

POPULAR INC
Form 10-Q
May 10, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2018

Commission File Number: 001-34084

POPULAR, INC.

(Exact name of registrant as specified in its charter)

Puerto Rico
(State or other jurisdiction of
Incorporation or organization)

66-0667416
(IRS Employer
Identification Number)

**Popular Center Building 209 Muñoz Rivera Avenue
Hato Rey, Puerto Rico**

(Address of principal executive offices)

(787) 765-9800

**00918
(Zip code)**

(Registrant's telephone number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act:

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, \$0.01 par value, 102,285,819 shares outstanding as of May 7, 2018.

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Forward-Looking Information

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

Various factors, some of which are beyond Popular's control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to:

the rate of growth in the economy and employment levels, as well as general business and economic conditions in the geographic areas we serve;

the impact of the current fiscal and economic crisis of the Commonwealth of Puerto Rico (the Commonwealth or Puerto Rico) and the measures taken and to be taken by the Puerto Rico Government and the Federally-appointed oversight board on the economy, our customers and our business;

the impact of the pending debt restructuring proceedings under Title III of the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) and of other actions taken or to be taken to address Puerto Rico's fiscal crisis on the value of our portfolio of Puerto Rico government securities and loans to governmental entities and private borrowers that have relationships with the government, and the possibility that these actions may result in credit losses that are higher than currently expected;

the impact of Hurricanes Irma and Maria, and the measures taken to recover from these hurricanes (including the availability of relief funds and insurance proceeds), on the economy of Puerto Rico, the U.S. Virgin Islands and the British Virgin Islands, and on our customers and our business;

changes in interest rates and market liquidity, which may reduce interest margins, impact funding sources and affect our ability to originate and distribute financial products in the primary and secondary markets;

the fiscal and monetary policies of the federal government and its agencies;

changes in federal bank regulatory and supervisory policies, including required levels of capital and the impact of proposed capital standards on our capital ratios;

the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) on our businesses, business practices and cost of operations;

regulatory approvals that may be necessary to undertake certain actions or consummate strategic transactions such as acquisitions and dispositions;

the length of time and the receipt of regulatory approvals necessary to consummate our acquisition and assumption of certain assets and liabilities related to Wells Fargo's auto finance business in Puerto Rico, as well as the ability to successfully transition and integrate the business, unexpected costs, including, without limitation, costs due to exposure to any unrecorded liabilities or issues not identified during due diligence investigation of the business or that are not subject to indemnification or reimbursement, and risks that the business may suffer as a result of the transaction, including due to adverse effects on relationships with customers, employees and service providers;

the relative strength or weakness of the consumer and commercial credit sectors and of the real estate markets in Puerto Rico and the other markets in which borrowers are located;

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the performance of the stock and bond markets;

competition in the financial services industry;

additional Federal Deposit Insurance Corporation (FDIC) assessments;

possible legislative, tax or regulatory changes; and

a failure in or breach of our operational or security systems or infrastructure or those of EVERTEC, Inc., our provider of core financial transaction processing and information technology services, as a result of cyberattacks, including e-fraud, denial-of-services and computer intrusion, that might result in loss or breach of customer data, disruption of services, reputational damage or additional costs to Popular.

Other possible events or factors that could cause results or performance to differ materially from those expressed in these forward-looking statements include the following:

negative economic conditions, including as a result of Hurricanes Irma and Maria, that adversely affect housing prices, the job market, consumer confidence and spending habits which may affect, among other things, the level of non-performing assets, charge-offs and provision expense;

changes in market rates and prices which may adversely impact the value of financial assets and liabilities;

liabilities resulting from litigation and regulatory investigations;

changes in accounting standards, rules and interpretations;

our ability to grow our core businesses;

decisions to downsize, sell or close units or otherwise change our business mix; and

management's ability to identify and manage these and other risks.

Moreover, the outcome of legal proceedings, as discussed in Part II, Item I. Legal Proceedings, is inherently uncertain and depends on judicial interpretations of law and the findings of regulators, judges and/or juries. Investors should refer to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2017 as well as Part II, Item 1A of this Form 10-Q for a discussion of such factors and certain risks and uncertainties to which the Corporation is subject.

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All forward-looking statements included in this Form 10-Q are based upon information available to Popular as of the date of this Form 10-Q and, other than as required by law, including the requirements of applicable securities laws, we assume no obligation to update or revise any such forward-looking statements or information which speak as of their respective dates.

Table of Contents**POPULAR, INC.****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****(UNAUDITED)**

(In thousands, except share information)	March 31, 2018	December 31, 2017
Assets:		
Cash and due from banks	\$ 280,077	\$ 402,857
Money market investments:		
Time deposits with other banks	6,984,009	5,255,119
Total money market investments	6,984,009	5,255,119
Trading account debt securities, at fair value:		
Pledged securities with creditors right to repledge	622	625
Other trading securities	41,764	33,301
Debt securities available-for-sale, at fair value:		
Pledged securities with creditors right to repledge	380,644	393,634
Other investment securities available-for-sale	10,039,945	9,783,289
Debt securities held-to-maturity, at amortized cost (fair value 2018 - \$98,740; 2017 - \$97,501)	104,817	107,019
Equity securities (realizable value 2018 -\$169,340); (2017 - \$168,417)	165,218	165,103
Loans held-for-sale, at lower of cost or fair value	77,701	132,395
Loans held-in-portfolio:		
Loans not covered under loss-sharing agreements with the FDIC	24,224,793	24,423,427
Loans covered under loss-sharing agreements with the FDIC	514,611	517,274
Less Unearned income	136,856	130,633
Allowance for loan losses	640,578	623,426
Total loans held-in-portfolio, net	23,961,970	24,186,642
FDIC loss-share asset	44,469	45,192
Premises and equipment, net	544,109	547,142
Other real estate not covered under loss-sharing agreements with the FDIC	153,061	169,260
Other real estate covered under loss-sharing agreements with the FDIC	15,333	19,595
Accrued income receivable	157,340	213,844
Mortgage servicing assets, at fair value	166,281	168,031
Other assets	1,978,760	1,991,323
Goodwill	627,294	627,294
Other intangible assets	33,347	35,672
Total assets	\$ 45,756,761	\$ 44,277,337

Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 8,698,610	\$ 8,490,945
Interest bearing	28,435,483	26,962,563
Total deposits	37,134,093	35,453,508
Assets sold under agreements to repurchase	380,061	390,921
Other short-term borrowings	186,200	96,208
Notes payable	1,564,204	1,536,356
Other liabilities	1,427,294	1,696,439
Total liabilities	40,691,852	39,173,432
Commitments and contingencies (Refer to Note 21) Stockholders equity:		
Preferred stock, 30,000,000 shares authorized; 2,006,391 shares issued and outstanding	50,160	50,160
Common stock, \$0.01 par value; 170,000,000 shares authorized; 104,263,919 shares issued (2017 - 104,238,159) and 102,189,914 shares outstanding (2017 - 102,068,981)	1,043	1,042
Surplus	4,300,936	4,298,503
Retained earnings	1,261,775	1,194,994
Treasury stock - at cost, 2,074,005 shares (2017 - 2,169,178)	(86,167)	(90,142)
Accumulated other comprehensive loss, net of tax	(462,838)	(350,652)
Total stockholders equity	5,064,909	5,103,905
Total liabilities and stockholders equity	\$ 45,756,761	\$ 44,277,337

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**POPULAR, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(UNAUDITED)**

(In thousands, except per share information)	Quarters ended March 31,	
	2018	2017
Interest income:		
Loans	\$ 373,584	\$ 363,136
Money market investments	22,285	6,573
Investment securities	57,209	46,286
Total interest income	453,078	415,995
Interest expense:		
Deposits	38,688	33,757
Short-term borrowings	2,013	1,095
Long-term debt	19,330	19,045
Total interest expense	60,031	53,897
Net interest income	393,047	362,098
Provision for loan losses non-covered loans	69,333	42,057
Provision (reversal) for loan losses covered loans	1,730	(1,359)
Net interest income after provision for loan losses	321,984	321,400
Service charges on deposit accounts	36,455	39,536
Other service fees	60,602	56,175
Mortgage banking activities (Refer to Note 10)	12,068	11,369
Net (loss) gain, including impairment, on equity securities	(646)	162
Net loss on trading account debt securities	(198)	(278)
Adjustments (expense) to indemnity reserves on loans sold	(2,926)	(1,966)
FDIC loss share expense (Refer to Note 28)	(8,027)	(8,257)
Other operating income	16,169	19,128
Total non-interest income	113,497	115,869
Operating expenses:		
Personnel costs	125,852	123,740
Net occupancy expenses	22,802	20,776
Equipment expenses	17,206	15,970
Other taxes	10,902	10,969
Professional fees	82,985	69,250

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Communications	5,906	5,949
Business promotion	12,009	11,576
FDIC deposit insurance	6,920	6,493
Other real estate owned (OREO) expenses	6,131	12,818
Other operating expenses	28,964	31,432
Amortization of intangibles	2,325	2,345
Total operating expenses	322,002	311,318
Income before income tax	113,479	125,951
Income tax expense	22,155	33,006
Net Income	\$ 91,324	\$ 92,945
Net Income Applicable to Common Stock	\$ 90,393	\$ 92,014
Net Income per Common Share Basic	\$ 0.89	\$ 0.89
Net Income per Common Share Diluted	\$ 0.89	\$ 0.89
Dividends Declared per Common Share	\$ 0.25	\$ 0.25

The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents**POPULAR, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME****(UNAUDITED)**

(In thousands)	Quarters ended March 31,	
	2018	2017
Net income	\$ 91,324	\$ 92,945
Reclassification to retained earnings due to cumulative effect of accounting change (Note 3)	(605)	
Other comprehensive (loss) income before tax:		
Foreign currency translation adjustment	93	139
Amortization of net losses of pension and postretirement benefit plans	5,386	5,607
Amortization of prior service credit of pension and postretirement benefit plans	(867)	(950)
Unrealized holding losses on debt securities arising during the period	(121,189)	(3,026)
Unrealized holding gains on equity securities arising during the period		119
Reclassification adjustment for gains included in net income		(162)
Unrealized net gains (losses) on cash flow hedges	1,225	(637)
Reclassification adjustment for net (gains) losses included in net income	(1,267)	855
Other comprehensive (loss) income before tax	(117,224)	1,945
Income tax benefit (expense)	5,038	(1,571)
Total other comprehensive (loss) income, net of tax	(112,186)	374
Comprehensive (loss) income, net of tax	\$ (20,862)	\$ 93,319

Tax effect allocated to each component of other comprehensive (loss) income:

(In thousands)	Quarters ended March 31,	
	2018	2017
Amortization of net losses of pension and postretirement benefit plans	\$ (2,101)	\$ (2,186)
Amortization of prior service credit of pension and postretirement benefit plans	338	370
Unrealized holding losses on debt securities arising during the period	6,785	322
Unrealized holding gains on equity securities arising during the period		(24)
Reclassification adjustment for gains included in net income		32
Unrealized net gains (losses) on cash flow hedges	(478)	248
Reclassification adjustment for net (gains) losses included in net income	494	(333)
Income tax benefit (expense)	\$ 5,038	\$ (1,571)

The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents**POPULAR, INC.****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY****(UNAUDITED)**

(In thousands)	Common stock	Preferred stock	Surplus	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total
Balance at December 31, 2016	\$ 1,040	\$ 50,160	\$ 4,255,022	\$ 1,220,307	\$ (8,286)	\$ (320,286)	\$ 5,197,957
Net income				92,945			92,945
Issuance of stock	1		1,806				1,807
Dividends declared:							
Common stock				(25,615)			(25,615)
Preferred stock				(931)			(931)
Common stock purchases			4,518		(80,842)		(76,324)
Other comprehensive income, net of tax						374	374
Balance at March 31, 2017	\$ 1,041	\$ 50,160	\$ 4,261,346	\$ 1,286,706	\$ (89,128)	\$ (319,912)	\$ 5,190,213
Balance at December 31, 2017	\$ 1,042	\$ 50,160	\$ 4,298,503	\$ 1,194,994	\$ (90,142)	\$ (350,652)	\$ 5,103,905
Cumulative effect of accounting change				1,935			1,935
Net income				91,324			91,324
Issuance of stock	1		880				881
Dividends declared:							
Common stock				(25,547)			(25,547)
Preferred stock				(931)			(931)
Common stock purchases					(1,328)		(1,328)
Common stock reissuance			(16)		738		722
Stock based compensation			1,569		4,565		6,134
Other comprehensive income, net of tax						(112,186)	(112,186)
Balance at March 31, 2018	\$ 1,043	\$ 50,160	\$ 4,300,936	\$ 1,261,775	\$ (86,167)	\$ (462,838)	\$ 5,064,909

	March 31, 2018	March 31, 2017
Disclosure of changes in number of shares:		
Preferred Stock:		
Balance at beginning and end of period	2,006,391	2,006,391
Common Stock Issued:		
Balance at beginning of period	104,238,159	104,058,684
Issuance of stock	25,760	42,934
Balance at end of period	104,263,919	104,101,618
Treasury stock	(2,074,005)	(2,144,878)
Common Stock Outstanding	102,189,914	101,956,740

The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents**POPULAR, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

(In thousands)	Quarters ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 91,324	\$ 92,945
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	71,063	40,698
Amortization of intangibles	2,325	2,345
Depreciation and amortization of premises and equipment	12,836	11,799
Net accretion of discounts and amortization of premiums and deferred fees	(7,006)	(6,463)
Share-based compensation	3,112	
Impairment losses on long-lived assets	272	
Fair value adjustments on mortgage servicing rights	4,307	5,954
FDIC loss share expense	8,027	8,257
Adjustments (expense) to indemnity reserves on loans sold	2,926	1,966
Earnings from investments under the equity method, net of dividends or distributions	(7,370)	(9,213)
Deferred income tax expense	10,758	25,060
(Gain) loss on:		
Disposition of premises and equipment and other productive assets	(72)	6,466
Sale of loans, including valuation adjustments on loans held-for-sale and mortgage banking activities	(1,116)	(5,381)
Sale of foreclosed assets, including write-downs	(99)	4,512
Acquisitions of loans held-for-sale	(47,335)	(73,043)
Proceeds from sale of loans held-for-sale	12,036	29,364
Net originations on loans held-for-sale	(48,375)	(123,336)
Net decrease (increase) in:		
Trading debt securities	93,998	176,937
Equity securities	(130)	435
Accrued income receivable	56,504	10,024
Other assets	36,014	11,995
Net (decrease) increase in:		
Interest payable	(10,614)	(11,281)
Pension and other postretirement benefits obligation	1,225	331
Other liabilities	(94,529)	(13,654)
Total adjustments	98,757	93,772
Net cash provided by operating activities	190,081	186,717

Cash flows from investing activities:		
Net increase in money market investments	(1,728,858)	(766,208)
Purchases of investment securities:		
Available-for-sale	(1,311,382)	(1,216,880)
Equity	(9,730)	(225)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:		
Available-for-sale	1,016,203	222,677
Held-to-maturity	2,639	2,184
Proceeds from sale of investment securities:		
Equity	9,745	1,757
Net disbursements on loans	93,482	99,306
Acquisition of loan portfolios	(161,295)	(109,098)
Net payments (to) from FDIC under loss sharing agreements	(1,263)	(23,574)
Return of capital from equity method investments		3,362
Acquisition of premises and equipment	(13,046)	(18,646)
Proceeds from insurance claims	258	
Proceeds from sale of:		
Premises and equipment and other productive assets	3,033	3,011
Foreclosed assets	25,746	27,547
Net cash used in investing activities	(2,074,468)	(1,774,787)
Cash flows from financing activities:		
Net increase (decrease) in:		
Deposits	1,678,029	1,715,958
Federal funds purchased and assets sold under agreements to repurchase	(10,860)	(44,711)
Other short-term borrowings	89,992	
Payments of notes payable	(12,680)	(17,408)
Proceeds from issuance of notes payable	40,000	
Proceeds from issuance of common stock	4,712	1,806
Dividends paid	(26,138)	(16,499)
Net payments for repurchase of common stock	(193)	(75,604)
Payments related to tax withholding for share-based compensation	(1,223)	(719)
Net cash provided by financing activities	1,761,639	1,562,823
Net decrease in cash and due from banks, and restricted cash	(122,748)	(25,247)
Cash and due from banks, and restricted cash at beginning of period	412,629	374,196
Cash and due from banks, and restricted cash at the end of the period	\$ 289,881	\$ 348,949

The accompanying notes are an integral part of these Consolidated Financial Statements.

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