS. The ability of a bank subsidiary to up-stream dividends to its BHC could thus be impacted by its financial performance, thus potentially limiting the amount of cash moving up to the BHCs from the banking subsidiaries. This could, in turn, affect the BHCs ability to declare dividends on its outstanding common and preferred stock, for example. Popular, Inc. received $578 million in dividends from BPPR during year ended December 31, 2020 and its ability to continue receiving dividends from BPPR will depend on such banking subsidiary's financial condition and results of operation.

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, 2020 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 22 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 $50 million at December 31, 2020. The Corporation could be required to post additional collateral under the agreements. Management expects that it would be able to meet additional collateral requirements if and when needed. The requirements to post collateral under certain agreements or the loss of escrow deposits could reduce the Corporation's liquidity resources and impact its operating results.

Credit Risk

Geographic and Government Risk

The Corporation is exposed to geographic and government risk. The Corporation's assets and revenue composition by geographical area and by business segment reporting are presented in Note 33 to the Consolidated Financial Statements.

Commonwealth of Puerto Rico

A significant portion of our financial activities and credit exposure is concentrated in the Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico"), which faces severe economic and fiscal challenges.

COVID-19 Pandemic

On December 2019, a novel strain of coronavirus (COVID-19) surfaced in Wuhan, China and has since spread globally to other countries and jurisdictions, including the mainland United States and Puerto Rico. In March 2020, the World Health Organization declared COVID-19 a pandemic. The pandemic has significantly disrupted and negatively impacted the global economy, disrupted global supply chains, created significant volatility in financial markets, and increased unemployment levels worldwide, including in the markets in which we do business. In Puerto Rico, former Governor Wanda Vázquez issued an executive order on March 15, 2020 declaring a health emergency, ordering residents to shelter in place, implementing a mandatory curfew, and requiring the closure of all businesses, except for businesses that provide essential services, including banking and financial institutions with respect to certain services. While many of the restrictions have been gradually lifted, a mandatory curfew is still in effect and most businesses have had to make significant adjustments to protect customers and employees, including transitioning to telework and suspending or modifying certain operations in compliance with health and safety guidelines.

The extent to which the COVID-19 pandemic will continue to have an adverse effect on economic activity in Puerto Rico in the long-term will depend on future developments, which are highly uncertain and is difficult to predict, including the scope and duration of the pandemic, the restrictions imposed by governmental authorities and other third parties in response to the same and the amount of federal and local assistance offered to offset the impact of the pandemic. However, the COVID-19 pandemic and the actions taken by governments in response to the same have had a material adverse effect on economic activity worldwide, including in Puerto Rico, and there can be no assurance that measures taken by governmental authorities will be sufficient to offset the pandemic's economic impact.

In response to the pandemic, on April 2020 the Puerto Rico Legislative Assembly enacted legislation requiring financial institutions to offer moratoriums on consumer financial products to clients impacted by the COVID-19 pandemic through June 2020. In the case of mortgage loans, the moratorium period was extended through August 2020. The Federal Government has also approved several economic stimulus measures, including the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") that seek to cushion the economic fallout of the pandemic, including expanding eligibility for unemployment benefits and guaranteeing through the Small Business Administration's Paycheck Protection Program (the "PPP") loans to small and medium businesses.

For a discussion of the impact of the pandemic on the Corporation's operations and financial results during 2020, refer to the MD&A Significant Events section, on the accompanying financial statements. For additional discussion of risk factors related to the impact of the pandemic, see "Part I – Item 1A – Risk Factors" in this Form 10-K. For information regarding the projections of the 2020 Fiscal Plan (defined below) with respect to the impact of the pandemic, see Fiscal Plans, *Commonwealth Fiscal Plan*, below.

Economic Performance

The Commonwealth's economy entered a recession in the fourth quarter of fiscal year 2006 and its gross national product ("GNP") contracted (in real terms) every fiscal year between 2007 and 2018, with the exception of fiscal year 2012. Pursuant to the latest Puerto Rico Planning Board (the "Planning Board") estimates, dated June 2020, the Commonwealth's real GNP for fiscal years 2017 and 2018 decreased by 3.2% and 4.2%, respectively. The Planning Board estimates that real GNP increased approximately 1.5% in fiscal year 2019 due to the influx of federal funds and private insurance payments to repair damage caused by Hurricanes Irma and María, and that it decreased approximately -5.4% in fiscal year 2020 due primarily to the adverse impact of the COVID-19 pandemic and the measures taken by the government in response to the same. Finally, the Planning Board projected that the negative effects of COVID-19 would continue through fiscal year 2021, resulting in a contraction in real GNP of approximately -2% in the current fiscal year.

Fiscal Crisis

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

PROMESA

PROMESA, among other things, created a seven-member federally-appointed oversight board (the "Oversight Board") with ample powers over the fiscal and economic affairs of the Commonwealth, its public corporations, instrumentalities and municipalities and established two mechanisms for the restructuring of the obligations of such entities. Pursuant to PROMESA, the Oversight Board will remain in place until market access is restored and balanced budgets, in accordance with modified accrual accounting, are produced for at least four consecutive years. In August 2016, President Obama appointed the seven voting members of the Oversight Board through the process established in PROMESA, which authorizes the President to select the members from several lists required to be submitted by congressional leaders and which process was recently upheld by the U.S. Supreme Court. The terms of the original Oversight Board members expired in August 2019, but PROMESA allows members to remain in their roles until their successors have been appointed. All of the original members continued to serve on the Oversight Board on holdover status until 2020, when President Donald Trump reappointed three of the original members and appointed four new members to the Oversight Board.

In October 2016, the Oversight Board designated the Commonwealth and all of its public corporations and instrumentalities as "covered entities" under PROMESA. The only Commonwealth government entities that were not subject to such initial designation were the Commonwealth's municipalities. In May 2019, however, the Oversight Board designated all of the Commonwealth's municipalities as covered entities. At the Oversight Board's request, covered entities are required to submit fiscal plans and annual budgets to the Oversight Board for its review and approval. They are also required to seek Oversight Board approval to issue, guarantee or modify their debts and to enter into contracts with an aggregate value of $10 million or more. Finally, covered entities are potentially eligible to avail themselves of the debt restructuring processes provided by PROMESA.

Fiscal Plans

Commonwealth Fiscal Plan. The Oversight Board has certified several fiscal plans for the Commonwealth since 2017. The most recent fiscal plan for the Commonwealth certified by the

Oversight Board is dated May 27, 2020 (the "2020 Fiscal Plan"). In January 2021, however, the Oversight Board established a schedule for a proposed revision to the 2020 Fiscal Plan to incorporate new information regarding Puerto Rico's macroeconomic environment and government revenues and expenditures and to incorporate the impact of expenses related to the potential certification of a plan of adjustment for the Commonwealth under Title III of PROMESA. Pursuant to the schedule, the Governor is required to submit a proposed updated fiscal plan to the Oversight Board by February 20, 2021, and the Oversight Board expects to certify a revised updated fiscal plan by April 23, 2021.

The 2020 Fiscal Plan estimates that the economy of Puerto Rico will contract by 4% in real terms in fiscal year 2020, largely due to the COVID-19 pandemic, with a limited recovery of 0.5% in fiscal year 2021. The 2020 Fiscal Plan estimates that this economic contraction will exacerbate the Commonwealth government's fiscal challenges. As a result of these changes, the 2020 Fiscal Plan projects that the Commonwealth will have a pre-contractual debt service deficit each year through 2025 if the measures and structural reforms contemplated by the plan are not successfully implemented. It estimates that the proposed fiscal measures and structural reforms will drive approximately $10 billion in savings and extra revenue through 2025 and a cumulative 0.88% increase in growth by fiscal year 2049. However, even after the fiscal measures and structural reforms, and before contractual debt service, the 2020 Fiscal Plan's projections reflect an annual deficit starting in fiscal year 2032.

The 2020 Fiscal Plan provides for the gradual reduction and the ultimate elimination of Commonwealth budgetary subsidies to municipalities, which constitute a material portion of the operating revenues of certain municipalities. Since fiscal year 2017, Commonwealth appropriations to municipalities have been reduced by approximately 64% (from approximately $370 million in fiscal year 2017 to approximately $132 million in fiscal year 2020). In response to the COVID-19 crisis, the 2020 Fiscal Plan provided for a one-year pause on reductions to appropriations to municipalities. Accordingly, appropriations to municipalities for fiscal year 2021 remained at $132 million, rather than declining by $44 million as contemplated by the prior fiscal plan. In addition, the Governor signed an executive order that adopts the "Strategic Plan for Disbursement" of the $2.2 billion allocated to Puerto Rico by the Coronavirus Relief Fund created by the Federal Government through the CARES Act. Such plan assigns $100 million to municipalities for eligible expenses related to COVID-19. The 2020 Fiscal Plan contemplates additional reductions in appropriations to municipalities starting in fiscal year 2022, before eventually phasing out all appropriations in fiscal year 2025. The 2020 Fiscal Plan notes that municipalities have made little or no progress towards implementing fiscal discipline required to reduce reliance on Commonwealth appropriations and better address the impact of declining populations and that, as currently operating, many municipalities are not fiscally sustainable.

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

On June 26, 2020, the Oversight Board certified a fiscal plan (the "CRIM Fiscal Plan") for the Municipal Revenue Collection Center ("CRIM"), the government entity responsible for collecting property taxes and distributing them among the municipalities. The CRIM Fiscal Plan outlines a series of measures centered around improving the competitiveness of Puerto Rico's property tax regime and the enhancement of property tax collections, including identifying and appraising new properties as well as improvements to existing properties, and implementing operational and technological initiatives.

Pending Title III Proceedings

On May 3, 2017, the Oversight Board, on behalf of the Commonwealth, filed a petition in the U.S. District Court to restructure the Commonwealth's liabilities under Title III of PROMESA. The Oversight Board has subsequently filed analogous petitions with respect to the Puerto Rico Sales Tax Financing Corporation ("COFINA"), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico ("ERS"), the Puerto Rico Highways and Transportation Authority, PREPA and the Puerto Rico Public Buildings Authority ("PBA"). On February 12, 2019, the government completed a restructuring of COFINA's debts pursuant to a plan of adjustment confirmed by the U.S. District Court. On September 27, 2019, the Oversight Board filed a plan of adjustment for the Commonwealth, ERS and PBA in the pending debt restructuring proceedings under Title III of PROMESA. On February 9, 2020, the Oversight Board announced that it had reached a new agreement with certain bondholders on a new framework for a plan of adjustment and, on February 28, 2020, the Oversight Board filed an amended plan of adjustment reflecting such new agreement. In light of the COVID-19 pandemic, however, the Oversight Board requested that the court adjourn proceedings related to the Proposed Plan of Adjustment so as to allow for the Government and the Oversight Board to prioritize the health and safety of the people of Puerto Rico and to gain a better understanding of the economic and fiscal impact of the pandemic. The Oversight Board, the Government and certain creditors of the Commonwealth recently resumed negotiations on the economic terms of a proposed plan of adjustment under a court-ordered mediation. On February 23, 2021, the Oversight Board and certain creditors of the Commonwealth announced that they executed a new plan support agreement, which establishes the terms of a proposed plan of adjustment. The Title III court set March 8, 2021 as the deadline for the filing of the new proposed plan of adjustment by the Oversight Board.

PROMESA Adversary Proceeding

In 2019, the Oversight Board commenced an adversary proceeding against the Commonwealth seeking to invalidate Act 29-2019 ("Act 29"), which eliminated the obligation of municipalities to contribute to the Commonwealth's health plan and pay-as-you-go retirement system, on the grounds that Act 29 was inconsistent with the Commonwealth's fiscal plan. On April 15, 2020, the Judge ruled in favor of the Oversight Board and declared Act 29 "unenforceable and of no effect." Judge Swain delayed the effective date of the opinion and order for three weeks, through May 6, 2020, to provide time for the Government and the Oversight Board to agree on a mechanism for the reimbursement to the Commonwealth of approximately $166 million and $32 million, respectively, on account of retirement and health plan obligations due by municipalities as a result of the invalidation of Act 29. Subsequent to the Court's decision, the Oversight Board, the Government and CRIM, which is the entity primarily responsible for the collection of property taxes for the municipalities, made various proposals to resolve the immediate fiscal impact of Act 29's invalidation. On May 6, 2020, the Government filed a motion informing the Court that CRIM had agreed to accept a proposal by the Oversight Board to reverse a $132 million transfer from the Commonwealth to the municipalities in the Commonwealth's fiscal year 2020 budget (to be allocated among municipalities) to offset the approximately $198 million obligation of municipalities for the health plan and pay-as-you go retirement system payments for fiscal year 2020. The remaining $66 million would have to be repaid by municipalities by the end of fiscal year 2022 from other sources of revenue. There continue to be differences between the Government and the Oversight Board as to the calculation of the municipalities obligation for the health plan and retirement system payments, as well as to long-term solutions to the fiscal consequences to the municipalities of Act 29's invalidation. The effect of the court's decision and the implementation of the offset proposal described above on municipal finances is likely to vary significantly across municipalities.

Seismic Activity

On January 7, 2020, Puerto Rico was struck by a magnitude 6.4 earthquake, which caused island-wide power outages and significant damage to infrastructure and property in the southwest region of the island. The 6.4 earthquake was preceded by foreshocks and followed by aftershocks. The Commonwealth's government estimates total earthquake-related damages at approximately $1 billion.

Exposure of the Corporation

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

At December 31, 2020 and December 31, 2019, the Corporation's direct exposure to the Puerto Rico government's instrumentalities and municipalities totaled $377 million and $432 million, respectively, which amounts were fully outstanding on such dates. On July 1, 2020 the Corporation received principal payments amounting to $58 million from various obligations from Puerto Rico municipalities. Further deterioration of the Commonwealth's fiscal and economic situation could adversely affect the value of our Puerto Rico government obligations, resulting in losses to us. Of the amount outstanding, $342 million consists of loans and $35 million are securities ($391 million and $41 million, respectively, at December 31, 2019). Substantially all of the amount outstanding at December 31, 2020 were obligations from various Puerto Rico municipalities. In most cases, these were "general obligations" of a municipality, to which the applicable municipality has pledged its good faith, credit and unlimited taxing power, or "special obligations" of a municipality, to which the applicable municipality has pledged other revenues. At December 31, 2020, 74% 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 23 – Commitments and Contingencies.

In addition, at December 31, 2020, the Corporation had $317 million in loans insured or securities issued by Puerto Rico governmental entities, but for which the principal source of repayment is non-governmental ($350 million at December 31, 2019). These included $260 million in residential mortgage loans insured by the Puerto Rico Housing Finance Authority ("HFA"), a governmental instrumentality that has been designated as a covered entity under PROMESA (December 31, 2019 - $276 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, 2020, $46 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, 2019 - $46 million). In the event that the mortgage loans insured by HFA and held by the Corporation directly or those serving as collateral for the HFA bonds default and the collateral is insufficient to satisfy the outstanding balance of this loans, HFA's ability to honor its insurance will depend, among other factors, on the financial condition of HFA at the time such obligations become due and payable. The Corporation does not consider the government guarantee when estimating the credit losses associated with this portfolio. Although the Governor is currently authorized by local legislation to impose a temporary moratorium on the financial obligations of the HFA, a moratorium on such obligations has not been imposed as of the date hereof. In addition, at December 31, 2020, the Corporation had $11 million of commercial real estate notes issued by government entities but that are payable from rent paid by non-governmental parties (December 31, 2019 - $21 million). On January 1, 2020, the Corporation received a payment amounting to $7 million upon the maturity of securities issued by HFA which had been economically defeased and refunded and for which securities consisting of U.S. agencies and Treasury obligations had been escrowed (December 31, 2019 - $7 million).

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

BPPR also has a significant amount of deposits from the Commonwealth, its instrumentalities, and municipalities. The amount of such deposits may fluctuate depending on the financial condition and liquidity of such entities, as well as on the ability of BPPR to maintain these customer relationships.

The Corporation may also have direct exposure with regards to avoidance and other causes of action initiated by the Oversight Board on behalf of the Commonwealth or other Title III debtors. For additional information regarding such exposure, refer to Note 23 of the Consolidated Financial Statements.

United States Virgin Islands

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

The USVI has been experiencing a number of fiscal and economic challenges, which have been and maybe be further exacerbated as a result of the effects of the COVID-19 pandemic, and which could adversely affect the ability of its public corporations and instrumentalities to service their outstanding debt obligations. PROMESA does not apply to the USVI and, as such, there is currently no federal legislation permitting the restructuring of the debts of the USVI and its public corporations and instrumentalities.

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

At December 31, 2020, the Corporation's direct exposure to USVI instrumentalities and public corporations amounted to approximately $105 million, of which $70 million is outstanding (compared to $71 million and $67 million, respectively, at December 31, 2019). Of the amount outstanding, approximately (i) $43 million represents loans to the West Indian Company LTD, a government-owned company that owns and operates a cruise ship pier and shopping mall complex in St. Thomas, (ii) $20 million represents loans to the Virgin Islands Water and Power Authority, a public corporation of the USVI that operates USVI's water production and electric generation plants, (iii) $3 million represents loans to the Virgin Islands Public Finance Authority ("VI PFA"), a public corporation of the USVI created for the purpose of raising capital for public projects and (iv) $4 million in loans to the

Virgin Islands Porth Authority (compared to $42 million, $17 million, $8 million, and $0, respectively, at December 31, 2019). The increase in the exposure to the VI PFA from December 31, 2019 to December 31, 2020 is due to the purchase by BPPR of $30 million of Series 2020A-1 Tax Revenue Anticipation Notes of the VI PFA in December 2020, which are secured by a statutory lien on income taxes real property taxes and, on a subordinated basis, gross receipt taxes.

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, it has a loan portfolio amounting to approximately $251 million comprised of various retail and commercial clients, including a loan of approximately $19 million with the government of the BVI (compared to $258 million and $22 million, respectively, as of December 31, 2019).

U.S. Government

As further detailed in Notes 5 and 6 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, $1.8 billion of residential mortgages, $1.3 billion of SBA loans under the PPP program and $60 million commercial loans were insured or guaranteed by the U.S. Government or its agencies at December 31, 2020 (compared to $1.1 billion, $0 and $66 million, respectively, at December 31, 2019).

Non-Performing Assets

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

The Corporation adopted the CECL accounting standard effective January 1, 2020. This framework requires management to estimate credit losses over the full remaining expected life of the loan using economic forecasts over a reasonable and supportable period, and historical information thereafter.

The year 2020 was impacted by the unprecedented events that have unfolded as a result of the COVID-19 pandemic. Notwithstanding, the Corporation's credit quality remained stable, aided by payment deferrals and government stimulus measures instituted in response to the COVID-19 pandemic. The financial relief granted to eligible borrowers in response to the COVID-19 pandemic, comprised mainly of payment deferrals of up to six months, largely ended during the third quarter of 2020. Management continues to closely follow macroeconomic conditions and although the outlook indicates improvements, the full effects of the pandemic and the pace of the recovery remains uncertain. The improvement over the last few years in the risk profile of the Corporation's loan portfolios positions Popular to operate successfully under the ongoing challenging environment. We will continue to carefully monitor the exposure of the portfolios to the COVID-19 pandemic related risks, changes in the economic outlook of the regions in which Popular operates and how delinquencies and NCOs evolve.

Total NPAs increased by $174 million when compared with December 31, 2019. Total non-performing loans held-in-portfolio increased by $210 million from December 31, 2019, impacted by the adoption of the CECL methodology during the first quarter of 2020. Following existing accounting guidance, purchased credit impaired ("PCI') loans were excluded from non-performing status due to the estimation of cash flows at the pool level. Under CECL, these loans are accounted for on an individual loan basis under PCD accounting methodology and are no longer excluded from non-performing status. BPPR's NPLs increased by $201 million, mostly related to the PCI loans transition impact of $260 million, while Popular Bank's NPLs increased by $9 million. Excluding this impact, BPPR's NPLs decreased by $59 million, mainly due to lower commercial and consumer (mostly auto) NPLs of $56 million and $21 million, respectively. The decrease in commercial NPLs was mostly related to loans charged-off during the period, combined with payment activity. The decrease in the consumer NPLs was mostly related to auto loans, aided by payment deferrals, government stimulus measures and the resumption of collection efforts. These NPLs reductions were in part offset by the addition of a $22 million construction relationship. Popular Bank's NPLs increase of $9 million was mostly driven by a $9 million construction NPL inflow during the third quarter of 2020, related to a single borrower from the New York region. At December 31, 2020, the ratio of NPLs to total loans held-in-portfolio was 2.5% compared to 1.9% at the end of 2019. In addition, non-performing loans-held-for-sale ("LHFS') increased by $3 million, driven by taxi medallion loans, and other real estate owned loans ("OREOs") decreased by $39 million, mostly due to the suspension of foreclosure activity due to the COVID-19 pandemic.

At December 31, 2020, NPLs secured by real estate amounted to $630 million in the Puerto Rico operations and $34 million in PB. These figures were $406 million and $26 million, respectively, at December 31, 2019.

The Corporation's commercial loan portfolio secured by real estate ("CRE") amounted to $7.8 billion at December 31, 2020, of which $1.9 billion was secured with owner occupied properties, compared with $7.7 billion and $1.9 billion, respectively, at December 31, 2019. CRE NPLs amounted to $173 million at December 31, 2020, compared with $113 million at December 31, 2019. The CRE NPL ratios for the BPPR and PB segments were 4.51% and 0.07%, respectively, at December 31, 2020, compared with 2.88% and 0.07%, respectively, at December 31, 2019.

In addition to the NPLs included in Table 23, at December 31, 2020, there were $228 million of performing loans, mostly commercial loans, which in management's opinion, are currently subject to potential future classification as non-performing and are considered impaired (December 31, 2019 - $207 million).

For the year ended December 31, 2020, total inflows of NPLs held-in-portfolio, excluding consumer loans, increased by $123 million, or 42%, when compared to the inflows for the same period in 2019. As further explained below, at December 31, 2020, 94% of loans, after excluding government guaranteed loans, for which the COVID-19 moratoriums had expired were current on their payments. Inflows of NPLs held-in-portfolio at the BPPR segment increased by $89 million, or 32%, compared to the year ended 2019, driven by higher mortgage inflows by $87 million, mostly due to the delinquency progression at the expiration of the payment moratorium. Inflows of NPLs held-in-portfolio at the PB segment increased by $35 million, or 173%, from the same period in 2019, mostly due to higher mortgage and construction inflows of $18 million and $9 million, respectively. The construction increase was driven by the single borrower mentioned above.

Table 23 - Non-Performing Assets

	December 31, 2020			December 31, 2019			December 31, 2018		
(Dollars in thousands)	BPPR	Popular U.S.	Popular, Inc.	BPPR	Popular U.S.	Popular, Inc.	BPPR	Popular U.S.	Popular, Inc.
Non-accrual loans:									
Commercial [1]	$ 204,092	$ 4,477	$ 208,569	$147,255	$ 3,505	$150,760	$182,950	$ 1,076	$184,026
Construction	21,497	7,560	29,057	119	26	145	1,788	12,060	13,848
Legacy [2]	–	1,511	1,511	–	1,999	1,999	–	2,627	2,627
Leasing	3,441	–	3,441	3,657	–	3,657	3,313	–	3,313
Mortgage [1]	414,343	14,864	429,207	283,708	11,091	294,799	323,565	11,033	334,598
Consumer [1]	57,004	8,985	65,989	64,461	12,020	76,481	56,482	16,193	72,675
Total non-performing loans held-in-portfolio	700,377	37,397	737,774	499,200	28,641	527,841	568,098	42,989	611,087
Non-performing loans held-for-sale [3]	–	2,738	2,738	–	–	–	–	–	–
Other real estate owned ("OREO")	81,512	1,634	83,146	120,011	2,061	122,072	134,063	2,642	136,705
Total non-performing assets	$ 781,889	$41,769	$ 823,658	$619,211	$30,702	$649,913	$702,161	$45,631	$747,792
Accruing loans past-due 90 days or more [4] [5]	$1,028,061	$ 3	$1,028,064	$460,133	$ –	$460,133	$612,543	$ –	$612,543
Non-performing loans to loans held-in-portfolio			2.51%			1.93%			2.31%
Interest lost			$ 45,040			$ 29,469			$ 35,170

[1] The increase in non-accrual loans during 2020 includes the initial impact of $278 million related to the adoption of CECL on the portfolio of previously purchased credit deteriorated loans. This included mortgage loans for $133 million, commercial loans for $131 million and $14 million in consumer loans.

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

[3] There were $3 million in non-performing commercial loans held-for-sale as of December 31, 2020 and none for the years December 31, 2019 and 2018.

[4] The carrying value of loans accounted for under ASC Subtopic 310-30 that are contractually 90 days or more past due was $153 million at December 31, 2019 (December 31, 2018 - $216 million). This amount is excluded from the above table as the loans' accretable yield interest recognition is independent from the underlying contractual loan delinquency status.

[5] 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 $57 million at December 31, 2020 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, 2019 - $103 million; December 31, 2018 - $134 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. While the borrowers for our serviced GNMA portfolio benefited from the moratorium, the delinquency status of these loans continued to be reported to GNMA without considering the moratorium. These balances include $329 million of residential mortgage loans insured by FHA or guaranteed by the VA that are no longer accruing interest as of December 31, 2020 (December 31, 2019 - $213 million; December 31, 2018 - $283 million). Furthermore, the Corporation has approximately $60 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, 2019 - $65 million; December 31, 2018 - $69 million).

Table 23 (continued) - Non-Performing Assets

	December 31, 2017			December 31, 2016		
(Dollars in thousands)	BPPR	Popular U.S.	Popular, Inc.	BPPR	Popular U.S.	Popular, Inc.
Non-accrual loans:						
Commercial	$ 161,226	$ 3,839	$ 165,065	$159,655	$ 3,693	$163,348
Legacy [1]	–	3,039	3,039	–	3,337	3,337
Leasing	2,974	–	2,974	3,062	–	3,062
Mortgage	306,697	14,852	321,549	318,194	11,713	329,907
Consumer	40,543	17,787	58,330	51,597	6,664	58,261
Total non-performing loans held-in-portfolio, excluding covered loans	511,440	39,517	550,957	532,508	25,407	557,915
Other real estate owned ("OREO"), excluding covered OREO	167,253	2,007	169,260	177,412	3,033	180,445
Total non-performing assets, excluding covered assets	$ 678,693	$41,524	$ 720,217	$709,920	$28,440	$738,360
Covered loans and OREO [3]	22,948	–	22,948	36,044	–	36,044
Total non-performing assets	$ 701,641	$41,524	$ 743,165	$745,964	$28,440	$774,404
Accruing loans past-due 90 days or more [4] [5]	$1,225,149	$ –	$1,225,149	$426,652	$ –	$426,652
Excluding covered loans: [6]						
Non-performing loans to loans held-in-portfolio			2.27%			2.45%
Including covered loans:						
Non-performing loans to loans held-in-portfolio			2.23%			2.41%
Interest lost			$ 29,920			$ 29,385

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

[2] There were no non-performing loans held-for-sale at December 31, 2017 and 2016.

[3] The amount consists of $3 million in non-performing loans accounted for under ASC Subtopic 310-20 and $20 million in covered OREO at December 31, 2017 (December 31, 2016 - $4 million and $32 million, respectively). It excludes covered loans accounted for under ASC Subtopic 310-30 as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analyses.

[4] The carrying value of loans accounted for under ASC Subtopic 310-30 that are contractually 90 days or more past due was $153 million at December 31, 2017 (December 31, 2016 - $282 million). This amount is excluded from the above table as the loans' accretable yield interest recognition is independent from the underlying contractual loan delinquency status.

[5] It is the Corporation's policy to report delinquent residential mortgage loans insured by FHA or guaranteed by the VA as accruing loans past due 90 days or more as opposed to non-performing since the principal repayment is insured. These balances include $178 million of residential mortgage loans insured by FHA or guaranteed by the VA that are no longer accruing interest as of December 31, 2017 (December 31, 2016 - $181 million). Furthermore, the Corporation has approximately $58 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, 2016 - $68 million).

[6] These asset quality ratios have been adjusted to remove the impact of covered loans. Appropriate adjustments to the numerator and denominator have been reflected in the calculation of these ratios. Management believes the inclusion of acquired loans in certain asset quality ratios that include non-performing assets, past due loans or net charge-offs in the numerator and denominator results in distortions of these ratios and they may not be comparable to other periods presented or to other portfolios that were not impacted by purchase accounting.

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

	For the year ended December 31, 2020		
(In thousands)	BPPR	Popular U.S.	Popular, Inc.
Beginning balance	$ 431,082	$ 16,621	$ 447,703
Transition of PCI to PCD loans under CECL	245,703	18,547	264,250
Plus:			
New non-performing loans	362,786	54,092	416,878
Advances on existing non-performing loans	–	825	825
Less:			
Non-performing loans transferred to OREO	(11,762)	–	(11,762)
Non-performing loans charged-off	(44,675)	(3,204)	(47,879)
Loans returned to accrual status / loan collections	(343,202)	(47,790)	(390,992)
Loans transferred to held-for-sale	–	(10,679)	(10,679)
Ending balance NPLs [1]	$ 639,932	$ 28,412	$ 668,344

[1] Includes $1.5 million of NPLs related to the legacy portfolio.

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

	For the year ended December 31, 2019		
(In thousands)	BPPR	Popular U.S.	Popular, Inc.
Beginning balance	$ 508,303	$ 26,796	$ 535,099
Plus:			
New non-performing loans	274,135	19,651	293,786
Advances on existing non-performing loans	–	501	501
Less:			
Non-performing loans transferred to OREO	(32,481)	(601)	(33,082)
Non-performing loans charged-off	(59,191)	(4,825)	(64,016)
Loans returned to accrual status / loan collections	(254,847)	(14,867)	(269,714)
Non-performing loans sold	(4,837)	(10,034)	(14,871)
Ending balance NPLs [1]	$ 431,082	$ 16,621	$ 447,703

[1] Includes $2.0 million of NPLs related to the legacy portfolio.

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

	For the year ended December 31, 2020		
(In thousands)	BPPR	Popular U.S.	Popular, Inc.
Beginning balance - NPLs	$147,255	$ 3,505	$ 150,760
Transition of PCI to PCD loans under CECL	112,517	18,547	131,064
Plus:			
New non-performing loans	50,834	15,496	66,330
Advances on existing non-performing loans	–	228	228
Less:			
Non-performing loans transferred to OREO	(2,304)	–	(2,304)
Non-performing loans charged-off	(23,755)	(1,646)	(25,401)
Loans returned to accrual status / loan collections	(80,455)	(20,974)	(101,429)
Loans transferred to held-for-sale	–	(10,679)	(10,679)
Ending balance - NPLs	$204,092	$ 4,477	$ 208,569

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

	For the year ended December 31, 2019		
(In thousands)	BPPR	Popular U.S.	Popular, Inc.
Beginning balance - NPLs	$182,950	$ 1,076	$184,026
Plus:			
New non-performing loans	71,063	7,564	78,627
Advances on existing non-performing loans	–	80	80
Less:			
Non-performing loans transferred to OREO	(7,692)	–	(7,692)
Non-performing loans charged-off	(33,562)	(2,074)	(35,636)
Loans returned to accrual status / loan collections	(60,667)	(3,141)	(63,808)
Non-performing loans sold	(4,837)	–	(4,837)
Ending balance - NPLs	$147,255	$ 3,505	$150,760

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

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

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

	For the year ended December 31, 2019		
(In thousands)	BPPR	Popular U.S.	Popular, Inc.
Beginning balance - NPLs	$ 1,788	$ 12,060	$ 13,848
Plus:			
Advances on existing non-performing loans	–	215	215
Less:			
Non-performing loans charged-off	–	(2,215)	(2,215)
Loans returned to accrual status / loan collections	(1,669)	–	(1,669)
Non-performing loans sold	–	(10,034)	(10,034)
Ending balance - NPLs	$ 119	$ 26	$ 145

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

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

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

	For the year ended December 31, 2019		
(In thousands)	BPPR	Popular U.S.	Popular, Inc.
Beginning balance - NPLs	$ 323,565	$ 11,033	$ 334,598
Plus:			
New non-performing loans	203,072	11,877	214,949
Advances on existing non-performing loans	–	158	158
Less:			
Non-performing loans transferred to OREO	(24,789)	(601)	(25,390)
Non-performing loans charged-off	(25,629)	(539)	(26,168)
Loans returned to accrual status / loan collections	(192,511)	(10,837)	(203,348)
Ending balance - NPLs	$ 283,708	$ 11,091	$ 294,799

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, 2020 and 2019, are presented below.

Table 32 - Loan Delinquencies

(Dollars in thousands)	2020			2019		
	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	$ 247,961	$13,606,280	1.82%	$ 231,692	$12,312,751	1.88%
Construction	50,369	918,765	5.48	1,700	831,092	0.20
Legacy	1,523	15,473	9.84	2,056	22,105	9.30
Leasing	14,009	1,197,661	1.17	18,724	1,059,507	1.77
Mortgage [1]	1,775,902	7,890,680	22.51	1,299,443	7,183,532	18.09
Consumer	179,789	5,756,337	3.12	249,987	5,997,886	4.17
Loans held-for-sale	3,108	99,455	3.13	–	59,203	–
Total	$2,272,661	$29,484,651	7.71%	$1,803,602	$27,466,076	6.57%

[1] At December 31, 2020, mortgage loans 90 days or more past due included approximately $1.0 billion which were insured by the Federal Housing Administration ("FHA"), or guaranteed by the U.S. Department of Veterans Affairs ("VA") (December 31, 2019 - $441 million).

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 loan losses. Consequently, the business financial condition, liquidity, capital and results of operations could also be affected. Refer to Note 2 – Summary of significant accounting policies included in this Form 10-K for a description of the Corporation's allowance for credit losses methodology.

At December 31, 2020, the allowance for credit losses amounted to $896 million, an increase of $419 million, when compared with December 31, 2019, mostly related to the CECL adoption impact in the first quarter of 2020 of $315 million ("Day 1 impact") in the allowance for credit losses related to loans. Excluding such Day 1 impact, the ACL increase was mainly attributable to the significant change in the macroeconomic conditions from the COVID-19 pandemic. The BPPR ACL increased by $307 million to $740 million. The PB segment increased by $111 million to $157 million, when compared to December 31, 2019. The provision for credit losses for the year ended December 31, 2020 amounted to $282.3 million, increasing by $116.6 million from the same period in the prior year. Refer to Note 2 – Summary of significant accounting policies and Note 8 – Allowance for credit losses included in this Form 10-K 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, 2020, 2019 and 2018:

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

	December 31, 2020			December 31, 2019			December 31, 2018		
	BPPR	Popular U.S.	Popular Inc.	BPPR	Popular U.S.	Popular Inc.	BPPR	Popular U.S.	Popular Inc.
Commercial	0.21%	(0.04)%	0.11%	0.48%	0.65%	0.54%	0.91%	0.44%	0.73%
Construction	(0.57)	0.04	(0.07)	(2.82)	0.32	(0.11)	(1.54)	0.71	0.49
Leasing	0.66	–	0.66	0.94	–	0.94	0.70	–	0.70
Legacy	–	(0.39)	(0.39)	–	(5.85)	(5.85)	–	(6.89)	(6.89)
Mortgage	0.32	–	0.27	0.67	0.05	0.59	1.05	(0.05)	0.93
Consumer	2.44	3.07	2.48	2.42	3.27	2.49	2.64	3.68	2.74
Total	0.85%	0.13%	0.66%	1.06%	0.68%	0.96%	1.31%	0.61%	1.13%

NCOs for the year ended December 31, 2020 amounted to $186.4 million, decreasing by $71.0 million when compared to the same period in 2019. The BPPR segment decreased by $33.6 million mainly driven by lower mortgage and commercial NCOs by $21.7 million and $17.8 million, respectively, due to the effect of the pandemic relief programs, partially offset by higher consumer NCOs by $5.8 million. The PB segment decreased by $37.4 million, mainly driven by lower commercial NCOs by $33.6 million, as the prior year included charge-offs from the taxi medallion portfolio. The Corporation continues to be attentive to changes in delinquencies and NCOs, as most deferrals expired during the third quarter of 2020 and given the uncertainty around the outlook of the pandemic.

Table 34 - Allowance for Credit Losses - Loan Portfolios

	December 31, 2020						
(Dollars in thousands)	Commercial	Construction	Legacy [1]	Leasing	Mortgage	Consumer	Total
Total ACL	$ 332,269	$ 13,955	$ 1,393	$ 16,863	$ 215,716	$ 316,054	$ 896,250
Total loans held-in-portfolio	$13,606,280	$918,765	$15,473	$1,197,661	$7,890,680	$5,756,337	$29,385,196
ACL to loans held-in-portfolio	2.44%	1.52%	9.00%	1.41%	2.73%	5.49%	3.05%

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

Table 35 - Allowance for Credit Losses - Loan Portfolios

	December 31, 2019						
(Dollars in thousands)	Commercial	Construction	Legacy [1]	Leasing	Mortgage	Consumer	Total
Specific ALLL	$ 20,533	$ 6	$ –	$ 61	$ 42,804	$ 21,822	$ 85,226
Impaired loans	$ 399,549	$ 119	$ –	$ 507	$ 531,855	$ 100,791	$ 1,032,821
Specific ALLL to impaired loans	5.14%	5.04%	-%	12.03%	8.05%	21.65%	8.25%
General ALLL	$ 126,519	$ 4,772	$ 630	$ 10,707	$ 78,304	$ 171,550	$ 392,482
Loans held-in-portfolio, excluding impaired loans	$11,913,202	$830,973	$22,105	$1,059,000	$6,651,677	$5,897,095	$26,374,052
General ALLL to loans held-in-portfolio, excluding impaired loans	1.06%	0.57%	2.85%	1.01%	1.18%	2.91%	1.49%
Total ALLL	$ 147,052	$ 4,778	$ 630	$ 10,768	$ 121,108	$ 193,372	$ 477,708
Total non-covered loans held-in-portfolio	$12,312,751	$831,092	$22,105	$1,059,507	$7,183,532	$5,997,886	$27,406,873
ALLL to loans held-in-portfolio	1.19%	0.57%	2.85%	1.02%	1.69%	3.22%	1.74%

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

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

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

	At December 31,									
	2020		2019		2018		2017		2016	
(Dollars in millions)	ACL	% of loans in each category to total loans	ACL	% of loans in each category to total loans	ACL	% of loans in each category to total loans	ACL	% of loans in each category to total loans	ACL	% of loans in each category to total loans
Commercial	$332.3	46.3%	$147.0	44.9%	$239.1	45.5%	$215.7	47.3%	$202.7	47.4%
Construction	14.0	3.1	4.8	3.0	7.4	2.9	8.4	3.6	9.5	3.4
Legacy	1.4	0.1	0.6	0.1	1.0	0.1	0.8	0.2	1.3	0.2
Leasing	16.9	4.1	10.8	3.9	11.5	3.5	12.0	3.3	7.7	3.1
Mortgage	215.7	26.8	121.1	26.2	147.4	27.3	163.6	29.9	147.9	29.4
Consumer	316.0	19.6	193.4	21.9	162.9	20.7	189.7	15.7	141.2	16.5
Total [1]	$896.3	100.0%	$477.7	100.0%	$569.3	100.0%	$590.2	100.0%	$510.3	100.0%

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

Troubled debt restructurings

The Corporation's troubled debt restructurings ("TDRs") loans amounted to $1.7 billion at December 31, 2020, increasing by $81 million, or approximately 5.08%, from December 31, 2019, mainly due to borrowers that needed additional loss mitigation alternatives, beyond the 6-month moratorium period granted under the COVID-19 program. TDRs in the BPPR segment increased by $82 million, mostly related to higher mortgage TDRs by $56 million, of which $30 million were related to government guaranteed loans, coupled with a combined increase of $35 million in the commercial and construction TDRs, mainly due to a $21 million construction loan, partially offset by a decrease of $9 million in the consumer portfolio. The PB segment decreased by $2 million from the prior year. TDRs in accruing status increased by $61 million from December 31, 2019, mostly related to BPPR mortgage TDRs, while non-accruing TDRs increased by $20 million.

In response to the COVID-19 pandemic, since March 2020 the Corporation has entered into loan modifications with eligible customers in mortgage, personal loans, credit cards, auto loans and leases and certain commercial credit facilities, comprised mainly of payment deferrals of up to six months, subject to certain terms and conditions. In addition, certain participating clients impacted by the seismic activity in the Southern region of the island also benefitted from other loan payment moratoriums offered by the Corporation since mid-January 2020. These loan modifications do not affect the asset quality measures as the deferred payments are not deemed to be delinquent and the Corporation continues to accrue interest on these loans. The Puerto Rico Legislative Assembly enacted legislation in April 2020 that required financial institutions to offer through June 2020 moratoriums on consumer financial products to clients impacted by the COVID-19 pandemic and in July 2020 extended the relief with respect to mortgage products through August 2020. Additionally, the CARES Act, signed by the President of the United States as part of an economic stimulus package, provides relief related to U.S. GAAP requirements for loan modifications related to COVID-19 relief measures. This relief was subsequently extended until the earlier of January 1, 2022 or 60 days after the national COVID-19 emergency ends. In addition, the Federal Reserve, along with other U.S. banking regulators, also issued interagency guidance to financial institutions that offers some practical expedients for evaluating whether loan modifications that occur in response to the COVID-19 pandemic are TDRs. According to the interagency guidance, COVID-19 related short-term modifications (i.e., six months or less) granted to consumer or commercial loans that were current as of the date of the loan modification are not TDRs, since the lender can conclude that the borrower is current on their loan and thus not experiencing financial difficulties and furthermore the period of the deferral granted does not represent a more than insignificant concession on the part of the lender. In addition, a modification or deferral program that is mandated by the federal government or a state government (e.g., a state program that requires all institutions within that state to suspend mortgage payments for a specified period) does not represent a TDR. Out of the approximately $8.3 billion in loans modified under this program, approximately $35 million have been classified as TDRs. In making this determination, the Corporation considered the criteria of whether the borrower was in financial difficulty at the time of the deferral and whether the deferral period was more than insignificant.

At December 31, 2020, $7.8 billion, or 97%, of COVID-19 payment deferrals had expired. After excluding government guaranteed loans, 115,079 of remaining loans, or 94%, with an aggregate book value of $6.9 billion were current on their payments as of December 31, 2020. Loans considered current exclude those loans for which the COVID-19 related modification has expired but have subsequently been subject to other loss mitigation alternatives. The Corporation will continue to monitor and assess the post-moratorium payment behavior of these borrowers to recognize any deterioration in these loans, and potential loss exposure, in a timely manner. Refer to Table 37 for a breakdown of loan modifications completed by the Corporation as part of the COVID-19 relief measures as of December 31, 2020.

Table 37 - COVID-Related Moratoriums

	Total Moratoriums Granted			Active Moratoriums		
Loan portfolio affected by COVID-related moratoriums	Loan count	Book Value (In thousands)	Percentage by portfolio	Loan count	Book Value (In thousands)	Percentage by portfolio
Mortgage	24,378	$ 2,862,684	36.3%	4,248	$ 442,329	5.6%
Auto loans	48,819	790,798	25.2%	–	–	–%
Lease financing	10,803	365,198	30.5%	–	–	–%
Credit cards	19,615	96,045	10.4%	–	–	–%
Other consumer loans	23,502	307,746	18.1%	91	1,077	0.1%
Commercial	5,099	3,880,818	26.7%	20	61,634	0.4%
Total	132,216	$ 8,303,289	28.3%	4,359	$ 505,040	1.7%

Refer to Note 8 to the Consolidated Financial Statements for additional information on modifications considered TDRs, including certain qualitative and quantitative data about TDRs performed in the past twelve months.

Enterprise Risk Management

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

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

The Enterprise Risk Management Committee (the "ERM Committee") is a management committee whose purpose is to: (a) monitor the principal risks as defined in the Risk Appetite Statement ("RAS") of the Risk Management Policy affecting our business and within the Corporation's Enterprise Risk Management ("ERM") framework, (b) review key risk indicators and related developments at the business level consistent with the RAS, and (c) lead the incorporation of a uniform Governance, Risk and Compliance framework across the Corporation. The ERM Committee and the Market Risk Unit in the Financial and Operational Risk Management Division (the "FORM Division"), in coordination with the Chief Risk Officer, create the framework to identify and manage multiple and cross-enterprise risks, and to articulate the RAS and supporting metrics. Our risk management program monitors the following principal risks: credit, interest rate, market, liquidity, operational, cyber and information security, legal, regulatory affairs, regulatory and financial compliance, financial crimes compliance, strategic and reputational.

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

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

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

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

The Credit Strategy Committee, composed of senior level management representatives from the business lines and corporate functions, and the Corporate Credit Risk Management Division, are responsible for managing the Corporation's overall credit exposure by establishing policies, standards and guidelines that define, quantify and monitor credit risk and assessing the adequacy of the allowance for loan 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 processes of strategic risk planning and the evaluation of reputational risk are on-going processes through which continuous data gathering and analysis are performed. In order to ensure strategic risks are properly identified and monitored, the Corporate Strategic Planning Division performs periodic assessments regarding corporate strategic priority initiatives as well as emerging issues. The Acquisitions and Corporate Investments Division continuously assesses potential strategic transactions. The Corporate Communications Division is responsible for the monitoring, management and implementation of action plans with respect to reputational risk issues.

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

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

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

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

Statistical Summary 2016-2020
Statements of Financial Condition

	At December 31,				
(In thousands)	2020	2019	2018	2017	2016
Assets:					
Cash and due from banks	$ 491,065	$ 388,311	$ 394,035	$ 402,857	$ 362,394
Money market investments:					
Securities purchased under agreements to resell	–	–	–	–	23,637
Time deposits with other banks	11,640,880	3,262,286	4,171,048	5,255,119	2,866,580
Total money market investments	11,640,880	3,262,286	4,171,048	5,255,119	2,890,217
Trading account debt securities, at fair value	36,674	40,321	37,787	33,926	52,034
Debt securities available-for-sale, at fair value	21,561,152	17,648,473	13,300,184	10,176,923	8,207,684
Debt securities held-to-maturity, at amortized cost	92,621	97,662	101,575	107,019	111,299
Less – Allowance for credit losses	10,261	–	–	–	–
Debt securities held-to-maturity, net	82,360	97,662	101,575	107,019	111,299
Equity securities	173,737	159,887	155,584	165,103	164,513
Loans held-for-sale, at lower of cost or fair value	99,455	59,203	51,422	132,395	88,821
Loans held-in-portfolio:					
Loans not covered under loss-sharing agreements with the FDIC	29,588,430	27,587,856	26,663,713	24,423,427	22,895,172
Loans covered under loss-sharing agreements with the FDIC	–	–	–	517,274	572,878
Less – Unearned income	203,234	180,983	155,824	130,633	121,425
Allowance for loan losses	896,250	477,708	569,348	623,426	540,651
Total loans held-in-portfolio, net	28,488,946	26,929,165	25,938,541	24,186,642	22,805,974
FDIC loss-share asset	–	–	–	45,192	69,334
Premises and equipment, net	510,241	556,650	569,808	547,142	543,981
Other real estate not covered under loss-sharing agreements with the FDIC	83,146	122,072	136,705	169,260	180,445
Other real estate covered under loss-sharing agreements with the FDIC	–	–	–	19,595	32,128
Accrued income receivable	209,320	180,871	166,022	213,844	138,042
Mortgage servicing rights, at fair value	118,395	150,906	169,777	168,031	196,889
Other assets	1,737,041	1,819,615	1,714,134	1,991,323	2,145,510
Goodwill	671,122	671,122	671,122	627,294	627,294
Other intangible assets	22,466	28,780	26,833	35,672	45,050
Total assets	$ 65,926,000	$ 52,115,324	$ 47,604,577	$ 44,277,337	$ 38,661,609
Liabilities and Stockholders' Equity					
Liabilities:					
Deposits:					
Non-interest bearing	$ 13,128,699	$ 9,160,173	$ 9,149,036	$ 8,490,945	$ 6,980,443
Interest bearing	43,737,641	34,598,433	30,561,003	26,962,563	23,515,781
Total deposits	56,866,340	43,758,606	39,710,039	35,453,508	30,496,224
Assets sold under agreements to repurchase	121,303	193,378	281,529	390,921	479,425
Other short-term borrowings	–	–	42	96,208	1,200
Notes payable	1,224,981	1,101,608	1,256,102	1,536,356	1,574,852
Other liabilities	1,684,689	1,044,953	921,808	1,696,439	911,951
Total liabilities	59,897,313	46,098,545	42,169,520	39,173,432	33,463,652
Stockholders' equity:					
Preferred stock	22,143	50,160	50,160	50,160	50,160
Common stock	1,045	1,044	1,043	1,042	1,040
Surplus	4,571,534	4,447,412	4,365,606	4,298,503	4,255,022
Retained earnings	2,260,928	2,147,915	1,651,731	1,194,994	1,220,307
Treasury stock – at cost	(1,016,954)	(459,814)	(205,509)	(90,142)	(8,286)
Accumulated other comprehensive income (loss), net of tax	189,991	(169,938)	(427,974)	(350,652)	(320,286)
Total stockholders' equity	6,028,687	6,016,779	5,435,057	5,103,905	5,197,957
Total liabilities and stockholders' equity	$ 65,926,000	$ 52,115,324	$ 47,604,577	$ 44,277,337	$ 38,661,609

Statistical Summary 2016-2020
Statements of Operations

(In thousands)	For the years ended December 31, 2020	2019	2018	2017	2016
Interest income:					
Loans	$ 1,742,390	$ 1,802,968	$ 1,645,736	$ 1,478,765	$ 1,459,720
Money market investments	19,721	89,823	111,288	51,495	16,428
Investment securities	329,440	368,002	264,824	195,684	158,425
Total interest income	2,091,551	2,260,793	2,021,848	1,725,944	1,634,573
Less - Interest expense	234,938	369,099	286,971	223,980	212,518
Net interest income	1,856,613	1,891,694	1,734,877	1,501,964	1,422,055
Provision for credit losses	292,536	165,779	228,072	325,424	170,016
Net interest income after provision for losses	1,564,077	1,725,915	1,506,805	1,176,540	1,252,039
Mortgage banking activities	10,401	32,093	52,802	25,496	56,538
Net gain (loss) on sale of debt securities	41	(20)	–	83	38
Other-than-temporary impairment losses on debt securities	–	–	–	(8,299)	(209)
Net gain (loss), including impairment on equity securities	6,279	2,506	(2,081)	251	1,924
Net profit (loss) on trading account debt securities	1,033	994	(208)	(817)	(785)
Net gain (loss) on sale of loans, including valuation adjustments on loans held-for-sale	1,234	–	33	(420)	8,245
Adjustment (expense) to indemnity reserves on loans sold	390	(343)	(12,959)	(22,377)	(17,285)
FDIC loss-share income (expense)	–	–	94,725	(10,066)	(207,779)
Other non-interest income	492,934	534,653	520,182	435,316	457,249
Total non-interest income	512,312	569,883	652,494	419,167	297,936
Operating expenses:					
Personnel costs	564,205	590,625	562,988	476,762	477,395
All other operating expenses	893,624	886,857	858,574	780,434	778,240
Total operating expenses	1,457,829	1,477,482	1,421,562	1,257,196	1,255,635
Income from continuing operations, before income tax	618,560	818,316	737,737	338,511	294,340
Income tax expense	111,938	147,181	119,579	230,830	78,784
Income from continuing operations	$ 506,622	$ 671,135	$ 618,158	$ 107,681	$ 215,556
Income from discontinued operations, net of income tax	–	–	–	–	1,135
Net Income	$ 506,622	$ 671,135	$ 618,158	$ 107,681	$ 216,691
Net Income Applicable to Common Stock	$ 504,864	$ 667,412	$ 614,435	$ 103,958	$ 212,968

Statistical Summary 2016-2020
Average Balance Sheet and Summary of Net Interest Income

*On a Taxable Equivalent Basis**

	2020			2019			2018		
(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	$ 8,597,652	$ 19,723	0.23%	$ 4,166,293	$ 89,824	2.16%	$ 5,943,442	$ 111,289	1.87%
U.S. Treasury securities	12,107,819	257,308	2.13	9,823,518	302,025	3.07	6,189,239	168,885	2.73
Obligations of U.S. Government sponsored entities	70,424	2,818	4.00	234,553	5,911	2.52	515,870	10,664	2.07
Obligations of Puerto Rico, States and political subdivisions	82,051	5,705	6.95	93,313	6,394	6.85	96,801	6,816	7.04
Collateralized mortgage obligations and mortgage-backed securities	6,913,416	194,794	2.82	5,582,051	178,964	3.21	5,216,728	168,565	3.23
Other	178,818	7,369	4.12	171,223	8,487	4.96	174,095	9,432	5.42
Total investment securities	19,352,528	467,994	2.42	15,904,658	501,781	3.15	12,192,733	364,362	2.99
Trading account securities	69,446	4,165	6.00	67,596	5,103	7.55	76,461	5,772	7.55
Loans (net of unearned income)	28,384,981	1,785,022	6.29	26,806,368	1,850,894	6.90	25,062,730	1,681,540	6.71
Total interest earning assets/ Interest income	$56,404,607	$ 2,276,904	4.04%	$ 46,944,915	$ 2,447,602	5.21%	$ 43,275,366	$ 2,162,963	5.00%
Total non-interest earning assets	3,178,848			3,396,912			3,364,492		
Total assets from continuing operations	$59,583,455			$ 50,341,827			$ 46,639,858		
Total assets	$59,583,455			$ 50,341,827			$ 46,639,858		
Liabilities and Stockholders' Equity									
Interest bearing liabilities:									
Savings, NOW, money market and other interest bearing demand accounts	$32,077,578	$ 92,417	0.29%	$ 25,575,455	$ 192,200	0.75%	$ 22,127,223	$ 112,543	0.51%
Time deposits	7,970,474	83,438	1.05	7,770,430	112,658	1.45	7,569,884	91,722	1.21
Short-term borrowings	165,617	2,457	1.48	231,268	6,099	2.64	358,418	7,210	2.01
Notes payable	1,178,169	56,626	4.81	1,194,119	58,142	4.77	1,520,812	75,496	4.96
Total interest bearing liabilities/ Interest expense	41,391,838	234,938	0.57	34,771,272	369,099	1.06	31,576,337	286,971	0.91
Total non-interest bearing liabilities	12,771,679			9,857,038			9,621,378		
Total liabilities from continuing operations	54,163,517			44,628,310			41,197,715		
Total liabilities from discontinued operations	–	–	–	–	–	–	–	–	–
Total liabilities	54,163,517			44,628,310			41,197,715		
Stockholders' equity	5,419,938			5,713,517			5,442,143		
Total liabilities and stockholders' equity	$59,583,455			$ 50,341,827			$ 46,639,858		
Net interest income on a taxable equivalent basis		$ 2,041,966			$ 2,078,503			$ 1,875,992	
Cost of funding earning assets			0.42%			0.78%			0.66%
Net interest margin			3.62%			4.43%			4.34%
Effect of the taxable equivalent adjustment		185,353			186,809			141,116	
Net interest income per books		$ 1,856,613			$ 1,891,694			$ 1,734,876	

* 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.

Statistical Summary 2016-2020
Average Balance Sheet and Summary of Net Interest Income

On a Taxable Equivalent Basis

	2017			2016		
(Dollars in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets						
Interest earning assets:						
Money market investments	$ 4,480,651	$ 51,496	1.15%	$ 3,103,390	$ 16,428	0.53%
U.S. Treasury securities	2,969,635	49,916	1.68	1,567,364	21,835	1.39
Obligations of U.S. Government sponsored entities	667,140	13,593	2.04	810,568	15,743	1.94
Obligations of Puerto Rico, States and political subdivisions	111,455	7,409	6.65	127,694	8,496	6.65
Collateralized mortgage obligations and mortgage-backed securities	5,667,586	182,485	3.22	4,735,418	147,097	3.11
Other	185,672	9,290	5.00	188,145	8,944	4.75
Total investment securities	9,601,488	262,693	2.74	7,429,189	202,115	2.72
Trading account securities	75,111	5,728	7.63	118,341	8,083	6.83
Loans (net of unearned income)	23,511,293	1,515,092	6.44	23,062,242	1,495,639	6.49
Total interest earning assets/Interest income	$ 37,668,543	$ 1,835,009	4.87%	$ 33,713,162	$ 1,722,265	5.11%
Total non-interest earning assets	3,735,596			3,900,580		
Total assets from continuing operations	$ 41,404,139			$ 37,613,742		
Total assets	$ 41,404,139			$ 37,613,742		
Liabilities and Stockholders' Equity						
Interest bearing liabilities:						
Savings, NOW, money market and other interest bearing demand accounts	$ 18,218,583	$ 57,714	0.32%	$ 14,548,307	$ 45,550	0.31%
Time deposits	7,625,484	84,150	1.10	7,910,063	82,027	1.04
Short-term borrowings	452,205	5,725	1.27	763,496	7,812	1.02
Notes payable	1,548,635	76,392	4.93	1,575,903	77,129	4.89
Total interest bearing liabilities/Interest expense	27,844,907	223,981	0.80	24,797,769	212,518	0.86
Total non-interest bearing liabilities	8,214,703			7,535,742		
Total liabilities from continuing operations	36,059,610			32,333,511		
Total liabilities from discontinued operations	–	–	–	1,754	–	–
Total liabilities	36,059,610			32,335,265		
Stockholders' equity	5,344,529			5,278,477		
Total liabilities and stockholders' equity	$ 41,404,139			$ 37,613,742		
Net interest income on a taxable equivalent basis		$ 1,611,028			$ 1,509,747	
Cost of funding earning assets			0.59%			0.63%
Net interest margin			4.28%			4.48%
Effect of the taxable equivalent adjustment		109,065			87,692	
Net interest income per books		$ 1,501,963			$ 1,422,055	

* Shows the effect of the tax exempt status of 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 yield 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.

Statistical Summary 2019-2020
Quarterly Financial Data

(In thousands, except per common share information)	2020 Fourth Quarter	2020 Third Quarter	2020 Second Quarter	2020 First Quarter	2019 Fourth Quarter	2019 Third Quarter	2019 Second Quarter	2019 First Quarter
Summary of Operations								
Interest income	$ 519,423	$ 513,201	$ 508,569	$ 550,358	$ 559,869	$ 571,976	$ 570,979	$ 557,969
Interest expense	47,807	52,180	57,688	77,263	92,445	94,985	94,663	87,006
Net interest income	471,616	461,021	450,881	473,095	467,424	476,991	476,316	470,963
Provision for credit losses	21,218	19,138	62,449	189,731	47,224	36,539	40,191	41,825
Mortgage banking activities	9,730	(9,526)	3,777	6,420	13,448	10,492	(1,773)	9,926
Net (gain) loss, on sale of debt securities	–	41	–	–	–	(20)	–	–
Net gain, including impairment on equity securities	1,410	5,150	2,447	(2,728)	332	213	528	1,433
Net profit on trading account debt securities	440	20	82	491	17	295	422	260
Net gain on sale of loans, including valuation adjustments on loans held-for-sale	253	(2,198)	2,222	957	–	–	–	–
Adjustments (expense) to indemnity reserves on loans sold	2,160	4,183	(1,160)	(4,793)	1,321	(3,411)	1,840	(93)
Other non-interest income	130,854	131,097	104,687	126,296	137,297	135,143	137,309	124,904
Operating expenses	375,924	361,066	348,231	372,608	390,572	376,475	363,015	347,420
Income before income tax	219,321	209,584	152,256	37,399	182,043	206,689	211,436	218,148
Income tax expense	43,045	41,168	24,628	3,097	15,258	41,370	40,330	50,223
Net income	$ 176,276	$ 168,416	$ 127,628	$ 34,302	$ 166,785	$ 165,319	$ 171,106	$ 167,925
Net income applicable to common stock	$ 175,923	$ 168,064	$ 127,275	$ 33,632	$ 165,854	$ 164,389	$ 170,175	$ 166,994
Net income per common share - basic	$ 2.10	$ 2.01	$ 1.49	$ 0.37	$ 1.72	$ 1.71	$ 1.77	$ 1.69
Net income per common share - diluted	$ 2.10	$ 2.00	$ 1.49	$ 0.37	$ 1.72	$ 1.70	$ 1.76	$ 1.69
Dividends declared per common share	$ 0.40	$ 0.40	$ 0.40	$ 0.40	$ 0.30	$ 0.30	$ 0.30	$ 0.30
Selected Average Balances *(In millions)*								
Total assets	$ 64,966	$ 63,120	$ 58,797	$ 51,354	$ 51,974	$ 50,941	$ 49,775	$ 48,627
Loans	29,300	28,543	28,280	27,405	27,081	26,892	26,733	26,492
Interest earning assets	61,854	59,880	55,636	48,149	48,546	47,506	46,397	45,265
Deposits	56,678	54,944	50,984	43,649	43,785	42,822	41,715	40,527
Interest bearing liabilities	44,729	43,496	41,314	35,971	36,236	35,438	34,295	33,043
Selected Ratios								
Return on assets	1.08%	1.06%	0.87%	0.27%	1.27%	1.29%	1.38%	1.40%
Return on common equity	12.68	12.46	9.74	2.50	11.27	11.44	12.31	12.17

Note: Because each reporting period stands on its own the sum of the net income per common share for the quarters may not equal to the net income per common share for the year.