ENBRIDGE INC
Form SUPPL
November 21, 2016

QuickLinks -- Click here to rapidly navigate through this document

The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

Filed pursuant to General Instruction II.L. of Form F-10;
File No. 333-213234.

Subject to Completion, Dated November 21, 2016

Prospectus Supplement
November , 2016
(To Prospectus Dated August 19, 2016)

US$

Enbridge Inc.

US$ % Senior Notes due 2026
US$ % Senior Notes due 2046

We are offering US$ aggregate principal amount of % Senior Notes due , 2026 (the "2026 Notes") and US$ aggregate principal amount of % Senior Notes due , 2046 (the "2046 Notes" and, together with the 2026 Notes, the "Notes"). The 2026 Notes will mature on , 2026 and the 2046 Notes will mature on , 2046. The 2026 Notes will bear interest at the rate of % per year, payable semi-annually in arrears on and of each year, beginning on , 2017. The 2046 Notes will bear interest at the rate of % per year, payable semi-annually in arrears on and of each year, beginning on , 2017.

We may redeem some or all of the Notes at any time at the applicable redemption prices and subject to the conditions described under "Description of the Notes Optional Redemption." We may also redeem any series of the Notes in whole, at any time, if certain changes affecting Canadian withholding taxes occur. The Notes will be our direct, unsecured and unsubordinated obligations and will rank equally with all of our existing and future unsecured and unsubordinated debt. See "Description of the Notes General."

This offering is made by a foreign issuer that is permitted, under a multi-jurisdictional disclosure system adopted by the United States of America (the "United States"), to prepare this prospectus supplement and the accompanying prospectus in accordance with Canadian disclosure requirements. Prospective investors should be aware that such requirements are different from those of the United States. The financial statements incorporated herein have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and are subject to Canadian and United States auditing and auditor independence standards.

Prospective investors should be aware that the acquisition of the Notes may have tax consequences both in the United States and Canada. Such tax consequences for investors who are resident in, or citizens of, the United States may not be described fully in this prospectus supplement or in the accompanying prospectus. You should read the tax discussion under "Material Income Tax Considerations" in this prospectus supplement.

The enforcement by investors of civil liabilities under United States federal securities laws may be affected adversely by the fact that we are incorporated and organized under the laws of Canada, that most of our officers and directors are residents of Canada, that some of the experts named in this prospectus supplement or the accompanying prospectus are residents of Canada, and that all or a substantial portion of our assets and said persons are located outside the United States.

Investing in the Notes involves risks. See "Risk Factors" beginning on page S-8 of this prospectus supplement.

	Per 2026 Note	Total	Per 2046 Note	Total
Public offering price	%	US$	%	US$
Underwriting commission	%	US$	%	US$
Proceeds to us (before expenses)	%	US$	%	US$

Interest on the Notes will accrue from , 2017.

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission (the "SEC") or any state securities commission nor has the SEC or any United States state securities commission passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the Notes to the purchasers in book-entry form through the facilities of The Depository Trust Company and its direct and indirect participants, including Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme, on or about , 2016.

Joint Book-Running Managers

Barclays **Deutsche Bank Securities** **Mizuho Securities** **MUFG**

BNP Paribas **SMBC Nikko**

IMPORTANT NOTICE ABOUT INFORMATION IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of the Notes we are offering. The second part, the base shelf prospectus, gives more general information, some of which may not apply to the Notes we are offering. The accompanying base shelf prospectus dated August 19, 2016, is referred to as the "prospectus" in this prospectus supplement.

We are responsible for the information contained and incorporated by reference in this prospectus supplement, the accompanying prospectus and in any related free writing prospectus we prepare or authorize. We have not authorized anyone to give you any other information, and we take no responsibility for any other information that others may give you. We are not making an offer of the Notes in any jurisdiction where the offer is not permitted. You should bear in mind that although the information contained in, or incorporated by reference in this prospectus supplement or the accompanying prospectus is intended to be accurate as of the date on the front of such documents, such information may also be amended, supplemented or updated by the subsequent filing of additional documents deemed by law to be or otherwise incorporated by reference into this prospectus supplement or the accompanying prospectus and by any subsequently filed prospectus amendments.

If the description of the Notes varies between this prospectus supplement and the prospectus, you should rely on the information in this prospectus supplement.

In this prospectus supplement, all capitalized terms and acronyms used and not otherwise defined herein have the meanings provided in the prospectus. In this prospectus supplement, the prospectus and any document incorporated by reference, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars or "$." "U.S. dollars" or "US$" means lawful currency of the United States. Unless otherwise indicated, all financial information included in this prospectus supplement, the prospectus and any document incorporated by reference is determined using U.S. GAAP. "U.S. GAAP" means generally accepted accounting principles in the United States. Except as set forth under "Description of Notes" and unless otherwise specified or the context otherwise requires, all references in this prospectus supplement, the prospectus and any document incorporated by reference to "Enbridge," the "Corporation," "we," "us" and "our" mean Enbridge Inc. and its subsidiaries, partnership interests and joint venture investments.

TABLE OF CONTENTS

Prospectus Supplement

	Page
Exchange Rate Data	S-1
Special Note Regarding Forward-Looking Statements	S-1
Documents Incorporated by Reference	S-3
Summary	S-5
Risk Factors	S-8
Selected Consolidated Financial Information	S-10
Consolidated Capitalization	S-11
Use of Proceeds	S-11
Earnings Coverage Ratios	S-11
Description of the Notes	S-13
Material Income Tax Considerations	S-20
Underwriting (Conflicts of Interest)	S-23
Legal Matters	S-27
Experts	S-27

Prospectus

	Page
About this Prospectus	1
Documents Incorporated by Reference	2
Certain Available Information	3
Special Note Regarding Forward-Looking Statements	4
The Corporation	5
Use of Proceeds	5
Earnings Coverage Ratio	5
Description of Debt Securities	6
Description of Share Capital	20
Certain Income Tax Considerations	21
Plan of Distribution	22
Risk Factors	22
Legal Matters	22
Experts	22
Documents Filed as Part of the Registration Statement	23
Enforcement of Civil Liabilities	23

We expect that delivery of the Notes will be made against payment therefor on or about , 2016, which will be the fifth business day following the date of pricing of the Notes (such settlement cycle being herein referred to as "T+5"). You should note that trading of the Notes on the date hereof or the next succeeding business day may be affected by the T+5 settlement cycle. See "Underwriting."

EXCHANGE RATE DATA

The following table sets forth certain exchange rates based on the noon rate in Toronto, Ontario as reported by the Bank of Canada. Such rates are set forth as U.S. dollars per $1.00 and are the inverse of rates quoted by the Bank of Canada for Canadian dollars per US$1.00. On November 18, 2016, the inverse of this rate was US$0.7397 per $1.00.

		Nine Months Ended	Year Ended December 31,		
		September 30, 2016	2015	2014	2013
Low	US$	0.6854	0.7148	0.8589	0.9348
High	US$	0.7972	0.8527	0.9422	1.0164
Period End	US$	0.7624	0.7225	0.8620	0.9402
Average	US$	0.7565	0.7820	0.9054	0.9710

Source: Bank of Canada web site.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The prospectus and this prospectus supplement, including the documents incorporated by reference into the prospectus and this prospectus supplement, contain both historical and forward looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"), and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the "U.S. Exchange Act"), and forward looking information within the meaning of Canadian securities laws (collectively, "forward looking statements"). This information has been included to provide readers with information about the Corporation and its subsidiaries and affiliates, including management's assessment of the Corporation's and its subsidiaries' future plans and operations. This information may not be appropriate for other purposes. Forward looking statements are typically identified by words such as "anticipate", "expect", "project", "estimate", "forecast", "plan", "intend", "target", "believe", "likely" and similar words suggesting future outcomes or statements regarding an outlook. Forward looking information or statements included or incorporated by reference in the prospectus and this prospectus supplement include, but are not limited to, statements with respect to the following: expected earnings before interest and taxes ("EBIT") or expected adjusted EBIT; expected earnings/(loss) or adjusted earnings/(loss); expected earnings/(loss) or adjusted earnings/(loss) per share; expected available cash flow from operations ("ACFFO"); expected future cash flows; expected costs related to announced projects and projects under construction; expected in-service dates for announced projects and projects under construction; expected capital expenditures; expected equity funding requirements for the Corporation's commercially secured growth program; expectations about the Corporation's joint venture partners' ability to complete and finance projects under construction; expected closing of acquisitions and dispositions; estimated cost and impact to the Corporation's overall financial performance of complying with the settlement consent decree related to Line 6B and Line 6A; estimated future dividends; expected future actions of regulators; expected costs related to leak remediation and potential insurance recoveries; expectations regarding commodity prices; supply forecasts; this offering, including the closing date thereof and the expected use of proceeds; the Merger Transaction (as defined below) and expectations regarding the number of Common Shares (as defined below) to be issued in connection therewith and the timing, completion and impact thereof; expectations regarding the impact of the Merger Transaction; expectations regarding the impact of the dividend payout policy and dividend payout expectation; expectations on impact of hedging program; strategic alternatives currently being evaluated in connection with the United States sponsored vehicles strategy; expected timing of decisions from the Federal Cabinet relating to the Canadian portion of the Line 3 Replacement Program; and expected timing of any Supreme Court of Canada decision with respect to the Northern Gateway Project.

Although the Corporation believes these forward looking statements are reasonable based on the information available on the date such statements are made and processes used to prepare the information, such statements are not guarantees of future performance and readers are cautioned against placing undue reliance on forward looking statements. By their nature, these statements involve a variety of assumptions, known and unknown risks and uncertainties and other factors, which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Material assumptions include assumptions about the following: the expected supply of and demand for crude oil, natural gas, natural gas liquids ("NGL") and renewable energy; prices of crude oil, natural gas, NGL and renewable energy; exchange rates; inflation; interest rates; availability and price of labour and construction materials; operational reliability; customer and regulatory approvals; maintenance of support and regulatory approvals for the Corporation's projects; anticipated in-service dates; weather; the timing and completion of this offering and the Merger Transaction, including receipt of regulatory and shareholder approvals and the satisfaction of other conditions precedent, as applicable; the realization of anticipated benefits and synergies of the Merger Transaction and the timing thereof; the success of integration plans; cost of complying with the settlement consent decree related to Line 6B and Line 6A; impact of the dividend policy on the Corporation's future cash flows; credit ratings; capital project funding; expected earnings/(loss) or adjusted earnings/(loss); expected EBIT or expected adjusted EBIT; expected earnings/(loss) or adjusted earnings/(loss) per share; expected future cash flows and expected future ACFFO; and estimated future dividends. Assumptions regarding the expected supply of and demand for crude oil, natural gas, NGL and renewable energy, and the prices of these commodities, are material to and underlie all forward looking statements. These factors are relevant to all forward looking statements as they may impact current and future levels of demand for the Corporation's services. Similarly, exchange rates, inflation and interest rates impact the economies and business environments in which the Corporation operates and may impact levels of demand for the Corporation's services and cost of inputs, and are therefore inherent in all forward looking statements. Due to the interdependencies and correlation of these macroeconomic factors, the impact of any one assumption on a forward looking statement cannot be determined with certainty, particularly with respect to the impact of the Merger Transaction on the Corporation; expected EBIT, adjusted EBIT, earnings(/loss), adjusted earnings/(loss) and associated per share amounts, ACFFO or estimated future dividends. The most relevant assumptions associated with forward looking statements on projects under construction, including estimated completion dates and expected capital expenditures, include the following: the availability and price of labour and construction materials; the effects of inflation and foreign exchange rates on labour and material costs; the effects of interest rates on borrowing costs; the impact of weather; and customer and regulatory approvals on construction and in-service schedules.

The Corporation's forward looking statements are subject to risks and uncertainties pertaining to the impact of the Merger Transaction, operating performance, regulatory parameters, dividend policy, project approval and support, weather, economic and competitive conditions, public opinion, changes in tax law and tax rate increases, exchange rates, interest rates, commodity prices and supply of and demand for commodities and the settlement consent decree related to Line 6B and Line 6A, including but not limited to those risks and uncertainties discussed in the prospectus and this prospectus supplement and in documents incorporated by reference into the prospectus and this prospectus supplement. The impact of any one risk, uncertainty or factor on a particular forward looking statement is not determinable with certainty as these are interdependent and the Corporation's future course of action depends on management's assessment of all information available at the relevant time. Except to the extent required by applicable law, the Corporation assumes no obligation to publicly update or revise any forward looking statements made in the prospectus and this prospectus supplement or otherwise, whether as a result of new information, future events or otherwise. All subsequent forward looking statements, whether written or oral, attributable to the Corporation or persons acting on the Corporation's behalf, are expressly qualified in their entirety by these cautionary statements.

For more information on forward-looking statements, the assumptions underlying them, and the risks and uncertainties affecting them, see "Special Note Regarding Forward-Looking Statements" in the prospectus and "Risk Factors" in this prospectus supplement and the prospectus.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents of the Corporation, filed with the various securities commissions or similar regulatory authorities in each of the provinces of Canada and with the SEC, are specifically incorporated by reference in, and form an integral part of, this prospectus supplement and the accompanying prospectus:

- annual information form of the Corporation dated February 19, 2016 for the year ended December 31, 2015, included as an exhibit to the Corporation's Form 40-F for the year ended December 31, 2015, filed with the SEC on February 19, 2016;

- amended consolidated comparative financial statements of the Corporation for the years ended December 31, 2015 and 2014 and the auditors' report thereon, prepared in accordance with U.S. GAAP, filed on Form 6-K with the SEC on May 12, 2016;

- amended management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2015, filed on Form 6-K with the SEC on May 12, 2016;

- unaudited interim comparative consolidated financial statements of the Corporation for the three and nine months ended September 30, 2016, prepared in accordance with U.S. GAAP, filed on Form 6-K with the SEC on November 3, 2016;

- management's discussion and analysis of financial condition and results of operations for the three and nine months ended September 30, 2016, filed on Form 6-K with the SEC on November 3, 2016;

- material change report of the Corporation dated September 7, 2016 announcing the entering into of the Merger Agreement (as defined below), filed on Form 6-K with the SEC on September 8, 2016;

- management information circular of the Corporation dated March 8, 2016 relating to the annual meeting of shareholders held on May 12, 2016, filed on Form 6-K with the SEC on March 31, 2016; and

- management information circular of the Corporation dated November 10, 2016 relating to the special meeting of shareholders to be held on December 15, 2016 (the "Transaction Circular"), filed on Form 6-K with the SEC on November 15, 2016.

The fairness opinion prepared by RBC Dominion Securities Inc. dated September 5, 2016 appended as Appendix D to the Transaction Circular and the summaries thereof at pages 23 and 66 to 67 of the Transaction Circular are not incorporated into this prospectus supplement or the prospectus. The fairness opinion prepared by Credit Suisse Securities (Canada), Inc. dated September 5, 2016 appended as Appendix C to the Transaction Circular and the summaries thereof at pages 22 to 23 and 66 of the Transaction Circular are not incorporated into this prospectus supplement or the prospectus.

Any documents of the type referred to above, and material change reports (excluding confidential material change reports) subsequently filed by the Corporation with the various securities commissions or similar regulatory authorities in each of the provinces of Canada after the date of this prospectus supplement and prior to the termination of any offering of Securities shall be deemed to be incorporated by reference into this prospectus supplement and the accompanying prospectus. These documents are available through the internet on the System for Electronic Document Analysis and Retrieval ("SEDAR") which can be accessed at www.sedar.com. In addition, any similar documents filed on Form 6-K or Form 40-F by the Corporation with the SEC after the date of this prospectus supplement shall be deemed to be incorporated by reference into this prospectus supplement and the accompanying prospectus and the

registration statement of which this prospectus supplement and the accompanying prospectus form a part, if and to the extent expressly provided in such report. The Corporation's reports on Form 6-K and its annual report on Form 40-F (and amendment thereto) are available on the SEC's website at www.sec.gov.

Any statement contained in this prospectus supplement or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this prospectus supplement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement is not to be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement.

In addition, any template version of any other marketing materials filed with the securities commission or similar authority in each of the provinces of Canada in connection with this offering after the date hereof but prior to the termination of the distribution of the securities under this prospectus supplement is deemed to be incorporated by reference herein and in the prospectus.

Copies of the documents incorporated herein by reference (other than exhibits to such documents, unless such exhibits are specifically incorporated by reference in such documents) may be obtained on request without charge from the Corporate Secretary of Enbridge Inc., Suite 200, 425 - 1st Street S.W., Calgary, Alberta, Canada T2P 3L8 (telephone (403) 231-3900).

SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that you should consider before investing in the Notes. You should read this entire prospectus supplement and the accompanying prospectus carefully.

The Corporation

Enbridge was incorporated under the *Companies Ordinance* of the Northwest Territories and was continued under the *Canada Business Corporations Act*. Enbridge is a North American leader in delivering energy. As a transporter of energy, Enbridge operates, in Canada and the United States, the world's longest crude oil and liquids transportation system. Enbridge also has significant and growing involvement in natural gas gathering, transmission and midstream businesses. As a distributor of energy, Enbridge owns and operates Canada's largest natural gas distribution company and provides distribution services in Ontario, Quebec, New Brunswick and New York State. As a generator of energy, Enbridge has interests in more than 2,200 megawatts of net renewable and alternative energy generating capacity, and continues to expand its interests in wind, solar and geothermal power. Enbridge employs approximately 10,000 people, primarily in Canada and the United States.

Enbridge is a public company trading on both the Toronto Stock Exchange and the New York Stock Exchange under the ticker symbol "ENB". Enbridge's principal executive offices are located at Suite 200, 425 - 1st Street S.W., Calgary, Alberta, Canada T2P 3L8, and its telephone number is (403) 231-3900.

Recent Developments

On September 5, 2016, the Corporation entered into an agreement and plan of merger dated as of September 5, 2016 (the "Merger Agreement") with Sand Merger Sub, Inc. ("Merger Sub"), a direct wholly-owned subsidiary of the Corporation, and Spectra Energy Corp ("Spectra Energy"). Pursuant to the Merger Agreement, the Corporation and Spectra Energy agreed to combine in a share-for-share merger transaction (the "Merger Transaction") whereby, as soon as practicable on the closing date of the Merger Transaction, Merger Sub will merge with and into Spectra Energy (the "Merger") in accordance with the provisions of the General Corporation Law of the State of Delaware. Following the Merger, Spectra Energy will be a direct wholly-owned subsidiary of the Corporation and the separate corporate existence of Spectra Energy will continue unaffected by the Merger, except as set forth in the Merger Agreement. At the effective time of the Merger (the "Effective Time"), each common share of Spectra Energy issued and outstanding immediately prior to the Effective Time will automatically be converted into, and become exchangeable for, 0.984 of a validly issued, fully paid and non-assessable common share of the Corporation ("Common Shares"). Upon completion of the Merger Transaction, the shareholders of the Corporation are expected to own approximately 57% of the issued and outstanding Common Shares and Spectra Energy shareholders are expected to own approximately 43% of the issued and outstanding Common Shares.

The Merger Transaction is expected to close in the first quarter of 2017 subject to the receipt of both companies' shareholder approvals, along with certain regulatory and government approvals, including compliance with the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and approval under the *Competition Act* (Canada), and the satisfaction of other customary closing conditions.

The offering of the Notes is not contingent on the completion of the Merger.

The Offering

Issuer	Enbridge Inc.
Securities Offered	US$ million aggregate principal amount of % Senior Notes due 2026 (the "2026 Notes"). US$ million aggregate principal amount of % Senior Notes due 2046 (the "2046 Notes" and, together with the 2026 Notes, the "Notes").
Maturity Date	The 2026 Notes will mature on , 2026 and the 2046 Notes will mature on , 2046.
Interest	The 2026 Notes will bear interest at the rate of % per year, payable semi-annually on and of each year, beginning on , 2017. The 2046 Notes will bear interest at the rate of % per year, payable semi-annually on and of each year, beginning on , 2017. Interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months.
Ranking	The Notes will be our direct, unsecured and unsubordinated obligations and will rank equally with all of our existing and future unsecured and unsubordinated debt. Our business operations are conducted substantially through our subsidiaries and through partnerships and joint ventures. The Notes will be structurally subordinated to all existing and future liabilities of those subsidiaries, partnerships and joint ventures. See "Description of the Notes General" in this prospectus supplement and "Description of Debt Securities Ranking and Other Indebtedness" in the accompanying prospectus.
Optional Redemption	We may redeem some or all of the Notes at any time. If the redemption date in respect of any 2026 Notes is more than three months prior to the maturity date of the 2026 Notes, or if the redemption date in respect of any 2046 Notes is more than six months prior to the maturity date of the 2046 Notes, the redemption price will equal the applicable "make-whole" price described in this prospectus supplement under "Description of the Notes Optional Redemption," plus accrued and unpaid interest to the redemption date. If the redemption date in respect of any 2026 Notes is on or after the date that is three months prior to the maturity date of the 2026 Notes, or if the redemption date in respect of any 2046 Notes is on or after the date that is six months prior to the maturity date of the 2046 Notes, then the redemption price will equal 100% of the principal amount of the Notes being redeemed, plus accrued and unpaid interest to the redemption date.
Change in Tax Redemption	We may redeem any series of the Notes in whole, but not in part, at the redemption price described in the prospectus at any time in the event certain changes affecting Canadian withholding taxes occur. See "Description of Debt Securities Redemption Tax Redemption" in the accompanying prospectus.
Sinking Fund	The Notes will not be entitled to the benefits of a sinking fund.

Use of Proceeds	We estimate that the net proceeds of the offering of the Notes, after deducting underwriting commissions and the estimated expenses of the offering, will be approximately US$. We intend to use the net proceeds from this offering to partially fund capital projects, to reduce existing indebtedness and for other general corporate purposes. See "Use of Proceeds" in this prospectus supplement.
Additional Amounts	Any payments made by us with respect to the Notes of a series will be made without withholding or deduction for Canadian taxes unless required to be withheld or deducted by law or by the interpretation or administration thereof. If we are so required to withhold or deduct for Canadian taxes with respect to a payment to the holders of Notes of a series, we will pay the additional amounts necessary so that the net amounts received by the holders of such Notes after such withholding or deduction is not less than the amounts that such holders would have received in the absence of the withholding or deduction. See "Description of Debt Securities Payment of Additional Amounts" in the accompanying prospectus.
Conflicts of Interest	We may have outstanding existing indebtedness owing to certain of the underwriters and affiliates of such underwriters, a portion of which we may repay with the net proceeds from this offering. See "Use of Proceeds". As a result, one or more of such underwriters or their affiliates may receive more than 5% of the net proceeds from this offering in the form of repayment of such existing indebtedness. Accordingly, this offering is being made pursuant to Rule 5121 of the Financial Industry Regulatory Authority, Inc. Pursuant to this rule, the appointment of a qualified independent underwriter is not necessary in connection with this offering, because the conditions of Rule 5121(a)(1)(C) are satisfied.
Form	The Notes will be represented by fully registered global Notes deposited in book-entry form with, or on behalf of, The Depository Trust Company, and registered in the name of its nominee. See "Description of the Notes Book-Entry System" in this prospectus supplement. Except as described under "Description of the Notes" in this prospectus supplement and "Description of Debt Securities" in the accompanying prospectus, Notes in certificated form will not be issued.
Governing Law	The Notes and the indenture governing the Notes will be governed by the laws of the State of New York.

RISK FACTORS

You should consider carefully the following risks and other information contained in and incorporated by reference into this prospectus supplement and the accompanying prospectus before deciding to invest in the Notes. The following risks and uncertainties could materially and adversely affect our financial condition and results of operations. In that event, the value of our securities, including the Notes, or our ability to meet our obligations under the Notes, may be adversely affected.

Risks Related to the Notes

We are a holding company and as a result are dependent on our subsidiaries to generate sufficient cash and distribute cash to us to service our indebtedness, including the Notes.

Our ability to make payments on our indebtedness, fund our ongoing operations and invest in capital expenditures and any acquisitions will depend on our subsidiaries' ability to generate cash in the future and distribute that cash to us. It is possible that our subsidiaries may not generate cash from operations in an amount sufficient to enable us to service our indebtedness, including the Notes. The Notes are U.S. dollar-denominated obligations and the majority of our subsidiaries' revenues are denominated in Canadian dollars. Fluctuations in the exchange rate between the U.S. and Canadian dollar may adversely affect our ability to service or refinance our U.S. dollar-denominated indebtedness, including the Notes.

The Notes are structurally subordinated to the indebtedness of our subsidiaries.

The Notes are not guaranteed by our subsidiaries (including partnerships and joint ventures through which we conduct business) and are thus structurally subordinated to all of the debt of these subsidiaries, partnerships and joint ventures. The Corporation's interests in its subsidiaries and the partnerships and joint ventures through which it conducts business generally consist of equity interests, which are residual claims on the assets of those entities after their creditors are satisfied. As at September 30, 2016, the long-term debt (excluding current portion, as well as guarantees and intercompany obligations between the Corporation and its subsidiaries) of the Corporation's subsidiaries totaled approximately $35,552 million.

The indenture governing the Notes restricts our ability to incur liens, but places no such restriction on our subsidiaries or the partnerships and joint ventures through which we conduct business. Holders of parent company indebtedness that is secured by parent company assets will have a claim on the assets securing the indebtedness that is prior in right of payment to our general unsecured creditors, including you as a holder of the Notes. The indenture governing the Notes permits us to incur additional liens as described under "Description of Debt Securities Covenants Limitation on Security Interests" in the accompanying prospectus.

Risks Related to our Business

You should carefully consider the risks identified and discussed in the amended management's discussion and analysis of financial condition and results of operation for the year ended December 31, 2015, which is incorporated herein by reference (the page references below are to the amended management's discussion and analysis of financial condition and results of operation for the year ended December 31, 2015 filed on SEDAR at www.sedar.com and with the SEC (filed on Form 6-K with the SEC on May 12, 2016) at www.sec.gov):

Liquids Pipelines Business Risks (pages 56 to 58); Gas Distribution Business Risks (pages 61 to 62); Aux Sable Business Risks (page 65); Alliance Pipeline Business Risks (pages 66 to 67); Vector Pipeline Business Risks (page 68); Canadian Midstream Business Risks (page 69); Enbridge Offshore Pipelines Business Risks (pages 70 to 71); U.S. Midstream Business Risks (pages 71 to 72); Green Power and Transmission Business Risks (pages 73 to 74); Energy Services Business Risks

(page 75); Risk Management and Financial Instruments (pages 89 to 92); and General Business Risks (pages 92 to 97).

Risks Related to the Merger Transaction and Spectra Energy's Business

You should carefully consider the risks relating to the Merger Transaction and Spectra Energy's business identified and discussed in the Transaction Circular, which is incorporated herein by reference (the page references below are to the Transaction Circular filed on SEDAR at www.sedar.com and with the SEC (filed on Form 6-K with the SEC on November 15, 2016) at www.sec.gov): Risk Factors Risks Relating to the Merger (pages 31 to 37); and Risk Factors Risks Relating to Spectra Energy's Business (page 38).

SELECTED CONSOLIDATED FINANCIAL INFORMATION

We have derived the following selected consolidated financial information (i) as at and for the years ended December 31, 2015 and 2014 from our audited amended consolidated comparative financial statements, which have been audited by PricewaterhouseCoopers LLP, and (ii) as at and for the nine months ended September 30, 2016 and 2015, from our unaudited interim comparative consolidated financial statements. Our historical results are not necessarily indicative of the results that may be expected for any future period.

Our consolidated financial statements are prepared in accordance with U.S. GAAP. You should read the selected consolidated financial information in conjunction with our audited and unaudited financial statements and the related notes incorporated by reference in this prospectus supplement, and other information included in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus.

	Nine Months Ended September 30,		Year Ended December 31,	
	2016	2015	2015	2014
	(millions of dollars)			
Income Statement Items:				
Revenue				
Commodity Sales	16,380	17,768	23,842	28,281
Gas Distribution Sales	1,783	2,424	3,096	2,853
Transportation and other services	7,059	4,688	6,856	6,507
Total Revenue	25,222	24,880	33,794	37,641
Earnings Attributable to Enbridge Inc. Common Shareholders	1,411	(415)	(37)	1,154
Cash Flow Statement Items:				
Cash provided by operating activities	4,153	3,799	4,571	2,547
Additions to property, plant and equipment	(3,963)	(5,310)	(7,273)	(10,524)
Balance Sheet Items (at period end):				
Cash and cash equivalents	1,036	1,024	1,015	1,261
Total Assets	83,682	81,570	84,515	72,741
Total Liabilities	60,192	60,366	62,176	51,691
Total Shareholders' Equity	19,740	17,990	18,898	16,786
Other Financial Data:				
EBIT[(1)]	2,814	794	1,635	3,302

(1) The term EBIT, as used in this prospectus supplement, represents net earnings before interest expense and income taxes. EBIT does not have any standardized meaning prescribed by U.S. GAAP and therefore may not be comparable with the calculation of similar measures for other companies. EBIT is presented, solely as a supplemental measure, because we believe that it is frequently used by investors to evaluate a company's operating performance. We believe that EBIT, while providing useful information, should not be considered in isolation or as a substitute for net earnings, as an indicator of operating performance or as an alternative to cash flow from operating activities as a measure of liquidity. EBIT is calculated from and reconciled to net earnings on a consolidated and operating business segment basis as follows:

	Nine Months Ended September 30,		Year Ended December 31,	
	2016	2015	2015	2014
	(millions of dollars)			
Earnings/(loss) from continuing operations	$ 1,462	$ (535)	$ (159)	$ 1,562
Income Taxes	174	76	170	611
Interest	1,178	1,253	1,624	1,129
EBIT	$ 2,814	$ 794	$ 1,635	$ 3,302

CONSOLIDATED CAPITALIZATION

The following table summarizes our consolidated capitalization as of September 30, 2016 on an actual basis and on an as adjusted basis to give effect to the issuance and sale of the Notes offered by this prospectus supplement. You should read this table together with our unaudited consolidated financial statements for the nine months ended September 30, 2016 and the unaudited pro forma condensed consolidated financial statements, which are incorporated by reference in this prospectus supplement and the accompanying prospectus. All U.S. dollar amounts in the following table have been converted to Canadian dollars using the exchange rate on September 30, 2016 of US$0.7624 per $1.00.

	As of September 30, 2016	
	Actual	As Adjusted for the Notes
	(millions of dollars)	
Long-term debt (excluding current portion)[1]	$ 35,552[2]	$ 35,552[2]
2026 Notes offered hereby (US$)		
2046 Notes offered hereby (US$)		
Total long-term debt	35,552	
Shareholders' equity:		
Preferred shares	6,515[3]	6,515[3]
Common shares	10,262	10,262
Additional paid-in capital	3,410	3,410
Retained earnings/(deficit)	(746)	(746)
Accumulated other comprehensive income/loss	401	401
Reciprocal shareholding	(102)	(102)
Total Enbridge Inc. shareholders' equity	19,740	19,740
Total capitalization	$ 55,292	$

(1) As at September 30, 2016, long-term debt included $9,189 million of outstanding commercial paper borrowings and credit facility draws.

(2) Does not reflect commercial paper issuances, letters of credit draws and credit facility draws of approximately $1,390 million which occurred subsequent to September 30, 2016.

(3) Does not reflect the issuance of $750,000,000 of our cumulative redeemable minimum rate reset preference shares, Series 17 ("Series 17 Preferred Shares"), which are expected to be issued on or about November 23, 2016.

USE OF PROCEEDS

We estimate that the net proceeds of this offering of the Notes, after deducting underwriting commissions and the estimated expenses of this offering, will be approximately US$. We intend to use the net proceeds from this offering to partially fund capital projects, to reduce existing indebtedness and for other general corporate purposes of the Corporation and its affiliates. The Corporation may invest funds that it does not immediately require in short term marketable debt securities.

EARNINGS COVERAGE RATIOS

The following earnings coverage ratios have been calculated on a consolidated basis for the respective 12 month periods ended December 31, 2015 and September 30, 2016 and are derived from audited financial information in the case of December 31, 2015 and unaudited financial information in the case of September 30, 2016, in each case prepared in accordance with U.S. GAAP. The following ratios give pro forma effect to the issuance by the Corporation from time to time of preference shares and debt

S-11

securities since December 31, 2015 in the case of the December 31, 2015 earnings coverage ratio, including the issuance by the Corporation of the Notes pursuant to this prospectus supplement as well as the issuance by Enbridge Gas Distribution Inc. of $300,000,000 principal amount of 2.50% unsecured medium term notes pursuant to a first pricing supplement dated August 2, 2016 and the issuance by Enbridge Pipelines Inc. of $400,000,000 principal amount of 3.00% unsecured medium term notes pursuant to a first pricing supplement dated August 4, 2016 and $400,000,000 principal amount of 4.13% unsecured medium term notes pursuant to a second pricing supplement dated August 4, 2016, and since September 30, 2016 in the case of the September 30, 2016 earnings coverage ratio, including the issuance by the Corporation of the Notes pursuant to this prospectus supplement. In addition, adjustments for other normal course issuances and repayments of long-term debt subsequent to December 31, 2015 have been made. The earnings coverage ratios set forth below do not purport to be indicative of earnings coverage ratios for any future periods.

	Twelve Month Period Ended	
	December 31, 2015	**September 30, 2016**
Earnings coverage[1][2]	times	times

Notes:

(1) Earnings coverage on a net earnings basis is equal to earnings attributable to the Corporation plus net interest expense and income taxes divided by net interest expense plus capitalized interest and preference share dividend obligations.

(2) Does not reflect the issuance of $750,000,000 of Series 17 Preferred Shares, which are expected to be issued on or about November 23, 2016.

The Corporation evaluates its performance using a variety of measures. Earnings coverage discussed above is not defined under U.S. GAAP and, therefore, should not be considered in isolation or as an alternative to, or more meaningful than, net earnings as determined in accordance with U.S. GAAP as an indicator of the Corporation's financial performance or liquidity. This measure is not necessarily comparable to a similarly titled measure of another company.

The Corporation's dividend requirements on all of its preference shares, adjusted to a before tax equivalent using an effective income tax rate of 1,545% at December 31, 2015 and 13% at September 30, 2016, amounted to approximately negative $ million for the 12 months ended December 31, 2015 and approximately $ million for the 12 months ended September 30, 2016. The effective income tax rate of 1,545% at December 31, 2015 was unusually high because of the tax effect of certain permanent items that are not associated with the current year earnings, relative to the low consolidated earnings. For comparability, if the September 30, 2016 effective income tax rate was used instead of the 2015 effective income tax rate, the Corporation's dividend requirements for the 12 months ended December 31, 2015 would have been approximately $ million and the earnings coverage ratio would have been times the Corporation's aggregate dividend and pro forma interest requirements for this period. This would result in the Corporation's earnings coverage ratio for the 12 month period ended December 31, 2015 being less than one-to-one. Additional earnings before interest and income tax for the 12 months ended December 31, 2015 of $ million would be required to achieve a one-to-one earnings coverage ratio. The Corporation's pro forma interest requirements for the 12 months ended December 31, 2015 amounted to approximately $ million and for the 12 months ended September 30, 2016 amounted to approximately $ million. The Corporation's earnings before interest and income tax for the 12 months ended December 31, 2015 were approximately $ million, which is times the Corporation's aggregate dividend and pro forma interest requirements for this period. The Corporation's earnings before interest and income tax for the 12 months ended September 30, 2016 were approximately $ million, which is times the Corporation's aggregate dividend and pro forma interest requirements for this period.

DESCRIPTION OF THE NOTES

The following description of the terms of the Notes supplements, and to the extent inconsistent therewith supersedes, the description of the general terms and provisions of debt securities under the heading "Description of Debt Securities" in the accompanying prospectus, and should be read in conjunction with that description. In this section, the terms "Corporation" and "Enbridge" refer only to Enbridge Inc. and not to its subsidiaries.

The Notes will be issued under an indenture (as amended and supplemented, the "Indenture"), dated as of February 25, 2005, between the Corporation and Deutsche Bank Trust Company Americas, as Trustee. The Trustee will initially serve as paying agent for the Notes. The following summary of certain provisions of the Indenture and the Notes does not purport to be complete and is qualified in its entirety by reference to the actual provisions of the Indenture.

General

The Trustee under the Indenture is referred to in this section as the "Trustee," which term shall include, unless the context otherwise requires, its successors and assigns. Capitalized terms used but not defined in this section shall have the meanings given to them in the Indenture.

The Notes will be direct, unsecured and unsubordinated obligations of the Corporation, issued under the Indenture and will rank equally with all other existing and future unsecured and unsubordinated indebtedness of the Corporation other than preferred claims imposed by statute. In addition, our business operations are conducted substantially through our subsidiaries and through partnerships and joint ventures. The Notes will be structurally subordinated to all existing and future liabilities of these subsidiaries, partnerships and joint ventures. As of September 30, 2016, the long-term debt (excluding current portion, as well as guarantees and intercompany obligations between the Corporation and its subsidiaries) of the Corporation's subsidiaries totaled approximately $35,552 million. At September 30, 2016, as determined under U.S. GAAP, the Corporation's total consolidated long-term debt and long-term debt due within one year was, in aggregate principal amount, approximately $40,375 million (excluding the Notes and the Corporation's proportionate share of non-recourse debt of joint ventures), none of which was secured debt. There are no terms of the Indenture that limit the ability of the Corporation or its subsidiaries, partnerships or joint ventures to incur additional indebtedness, including in the case of the Corporation and its subsidiaries, partnerships and joint ventures, indebtedness that ranks, either effectively or by contract, senior to the Notes. See "Description of Debt Securities Covenants" in the accompanying prospectus.

The Notes will be denominated in U.S. dollars, and payments of principal of, and premium, if any, and interest on, the Notes will be made in U.S. dollars in the manner and on terms set out in the Indenture.

The 2026 Notes will be issued as a series of debt securities under the Indenture in an aggregate principal amount of US$ million. The 2026 Notes will mature on , 2026 and will bear interest at a rate of % per year, payable semi-annually in arrears on and of each year, commencing , 2017 (each a "2026 Interest Payment Date"), to the persons in whose names the 2026 Notes are registered at the close of business on the preceding or , respectively. Interest on the 2026 Notes will be computed on the basis of a 360-day year of twelve 30-day months.

The 2046 Notes will be issued as a series of debt securities under the Indenture in an aggregate principal amount of US$ million. The 2046 Notes will mature on , 2046 and will bear interest at a rate of % per year, payable semi-annually in arrears on and of each year, commencing , 2017 (each a "2046 Interest Payment Date"), to the persons in whose names the 2046 Notes are registered at the close of business on the preceding or ,

respectively. Interest on the 2046 Notes will be computed on the basis of a 360-day year of twelve 30-day months.

Interest payments for the 2026 Notes will include accrued interest from and including the date of issue or from and including the last date in respect of which interest has been paid, as the case may be, to, but excluding, the 2026 Interest Payment Date, or the date of maturity, as the case may be. Interest payments for the 2046 Notes will include accrued interest from and including the date of issue or from and including the last date in respect of which interest has been paid, as the case may be, to, but excluding, the 2046 Interest Payment Date, or the date of maturity, as the case may be. If any 2026 Interest Payment Date, any 2046 Interest Payment Date, or the applicable maturity date of Notes falls on a day that is not a Business Day, the related payment of principal, premium, if any, or interest will be postponed to the next succeeding Business Day, and no interest on such payment will accrue for the period from and after such 2026 Payment Date, such 2046 Interest Payment Date, or the applicable maturity date, as the case may be.

The Notes may be redeemed by the Corporation prior to maturity as described below under " Optional Redemption."

The provisions of the Indenture relating to the payment of additional amounts in respect of Canadian withholding taxes in certain circumstances and the provisions of the Indenture relating to the redemption of the Notes in the event of specified changes in Canadian withholding tax law on or after the date of this prospectus supplement will apply to the Notes. See "Description of Debt Securities Payment of Additional Amounts" and "Description of Debt Securities Redemption Tax Redemption" in the accompanying prospectus.

The Notes will not be entitled to the benefit of any sinking fund. The Notes will not be convertible into other securities of the Corporation in lieu of payment of principal. The Notes will not be listed on any securities exchange or automated quotation system.

The Notes will be subject to the provisions of the Indenture relating to Defeasance and Covenant Defeasance as described in the prospectus under the heading "Description of Debt Securities Defeasance."

Payments of principal of, and premium, if any, and interest on, the Notes will be made by the Corporation through the Trustee to the Depositary. See "Description of the Notes Book-Entry System."

"Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in The City of New York and in the applicable Place of Payment, if other than The City of New York, are authorized or obligated by law or executive order to close. The initial Places of Payment for the Notes will be the Trustee's corporate trust office in The City of New York and the Corporation's corporate headquarters in Calgary.

The Trustee

Deutsche Bank Trust Company Americas (the "Trustee") is the Trustee under the Indenture governing the Notes. The Trustee is an affiliate of Deutsche Bank Securities Inc., an underwriter of the Notes. Under the Trust Indenture Act of 1939, as amended, due to this affiliation, if a default occurred on the Notes, Deutsche Bank Trust Company Americas would be required to resign as Trustee within 90 days of the default unless the default were cured, duly waived or otherwise eliminated. An affiliate of the Trustee is a lender under certain of the credit facilities of Enbridge and its subsidiary, Enbridge (U.S.) Inc., described under "Underwriting" in this prospectus supplement, and affiliates of the Trustee may have further commercial banking, advisory and other relationships with Enbridge and its subsidiaries.

Optional Redemption

The 2026 Notes will be redeemable, in whole or in part, at our option at any time or from time to time. The redemption price for the 2026 Notes to be redeemed on any redemption date that is more than three months prior to the maturity date of the 2026 Notes will be equal to the greater of (i) 100% of the principal amount of the 2026 Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the 2026 Notes to be redeemed (assuming that such 2026 Notes matured on , 2026, the date that is three months prior to the maturity date of the 2026 Notes), not including any portion of the payments of interest accrued as of the date of redemption, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate (as defined below) plus basis points, plus, in either case, accrued and unpaid interest on the principal amount being redeemed to the date of redemption. The redemption price for the 2026 Notes to be redeemed on any redemption date that is on or after the date that is three months prior to the maturity date of the 2026 Notes will be equal to 100% of the principal amount of the Notes being redeemed, plus accrued and unpaid interest on the principal amount being redeemed to the date of redemption.

The 2046 Notes will be redeemable, in whole or in part, at our option at any time or from time to time. The redemption price for the 2046 Notes to be redeemed on any redemption date that is more than six months prior to the maturity date of the 2046 Notes will be equal to the greater of (i) 100% of the principal amount of the 2046 Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the 2046 Notes to be redeemed (assuming that such 2046 Notes matured on , 2046, the date that is six months prior to the maturity date of the 2046 Notes), not including any portion of the payments of interest accrued as of the date of redemption, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate (as defined below) plus basis points, plus, in either case, accrued and unpaid interest on the principal amount being redeemed to the date of redemption. The redemption price for the 2046 Notes to be redeemed on any redemption date that is on or after the date that is six months prior to the maturity date of the 2046 Notes will be equal to 100% of the principal amount of the Notes being redeemed, plus accrued and unpaid interest on the principal amount being redeemed to the date of redemption.

Notwithstanding the foregoing, installments of interest on Notes being redeemed that are due and payable on interest payment dates falling on or prior to the relevant redemption date will be payable to the holders of Notes registered at the close of business on the relevant record dates according to the terms and provisions of the Indenture.

Notice of any redemption will be delivered by first-class mail at least 30 days, but not more than 60 days, before the redemption date to each holder of the Notes to be redeemed. If less than all the Notes are to be redeemed, the Notes to be redeemed will be selected by the Trustee by lot or such other method that the Trustee deems fair and appropriate.

Unless we default in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the Notes or portions of the Notes called for redemption.

If any Note is redeemed in part, the notice of redemption relating to such Note shall state the portion of the principal amount thereof to be redeemed; provided that no Note in an aggregate principal amount of $1,000 or less shall be redeemed in part. A replacement Note in the principal amount equal to the unredeemed portion thereof will be issued in the name of the holder thereof upon cancellation of the original Note.

In connection with such optional redemption of the Notes, the following defined terms apply:

"Adjusted Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable

Treasury Issue (as defined below), assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the redemption date.

"Comparable Treasury Issue" means the United States Treasury security or securities selected by the Quotation Agent as having an actual or interpolated maturity comparable to the remaining term of the Notes to be redeemed (assuming that such Notes matured on the date that, with respect to the 2026 Notes, is three months prior to the maturity date of the 2026 Notes, and, with respect to the 2046 Notes, is six months prior to the maturity date of the 2046 Notes) that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes.

"Comparable Treasury Price" means, with respect to any redemption date, (i) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (ii) if the Quotation Agent obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Quotation Agent" means one of the Reference Treasury Dealers, which is appointed by the Trustee as directed by us.

"Reference Treasury Dealer" means each of Barclays Capital Inc., Deutsche Bank Securities Inc., Mizuho Securities USA Inc. and a Primary Treasury Dealer (as defined below) selected by MUFG Securities Americas Inc. and their respective successors; *provided*, *however*, that if such entity or its successor shall cease to be a primary U.S. Government securities dealer in New York City (a "Primary Treasury Dealer"), we shall substitute therefor another nationally recognized investment banking firm that is a Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Reference Treasury Dealer, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Quotation Agent by such Reference Treasury Dealer at 3:30 p.m. (New York time) on the third business day preceding such redemption date.

For greater certainty, the Notes will not be subject to redemption at par value at the option of the Corporation as described in the prospectus under "Description of Debt Securities Redemption."

The Notes will be subject to redemption by the Corporation as described in the prospectus under the heading "Description of Debt Securities Redemption Tax Redemption" in the event of the occurrence of the circumstances therein described after the date of the initial issuance of the Notes.

Book-Entry System

The Notes will be represented by fully registered global securities (the "Global Securities") registered in the name of Cede & Co. (the nominee of The Depository Trust Company (the "Depositary")), or such other name as may be requested by an authorized representative of the Depositary. The authorized denominations of each Note will be US$2,000 and integral multiples of US$1,000 in excess thereof. The provisions set forth under "Description of Debt Securities Global Securities" in the accompanying prospectus will be applicable to the Notes. Accordingly, Notes may be transferred or exchanged only through the Depositary and its participants. Except as described under "Description of Debt Securities Global Securities" in the accompanying prospectus, owners of beneficial interests in the Global Securities will not be entitled to receive Notes in definitive form. Account holders in the Euroclear or Clearstream clearance systems may hold beneficial interests in the Notes through the accounts that each of these systems maintains as a participant in the Depositary.

Each person owning a beneficial interest in a Global Security must rely on the procedures of the Depositary and, if such person is not a participant, on the procedures of the participant through which such

person owns its interest in order to exercise any rights of a holder under the Indenture. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in certificated form. Such limits and such laws may impair the ability to transfer beneficial interests in a Global Security representing the Notes.

The Depositary

The following is based on information furnished by the Depositary: The Depositary is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the U.S. Securities Exchange Act. The Depositary holds securities that its participants ("Participants") deposit with the Depositary. The Depositary also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. These direct Participants ("Direct Participants") include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Access to the Depositary's system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to the Depositary and its Participants are on file with the SEC.

Purchases of the Notes under the Depositary's system must be made by or through Direct Participants, which will receive a credit for such Notes on the Depositary's records. The ownership interest of each actual purchaser of each Note represented by a Global Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from the Depositary of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which such Beneficial Owner entered into the transaction. Transfers of ownership interests in a Global Security representing Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners of a Global Security representing the Notes will not receive Notes in definitive form representing their ownership interests therein, except in the event that use of the book-entry system for such Notes is discontinued.

To facilitate subsequent transfers, the Global Securities representing the Notes which are deposited with the Depositary are registered in the name of the Depositary's nominee, Cede & Co., or such other name as may be requested by an authorized representative of the Depositary. The deposit of Global Securities with the Depositary and their registration in the name of Cede & Co. or such other nominee effect no change in beneficial ownership. The Depositary has no knowledge of the actual Beneficial Owners of the Global Securities representing the Notes; the Depositary's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by the Depositary to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither the Depositary nor Cede & Co. (nor such other nominee of the Depositary) will consent or vote with respect to the Global Securities representing the Notes. Under its usual procedures, the Depositary mails an "omnibus proxy" to the Corporation as soon as possible after the applicable record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to

whose accounts the Notes are credited on the applicable record date (identified in a listing attached to the omnibus proxy).

Principal, premium, if any, and interest payments on the Global Securities representing the Notes will be made to Cede & Co. (or such other nominee as may be requested by an authorized representative of the Depositary). The Depositary's practice is to credit Direct Participants' accounts, upon the Depositary's receipt of funds and corresponding detail information from the Corporation or the Trustee, on the applicable payment date in accordance with their respective holdings shown on the Depositary's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of the Depositary, the Trustee or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of the Depositary) is the responsibility of the Corporation or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of the Depositary, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

The Depositary may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the Corporation or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Notes in definitive form are required to be printed and delivered to each holder.

The Corporation may decide to discontinue use of the system of book-entry transfers through the Depositary (or a successor securities depository). In that event, Notes in definitive form will be printed and delivered.

Settlement for the Notes will be made in immediately available funds. Secondary market trading in the Notes will be settled in immediately available funds.

The information in this section concerning the Depositary and the Depositary's book-entry system has been obtained from sources that the Corporation believes to be reliable, but is subject to any changes to the arrangements between the Corporation and the Depositary and any changes to such procedures that may be instituted unilaterally by the Depositary.

Euroclear

Euroclear is incorporated under the laws of Belgium as a bank and is subject to regulation by the Belgian Banking, Finance and Insurance Commission (La Commission Bancaire, Financière et des Assurances) and the National Bank of Belgium (Banque Nationale de Belgique). Euroclear holds securities for its customers and facilitates the clearance and settlement of securities transactions among them. It does so through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates. Euroclear provides other services to its customers, including credit, custody, lending and borrowing of securities and tri-party collateral management. It interfaces with the domestic markets of several countries. Euroclear customers include banks, including central banks, securities brokers and dealers, trust companies and clearing corporations and may include certain other professional financial intermediaries. Indirect access to the Euroclear system is also available to others that clear through Euroclear customers or that have custodial relationships with Euroclear customers. All securities in Euroclear are held on a fungible basis. This means that specific certificates are not matched to specific securities clearance accounts.

The information in this section concerning Euroclear has been obtained from sources that the Corporation believes to be reliable, but is subject to any changes that may be instituted unilaterally by Euroclear.

Clearstream

Clearstream is a duly licensed bank organized as a société anonyme incorporated under the laws of Luxembourg and is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector (Commission de Surveillance du Secteur Financier). Clearstream holds securities for its customers and facilitates the clearance and settlement of securities transactions among them. It does so through electronic book-entry transfers between the accounts of its customers. This eliminates the need for physical movement of securities. Clearstream provides other services to its customers, including safekeeping, administration, clearance and settlement of internationally traded securities and lending and borrowing of securities. It interfaces with the domestic markets in over 30 countries through established depositary and custodial relationships. Clearstream's customers include worldwide securities brokers and dealers, banks, trust companies and clearing corporations and may include professional financial intermediaries. Its U.S. customers are limited to securities brokers and dealers and banks. Indirect access to the Clearstream system is also available to others that clear through Clearstream customers or that have custodial relationships with its customers, such as banks, brokers, dealers and trust companies.

The information in this section concerning Clearstream has been obtained from sources that the Corporation believes to be reliable, but is subject to any changes that may be instituted unilaterally by Clearstream.

Global Clearance and Settlement Procedures

Cross market transfers between persons holding directly or indirectly through the Depositary, on the one hand, and directly or indirectly through Euroclear or Clearstream, on the other, will be effected through the Depositary in accordance with Depositary rules on behalf of the relevant European international clearing system by its U.S. depositary; however, such cross market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. depositary to take action to effect final settlement on its behalf by delivering or receiving Notes through the Depositary, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to the Depositary. Clearstream participants and Euroclear participants may not deliver instructions directly to their respective U.S. depositaries.

Because of time zone differences, credits of Notes received through Clearstream or Euroclear as a result of a transaction with a Depositary participant will be made during subsequent securities settlement processing and dated the business day following the Depositary settlement date. Such credits or any transactions in such Notes settled during that processing will be reported to the relevant Euroclear participants or Clearstream participants on that following business day. Cash received in Clearstream or Euroclear as a result of sales of Notes by or through a Clearstream participant or a Euroclear participant to a Depositary participant will be received with value on the Depositary settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement with the Depositary.

Although the Depositary, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of Notes among participants of the Depositary, Clearstream and Euroclear, they are under no obligation to perform or continue to perform those procedures and those procedures may be modified or discontinued at any time. Neither we nor the paying agent will have any responsibility for the performance by the Depositary, Euroclear or Clearstream or their respective direct or indirect participants of their obligations under the rules and procedures governing their operations.

MATERIAL INCOME TAX CONSIDERATIONS

Each of these summaries under this section "Material Income Tax Considerations" is of a general nature only and is not intended to be, and should not be construed to be, legal or tax advice to any particular holder and no representation is made with respect to the United States federal tax consequences or Canadian tax consequences to any particular holder. Accordingly, prospective purchasers should consult their own tax advisors with respect to the United States federal tax consequences or Canadian tax considerations relevant to them, having regard to their particular circumstances.

Material United States Federal Income Tax Considerations

This section describes the material United States federal income tax consequences of owning and disposing of the Notes we are offering. It applies only to holders who acquire Notes in the offering at the offering price and who hold their Notes as capital assets for United States federal income tax purposes. This section does not apply to members of a class of holders subject to special rules, such as a dealer in securities, a trader in securities that elects to use a mark-to-market method of accounting, a bank, a life insurance company, a tax-exempt organization, a person that owns Notes that are a hedge or that are hedged against interest rate risks, a person that owns Notes as part of a straddle or conversion transaction for United States federal income tax purposes, a person that purchases or sells Notes as part of a wash sale for United States federal income tax purposes, or a United States holder (as defined below) whose functional currency for tax purposes is not the United States dollar. If Notes are purchased at a price other than the offering price, the amortizable bond premium or market discount rules may also apply. Holders should consult their own tax advisor regarding this possibility. This section is based on the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed regulations under the Code, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

All holders should consult their own tax advisor concerning the consequences of owning these Notes in such holder's particular circumstances under the Code and the laws of any other taxing jurisdiction.

This section applies only to United States holders. A United States holder is a beneficial owner of a Note who is a citizen or resident of the United States, a domestic corporation, an estate whose income is subject to United States federal income tax regardless of its source, or a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

If a partnership (or other entity, organized within or without the United States, treated as a partnership for United States federal income tax purposes) holds Notes, the tax treatment of a partner as beneficial owner of Notes generally will depend on the status of the partner and the activities of the partnership. A partner in a partnership holding the Notes should consult its tax advisor with regard to the United States federal income tax treatment of an investment in the Notes.

Payments of Interest

United States holders will be taxed on interest on the Notes as ordinary income at the time the interest is received or when it accrues, depending on the holder's method of accounting for tax purposes.

Interest paid by us on the Notes is income from sources outside the United States subject to the rules regarding the foreign tax credit allowable to a United States holder and will, depending on the United States holder's circumstances, be either "passive" or "general" category income for purposes of computing the foreign tax credit.

Purchase, Sale and Retirement of the Notes

A United States holder's tax basis in a Note generally will be its cost. A United States holder will generally recognize capital gain or loss on the sale or retirement of a Note equal to the difference between the amount realized on the sale or retirement, excluding any amounts attributable to accrued but unpaid interest (which will be treated as interest payments), and such holder's tax basis in the Note. Capital gain of a noncorporate United States holder is generally taxed at preferential rates where the holder has a holding period greater than one year.

Medicare Tax

A United States holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% tax on the lesser of (1) the United States holder's "net investment income" (or "undistributed net investment income" in the case of an estate or trust) for the relevant taxable year and (2) the excess of the United States holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between $125,000 and $250,000, depending on the individual's circumstances). A holder's net investment income generally includes its interest income and its net gains from the disposition of Notes, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a United States holder that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of the Medicare tax to your income and gains in respect of your investment in the Notes.

Backup Withholding and Information Reporting

For noncorporate United States holders, information reporting requirements, on Internal Revenue Service Form 1099, generally will apply to payments of principal and interest on a Note within the United States, including payments made by wire transfer from outside the United States to an account maintained in the United States, and the payment of the proceeds from the sale of a Note effected at a United States office of a broker. Additionally, backup withholding will apply to such payments if a noncorporate United States holder fails to provide an accurate taxpayer identification number, is notified by the Internal Revenue Service that the holder has failed to report all interest and dividends required to be shown on the holder's United States federal income tax returns, or in certain circumstances, fails to comply with applicable certification requirements.

Information with Respect to Foreign Financial Assets

Owners of "specified foreign financial assets" with an aggregate value in excess of $50,000 (and in certain circumstances, a higher threshold) may be required to file an information report with respect to such assets with their tax returns. "Specified foreign financial assets" may include financial accounts maintained by foreign financial institutions, as well as the following, but only if they are held for investment and not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-United States persons, (ii) financial instruments and contracts that have non-United States issuers or counterparties, and (iii) interests in foreign entities. United States holders that are individuals are urged to consult their tax advisors regarding the application of this reporting requirement to their ownership of the Notes.

Material Canadian Income Tax Considerations

In the opinion of McCarthy Tétrault LLP, our Canadian counsel, the following is, as of the date hereof, a general summary of the principal Canadian federal income tax considerations under the *Income Tax Act* (Canada) (the "Tax Act") applicable to a purchaser of Notes pursuant to the prospectus and this prospectus supplement who, at all relevant times, for purposes of the Tax Act and any applicable tax treaty

(i) is not resident or deemed to be resident in Canada, (ii) deals with the Corporation at arm's length; (iii) deals at arm's length with any transferee who is resident or deemed to be resident in Canada and to whom the purchaser assigns or otherwise transfers the Note; (iv) is not a "specified shareholder" (as defined in the Tax Act for purposes of the thin capitalization rules contained in subsection 18(4) of the Tax Act) of the Corporation or a person that does not deal at arm's length with a specified shareholder of the Corporation and (v) does not use or hold and is not deemed to use or hold a Note in carrying on business in Canada (a "Non-Resident Holder"). This summary is based on the current provisions of the Tax Act and the regulations thereunder, proposed amendments to the Tax Act and the regulations thereunder publicly announced prior to the date of this prospectus supplement (the "Proposed Amendments") and counsel's understanding of the current published administrative practices of the Canada Revenue Agency in effect as of the date hereof. This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to a Non-Resident Holder and does not anticipate any changes in law or administrative practice, nor does it take into account provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein. There can be no assurance that the Proposed Amendments will be enacted as proposed or at all. Special rules, which are not discussed below, may apply to a Non-Resident Holder that is an insurer which carries on business in Canada and elsewhere. This summary assumes that no amount paid or payable as, or on account or in lieu of payment of, interest will be in respect of a debt or other obligation to pay an amount to a person who does not deal at arm's length with the Corporation for purposes of the Tax Act.

Under the Tax Act, the payment of interest, principal or premium, if any, to a Non-Resident Holder of a Note by the Corporation will be exempt from Canadian non-resident withholding tax. No other taxes on income or capital gains will be payable under the Tax Act in respect of the acquisition, holding, redemption or disposition of a Note by a Non-Resident Holder, or the receipt of interest, principal or premium thereon by a Non-Resident Holder solely as a consequence of such acquisition, holding, redemption or disposition of a Note.

UNDERWRITING

Barclays Capital Inc., Deutsche Bank Securities Inc., Mizuho Securities USA Inc. and MUFG Securities Americas Inc., are acting as representatives of the underwriters named below.

Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, each underwriter named below has severally agreed to purchase, and we have agreed to sell to that underwriter, the principal amount of Notes set forth opposite the underwriter's name.

Underwriter	Principal Amount of 2026 Notes	Principal Amount of 2046 Notes
Barclays Capital Inc.	US$	US$
Deutsche Bank Securities Inc.		
Mizuho Securities USA Inc.		
MUFG Securities Americas Inc.		
BNP Paribas Securities Corp.		
SMBC Nikko Securities America, Inc.		
Total	US$	US$

The underwriting agreement provides that the obligations of the underwriters to purchase the Notes included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the Notes if they purchase any of the Notes.

The underwriters propose to offer the Notes directly to the public at the public offering price set forth on the cover page of this prospectus supplement and may offer the Notes to dealers at the public offering price less a concession not to exceed % of the principal amount of the 2026 Notes and % of the principal amount of the 2046 Notes. The underwriters may allow, and dealers may reallow, a concession not to exceed % of the principal amount of the 2026 Notes and % of the principal amount of the 2046 Notes on sales to other dealers. After the initial offering of the Notes to the public, the representatives may change the public offering price, concessions and other selling terms.

In connection with the offering, each of Barclays Capital Inc., Deutsche Bank Securities Inc., Mizuho Securities USA Inc. and MUFG Securities Americas Inc., on behalf of the underwriters, may purchase and sell Notes in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves syndicate sales of Notes in excess of the principal amount of Notes to be purchased by the underwriters in the offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover syndicate short positions. Stabilizing transactions consist of certain bids or purchases of Notes made for the purpose of preventing or retarding a decline in the market price of the Notes while the offering is in progress.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The underwriters may conduct these transactions in the over-the-counter market or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time. There will be no obligation on Barclays Capital Inc., Deutsche Bank Securities Inc., Mizuho Securities USA Inc. and MUFG Securities Americas Inc. to engage in such activities.

The Notes are new issues of securities with no established trading market. The Notes will not be listed on any securities exchange or on any automated dealer quotation system. We have been advised that the underwriters may make a market in both series of the Notes but are not obligated to do so and may discontinue any market-making activities at any time without notice. No assurance can be given as to the

liquidity of the trading market for the Notes or that an active public market for the Notes will develop. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected.

The following table shows the underwriting commissions that we will pay the underwriters in connection with this offering (expressed as a percentage of the principal amount of the Notes).

	Paid by Enbridge
Per 2026 Note	%
Per 2046 Note	%

We estimate that our total expenses for this offering, excluding underwriting commissions, will be US$.

The Notes may not be, directly or indirectly, offered, sold or delivered in Canada or to residents of Canada in contravention of the securities laws of any province or territory of Canada. Each underwriter has agreed that it will not offer, sell or deliver any Notes purchased by it in Canada or to residents of Canada in contravention of the securities laws of any province or territory of Canada.

The underwriters or their affiliates perform and have performed commercial banking, investment banking and advisory services for us from time to time for which they receive and have received customary fees and expenses. The underwriters may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business. In addition, in the ordinary course of their business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Certain of the underwriters are affiliates of banks that are currently lenders to us (the "Lenders") under credit facilities extended to the Corporation or its subsidiary, Enbridge (U.S.) Inc. (the "Enbridge Credit Facilities") and as a result under applicable Canadian securities legislation we may be considered to be a connected issuer to such underwriters. We are in compliance with the terms of the Enbridge Credit Facilities and none of the Lenders were involved in the decision to offer the Notes or in the determination of the terms of the distribution of the Notes.

We may have outstanding existing indebtedness owing to certain of the underwriters and affiliates of such underwriters, a portion of which we may repay with the net proceeds of this offering. See "Use of Proceeds". As a result, one or more of such underwriters or their affiliates may receive more than 5% of the net proceeds from this offering in the form of the repayment of such existing indebtedness. Accordingly, this offering is being made pursuant to Rule 5121 of the Financial Industry Regulatory Authority, Inc. Pursuant to this rule, the appointment of a qualified independent underwriter is not necessary in connection with this offering, because the conditions of Rule 5121(a)(1)(C) are satisfied.

If any of the underwriters or their affiliates has a lending relationship with us or our affiliates, certain of those underwriters or their affiliates routinely hedge, certain other of those underwriters or their affiliates have hedged and are likely in the future to hedge, and certain other of those underwriters of their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these underwriters and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our

affiliates' securities, including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby.

A prospectus supplement in electronic format may be made available on the websites maintained by one or more of the underwriters.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the U.S. Securities Act, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

We expect that delivery of the Notes will be made against payment therefor on or about the date specified on the cover page of this prospectus supplement, which will be the fifth business day following the date of pricing of the Notes (this settlement cycle being referred to as "T+5"). Under Rule 15c6-1 of the U.S. Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes on the date of this prospectus supplement or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to make such trades should consult their own advisor.

Notice to Prospective Investors in the European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), it has not made and will not make an offer of the Notes which are the subject of the offering contemplated by this prospectus supplement to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of the Notes to the public in that Relevant Member State:

- to legal entities which are qualified investors as defined in the Prospectus Directive;
- to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant underwriter or underwriters nominated by us for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require us or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive. For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in each Relevant MemberState. Neither we nor any of the underwriters have authorized, nor do we or they authorize, the making of any offer of Notes in circumstances in which an obligation arises for us or any of the underwriters to publish a prospectus for such offer in the European Economic Area.

Each person in a Relevant Member State who receives any communication in respect of, or who acquires any Notes under, the offers contemplated in this prospectus supplement and the prospectus will be deemed to have represented, warranted and agreed to and with each underwriter and us that:

it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and

in the case of any Notes acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Notes acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors; or (ii) where Notes have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Notes to it is not treated under the Prospectus Directive as having been made to such persons.

Notice to Prospective Investors in the United Kingdom

This prospectus supplement and the accompanying prospectus are only being distributed to, and are only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order") or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a "relevant person"). This prospectus supplement and the accompanying prospectus and their contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this prospectus supplement or any of its contents.

Each of the underwriters has represented and agreed that (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issuance or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to us; and (b) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Notice to Prospective Investors in Hong Kong

The Notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder.

Notice to Prospective Investors in Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the "Financial Instruments and Exchange Law") and each underwriter has agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of

Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Notice to Prospective Investors in Singapore

This prospectus supplement has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus supplement and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the Notes under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

LEGAL MATTERS

Certain legal matters relating to Canadian law in connection with this offering of Notes will be passed upon for the Corporation by McCarthy Tétrault LLP, Calgary, Alberta, Canada, and the validity of the Notes as to matters of New York law will be passed upon for the Corporation by Sullivan & Cromwell LLP, New York, New York. In addition, certain legal matters relating to United States law in connection with this offering of the Notes will be passed upon for the underwriters by Paul, Weiss, Rifkind, Wharton & Garrison LLP, Toronto, Ontario, Canada.

As of November 18, 2016, the partners and associates of McCarthy Tétrault LLP and Sullivan & Cromwell LLP owned beneficially, directly or indirectly, less than 1% of the outstanding common shares of the Corporation.

EXPERTS

The amended consolidated annual financial statements of the Corporation for the years ended December 31, 2015 and 2014 incorporated by reference in this prospectus supplement have been so incorporated in reliance on the audit report, which is also incorporated by reference in this prospectus supplement, of PricewaterhouseCoopers LLP, Calgary, Alberta, on the authority of such firm as experts in auditing and accounting.

The consolidated financial statements and the related financial statement schedule of Spectra Energy, included in the Transaction Circular which is incorporated in this prospectus supplement by reference, and the effectiveness of Spectra Energy's internal control over financial reporting have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report. Such consolidated financial statements and financial statement schedule have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

Base Shelf Prospectus

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This short form base shelf prospectus has been filed under legislation in each of the provinces of Canada that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this short form base shelf prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities.

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of Enbridge Inc., Suite 200, 425 - 1st Street S.W., Calgary, Alberta, T2P 3L8 (telephone (403) 231-3900), and are also available electronically at www.sedar.com.*

SHORT FORM BASE SHELF PROSPECTUS

NEW ISSUE **August 19, 2016**

ENBRIDGE INC.

US$7,000,000,000

DEBT SECURITIES
COMMON SHARES
PREFERENCE SHARES

We may from time to time offer our debt securities, common shares and cumulative redeemable preference shares (the "**preference shares**" and, together with our debt securities and common shares, the "**Securities**"), up to an aggregate initial offering price of US$7,000,000,000 (or its equivalent in Canadian dollars or any other currency or currency unit used to denominate the Securities) during the 25 month period that this short form base shelf prospectus (the "**Prospectus**"), including any amendments hereto, remains valid.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "SEC") NOR HAS THE SEC PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This offering is made by a foreign issuer that is permitted, under a multi-jurisdictional disclosure system adopted by the United States of America (the "United States"), to prepare this Prospectus in accordance with Canadian disclosure requirements. Prospective investors should be aware that such requirements are different from those of the United States. The financial statements incorporated herein have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"), and are subject to Canadian and United States auditing and auditor independence standards.

Prospective investors should be aware that the acquisition of the Securities may have tax consequences both in the United States and Canada. Such tax consequences for investors who are resident in, or citizens of, the United States may not be described fully herein or in any applicable Prospectus Supplement (as defined herein). You should read the tax discussion under "Certain Income Tax Considerations" herein and in any applicable Prospectus Supplement.

The enforcement by investors of civil liabilities under United States federal securities laws may be affected adversely by the fact that the Corporation is incorporated under the laws of Canada, that most of its officers and directors are residents of Canada, that some of the experts named in this Prospectus are residents of Canada, and that all or a substantial portion of the assets of the Corporation and said persons are located outside the United States.

The specific variable terms of any offering of Securities will be set forth in a shelf prospectus supplement (a "**Prospectus Supplement**") including, where applicable: (i) in the case of common shares or preference shares, the number of shares offered and the offering price; and

(ii) in the case of debt securities, the designation, any limit on the aggregate principal amount, the currency or currency unit, the maturity, the offering price, whether payment on the debt securities will be senior or subordinated to our other liabilities and obligations, whether the debt securities will bear interest, the interest rate or method of determining the interest

rate, any terms of redemption, any conversion or exchange rights and any other specific terms of the debt securities. You should read this Prospectus and any applicable Prospectus Supplement before you invest in any Securities.

This Prospectus does not qualify for issuance debt securities in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to one or more underlying interests including, for example, an equity or debt security, a statistical measure of economic or financial performance including, but not limited to, any currency, consumer price or mortgage index, or the price or value of one or more commodities, indices or other items, or any other item or formula, or any combination or basket of the foregoing items, other than as required to provide for an interest rate that is adjusted for inflation. For greater certainty, this Prospectus may qualify for issuance debt securities in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to published rates of a central banking authority or one or more financial institutions, such as a prime rate or a bankers' acceptance rate, or to recognized market benchmark interest rates such as LIBOR, EURIBOR or a United States federal funds rate.

The Corporation's common shares (the "**Common Shares**") are listed on the New York Stock Exchange and the Toronto Stock Exchange (the "TSX") under the symbol "ENB". The Corporation's cumulative redeemable preference shares, series A are listed on the TSX under the symbol "ENB.PR.A", the Corporation's cumulative redeemable preference shares, series B are listed on the TSX under the symbol "ENB.PR.B", the Corporation's cumulative redeemable preference shares, series D are listed on the TSX under the symbol "ENB.PR.D", the Corporation's cumulative redeemable preference shares, series F are listed on the TSX under the symbol "ENB.PR.F", the Corporation's cumulative redeemable preference shares, series H are listed on the TSX under the symbol "ENB.PR.H", the Corporation's cumulative redeemable preference shares, series J are listed on the TSX under the symbol "ENB.PR.U", the Corporation's cumulative redeemable preference shares, series L are listed on the TSX under the symbol "ENB.PF.U", the Corporation's cumulative redeemable preference shares, series N are listed on the TSX under the symbol "ENB.PR.N", the Corporation's cumulative redeemable preference shares, series P are listed on the TSX under the symbol "ENB.PR.P", the Corporation's cumulative redeemable preference shares, series R are listed on the TSX under the symbol "ENB.PR.T", the Corporation's cumulative redeemable preference shares, series 1 are listed on the TSX under the symbol "ENB.PR.V", the Corporation's cumulative redeemable preference shares, series 3 are listed on the TSX under the symbol "ENB.PR.Y", the Corporation's cumulative redeemable preference shares, series 5 are listed on the TSX under the symbol "ENB.PF.V", the Corporation's cumulative redeemable preference shares, series 7 are listed on the TSX under the symbol "ENB.PR.J", the Corporation's cumulative redeemable preference shares, series 9 are listed on the TSX under the symbol "ENB.PF.A", the Corporation's cumulative redeemable preference shares, series 11 are listed on the TSX under the symbol "ENB.PF.C", the Corporation's cumulative redeemable preference shares, series 13 are listed on the TSX under the symbol "ENB.PF.E" and the Corporation's cumulative redeemable preference shares, series 15 are listed on the TSX under the symbol "ENB.PF.G." **There is currently no market through which the debt securities or preference shares may be sold and purchasers may not be able to resell such securities issued under this Prospectus. This may affect the pricing of those securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See "Risk Factors".**

The Corporation may sell the Securities to or through underwriters or dealers purchasing as principals, directly to one or more purchasers pursuant to applicable statutory exemptions or through agents. See "Plan of Distribution". The Prospectus Supplement relating to a particular offering of Securities will identify each underwriter, dealer or agent engaged in connection with the offering and sale of the Securities, and will set forth the terms of the offering of such Securities, including the method of distribution, the proceeds to the Corporation and any fees, discounts or any other compensation payable to underwriters, dealers or agents and any other material terms of offering of such Securities.

In connection with any offering of Securities, the underwriters, agents or dealers may over-allot or effect transactions which stabilize or maintain the market price of the Securities at levels above those which might otherwise prevail in the open market. See "Plan of Distribution".

The head and registered office of the Corporation is located at Suite 200, 425 - 1st Street S.W., Calgary, Alberta, T2P 3L8.

TABLE OF CONTENTS

	Page
Table of Contents	1
About this Prospectus	1
Documents Incorporated by Reference	2
Certain Available Information	3
Special Note Regarding Forward-Looking Statements	4
The Corporation	5
Use of Proceeds	5
Earnings Coverage Ratio	5
Description of Debt Securities	6
Description of Share Capital	20
Certain Income Tax Considerations	21
Plan of Distribution	22
Risk Factors	22
Legal Matters	22
Experts	22
Documents Filed as Part of the Registration Statement	23
Enforcement of Civil Liabilities	23

ABOUT THIS PROSPECTUS

In this Prospectus and in any Prospectus Supplement, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars or Cdn$. "U.S. dollars" or "US$" means lawful currency of the United States. Unless otherwise indicated, all financial information included in this Prospectus or included in any Prospectus Supplement is determined using U.S. GAAP. Except as set forth under "Description of Debt Securities" and "Description of Share Capital", and unless the context otherwise requires, all references in this Prospectus and any Prospectus Supplement to "**Enbridge**", the "**Corporation**", "**we**", "**us**" and "**our**" mean Enbridge Inc. and its subsidiaries, partnership interests and joint venture investments.

This Prospectus provides a general description of the Securities that we may offer. Each time we sell Securities under this Prospectus, we will provide you with a Prospectus Supplement that will contain specific information about the terms of that offering. The Prospectus Supplement may also add, update or change information contained in this Prospectus. Before investing in any Securities, you should read both this Prospectus and any applicable Prospectus Supplement together with additional information described below under "Documents Incorporated by Reference" and "Certain Available Information".

We take responsibility only for the information contained in or incorporated by reference in this Prospectus or any applicable Prospectus Supplement and for the other information included in the registration statement of which this Prospectus forms a part. We have not authorized anyone to provide you with different or additional information. We are not making an offer of the Securities in any jurisdiction where the offer is not permitted by law. You should bear in mind that although the information contained in, or incorporated by reference in, this Prospectus is intended to be accurate as of the date on the front of such documents, such information may also be amended, supplemented or updated by the subsequent filing of additional documents deemed by law to be or otherwise incorporated by reference into this Prospectus and by any subsequently filed prospectus amendments.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed by the Corporation with the securities commission or similar regulatory authority in each of the provinces of Canada and with the SEC, are specifically incorporated by reference in, and form an integral part of, this Prospectus, except as otherwise provided below:

(a) amended consolidated comparative financial statements of the Corporation for the years ended December 31, 2015 and 2014 and the auditors' report thereon;

(b) amended management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2015;

(c) unaudited interim comparative consolidated financial statements of the Corporation for the three and six months ended June 30, 2016;

(d) management's discussion and analysis of financial condition and results of operations for the three and six months ended June 30, 2016;

(e) management information circular of the Corporation dated March 8, 2016 relating to the annual meeting of shareholders held on May 12, 2016; and

(f) annual information form of the Corporation dated February 19, 2016 for the year ended December 31, 2015 (the "**AIF**").

Any documents of the type referred to above, any unaudited interim consolidated financial statements and related management's discussion and analysis, any material change reports (except confidential material change reports), business acquisition reports and any exhibits to unaudited interim consolidated financial statements which contain updated earnings coverage calculations filed by the Corporation with the various securities commissions or similar authorities in Canada after the date of this Prospectus and prior to the expiry of the term of this Prospectus shall be deemed to be incorporated by reference into this Prospectus. These documents are available through the internet on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") which can be accessed at www.sedar.com. In addition, any similar documents filed on Form 6-K or Form 40-F by the Corporation with the SEC after the date of this Prospectus shall be deemed to be incorporated by reference into this Prospectus and the registration statement of which this Prospectus forms a part, in the case of Form 6-K reports if and to the extent expressly provided in such report. The Corporation's reports on Form 6-K and its annual report on Form 40-F are available on the SEC's website at www.sec.gov.

Upon a new annual information form and the related annual consolidated financial statements and management's discussion and analysis being filed by the Corporation with and, where required, accepted by the applicable securities regulatory authorities during the term of this Prospectus, any previous annual information form, any previous annual consolidated financial statements, all unaudited interim consolidated financial statements and accompanying management's discussion and analysis, any material change reports and any business acquisition reports filed by the Corporation prior to the commencement of the financial year of the Corporation in respect of which the new annual information form is filed shall be deemed no longer to be incorporated into this Prospectus for purposes of future offers and sales of Securities hereunder. Upon unaudited interim consolidated financial statements and the accompanying management's discussion and analysis being filed by the Corporation with the applicable securities regulatory authorities during the term of this Prospectus, all unaudited interim consolidated financial statements and the accompanying management's discussion and analysis filed prior to the new unaudited interim consolidated financial statements shall be deemed no longer to be incorporated into this Prospectus for purposes of future offers and sales of Securities hereunder, and upon a new management information circular relating to an annual meeting of shareholders of the Corporation being filed by the Corporation with the applicable securities regulatory authorities during the term of this Prospectus, any management information circular for a previous annual meeting of shareholders shall be deemed no longer to be incorporated by reference into this Prospectus for purposes of future offers and sales of Securities hereunder.

Any "template version" of any "marketing materials" (as such terms are defined in National Instrument 41-101 ***General Prospectus Requirements*****) filed by the Corporation after the date of a pricing**

supplement or other prospectus supplement and before the termination of the distribution of Securities offered pursuant to such pricing supplement or other prospectus supplement (together with this Prospectus) will be deemed to be incorporated by reference into such pricing supplement or other prospectus supplement for the purposes of the distribution of Securities to which the pricing supplement or other prospectus supplement pertains.

Any statement contained in this Prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of such a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this Prospectus.

A Prospectus Supplement containing the specific terms of an offering of Securities will be filed together with this Prospectus and will be deemed to be incorporated by reference into this Prospectus as of the date of such supplement solely for the purposes of the offering of the Securities offered thereunder.

Updated earnings coverage ratios will be filed quarterly with the applicable securities regulatory authorities, either as exhibits to the Corporation's unaudited interim and audited annual consolidated financial statements or as Prospectus Supplements and will be deemed to be incorporated by reference into this Prospectus for the purposes of the offering of the Securities.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of Enbridge, Suite 200, 425 - 1st Street S.W., Calgary, Alberta, T2P 3L8 (telephone (403) 231-3900).

CERTAIN AVAILABLE INFORMATION

The Corporation has filed with the SEC under the *United States Securities Act of 1933*, as amended (the "**U.S. Securities Act**"), a registration statement on Form F-10 relating to the Securities and of which this Prospectus forms a part. This Prospectus does not contain all of the information set forth in such registration statement, certain items of which are contained in the exhibits to the registration statement as permitted or required by the rules and regulations of the SEC. See "Documents Filed as Part of the Registration Statement". Statements made in this Prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete, and in each instance, reference is made to the exhibit, if applicable, for a more complete description of the relevant matter, each such statement being qualified in its entirety by such reference. Items of information omitted from this Prospectus but contained in the registration statement will be available on the SEC's website at www.sec.gov.

The Corporation is subject to the information requirements of the *United States Securities Exchange Act of 1934*, as amended (the "**U.S. Exchange Act**"), and in accordance therewith files reports and other information with the SEC. Under the multi-jurisdictional disclosure system adopted by the United States and Canada, such reports and other information may be prepared in accordance with the disclosure requirements of Canada, which requirements are different from those of the United States. The Corporation is exempt from the rules under the U.S. Exchange Act prescribing the furnishing and content of proxy statements, and its officers, directors and principal shareholders are exempt from the reporting and short swing profit recovery provisions contained in Section 16 of the U.S. Exchange Act. Under the U.S. Exchange Act, the Corporation is not required to publish financial statements as promptly as United States companies. Such reports and other information will be available on the SEC's website at www.sec.gov.

Prospective investors may read and copy any document the Corporation has filed with the SEC at the SEC's public reference room in Washington D.C. and may also obtain copies of those documents from the public

reference room of the SEC at 100 F Street, N.E., Washington, D.C. 20549 by paying a fee. Additionally, prospective investors may read and download some of the documents the Corporation has filed with the SEC's Electronic Data Gathering and Retrieval system at www.sec.gov. Reports and other information about the Corporation may also be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus, including documents incorporated by reference into this Prospectus, contain both historical and forward-looking statements within the meaning of Section 27A of the U.S. Securities Act and Section 21E of the U.S. Exchange Act. This information has been included to provide readers with information about the Corporation and its subsidiaries, including management's assessment of Enbridge's and its subsidiaries' future plans and operations. This information may not be appropriate for other purposes. Forward-looking statements are typically identified by words such as "anticipate", "expect", "project", "estimate", "forecast", "plan", "intend", "target", "believe", "likely" and similar words suggesting future outcomes or statements regarding an outlook. Forward-looking information or statements included or incorporated by reference in this Prospectus include, but are not limited to, statements with respect to the following: expected earnings before interest and taxes ("**EBIT**") or expected adjusted EBIT; expected earnings/(loss) or adjusted earnings/(loss); expected earnings/(loss) or adjusted earnings/(loss) per share; expected available cash flow from operations ("**ACFFO**"); expected future cash flows; expected costs related to projects under construction; expected in-service dates for projects under construction; expected capital expenditures; expected equity funding requirements for the Corporation's commercially secured growth program; estimated future dividends; expected future actions of regulators; expected costs related to leak remediation and potential insurance recoveries; expectations regarding commodity prices; supply forecasts; expectations regarding the impact of the dividend payout policy and dividend payout expectation; and strategic alternatives currently being evaluated in connection with the United States sponsored vehicles strategy.

Although Enbridge believes these forward-looking statements are reasonable based on the information available on the date such statements are made and processes used to prepare the information, such statements are not guarantees of future performance and readers are cautioned against placing undue reliance on forward-looking statements. By their nature, these statements involve a variety of assumptions, known and unknown risks and uncertainties and other factors, which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Material assumptions include assumptions about the following: the expected supply of and demand for crude oil, natural gas, natural gas liquids ("**NGL**") and renewable energy; prices of crude oil, natural gas, NGL and renewable energy; exchange rates; inflation; interest rates; availability and price of labour and construction materials; operational reliability; customer and regulatory approvals; maintenance of support and regulatory approvals for the Corporation's projects; anticipated in-service dates; weather; impact of the dividend policy on the Corporation's future cash flows; credit ratings; capital project funding; expected EBIT or expected adjusted EBIT; expected earnings/(loss) or adjusted earnings/(loss); expected earnings/(loss) or adjusted earnings/(loss) per share; expected future cash flows and expected future ACFFO; and estimated future dividends.

Assumptions regarding the expected supply of and demand for crude oil, natural gas, NGL and renewable energy, and the prices of these commodities, are material to and underlie all forward-looking statements. These factors are relevant to all forward-looking statements as they may impact current and future levels of demand for the Corporation's services. Similarly, exchange rates, inflation and interest rates impact the economies and business environments in which the Corporation operates and may impact levels of demand for the Corporation's services and cost of inputs, and are therefore inherent in all forward-looking statements. Due to the interdependencies and correlation of these macroeconomic factors, the impact of any one assumption on a forward-looking statement cannot be determined with certainty, particularly with respect to expected EBIT, adjusted EBIT, earnings/(loss), adjusted earnings/(loss) and associated per share amounts, ACFFO or estimated future dividends. The most relevant assumptions associated with forward-looking statements on projects under construction, including estimated completion dates and expected capital expenditures, include the following: the availability and price of labour and construction materials; the effects of inflation and foreign exchange rates on

labour and material costs; the effects of interest rates on borrowing costs; the impact of weather; and customer and regulatory approvals on construction and in-service schedules.

Enbridge's forward-looking statements are subject to risks and uncertainties pertaining to operating performance, regulatory parameters, dividend policy, project approval and support, weather, economic and competitive conditions, public opinion, changes in tax law and tax rate increases, exchange rates, interest rates, impact of commodity prices and supply of and demand for commodities, including but not limited to those risks and uncertainties discussed in this Prospectus and in documents incorporated by reference into this Prospectus. The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as these are interdependent and Enbridge's future course of action depends on management's assessment of all information available at the relevant time. Except to the extent required by applicable law, Enbridge assumes no obligation to publicly update or revise any forward-looking statements made in this Prospectus or otherwise, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements, whether written or oral, attributable to Enbridge or persons acting on the Corporation's behalf, are expressly qualified in their entirety by these cautionary statements.

THE CORPORATION

Enbridge is a North American leader in delivering energy. As a transporter of energy, Enbridge operates, in Canada and the United States, the world's longest crude oil and liquids transportation system. The Corporation also has significant and growing involvement in natural gas gathering, transmission and midstream businesses. As a distributor of energy, Enbridge owns and operates Canada's largest natural gas distribution company and provides distribution services in Ontario, Quebec, New Brunswick and New York State. As a generator of energy, Enbridge has interests in nearly 2,000 MW of net renewable and alternative energy generating capacity which is operating, secured or under construction, and the Corporation continues to expand its interests in wind, solar and geothermal power. Enbridge employs nearly 11,000 people, primarily in Canada and the United States.

The Corporation was incorporated on April 13, 1970 under the *Companies Act* of the Northwest Territories and was continued under the *Canada Business Corporations Act* on December 15, 1987. The registered office and principal place of business of the Corporation are at Suite 200, 425 1st Street S.W., Calgary, Alberta, T2P 3L8.

USE OF PROCEEDS

Unless otherwise specified in a Prospectus Supplement, the net proceeds from the sale of the Securities will be added to the general funds of the Corporation to be used for general corporate purposes, which may include reducing outstanding indebtedness and financing capital expenditures, investments and working capital requirements of the Corporation. Specific information about the use of proceeds from the sale of any Securities will be set forth in a Prospectus Supplement. The Corporation may invest funds that it does not immediately require in short-term marketable debt securities. The Corporation expects that it may, from time to time, issue securities other than pursuant to this Prospectus.

The net proceeds to be received by the Corporation from the sale of the Securities from time to time under this Prospectus are not expected to be applied to fund any specific project. The Corporation's overall corporate strategy and major initiatives supporting its strategy are summarized in the Corporation's management's discussion and analysis for the year ended December 31, 2015, as modified or superseded by information contained in the Corporation's management's discussion and analysis for the three and six months ended June 30, 2016, and any subsequent periods, incorporated herein by reference.

EARNINGS COVERAGE RATIO

The following earnings coverage ratios have been calculated on a consolidated basis for the respective 12 month periods ended December 31, 2015 and June 30, 2016 and are derived from audited financial information in the case of December 31, 2015 and unaudited financial information in the case of June 30, 2016, in each case prepared in accordance with U.S. GAAP. The following ratios give pro forma effect to the issuance by the Corporation from time to time of preference shares and debt securities since December 31, 2015 in the case of the December 31, 2015 earnings coverage ratio, including the issuance by Enbridge Gas Distribution Inc.

("**EGD**") of $300,000,000 principal amount of 2.50% unsecured medium terms notes (the "**2.50% Notes**") pursuant to a first pricing supplement dated August 2, 2016, and the issuance by Enbridge Pipelines Inc. ("**EPI**") of $400,000,000 principal amount of 3.00% unsecured medium terms notes (the "**3.00% Notes**") pursuant to a first pricing supplement dated August 4, 2016 and $400,000,000 principal amount of 4.13% unsecured medium terms notes (the "**4.13% Notes**") pursuant to a second pricing supplement dated August 4, 2016 and since June 30, 2016 in the case of the June 30, 2016 earnings coverage ratio, including the issuance by EGD of the 2.50% Notes pursuant to pricing supplement dated August 2, 2016 and the issuance by EPI. of the 3.00% Notes pursuant to a first pricing supplement dated August 4, 2016 and the 4.13% Notes pursuant to a second pricing supplement dated August 4, 2016. Adjustments for other normal course issuances and repayments of long-term debt subsequent to December 31, 2015 and June 30, 2016 would not materially affect the ratio and, as a result, have not been made. The earnings coverage ratios set forth below do not purport to give effect to the issue of any securities pursuant to this Prospectus and do not purport to be indicative of earnings coverage ratios for any future periods.

	Twelve Month Period Ended	
	December 31, 2015	**June 30, 2016**
Earnings coverage[1]	1.0 times	1.6 times

The Corporation evaluates its performance using a variety of measures. Earnings coverage discussed above is not defined under U.S. GAAP and, therefore, should not be considered in isolation or as an alternative to, or more meaningful than, net earnings as determined in accordance with U.S. GAAP as an indicator of the Corporation's financial performance or liquidity. This measure is not necessarily comparable to a similarly titled measure of another company.

The Corporation's pro forma dividend requirements on all of its preference shares adjusted to a before tax equivalent using an effective income tax rate of 1,545%[2] at December 31, 2015 and 33% at June 30, 2016 amounted to approximately negative $20 million for the 12 months ended December 31, 2015 and approximately $432 million for the 12 months ended June 30, 2016. The Corporation's pro forma interest requirements for the 12 months ended December 31, 2015 amounted to approximately $1,576 million and for the 12 months ended June 30, 2016 amounted to approximately $1,790 million. The Corporation's earnings before interest and income tax for the 12 months ended December 31, 2015 were approximately $1,608 million, which is 1.0 times the Corporation's aggregate pro forma dividend and interest requirements for this period. The Corporation's earnings before interest and income tax for the 12 months ended June 30, 2016 were approximately $3,646 million, which is 1.6 times the Corporation's aggregate pro forma dividend and interest requirements for this period.

Notes:

(1) Earnings coverage on a net earnings basis is equal to earnings attributable to the Corporation plus net interest expense and income taxes divided by net interest expense plus capitalized interest and preference share dividend obligations.

(2) The effective income tax rate of 1,545% at December 31, 2015 was unusually high because of the tax effect of certain permanent items that are not associated with the current year earnings, relative to the low consolidated earnings. For comparability, if the 2014 effective income tax rate was used instead of the 2015 effective income tax rate, the Corporation's dividend requirements for the 12 months ended December 31, 2015 would have been approximately $398 million and the earnings coverage ratio would have been 0.8 times the Company's aggregate dividend and interest requirements for this period. This would result in the Corporation's earnings coverage ratio for the 12 month period ended December 31, 2015 being less than one-to-one. Additional earnings before interest and income tax for the 12 months ended December 31, 2015 of $366 million would be required to achieve a one-to-one earnings coverage ratio.

DESCRIPTION OF DEBT SECURITIES

In this section, the terms "**Corporation**" and "**Enbridge**" refer only to Enbridge Inc. and not to its subsidiaries. The following description sets forth certain general terms and provisions of the debt securities. The Corporation will provide particular terms and provisions of a series of debt securities and a description of how the general terms and provisions described below may apply to that series in a Prospectus Supplement. Prospective investors should rely on information in the applicable Prospectus Supplement if it is different from the following information.

The debt securities will be issued under an indenture dated February 25, 2005, as amended and supplemented by the First Supplemental Indenture, dated March 1, 2012, each between Enbridge and Deutsche Bank Trust Company Americas, as trustee (the "**Trustee**") (the indenture as amended and supplemented, the "**Indenture**"). The Indenture is subject to and governed by the *U.S. Trust Indenture Act of 1939*, as amended. A form of the Indenture has been filed as an exhibit to the registration statement of which this Prospectus is a part and is available as described above under "Certain Available Information". The following is a summary of the Indenture. For further details, prospective investors should refer to the Indenture.

The Corporation may issue debt securities and incur additional indebtedness other than through the offering of debt securities pursuant to this Prospectus.

General

The Indenture does not limit the aggregate principal amount of debt securities which may be issued under the Indenture. It provides that debt securities will be in registered form, may be issued from time to time in one or more series and may be denominated and payable in U.S. dollars or any other currency. Material Canadian and United States federal income tax considerations applicable to any debt securities, and special tax considerations applicable to the debt securities denominated in a currency or currency unit other than Canadian or U.S. dollars, will be described in the Prospectus Supplement relating to the offering of debt securities.

The Prospectus Supplement will set forth the following terms relating to the debt securities being offered:

- the title of the debt securities of the series;
- any limit upon the aggregate principal amount of the debt securities of the series;
- the party to whom any interest on a debt security of the series shall be payable;
- the date or dates on which the principal of (and premium, if any, on) any debt securities of the series is payable;
- the rate or rates at which the debt securities will bear interest, if any, the date or dates from which any interest will accrue, the interest payment dates on which interest will be payable and the regular record date for interest payable on any interest payment date;
- the place or places where principal and any premium and interest are payable;
- the period or periods if any within which, the price or prices at which, the currency or currency units in which and the terms and conditions upon which any debt securities of the series may be redeemed, in whole or in part, at the option of the Corporation;
- the obligation, if any, of the Corporation to redeem or purchase any debt securities of the series pursuant to any sinking fund or analogous provisions or at the option of the Holder thereof and the terms and conditions upon which debt securities of the series may be redeemed or purchased, in whole or in part pursuant to such obligation;
- if other than denominations of $1,000 and any integral multiples of $1,000, the denominations in which the debt securities are issuable;
- if the amount of principal of or any premium or interest on any debt securities of the series may be determined with reference to an index or pursuant to a formula, the manner in which such amounts shall be determined;

if other than U.S. dollars, the currency, currencies or currency units in which the principal of or any premium or interest on any debt securities of the series will be payable, and any related terms;

if the principal of or any premium or interest on any debt securities of the series is to be payable, at the election of the Corporation or the holders, in one or more currencies or currency units other than that or those in which the debt securities are stated to be payable, specific information relating to the currency, currencies or currency units, and the terms and conditions relating to any such election;

if other than the entire principal amount, the portion of the principal amount of any debt securities of the series that is payable upon acceleration of maturity;

if the principal amount payable at maturity of the debt securities of the series is not determinable prior to maturity, the amount that is deemed to be the principal amount prior to maturity for purposes of the debt securities and the Indenture;

if applicable, that the debt securities of the series are subject to defeasance and/or covenant defeasance;

if applicable, that the debt securities of the series will be issued in whole or in part in the form of one or more global securities and, if so, the depositary for the global securities, the form of any legend or legends which will be borne by such global securities and any additional terms related to the exchange, transfer and registration of securities issued in global form;

any addition to or change in the Events of Default applicable to the debt securities of the series and any change in the right of the Trustee or the holders of the debt securities to accelerate the maturity of the debt securities of the series;

any addition to or change in the covenants described in this Prospectus applicable to the debt securities of the series;

if the debt securities are to be subordinated to other of the Corporation's obligations, the terms of the subordination and any related provisions;

whether the debt securities will be convertible into securities or other property, including the Corporation's common stock or other securities, whether in addition to, or in lieu of, any payment of principal or other amount or otherwise, and whether at the option of the Corporation or otherwise, the terms and conditions relating to conversion of the debt securities, and any other provisions relating to the conversion of the debt securities;

the obligation, if any, of the Corporation to pay to holders of any debt securities of the series amounts as may be necessary so that net payments on the debt security, after deduction or withholding for or on account of any present or future taxes and other governmental charges imposed by any taxing authority upon or as a result of payments on the securities, will not be less than the gross amount provided in the debt security, and the terms and conditions, if any, on which the Corporation may redeem the debt securities rather than pay such additional amounts;

whether the Corporation will undertake to list the debt securities of the series on any securities exchange or automated interdealer quotation system; and

any other terms of the series of debt securities.

Unless otherwise indicated in the applicable Prospectus Supplement, the Indenture does not afford the holders the right to tender debt securities to Enbridge for repurchase or provide for any increase in the rate or rates of interest at which the debt securities will bear interest, in the event Enbridge should become involved in a highly leveraged transaction or in the event of a change in control of Enbridge.

Debt securities may be issued under the Indenture bearing no interest or interest at a rate below the prevailing market rate at the time of issuance, and may be offered and sold at a discount below their stated principal amount. The Canadian and United States federal income tax consequences and other special considerations applicable to any such discounted debt securities or other debt securities offered and sold at par which are treated as having been issued at a discount for Canadian and/or United States federal income tax purposes will be described in the applicable Prospectus Supplement.

Unless otherwise indicated in the applicable Prospectus Supplement, Enbridge may, without the consent of the holders thereof, reopen a previous issue of a series of debt securities and issue additional debt securities of such series.

Ranking and Other Indebtedness

Unless otherwise indicated in an applicable Prospectus Supplement, the debt securities will be unsecured obligations and will rank equally with all of the Corporation's other unsecured and unsubordinated indebtedness. Enbridge is a holding company that conducts substantially all of its operations and holds substantially all of its assets through its subsidiaries. As at June 30, 2016, the long-term debt (excluding the current portion, as well as guarantees and intercompany obligations between the Corporation and its subsidiaries) of Enbridge's subsidiaries totalled approximately $24 billion. The debt securities issued under this Prospectus will be structurally subordinated to all existing and future liabilities, including trade payables and other indebtedness, of Enbridge's subsidiaries.

Form, Denominations and Exchange

Debt securities will be issuable solely as registered securities without coupons in denominations of US$1,000 and integral multiples of US$1,000, or in such other denominations as may be set out in the terms of the debt securities of any particular series. The Indenture also provides that debt securities of a series may be issuable in global form.

Registered securities of any series will be exchangeable for other registered securities of the same series and of a like aggregate principal amount and tenor of different authorized denominations. However, in the event there are debt securities issued that are to be convertible into other securities of the Corporation, no amounts will be payable to convert those debt securities.

The applicable Prospectus Supplement may indicate the places to register a transfer of debt securities, if other than the corporate trust office of the Trustee. Except for certain restrictions set forth in the Indenture, no service charge will be made for any registration of transfer or exchange of the debt securities, but the Corporation may, in certain instances, require a sum sufficient to cover any tax or other governmental charges payable in connection with these transactions.

The Corporation shall not be required to: (i) issue, register the transfer of or exchange debt securities of any series during a period beginning at the opening of business 15 days before the mailing of a notice of redemption of debt securities of that series to be redeemed and ending at the close of business on the day of mailing of the relevant notice of redemption; (ii) register the transfer of or exchange any registered security, or portion thereof, called for redemption, except the unredeemed portion of any registered security being redeemed in part; or (iii) issue, register the transfer of or exchange any debt securities which have been surrendered for repayment at the option of the holder, except the portion, if any, thereof not to be so repaid.

Payment

Unless otherwise indicated in the applicable Prospectus Supplement, payment of principal of and premium, if any, and interest, if any, on debt securities will be made at the corporate trust office of the Trustee, 60 Wall Street, 27th Floor, New York, New York, 10005, or the Corporation may choose to pay principal, interest and any premium by (i) check mailed or delivered to the address of the person entitled at the address appearing in the security register of the Trustee or (ii) wire transfer to an account located in the United States of the person entitled to receive payments as specified in the securities register.

Unless otherwise indicated in the applicable Prospectus Supplement, payment of any interest will be made to the persons in whose name the debt securities are registered at the close of business on the day or days specified by the Corporation.

Global Securities

The registered debt securities of a series may be issued in whole or in part in global form (a "**Global Security**") and will be registered in the name of and be deposited with a depository (the "**Depositary**"), or its nominee, each of which will be identified in the Prospectus Supplement, if the depository is other than The Depository Trust Company ("**DTC**") and if the Depositary's nominee is other than Cede & Co. Unless and until exchanged, in whole or in part, for debt securities in definitive registered form, a Global Security may not be transferred except as a whole by the Depositary for such Global Security to a nominee of the Depositary, by a

nominee of the Depositary to the Depositary or another nominee of the Depositary or by the Depositary or any such nominee to a successor of the Depositary or a nominee of the successor.

Unless otherwise indicated in an applicable Prospectus Supplement with respect to a series of debt securities, DTC, New York, New York, will act as the depositary for the debt securities. The debt securities will be issued as fully-registered securities registered in the name of Cede & Co., DTC's nominee. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the U.S. Exchange Act. Direct participants in DTC include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations.

If other than as described below, the specific terms of the depository arrangement with respect to any portion of a particular series of debt securities to be represented by a Global Security will be described in the Prospectus Supplement relating to such series. The Corporation anticipates that the following provisions will apply to all depository arrangements.

Upon the issuance of a Global Security, the Depositary therefor will credit, on its book entry and registration system, the respective principal amounts of the debt securities represented by the Global Security to the accounts of such persons having accounts with such Depositary ("**participants**"). Such accounts shall be designated by the underwriters, dealers or agents participating in the distribution of the debt securities or by Enbridge if such debt securities are offered and sold directly by the Corporation. Ownership of beneficial interests in a Global Security will be limited to participants or persons that may hold beneficial interests through participants. Ownership of beneficial interests in a Global Security will be shown on, and the transfer of that ownership will be effected only through, records maintained by the Depositary therefor (with respect to interests of participants) or by participants or persons that hold through participants (with respect to interests of persons other than participants). The laws of some states in the United States may require that certain purchasers of securities take physical delivery of such securities in definitive form.

So long as the Depositary for a Global Security or its nominee is the registered owner of the Global Security, such Depositary or such nominee, as the case may be, will be considered the sole owner or holder of the debt securities represented by the Global Security for all purposes under the Indenture. Except as provided below, owners of beneficial interests in a Global Security will not be entitled to have debt securities of the series represented by the Global Security registered in their names, will not receive or be entitled to receive physical delivery of debt securities of such series in definitive form and will not be considered the owners or holders thereof under the Indenture.

Beneficial owners will not receive certificates representing their ownership interests in debt securities, except in the event that use of the book-entry system for the debt securities is discontinued or if there shall have occurred and be continuing an Event of Default under the Indenture. The Depositary will have no knowledge of the actual beneficial owners of the debt securities; the Depositary's records will reflect only the identity of the direct participants to whose accounts the debt securities are credited, which may or may not be the beneficial owners. The direct and indirect participants will remain responsible for keeping account of their holdings on behalf of their customers.

Any payments of principal, premium, if any, and interest on Global Securities registered in the name of a Depositary or its nominee will be made to the Depositary or its nominee, as the case may be, as the registered owner of the Global Security representing such debt securities. None of Enbridge, the Trustee or any paying agent for debt securities represented by the Global Securities will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of the Global Security or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Corporation expects that the Depositary for a Global Security or its nominee, upon receipt of any payment of principal, premium or interest, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the Global Security as shown on the records of such Depositary. The Corporation also expects that payments by participants to owners of beneficial interests in a Global Security held through such participants will be governed by standing instructions

and customary practices, as is the case with securities held for the accounts of customers registered in "street name", and will be the responsibility of such participants.

Conveyance of notices and other communications by the Depositary to direct participants, by direct participants to indirect participants, and by direct and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial owners of debt securities may wish to take certain steps to augment transmission to them of notices of significant events with respect to the debt securities, such as redemptions, tenders, defaults, and proposed amendments to the Indenture.

Any redemption notices relating to the debt securities will be sent to the Depositary. If less than all of the debt securities of a series are being redeemed, the Depositary may determine by lot the amount of the interest of each direct participant in the series to be redeemed. Neither the Depositary nor its nominee will consent or vote with respect to debt securities unless authorized by a direct participant in accordance with the Depositary's procedures. Under its procedures, the Depositary may send a proxy to the Corporation as soon as possible after the record date for a consent or vote. The proxy would assign the Depositary's nominee's consenting or voting rights to those direct participants to whose accounts the debt securities are credited on the relevant record date.

No Global Security may be exchanged in whole or in part, and no transfer of a Global Security in whole or in part may be registered, in the name of any person other than the Depositary for the Global Security or its nominee unless (1) the Depositary (A) has notified the Corporation that it is unwilling or unable to continue as Depositary for the Global Security or (B) has ceased to be a clearing agency registered under the U.S. Exchange Act, or (2) there shall have occurred and be continuing an Event of Default under the Indenture.

Definitions

The Indenture contains, among others, definitions substantially to the following effect:

"*Consolidated Net Tangible Assets*" means all consolidated assets of the Corporation as shown on the most recent audited consolidated balance sheet of the Corporation, less the aggregate of the following amounts reflected upon such balance sheet:

(a) all goodwill, deferred assets, trademarks, copyrights and other similar intangible assets;

(b) to the extent not already deducted in computing such assets and without duplication, depreciation, depletion, amortization, reserves and any other account which reflects a decrease in the value of an asset or a periodic allocation of the cost of an asset; provided that no deduction shall be made under this paragraph (b) to the extent that such amount reflects a decrease in value or periodic allocation of the cost of any asset referred to in paragraph (a) above;

(c) minority interests;

(d) non-cash current assets; and

(e) Non-Recourse Assets to the extent of the outstanding Non-Recourse Debt financing of such assets.

"*Consolidated Shareholders' Equity*" means the aggregate amount of shareholders' equity (including, without limitation, common share capital, contributed surplus and retained earnings but excluding preferred share capital) of the Corporation as shown on the most recent audited consolidated balance sheet of the Corporation adjusted by the amount by which share capital and contributed surplus has been increased or decreased (as the case may be) from the date of such balance sheet to the relevant date of determination, the whole in accordance with Generally Accepted Accounting Principles.

"*Financial Instrument Obligations*" means obligations arising under:

(a) any interest swap agreement, forward rate agreement, floor, cap or collar agreement, futures or options, insurance or other similar agreement or arrangement, or any combination thereof, entered into or guaranteed by the Corporation where the subject matter of the same is interest rates or the price, value, or amount payable thereunder is dependent or based upon the interest rates or

fluctuations in interest rates in effect from time to time (but, for certainty, shall exclude conventional floating rate debt);

(b) any currency swap agreement, cross-currency agreement, forward agreement, floor, cap or collar agreement, futures or options, insurance or other similar agreement or arrangement, or any combination thereof, entered into or guaranteed by the Corporation where the subject matter of the same is currency exchange rates or the price, value or amount payable thereunder is dependent or based upon currency exchange rates or fluctuations in currency exchange rates in effect from time to time; and

(c) any agreement for the making or taking of Petroleum Substances or electricity, any commodity swap agreement, floor, cap or collar agreement or commodity future or option or other similar agreements or arrangements, or any combination thereof, entered into or guaranteed by the Corporation where the subject matter of the same is Petroleum Substances or electricity or the price, value or amount payable thereunder is dependent or based upon the price of Petroleum Substances or electricity or fluctuations in the price of Petroleum Substances or electricity, each as the case may be;

to the extent of the net amount due or accruing due by the Corporation thereunder (determined by marking-to-market the same in accordance with their terms).

"*Generally Accepted Accounting Principles*" means generally accepted accounting principles which are in effect from time to time in Canada, including those accounting principles generally accepted in the United States of America from time to time, which Canadian corporations are permitted to use in Canada pursuant to Canadian law.

"*Indebtedness*" means all items of indebtedness in respect of amounts borrowed and all Purchase Money Obligations which, in accordance with Generally Accepted Accounting Principles, would be recorded in the financial statements as at the date as of which such Indebtedness is to be determined, and in any event including, without duplication:

(a) obligations secured by any Security Interest existing on property owned subject to such Security Interest, whether or not the obligations secured thereby shall have been assumed; and

(b) guarantees, indemnities, endorsements (other than endorsements for collection in the ordinary course of business) or other contingent liabilities in respect of obligations of another person for indebtedness of that other person in respect of any amounts borrowed by them.

"*Non-Recourse Assets*" means the assets created, developed, constructed or acquired with or in respect of which Non-Recourse Debt has been incurred and any and all receivables, inventory, equipment, chattel paper, intangibles and other rights or collateral arising from or connected with the assets created, developed, constructed or acquired and to which recourse of the lender of such Non-Recourse Debt (or any agent, trustee, receiver or other person acting on behalf of such lender) in respect of such indebtedness is limited in all circumstances (other than in respect of false or misleading representations or warranties).

"*Non-Recourse Debt*" means any Indebtedness incurred to finance the creation, development, construction or acquisition of assets and any increases in or extensions, renewals or refundings of any such Indebtedness, provided that the recourse of the lender thereof or any agent, trustee, receiver or other person acting on behalf of the lender in respect of such Indebtedness or any judgment in respect thereof is limited in all circumstances (other than in respect of false or misleading representations or warranties) to the assets created, developed, constructed or acquired in respect of which such Indebtedness has been incurred and to any receivables, inventory, equipment, chattel paper, intangibles and other rights or collateral connected with the assets created, developed, constructed or acquired and to which the lender has recourse.

"*Petroleum Substances*" means crude oil, crude bitumen, synthetic crude oil, petroleum, natural gas, natural gas liquids, related hydrocarbons and any and all other substances, whether liquid, solid or gaseous, whether hydrocarbons or not, produced or producible in association with any of the foregoing, including hydrogen sulphide and sulphur.

"*Purchase Money Obligation*" means any monetary obligation created or assumed as part of the purchase price of real or tangible personal property, whether or not secured, any extensions, renewals, or refundings of any such obligation, provided that the principal amount of such obligation outstanding on the date of such extension, renewal or refunding is not increased and further provided that any security given in respect of such obligation shall not extend to any property other than the property acquired in connection with which such obligation was created or assumed and fixed improvements, if any, erected or constructed thereon.

"*Security Interest*" means any security by way of assignment, mortgage, charge, pledge, lien, encumbrance, title retention agreement or other security interest whatsoever, howsoever created or arising, whether absolute or contingent, fixed or floating, perfected or not.

Covenants

The Indenture contains promises by the Corporation, called "covenants" for the benefit of the holders of the debt securities. Except to the extent that covenants are modified, deleted or added with respect to any series of debt securities, as provided in an applicable Prospectus Supplement with respect to such series of debt securities, the Corporation will make the covenant described under the heading " Limitation on Security Interests" for the holders of the senior debt securities, but not for the holders of subordinated debt securities, and will make each of the covenants described under the heading " Other Indenture Covenants" for the holders of all debt securities, unless otherwise indicated in a Prospectus Supplement.

Limitation on Security Interests

The Corporation agrees in the Indenture, for the benefit of the holders of senior debt securities, but not for the benefit of the holders of subordinated debt securities, that it will not create, assume or otherwise have outstanding any Security Interest on its assets securing any Indebtedness unless the obligations of the Corporation in respect of all senior debt securities then outstanding shall be secured equally and rateably therewith.

This covenant has significant exceptions which allow the Corporation to incur or allow to exist over its properties and assets Permitted Encumbrances (as defined in the Indenture), which include, among other things:

Security Interests existing on the date of the first issuance of debt securities by the Corporation under the Indenture or arising after that date under contractual commitments entered into prior to that date;

Security Interests securing Purchase Money Obligations;

Security Interests securing Non-Recourse Debt;

Security Interests in favour of the Corporation's subsidiaries;

Security Interests existing on property of a corporation which is merged into, or amalgamated or consolidated with, the Corporation or the property of which is acquired by the Corporation;

Security Interests securing Indebtedness to banks or other lending institutions incurred in the ordinary course of business, repayable on demand or maturing within 18 months of incurrence or renewal or extension;

Security Interests on or against cash or marketable debt securities pledged to secure Financial Instrument Obligations;

Security Interests in respect of:

certain liens for taxes, assessments and workmen's compensation assessments, unemployment insurance or other social security obligations,

liens and certain rights under leases,

certain obligations affecting the property of the Corporation to governmental or public authorities, with respect to franchises, grants, licenses or permits and title defects arising because structures or

facilities are on lands held by the Corporation under government grant, subject to a materiality threshold,

certain liens in connection with contracts, bids, tenders or expropriation proceedings, surety or appeal bonds, costs of litigation, public and statutory obligations, liens or claims incidental to current construction, builders', mechanics', labourers', materialmen's, warehousemen's, carriers' and other similar liens,

certain rights of governmental or public authorities under statute or the terms of leases, licenses, franchises, grants or permits,

certain undetermined or inchoate liens incidental to the operations of the Corporation,

Security Interests contested in good faith by the Corporation or for which payment is deposited with the Trustee,

certain easements, rights-of-way and servitudes,

certain security to public utilities, municipalities or governmental or other public authorities,

certain liens and privileges arising out of judgments or awards, and

other liens of a nature similar to those described above which do not in the opinion of the Corporation materially impair the use of the subject property or the operation of the business of the Corporation or the value of the property for the Corporation's business; and

extensions, renewals, alterations and replacements of the permitted Security Interests referred to above; provided the extension, renewal, alteration or replacement of such Security Interest is limited to all or any part of the same property that secured the Security Interest extended, renewed, altered or replaced (plus improvements on such property) and the principal amount of the Indebtedness secured thereby is not increased.

In addition, the Indenture permits the Corporation to incur or allow to exist any other Security Interest or Security Interests if the amount of Indebtedness secured under the Security Interest or Security Interests does not exceed 5% of the Corporation's Consolidated Net Tangible Assets.

The Indenture covenant restricting Security Interests will not restrict the Corporation's ability to sell its property and other assets and will not restrict any subsidiary of the Corporation from creating, assuming or otherwise having outstanding any Security Interests on its assets.

Other Indenture Covenants

Except to the extent that covenants are modified, deleted or added with respect to any series of debt securities, as provided in an applicable Prospectus Supplement with respect to such series of debt securities, the Corporation will covenant with respect to each series of debt securities to (1) duly and punctually pay amounts due on the debt securities; (2) maintain an office or agency where debt securities may be presented or surrendered for payment, where debt securities may be surrendered for registration of transfer or exchange and where notices and demands to the Corporation may be served; (3) deliver to the Trustee, within 120 days after the end of each fiscal year, a certificate stating whether or not the Corporation is in default under the Indenture; (4) pay before delinquency, taxes, assessments and governmental charges and lawful claims for labour, materials and supplies which, if unpaid, might by law become a lien upon the property of the Corporation, subject to the right of the Corporation to contest the validity of a charge, assessment or claim in good faith; and (5) maintain and keep in good condition properties used or useful in the conduct of its business and make necessary repairs and improvements as in the judgment of the Corporation are necessary to carry on the Corporation's business; provided, that the Corporation may discontinue operating or maintaining any of its properties if, in the judgment of the Corporation, the discontinuance is desirable in the conduct of the Corporation's business and not disadvantageous in any material respect to the holders of the debt securities.

Subject to the provision described under the heading "   Mergers, Consolidations and Sales of Assets" below, the Corporation will also covenant that it will do all things necessary to preserve and keep in full force

and effect its existence, rights and franchises; provided that the Corporation is not required to preserve any right or franchise if the board of directors of the Corporation determines that preservation of the right or franchise is no longer desirable in the conduct of the business of the Corporation and that its loss is not disadvantageous in any material respect to the holders of the debt securities.

Waiver of Covenants

Except as otherwise provided in an applicable Prospectus Supplement with respect to any series of debt securities under the Indenture, the Corporation may omit in any particular instance to comply with any term, provision or condition in any covenant for such series, if before the time for such compliance the holders of a majority of the principal amount of the outstanding securities of the series waive compliance with the applicable term, provision or condition.

Mergers, Consolidations and Sales of Assets

The Corporation may consolidate or amalgamate with or merge into or enter into any statutory arrangement for such purpose with any other person or convey, transfer or lease its properties and assets substantially as an entirety to any person, so long as, among other requirements:

(a) the successor to the consolidation, amalgamation, merger or arrangement is organized under the laws of Canada, or any Province or Territory, the United States of America, or any State or the District of Columbia, and expressly assumes the obligation to pay the principal of and any premium and interest on all of the debt securities and perform or observe the covenants and obligations contained in the Indenture;

(b) immediately after giving effect to the transaction, no Event of Default, or event which, after notice or lapse of time or both, would become an Event of Default, will have happened and be continuing; and

(c) if, as a result of any such consolidation, amalgamation, merger or arrangement, properties or assets of the Corporation would become subject to a mortgage, pledge, lien, security interest or other encumbrance which would not be permitted by the Indenture, the Corporation or such successor, as the case may be, shall take such steps as shall be necessary effectively to secure the senior debt securities equally and ratably with (or prior to) all indebtedness secured thereby.

Upon any consolidation, amalgamation, merger or arrangement of the Corporation or conveyance, transfer or lease of properties and assets of the Corporation substantially as an entirety, the successor to the Corporation will succeed to every right and power of the Corporation under the Indenture, and the Corporation will be relieved of all obligations and covenants under the Indenture and the debt securities.

Payment of Additional Amounts

Unless otherwise specified in an applicable Prospectus Supplement, the Corporation will, subject to the exceptions and limitations set forth below, pay to the holder of any debt security who is a non-resident of Canada under the *Income Tax Act* (Canada) such additional amounts as may be necessary so that every net payment on such debt security, after deduction or withholding by the Corporation or any of its paying agents for or on account of any present or future tax, assessment or other governmental charge (including penalties, interest and other liabilities related thereto) imposed by the government of Canada (or any political subdivision or taxing authority thereof or therein) (collectively, "**Canadian Taxes**") upon or as a result of such payment, will not be less than the amount provided in such debt security or in such coupon to be then due and payable (and the Corporation will remit the full amount withheld to the relevant authority in accordance with applicable law). However, the Corporation will not be required to make any payment of additional amounts:

(a) to any person in respect of whom such taxes are required to be withheld or deducted as a result of such person or any other person that has a beneficial interest in respect of any payment under the debt security not dealing at arm's length with the Corporation (within the meaning of the *Income Tax Act* (Canada));

(b) to any person by reason of such person being connected with Canada (otherwise than merely by holding or ownership of any series of debt securities or receiving any payments or exercising any rights thereunder), including without limitation a non-resident insurer who carries on an insurance business in Canada and in a country other than Canada;

(c) for or on account of any tax, assessment or other governmental charge which would not have been so imposed but for: (i) the presentation by the holder of such debt security or coupon for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later; or (ii) the holder's failure to comply with any certification, identification, information, documentation or other reporting requirements if compliance is required by law, regulation, administrative practice or an applicable treaty as a precondition to exemption from or a reduction in the rate of deduction or withholding of, any such taxes, assessment or charge;

(d) for or on account of any estate, inheritance, gift, sales, transfer, personal property tax or any similar tax, assessment or other governmental charge;

(e) for or on account of any tax, assessment or other governmental charge required to be withheld by any paying agent from any payment to a person on a debt security if such payment can be made to such person without such withholding by at least one other paying agent the identity of which is provided to such person;

(f) for or on account of any tax, assessment or other governmental charge which is payable otherwise than by withholding from a payment on a debt security; or

(g) for any combination of items (a), (b), (c), (d), (e) and (f);

nor will additional amounts be paid with respect to any payment on a debt security to a holder who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required by the laws of Canada (or any political subdivision thereof) to be included in the income for Canadian federal income tax purposes of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to payment of the additional amounts had such beneficiary, settlor, member or beneficial owner been the holder of such debt security.

The Corporation will furnish to the holders of the debt securities, within 30 days after the date of the payment of any Canadian Taxes is due under applicable law, certified copies of tax receipts or other documents evidencing such payment.

Wherever in the Indenture there is mentioned, in any context, the payment of principal (and premium, if any), interest or any other amount payable under or with respect to a debt security, such mention shall be deemed to include mention of the payment of additional amounts to the extent that, in such context additional amounts are, were or would be payable in respect thereof.

Redemption

If and to the extent specified in an applicable Prospectus Supplement, the debt securities of a series will be subject to redemption at the time or times specified therein, at a redemption price equal to the principal amount thereof together with accrued and unpaid interest to the date fixed for redemption, upon the giving of a notice. Notice of redemption of the debt securities of such series will be given once not more than 60 nor less than 30 days prior to the date fixed for redemption and will specify the date fixed for redemption.

Tax Redemption

Unless otherwise specified in an applicable Prospectus Supplement, each series of debt securities will be subject to redemption at any time at a redemption price equal to the principal amount of the debt securities, together with accrued and unpaid interest to the date fixed for redemption, upon the giving of the notice as described above, if the Corporation (or its successor) determines that (1) as a result of (A) any amendment to or change (including any announced prospective change) in the laws or related regulations of Canada (or the Corporation's successor's jurisdiction of organization) or of any applicable political subdivision or taxing

authority or (B) any amendment to or change in an interpretation or application of such laws or regulations by any legislative body, court, governmental agency or regulatory authority announced or becoming effective on or after the date of the applicable Prospectus Supplement under which the debt securities of such series are offered, the Corporation has or will become obligated to pay, on the next interest payment date for the debt securities of such series, additional amounts with respect to any debt security of such series as described under "   Payment of Additional Amounts" above, or (2) on or after the date of the applicable Prospectus Supplement under which the debt securities of such series are offered, any action has been taken by any taxing authority of, or any decision has been rendered by a court in, Canada (or the Corporation's successor's jurisdiction of organization) or any applicable political subdivision or taxing authority, including any of those actions specified in (1) above, whether or not the action was taken or decision rendered with respect to the Corporation, or any change, amendment, application or interpretation is officially proposed, which, in the opinion of the Corporation's counsel, will result in the Corporation becoming obligated to pay, on the next interest payment date, additional amounts with respect to any debt security of such series, and the Corporation has determined that the obligation cannot be avoided by the use of reasonable available measures.

Provision of Financial Information

The Corporation will file with the Trustee, within 15 days after it files them with the SEC, copies of its annual report and of the information, documents and other reports (or copies of such portions of any of the foregoing as the SEC may by rules and regulations prescribe) which the Corporation is required to file with the SEC pursuant to Section 13 or 15(d) of the U.S. Exchange Act. If the Corporation is not required to file such information, documents or reports with the SEC, then the Corporation will file with the Trustee such periodic reports as the Corporation files with the securities commission or corresponding securities regulatory authority in each of the Provinces of Canada within 15 days after it files them with such securities commissions or securities regulatory authorities.

Events of Default

Unless otherwise specified in an applicable Prospectus Supplement relating to a particular series of debt securities, the following events are defined in the Indenture as "Events of Default" with respect to debt securities of any series:

(a) the failure of the Corporation to pay when due the principal of or premium (if any) on any debt securities of that series or, if the debt securities of that series are convertible into other securities, any amounts due upon the conversion of the debt securities of that series;

(b) the failure of the Corporation, continuing for 30 days, to pay any interest due on any debt securities of that series;

(c) the failure of the Corporation to deposit any sinking fund payment due on any debt securities of that series;

(d) the breach or violation of any covenant or condition (other than as referred to in (a) and (b) above), which continues for a period of 60 days after notice from the Trustee or from holders of at least 25% of the principal amount of all outstanding debt securities of that series, in either case, if such covenant or condition applies to the debt securities of that series;

(e) default in payment at maturity, including any applicable grace period, or default in the performance or observance of any other covenant, term, agreement or condition, with respect to any single item of Indebtedness in an amount in excess of 5% of Consolidated Shareholders' Equity or with respect to more than two items of Indebtedness in an aggregate amount in excess of 10% of Consolidated Shareholders' Equity and, if such Indebtedness has not already matured in accordance with its terms, such indebtedness has been accelerated, if such Indebtedness has not been discharged or such acceleration shall not have been rescinded or annulled within a period of 10 days after there shall have been given, by registered or certified mail, to the Corporation by the Trustee or to the Corporation and the Trustee by the holders of at least 25% of the principal amount of the outstanding debt securities of that series a written notice specifying the default and requiring the Corporation to cause such

Indebtedness to be discharged or cause such acceleration to be rescinded or annulled, provided that if the Indebtedness is discharged or the applicable default under the indebtedness is waived, then the Event of Default under the Indenture will be deemed waived;

(f) certain events of bankruptcy, insolvency or reorganization involving the Corporation; or

(g) any other Event of Default provided with respect to debt securities of that series.

If an Event of Default occurs and is continuing with respect to any series of debt securities, then and in every such case the Trustee or the holders of at least 25% of the aggregate principal amount of the outstanding debt securities of such affected series may, subject to any subordination provisions thereof, declare the entire principal amount (or, if the debt securities of that series are original issue discount debt securities, such portion of the principal amount as may be specified in the terms of that series) of all debt securities of such series and all interest thereon to be immediately due and payable. However, at any time after a declaration of acceleration with respect to any series of debt securities has been made, but before a judgment or decree for payment of the money due has been obtained, the holders of a majority in principal amount of the outstanding debt securities of that series, by written notice to the Corporation and the Trustee under certain circumstances (which include payment or deposit with the Trustee of outstanding principal, premium and interest, unless the Prospectus Supplement applicable to an issue of debt securities otherwise provides), may rescind and annul such acceleration.

The Indenture provides that, subject to the duty of the Trustee during default to act with the required standard of care, the Trustee shall be under no obligation to exercise any of its rights and powers under the Indenture at the request or direction of any of the holders, unless such holders shall have offered to the Trustee reasonable indemnity. Subject to such provisions for indemnification of the Trustee and certain other limitations set forth in the Indenture, the holders of a majority in principal amount of the outstanding debt securities of a series affected by an Event of Default shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the debt securities of such series.

No holder of a debt security of any series will have any right to institute any proceeding with respect to the Indenture, or for the appointment of a receiver or a Trustee, or for any other remedy thereunder, unless (a) such holder has previously given to the Trustee written notice of a continuing Event of Default with respect to the debt securities of such series affected by such Event of Default, (b) the holders of at least 25% of the aggregate principal amount of the outstanding debt securities of such series affected by such Event of Default have made written request, and such holder or holders have offered reasonable indemnity, to the Trustee to institute such proceeding as Trustee, and (c) the Trustee has failed to institute such proceeding, and has not received from the holders of a majority in aggregate principal amount of the outstanding debt securities of such series affected by such Event of Default a direction inconsistent with such request, within 60 days after such notice, request and offer. However, such limitations do not apply to a suit instituted by the holder of a debt security for the enforcement of payment of the principal of or any premium or interest on such debt security on or after the applicable due date specified in such debt security.

Modification and Waiver

Modifications and amendments of the Indenture may be made by the Corporation and the Trustee with the consent of the holders of a majority of the principal amount of the outstanding debt securities of each series issued under the Indenture affected by such modification or amendment; provided, however, that no such modification or amendment may, without the consent of the holder of each outstanding debt security of such affected series: (1) change the stated maturity of the principal of, or any instalment of interest, if any, on any debt security; (2) reduce the principal amount of, or the premium, if any, or the rate of interest, if any, on any debt security; (3) change the place of payment; (4) change the currency or currency unit of payment of principal of (or premium, if any) or interest, if any, on any debt security; (5) impair the right to institute suit for the enforcement of any payment on or with respect to any debt security; (6) adversely affect any right to convert or exchange any debt security; (7) reduce the percentage of principal amount of outstanding debt securities of such series, the consent of the holders of which is required for modification or amendment of the Indenture or for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults; (8) modify the

provisions of the Indenture relating to subordination in a manner that adversely affects the rights of the holders of debt securities; or (9) modify any provisions of the Indenture relating to the modification and amendment of the Indenture or the waiver of past defaults or covenants except as otherwise specified in the Indenture.

The holders of a majority of the principal amount of the outstanding debt securities of any series may on behalf of the holders of all debt securities of that series waive, insofar as that series is concerned, compliance by the Corporation with certain restrictive provisions of the Indenture, including the covenants and events of default. The holders of a majority in principal amount of outstanding debt securities of any series may waive any past default under the Indenture with respect to that series, except a default in the payment of the principal of (or premium, if any) and interest, if any, on any debt security of that series or in respect of a provision which under the Indenture cannot be modified or amended without the consent of the holder of each outstanding debt security of that series. The Indenture or the debt securities may be amended or supplemented, without the consent of any holder of debt securities, in order, among other purposes, to cure any ambiguity or inconsistency or to make any change that does not have an adverse effect on the rights of any holder of debt securities.

Defeasance

The Indenture provides that, at its option, the Corporation will be discharged from any and all obligations in respect of the outstanding debt securities of any series upon irrevocable deposit with the Trustee, in trust, of money and/or United States government securities which will provide money in an amount sufficient in the opinion of a nationally recognized firm of independent public accountants to pay the principal of and premium, if any, and each instalment of interest, if any, on the outstanding debt securities of such series ("**Defeasance**") (except with respect to the authentication, transfer, exchange or replacement of debt securities or the maintenance of a place of payment and certain other obligations set forth in the Indenture). Such trust may only be established if among other things (1) the Corporation has delivered to the Trustee an opinion of counsel in the United States stating that (a) the Corporation has received from, or there has been published by, the Internal Revenue Service a ruling, or (b) since the date of execution of the Indenture, there has been a change in the applicable United States federal income tax law, in either case to the effect that the holders of the outstanding debt securities of such series will not recognize income, gain or loss for United States federal income tax purposes as a result of such Defeasance and will be subject to United States federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Defeasance had not occurred; (2) the Corporation has delivered to the Trustee an opinion of counsel in Canada or a ruling from the Canada Revenue Agency ("**CRA**") to the effect that the holders of such outstanding debt securities of such series will not recognize income, gain or loss for Canadian federal, provincial or territorial income or other tax purposes as a result of such Defeasance and will be subject to Canadian federal or provincial income and other tax on the same amounts, in the same manner and at the same times as would have been the case had such Defeasance not occurred (and for the purposes of such opinion, such Canadian counsel shall assume that holders of the outstanding debt securities of such series include holders who are not resident in Canada); (3) no Event of Default or event that, with the passing of time or the giving of notice, or both, shall constitute an Event of Default shall have occurred and be continuing on the date of such deposit; (4) the Corporation is not an "insolvent person" within the meaning of the *Bankruptcy and Insolvency Act* (Canada); (5) the Corporation has delivered to the Trustee an opinion of counsel to the effect that such deposit shall not cause the Trustee or the trust so created to be subject to the *United States Investment Company Act of 1940*, as amended; and (6) other customary conditions precedent are satisfied. The Corporation may exercise its Defeasance option notwithstanding its prior exercise of its Covenant Defeasance option described in the following paragraph if the Corporation meets the conditions described in the preceding sentence at the time the Corporation exercises the Defeasance option.

The Indenture provides that, at its option, the Corporation may omit to comply with covenants, including the covenants described above under the heading "Covenants", and such omission shall not be deemed to be an Event of Default under the Indenture and the outstanding debt securities upon irrevocable deposit with the Trustee, in trust, of money and/or United States government securities which will provide money in an amount sufficient in the opinion of a nationally recognized firm of independent public accountants to pay the principal of and premium, if any, and each instalment of interest, if any, on the outstanding debt securities ("**Covenant Defeasance**"). If the Corporation exercises its Covenant Defeasance option, the obligations under the Indenture

other than with respect to such covenants and the Events of Default other than with respect to such covenants shall remain in full force and effect. Such trust may only be established if, among other things, (1) the Corporation has delivered to the Trustee an opinion of counsel in the United States to the effect that the holders of the outstanding debt securities will not recognize income, gain or loss for United States federal income tax purposes as a result of such Covenant Defeasance and will be subject to United States federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred; (2) the Corporation has delivered to the Trustee an opinion of counsel in Canada or a ruling from the CRA to the effect that the holders of such outstanding debt securities will not recognize income, gain or loss for Canadian federal, provincial or territorial income or other tax purposes as a result of such Covenant Defeasance and will be subject to Canadian federal or provincial income and other tax on the same amounts, in the same manner and at the same times as would have been the case had such Covenant Defeasance not occurred (and for the purposes of such opinion, such Canadian counsel shall assume that holders of the outstanding debt securities include holders who are not resident in Canada); (3) no Event of Default or event that, with the passing of time or the giving of notice, or both, shall constitute an Event of Default shall have occurred and be continuing on the date of such deposit; (4) the Corporation is not an "insolvent person" within the meaning of the *Bankruptcy and Insolvency Act* (Canada); (5) the Corporation has delivered to the Trustee an opinion of counsel to the effect that such deposit shall not cause the Trustee or the trust so created to be subject to the *United States Investment Company Act of 1940*, as amended; and (6) other customary conditions precedent are satisfied.

Consent to Jurisdiction and Service

Under the Indenture, the Corporation agrees to appoint CT Corporation System, 111 Eighth Avenue, New York, New York 10011, as its authorized agent for service of process in any suit or proceeding arising out of or relating to the debt securities or the Indenture and for actions brought under federal or state securities laws in any federal or state court located in the city of New York, and irrevocably submits to such jurisdiction.

Governing Law

The debt securities and the Indenture will be governed by and construed in accordance with the laws of the State of New York.

DESCRIPTION OF SHARE CAPITAL

In this section, the terms "**Corporation**" and "**Enbridge**" refer only to Enbridge Inc. and not to its subsidiaries. The following sets forth the terms and provisions of the existing capital of the Corporation. The following description is subject to, and qualified by reference to, the terms and provisions of the Corporation's articles and by-laws. The Corporation is authorized to issue an unlimited number of common shares and an unlimited number of preference shares, issuable in series.

Common Shares

Each common share of the Corporation entitles the holder to one vote for each common share held at all meetings of shareholders of the Corporation, except meetings at which only holders of another specified class or series of shares are entitled to vote, to receive dividends if, as and when declared by the board of directors of the Corporation, subject to prior satisfaction of preferential dividends applicable to any preference shares, and to participate rateably in any distribution of the assets of the Corporation upon a liquidation, dissolution or winding up, subject to prior rights and privileges attaching to the preference shares.

Under the dividend reinvestment and share purchase plan of the Corporation, registered shareholders may reinvest their dividends in additional common shares of the Corporation or make optional cash payments to purchase additional common shares, in either case, free of brokerage or other charges.

The registrar and transfer agent for the common shares in Canada is CST Trust Company at its principal transfer offices in Vancouver, British Columbia, Calgary, Alberta, Winnipeg, Manitoba, Toronto, Ontario, Montréal, Québec and Halifax, Nova Scotia. The co-registrar and co-transfer agent for the common shares in the United States is Computershare Shareowner Services LLC at its principal office in Jersey City, New Jersey.

Shareholder Rights Plan

The Corporation has a shareholder rights plan (the "**Shareholder Rights Plan**") that is designed to encourage the fair treatment of shareholders in connection with any take-over bid for the Corporation. Rights issued under the Shareholder Rights Plan become exercisable when a person, and any related parties, acquires or announces the intention to acquire 20% or more of the Corporation's outstanding common shares without complying with certain provisions set out in the Shareholder Rights Plan or without approval of the board of directors of the Corporation. Should such an acquisition or announcement occur, each rights holder, other than the acquiring person and its related parties, will have the right to purchase common shares of the Corporation at a 50% discount to the market price at that time. For further particulars, reference should be made to the Shareholder Rights Plan, a copy of which may be obtained by contacting the Manager, Investor Relations, Enbridge, 200, 425 - 1st Street S.W., Calgary, Alberta, T2P 3L8; telephone: 1-800-481-2804; fax: 403-231-5780; email: investor.relations@enbridge.com.

Preference Shares

Shares Issuable in Series

The preference shares may be issued at any time or from time to time in one or more series. Before any shares of a series are issued, the board of directors of the Corporation shall fix the number of shares that will form such series and shall, subject to the limitations set out in the articles of the Corporation, determine the designation, rights, privileges, restrictions and conditions to be attached to the preference shares of such series, except that no series shall be granted the right to vote at a general meeting of the shareholders of the Corporation or the right to be convertible or exchangeable for common shares, directly or indirectly.

For preference shares issued that are to be convertible into other securities of the Corporation, including other series of preference shares, no amounts will be payable to convert those preference shares.

Priority

The preference shares of each series shall rank on a parity with the preference shares of every other series with respect to dividends and return of capital and shall be entitled to a preference over the common shares and over any other shares ranking junior to the preference shares with respect to priority in payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs.

Voting Rights

Except as required by law, holders of the preference shares as a class shall not be entitled to receive notice of, to attend or to vote at any meeting of the shareholders of the Corporation, provided that the rights, privileges, restrictions and conditions attached to the preference shares as a class may be added to, changed or removed only with the approval of the holders of the preference shares given in such manner as may then be required by law, at a meeting of the holders of the preference shares duly called for that purpose.

CERTAIN INCOME TAX CONSIDERATIONS

The applicable Prospectus Supplement will describe material Canadian federal income tax consequences to an investor of acquiring any Securities offered thereunder, including whether the payments of dividends on common shares or preference shares or payments of principal, premium, if any, and interest on debt securities payable to a non-resident of Canada will be subject to Canadian non-resident withholding tax.

The applicable Prospectus Supplement will also describe material United States federal income tax consequences to an initial investor who is a United States person (within the meaning of the United States Internal Revenue Code) of the acquisition, ownership and disposition of any Securities offered thereunder, including, to the extent applicable, any such material consequences relating to debt securities payable in a currency other than the U.S. dollar, issued at an original issue discount for United States federal income tax purposes or containing early redemption provisions or other special items.

PLAN OF DISTRIBUTION

The Corporation may sell the Securities to or through underwriters, agents or dealers and also may sell the Securities directly to purchasers pursuant to applicable statutory exemptions or through agents.

The distribution of the Securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at market prices prevailing at the time of sale, or at prices related to such prevailing market prices to be negotiated with purchasers.

The Prospectus Supplement relating to each series of the Securities will also set forth the terms of the offering of the Securities, including to the extent applicable, the initial offering price, the proceeds to the Corporation, the underwriting concessions or commissions, and any other discounts or concessions to be allowed or re-allowed to dealers. Underwriters or agents with respect to Securities sold to or through underwriters or agents will be named in the Prospectus Supplement relating to such Securities.

In connection with the sale of the Securities, underwriters may receive compensation from the Corporation or from purchasers of the Securities for whom they may act as agents in the form of discounts, concessions or commissions. Any such commissions will be paid either using a portion of the funds received in connection with the sale of the Securities or out of the general funds of the Corporation.

Under agreements which may be entered into by the Corporation, underwriters, dealers and agents who participate in the distribution of the Securities may be entitled to indemnification by the Corporation against certain liabilities, including liabilities under securities legislation, or to contribution with respect to payments which such underwriters, dealers or agents may be required to make in respect thereof.

In connection with any offering of Securities, the underwriters, agents or dealers may over-allot or effect transactions which stabilize or maintain the market price of the Securities offered at levels above those which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

RISK FACTORS

Investment in the Securities is subject to various risks. Before deciding whether to invest in any Securities, investors should consider carefully the risks incorporated by reference in this Prospectus (including subsequently filed documents incorporated by reference) and those described in any Prospectus Supplement.

Discussions of certain risks affecting the Corporation in connection with its business are provided in the AIF and in the Corporation's management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2015 filed with the various securities regulatory authorities, which is incorporated by reference in this Prospectus.

LEGAL MATTERS

Unless otherwise specified in the Prospectus Supplement relating to the Securities, certain legal matters relating to Canadian law in connection with the offering of Securities will be passed upon for the Corporation by McCarthy Tétrault LLP, Calgary, Alberta, Canada.

The partners and associates of McCarthy Tétrault LLP as a group, beneficially own, directly or indirectly, less than 1% of the outstanding securities of any class or series of the Corporation.

EXPERTS

The consolidated annual financial statements of the Corporation for the years ended December 31, 2015 and 2014 incorporated by reference in this Prospectus have been so incorporated in reliance on the audit reports, which are also incorporated by reference in this Prospectus, of PricewaterhouseCoopers LLP, Chartered Professional Accountants, Calgary, Alberta, on the authority of such firm as experts in auditing and accounting. In connection with the audit of the Corporation's consolidated annual financial statements for the year ended December 31, 2015, PricewaterhouseCoopers LLP confirmed that they are independent to the Corporation within the meaning of the Code of Professional Conduct of the Chartered Professional Accountants of Alberta.

DOCUMENTS FILED AS PART OF THE REGISTRATION STATEMENT

The following documents have been filed with the SEC either separately or as exhibits to the registration statement of which this Prospectus forms a part: the documents listed herein under "Documents Incorporated by Reference"; the consent of PricewaterhouseCoopers LLP; certain powers of attorney; the Indenture; appointment of agent for service of process and undertaking on Form F-X; and the Statement of Eligibility of the Trustee on Form T-1.

ENFORCEMENT OF CIVIL LIABILITIES

The Corporation is a Canadian corporation, and the majority of its assets and operations are located, and the majority of its revenues are derived, outside the United States. The Corporation has appointed Enbridge (U.S.) Inc. as its agent to receive service of process with respect to any action brought against it in any federal or state court in the United States arising from any offering conducted under this Prospectus. However, it may not be possible for investors to enforce outside the United States judgments against the Corporation obtained in the United States in any such actions, including actions predicated upon the civil liability provisions of the United States federal and state securities laws. In addition, certain of the directors and officers of the Corporation are residents of Canada or other jurisdictions outside of the United States, and all or a substantial portion of the assets of those directors and officers are or may be located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon those persons, or to enforce against them judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of United States federal and state securities laws.

US$

Enbridge Inc.

US$ % Senior Notes due 2026
US$ % Senior Notes due 2046

Prospectus Supplement
November , 2016

Joint Book-Running Managers

Barclays **Deutsche Bank Securities** **Mizuho Securities** **MUFG**

BNP Paribas **SMBC Nikko**

QuickLinks

IMPORTANT NOTICE ABOUT INFORMATION IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS
TABLE OF CONTENTS
EXCHANGE RATE DATA
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS
DOCUMENTS INCORPORATED BY REFERENCE
SUMMARY
The Corporation
Recent Developments
The Offering
RISK FACTORS
Risks Related to the Notes
Risks Related to our Business
Risks Related to the Merger Transaction and Spectra Energy's Business
SELECTED CONSOLIDATED FINANCIAL INFORMATION
CONSOLIDATED CAPITALIZATION
USE OF PROCEEDS
EARNINGS COVERAGE RATIOS
DESCRIPTION OF THE NOTES
MATERIAL INCOME TAX CONSIDERATIONS
UNDERWRITING
LEGAL MATTERS
EXPERTS
TABLE OF CONTENTS
ABOUT THIS PROSPECTUS
DOCUMENTS INCORPORATED BY REFERENCE
CERTAIN AVAILABLE INFORMATION
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS
THE CORPORATION
USE OF PROCEEDS
EARNINGS COVERAGE RATIO
DESCRIPTION OF DEBT SECURITIES
DESCRIPTION OF SHARE CAPITAL
CERTAIN INCOME TAX CONSIDERATIONS
PLAN OF DISTRIBUTION
RISK FACTORS
LEGAL MATTERS
EXPERTS
DOCUMENTS FILED AS PART OF THE REGISTRATION STATEMENT
ENFORCEMENT OF CIVIL LIABILITIES

D> 2,974

Consumer:

Credit cards

41,337 41,337

Helocs

1,762 1,762

Personal

71,241 206 71,447

Auto

1,984 1,984

Other

526 44 570

Covered loans

8,818 35 8,818 35

Total Popular, Inc.					
$964,116	$12,226	$ 6,818	$ 13	$970,934	$12,239

Table of Contents

	For the quarter ended March 31, 2014					
	Puerto Rico		U.S. Mainland		Popular, Inc.	
(In thousands)	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial multi-family	$ 3,194	$ 8	$ 5,662	$	$ 8,856	$ 8
Commercial real estate non-owner occupied	71,167	483	20,247		91,414	483
Commercial real estate owner occupied	98,389	608	13,673		112,062	608
Commercial and industrial	102,206	742	1,709		103,915	742
Construction	19,417		2,832		22,249	
Mortgage	402,700	5,183	52,593	507	455,293	5,690
Legacy			4,878		4,878	
Leasing	2,674				2,674	
Consumer:						
Credit cards	44,458				44,458	
Helocs			1,325		1,325	
Personal	77,032				77,032	
Auto	1,441		88		1,529	
Other	887		1,041		1,928	
Covered loans	13,243	140			13,243	140
Total Popular, Inc.	$ 836,808	$ 7,164	$ 104,048	$ 507	$ 940,856	$ 7,671

Modifications

Troubled debt restructurings related to non-covered loan portfolios amounted to $ 1.2 billion at March 31, 2015 (December 31, 2014 - $ 1.1 billion). The amount of outstanding commitments to lend additional funds to debtors owing receivables whose terms have been modified in troubled debt restructurings amounted $4 million related to the commercial loan portfolio and $1 million related to the construction loan portfolio at March 31, 2015 (December 31, 2014 - $5 million and $1 million, respectively).

A modification of a loan constitutes a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulty and the modification constitutes a concession.

Commercial and industrial loans modified in a TDR often involve temporary interest-only payments, term extensions, and converting evergreen revolving credit lines to long-term loans. Commercial real estate (CRE), which includes multifamily, owner-occupied and non-owner occupied CRE, and construction loans modified in a TDR often involve reducing the interest rate for a limited period of time or the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or reductions in the payment plan. Construction loans modified in a TDR may also involve extending the interest-only payment period.

Residential mortgage loans modified in a TDR are primarily comprised of loans where monthly payments are lowered to accommodate the borrowers financial needs for a period of time, normally five years to ten years. After the lowered monthly payment period ends, the borrower reverts back to paying principal and interest per the original terms with the maturity date adjusted accordingly.

Home equity loans modifications are made infrequently and are not offered if the Corporation also holds the first mortgage. Home equity loans modifications are uniquely designed to meet the specific needs of each borrower. Automobile loans modified in a TDR are primarily comprised of loans where the Corporation has lowered monthly payments by extending the term. Credit cards modified in a TDR are primarily comprised of loans where monthly payments are lowered to accommodate the borrowers financial needs for a period of time, normally up to 24 months.

As part of its NPL reduction strategy and in order to expedite the resolution of delinquent construction and commercial loans, commencing in 2012, the Corporation routinely enters into liquidation agreements with borrowers and guarantors through the regular legal process, bankruptcy procedures and in certain occasions, out of court transactions. These liquidation agreements, in general, contemplate the following conditions: (1) consent to judgment by the borrowers and guarantors; (2) acknowledgement by the borrower of the debt, its liquidity and maturity; and (3) acknowledgment of the default in payments. The contractual interest rate is not reduced and continues to accrue during the term of the agreement. At the end of the period, the borrower is obligated to remit all amounts due or be subject to the Corporation s exercise of its foreclosure rights and further collection efforts. Likewise, the borrower s failure to make stipulated payments will grant the Corporation the ability to exercise its foreclosure rights. This strategy tends to expedite the foreclosure process, resulting in a more effective and efficient collection process. Although in general, these liquidation agreements do not contemplate the forgiveness of principal or interest as debtor is required to cover all outstanding

Table of Contents

amounts when the agreement becomes due, it could be construed that the Corporation has granted a concession by temporarily accepting a payment schedule that is different from the contractual payment schedule. Accordingly, loans under these program agreements are considered TDRs.

Loans modified in a TDR that are not accounted pursuant to ASC Subtopic 310-30 are typically already in non-accrual status at the time of the modification and partial charge-offs have in some cases already been taken against the outstanding loan balance. The TDR loan continues in non-accrual status until the borrower has demonstrated a willingness and ability to make the restructured loan payments (generally at least six months of sustained performance after the modification (or one year for loans providing for quarterly or semi-annual payments)) and management has concluded that it is probable that the borrower would not be in payment default in the foreseeable future.

Loans modified in a TDR may have the financial effect to the Corporation of increasing the specific allowance for loan losses associated with the loan. Consumer and residential mortgage loans modified under the Corporation s loss mitigation programs that are determined to be TDRs are individually evaluated for impairment based on an analysis of discounted cash flows.

For consumer and mortgage loans that are modified with regard to payment terms and which constitute TDRs, the discounted cash flow value method is used as the impairment valuation is more appropriately calculated based on the ongoing cash flow from the individuals rather than the liquidation of the asset. The computations give consideration to probability of defaults and loss-given-foreclosure on the related estimated cash flows.

Commercial and construction loans that have been modified as part of loss mitigation efforts are evaluated individually for impairment. The vast majority of the Corporation s modified commercial loans are measured for impairment using the estimated fair value of the collateral, as these are normally considered as collateral dependent loans. The Corporation may also measure commercial loans at their estimated realizable values determined by discounting the expected future cash flows. Construction loans that have been modified are also accounted for as collateral dependent loans. The Corporation determines the fair value measurement dependent upon its exit strategy for the particular asset(s) acquired in foreclosure.

The following tables present the non-covered and covered loans classified as TDRs according to their accruing status at March 31, 2015 and December 31, 2014.

	Popular, Inc. Non-Covered Loans					
	March 31, 2015			December 31, 2014		
(In thousands)	Accruing	Non-Accruing	Total	Accruing	Non-Accruing	Total
Commercial	$ 169,883	$ 153,122	$ 323,005	$ 153,380	$ 150,069	$ 303,449
Construction	309	4,919	5,228	453	5,488	5,941
Mortgage	578,709	122,674	701,383	556,346	116,465	672,811
Leases	2,125	799	2,924	775	2,248	3,023
Consumer	106,574	14,610	121,184	107,530	14,848	122,378
Total	$ 857,600	$ 296,124	$ 1,153,724	$ 818,484	$ 289,118	$ 1,107,602

Popular, Inc.
Covered Loans

(In thousands)	March 31, 2015 Accruing	Non-Accruing	Total	December 31, 2014 Accruing	Non-Accruing	Total
Commercial	$ 2,632	$ 2,877	$ 5,509	$ 1,689	$ 3,257	$ 4,946
Construction		2,336	2,336		2,419	2,419
Mortgage	4,174	5,195	9,369	3,629	3,990	7,619
Consumer	15	6	21	26	5	31
Total	$ 6,821	$ 10,414	$ 17,235	$ 5,344	$ 9,671	$ 15,015

Table of Contents

The following tables present the loan count by type of modification for those loans modified in a TDR during the quarters ended March 31, 2015 and 2014.

Puerto Rico
For the quarter ended March 31, 2015

	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Commercial multi-family		2		
Commercial real estate non-owner occupied	2	1		
Commercial real estate owner occupied	2	3		
Commercial and industrial	5	5		
Construction	1			
Mortgage	13	19	98	15
Leasing		1	12	
Consumer:				
Credit cards	228			187
Personal	228	14		
Auto		2	2	
Other	11			
Total	490	47	112	202

U.S. mainland
For the quarter ended March 31, 2015

	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Mortgage		1	8	
Consumer:				
HELOCs				1
Total		1	8	1

Popular, Inc.
For the quarter ended March 31, 2015

Other

	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	
Commercial multi-family		2		
Commercial real estate non-owner occupied	2	1		
Commercial real estate owner occupied	2	3		
Commercial and industrial	5	5		
Construction	1			
Mortgage	13	20	106	15
Leasing		1	12	
Consumer:				
Credit cards	228			187
HELOCs				1
Personal	228	14		
Auto		2	2	
Other	11			
Total	490	48	120	203

Puerto Rico
For the quarter ended March 31, 2014

	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Commercial real estate non-owner occupied	2	1		
Commercial real estate owner occupied	9	2		
Commercial and industrial	9			
Construction		3		
Mortgage	13	14	80	24
Leasing		4	6	
Consumer:				
Credit cards	274			155
Personal	216	17		1
Auto		2		
Other	18			1
Total	541	43	86	181

U.S. mainland
For the quarter ended March 31, 2014

	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other
Mortgage			6	
Total			6	

Popular, Inc.
For the quarter ended March 31, 2014

	Reduction in interest rate	Extension of maturity date	Combination of reduction in interest rate and extension of maturity date	Other

Commercial real estate non-owner occupied	2	1		
Commercial real estate owner occupied	9	2		
Commercial and industrial	9			
Construction		3		
Mortgage	13	14	86	24
Leasing		4	6	
Consumer:				
Credit cards	274			155
Personal	216	17		1
Auto		2		
Other	18			1
Total	541	43	92	181

Table of Contents

The following tables present by class, quantitative information related to loans modified as TDRs during the quarters ended March 31, 2015 and 2014.

Puerto Rico
For the quarter ended March 31, 2015

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial multi-family	2	$ 551	$ 551	$ 2
Commercial real estate non-owner occupied	3	18,000	17,998	2,986
Commercial real estate owner occupied	5	4,759	4,552	171
Commercial and industrial	10	5,534	5,889	224
Construction	1	268	259	(166)
Mortgage	145	15,902	16,766	1,339
Leasing	13	323	325	73
Consumer:				
Credit cards	415	3,617	4,066	629
Personal	242	4,502	4,500	967
Auto	4		51	8
Other	11	29	29	5
Total	851	$ 53,485	$ 54,986	$ 6,238

U.S. Mainland
For the quarter ended March 31, 2015

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Mortgage	9	$ 468	$ 1,465	$ 82
Consumer:				
HELOCs	1		92	9
Total	10	$ 468	$ 1,557	$ 91

Popular, Inc.
For the quarter ended March 31, 2015

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded	Post-modification outstanding recorded	Increase (decrease) in the

		investment	investment	allowance for loan losses as a result of modification
Commercial multi-family	2	$ 551	$ 551	$ 2
Commercial real estate non-owner occupied	3	18,000	17,998	2,986
Commercial real estate owner occupied	5	4,759	4,552	171
Commercial and industrial	10	5,534	5,889	224
Construction	1	268	259	(166)
Mortgage	154	16,370	18,231	1,421
Leasing	13	323	325	73
Consumer:				
Credit cards	415	3,617	4,066	629
HELOCs	1		92	9
Personal	242	4,502	4,500	967
Auto	4		51	8
Other	11	29	29	5
Total	861	$ 53,953	$ 56,543	$ 6,329

Table of Contents

Puerto Rico
For the quarter ended March 31, 2014

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	3	$ 1,376	$ 1,454	$ (63)
Commercial real estate owner occupied	11	1,629	1,617	(26)
Commercial and industrial	9	773	770	9
Construction	3	11,358	11,358	(570)
Mortgage	131	19,386	20,525	1,138
Leasing	10	206	207	63
Consumer:				
Credit cards	429	3,583	4,091	627
Personal	234	4,075	4,074	912
Auto	2	32	33	1
Other	19	37	37	6
Total	851	$ 42,455	$ 44,166	$ 2,097

U.S. Mainland
For the quarter ended March 31, 2014

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Mortgage	6	$ 925	$ 1,064	$ (5)
Total	6	$ 925	$ 1,064	$ (5)

Popular, Inc.
For the quarter ended March 31, 2014

(Dollars in thousands)	Loan count	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment	Increase (decrease) in the allowance for loan losses as a result of modification
Commercial real estate non-owner occupied	3	$ 1,376	$ 1,454	$ (63)
Commercial real estate owner occupied	11	1,629	1,617	(26)
Commercial and industrial	9	773	770	9
Construction	3	11,358	11,358	(570)

Mortgage	137		20,311		21,589		1,133
Leasing	10		206		207		63
Consumer:							
Credit cards	429		3,583		4,091		627
Personal	234		4,075		4,074		912
Auto	2		32		33		1
Other	19		37		37		6
Total	857	$	43,380	$	45,230	$	2,092

During the quarters ended March 31, 2015 and 2014, one loan with an aggregate unpaid principal balance of $883 thousand and one loan of $1.0 million, respectively, were restructured into multiple notes (Note A / B split). The Corporation recorded $173 thousand charge-offs as part of those loan restructurings during the quarter ended March 31, 2015 (March 31, 2014 - $0 million). The restructuring of those loans was made after analyzing the borrowers capacity to repay the debt, collateral and ability to perform under the modified terms. The recorded investment on those commercial TDRs amounted to approximately $707 thousand at March 31, 2015 (March 31, 2014 - $1.1 million) with a related allowance for loan losses amounting to approximately $62 thousand (March 31, 2014 - $0 million).

Table of Contents

The following tables present by class, TDRs that were subject to payment default and that had been modified as a TDR during the twelve months preceding the default date. Payment default is defined as a restructured loan becoming 90 days past due after being modified, foreclosed or charged-off, whichever occurs first. The recorded investment at March 31, 2015 is inclusive of all partial paydowns and charge-offs since the modification date. Loans modified as a TDR that were fully paid down, charged-off or foreclosed upon by period end are not reported.

Puerto Rico
Defaulted during the quarter ended March 31, 2015

(Dollars in thousands)	Loan count	Recorded investment as of first default date	
Commercial real estate owner occupied	1	$	291
Commercial and industrial	1		90
Construction	2		1,192
Mortgage	22		1,695
Consumer:			
Credit cards	153		1,792
Personal	22		178
Auto	5		96
Other	2		2
Total [1]	208	$	5,336

[1] Excludes loans for which the Corporation has entered into liquidation agreements with borrowers and guarantors and is accepting payments which differ from the contractual payment schedule. The Corporation considers these as defaulted loans and does not intent to return them to accrual status.

For U.S. mainland for the quarter ended March 31, 2015 there were no TDRs that were subject to payment default and that had been modified as a TDR during the twelve months preceding the default date.

Popular, Inc.
Defaulted during the quarter ended March 31, 2015

(Dollars In thousands)	Loan count	Recorded investment as of first default date	
Commercial real estate owner occupied	1	$	291
Commercial and industrial	1		90
Construction	2		1,192
Mortgage	22		1,695
Consumer:			
Credit cards	153		1,792
Personal	22		178
Auto	5		96
Other	2		2

Total	208	$	5,336

Puerto Rico
Defaulted during the quarter ended March 31, 2014

(Dollars In thousands)	Loan count		Recorded investment as of first default date
Commercial real estate non-owner occupied	1	$	30
Commercial real estate owner occupied	2		333
Commercial and industrial	3		171
Mortgage	19		4,445
Leasing	2		64
Consumer:			
Credit cards	178		1,642
Personal	37		443
Auto	5		118
Other	2		4
Total [1]	249	$	7,250

[1] Exclude loans for which the Corporation has entered into liquidation agreements with borrowers and guarantors and is accepting payments which differ from the contractual payment schedule. The Corporation considers these as defaulted loans and does not intent to return them to accrual status.

U.S. mainland
Defaulted during the quarter ended March 31, 2014

(Dollars In thousands)	Loan count	Recorded investment as of first default date
Commercial real estate non-owner occupied	1	$ 907
Total	1	$ 907

55

Table of Contents

Popular, Inc.
Defaulted during the quarter ended March 31, 2014

(Dollars In thousands)	Loan count	Recorded investment as of first default date
Commercial real estate non-owner occupied	2	$ 937
Commercial real estate owner occupied	2	333
Commercial and industrial	3	171
Mortgage	19	4,445
Leasing	2	64
Consumer:		
Credit cards	178	1,642
Personal	37	443
Auto	5	118
Other	2	4
Total	250	$ 8,157

Commercial, consumer and mortgage loans modified in a TDR are closely monitored for delinquency as an early indicator of possible future default. If loans modified in a TDR subsequently default, the Corporation evaluates the loan for possible further impairment. The allowance for loan losses may be increased or partial charge-offs may be taken to further write-down the carrying value of the loan.

56

Table of Contents

Credit Quality

The following table presents the outstanding balance, net of unearned income, of non-covered loans held-in-portfolio based on the Corporation s assignment of obligor risk ratings as defined at March 31, 2015 and December 31, 2014.

	March 31, 2015							
(In thousands)	Watch	Special Mention	Substandard	Doubtful	Loss	Sub-total	Pass/ Unrated	Total
Puerto Rico[1]								
Commercial multi-family	$ 4,840	$ 1,137	$ 3,892	$	$	$ 9,869	$ 79,664	$ 89,533
Commercial real estate non-owner occupied	285,351	76,707	197,037			559,095	1,583,259	2,142,354
Commercial real estate owner occupied	170,835	146,356	301,616	3,904		622,711	806,978	1,429,689
Commercial and industrial	290,077	325,137	308,298	711	237	924,460	1,815,473	2,739,933
Total Commercial	751,103	549,337	810,843	4,615	237	2,116,135	4,285,374	6,401,509
Construction	29	6,080	13,164			19,273	79,433	98,706
Mortgage	704,588		230,199			934,787	5,236,460	6,171,247
Leasing			2,507			2,507	578,612	581,119
Consumer:								
Credit cards	3,327		21,334			24,661	1,089,843	1,114,504
HELOCs			10,527			10,527	1,636	12,163
Personal	322		3,999		163	4,484	1,240,597	1,245,081
Auto			11,003		105	11,108	771,440	782,548
Other	1,634		1,507		1,055	4,196	193,714	197,910
Total Consumer	5,283		48,370		1,323	54,976	3,297,230	3,352,206
Total Puerto Rico	$ 1,461,003	$ 555,417	$ 1,105,083	$ 4,615	$ 1,560	$ 3,127,678	$ 13,477,109	$ 16,604,787
U.S. mainland								
Commercial multi-family	$ 10,705	$ 7,303	$ 11,373	$	$	$ 29,381	$ 446,822	$ 476,203
Commercial real estate	20,198	6,971	13,601			40,770	617,549	658,319

non-owner occupied								
Commercial real estate owner occupied	24,986	4,671	4,348			34,005	179,492	213,497
Commercial and industrial	67,028	2,567	15,677			85,272	818,761	904,033
Total Commercial	122,917	21,512	44,999			189,428	2,062,624	2,252,052
Construction			7,798			7,798	584,224	592,022
Mortgage			8,462			8,462	1,009,518	1,017,980
Legacy	7,457	2,385	8,780			18,622	59,053	77,675
Consumer:								
Credit cards							14,107	14,107
HELOCs			1,938		2,714	4,652	340,693	345,345
Personal			304		936	1,240	107,273	108,513
Auto							87	87
Other					4	4	358	362
Total Consumer			2,242		3,654	5,896	462,518	468,414
Total U.S. mainland	$ 130,374	$ 23,897	$ 72,281	$	$ 3,654	$ 230,206	$ 4,177,937	$ 4,408,143
Popular, Inc.								
Commercial multi-family	$ 15,545	$ 8,440	$ 15,265	$	$	$ 39,250	$ 526,486	$ 565,736
Commercial real estate non-owner occupied	305,549	83,678	210,638			599,865	2,200,808	2,800,673
Commercial real estate owner occupied	195,821	151,027	305,964	3,904		656,716	986,470	1,643,186
Commercial and industrial	357,105	327,704	323,975	711	237	1,009,732	2,634,234	3,643,966
Total Commercial	874,020	570,849	855,842	4,615	237	2,305,563	6,347,998	8,653,561
Construction	29	6,080	20,962			27,071	663,657	690,728
Mortgage	704,588		238,661			943,249	6,245,978	7,189,227
Legacy	7,457	2,385	8,780			18,622	59,053	77,675
Leasing			2,507			2,507	578,612	581,119
Consumer:								
Credit cards	3,327		21,334			24,661	1,103,950	1,128,611
HELOCs			12,465		2,714	15,179	342,329	357,508
Personal	322		4,303		1,099	5,724	1,347,870	1,353,594

Auto			11,003		105	11,108	771,527	782,635
Other	1,634		1,507		1,059	4,200	194,072	198,272
Total Consumer	5,283		50,612		4,977	60,872	3,759,748	3,820,620
Total Popular, Inc.	$ 1,591,377	$ 579,314	$ 1,177,364	$ 4,615	$ 5,214	$ 3,357,884	$ 17,655,046	$ 21,012,930

The following table presents the weighted average obligor risk rating at March 31, 2015 for those classifications that consider a range of rating scales.

Weighted average obligor risk rating	(Scales 11 and 12)	(Scales 1 through 8)
Puerto Rico:[1]	Substandard	Pass
Commercial multi-family	11.52	5.66
Commercial real estate non-owner occupied	11.40	6.82
Commercial real estate owner occupied	11.28	6.95
Commercial and industrial	11.43	6.99
Total Commercial	11.37	6.91
Construction	11.80	7.56

U.S. mainland:	Substandard	Pass
Commercial multi-family	11.02	7.18
Commercial real estate non-owner occupied	11.00	6.87
Commercial real estate owner occupied	11.18	7.08
Commercial and industrial	11.52	6.26
Total Commercial	11.20	6.72
Construction	11.00	7.09
Legacy	11.12	7.71

[1] Excludes covered loans acquired in the Westernbank FDIC-assisted transaction.

	December 31, 2014							
(In thousands)	Watch	Special Mention	Substandard	Doubtful	Loss	Sub-total	Pass/ Unrated	Total
Puerto Rico[1]								
Commercial multi-family	$ 2,306	$ 5,021	$ 3,186	$	$	$ 10,513	$ 69,564	$ 80,077
Commercial real estate non-owner occupied	171,771	144,104	169,900			485,775	1,527,804	2,013,579
Commercial real estate owner occupied	212,236	144,536	306,014	3,595		666,381	806,981	1,473,362
Commercial and industrial	421,332	367,834	272,880	849	255	1,063,150	1,744,635	2,807,785
Total Commercial	807,645	661,495	751,980	4,444	255	2,225,819	4,148,984	6,374,803
Construction	4,612	6,204	16,908			27,724	131,660	159,384
Mortgage			218,680			218,680	5,231,821	5,450,501
Leasing			3,102			3,102	561,287	564,389
Consumer:								
Credit cards			21,070			21,070	1,119,094	1,140,164
HELOCs			8,186		7	8,193	5,207	13,400
Personal			8,380		77	8,457	1,254,076	1,262,533
Auto			11,348		40	11,388	755,908	767,296
Other			2,130		1,735	3,865	201,779	205,644
Total Consumer			51,114		1,859	52,973	3,336,064	3,389,037
Total Puerto Rico	$ 812,257	$ 667,699	$ 1,041,784	$ 4,444	$ 2,114	$ 2,528,298	$ 13,409,816	$ 15,938,114
U.S. mainland								
Commercial multi-family	$ 11,283	$ 6,818	$ 13,653	$	$	$ 31,754	$ 375,449	$ 407,203
Commercial real estate non-owner occupied	17,424	8,745	13,446			39,615	472,952	512,567
Commercial real estate owner occupied	24,284	4,707	4,672			33,663	160,242	193,905
Commercial and industrial	5,357	2,548	7,988			15,893	629,896	645,789
Total Commercial	58,348	22,818	39,759			120,925	1,638,539	1,759,464
Construction							92,436	92,436
Mortgage			23,100			23,100	1,029,285	1,052,385
Legacy	7,902	2,491	9,204			19,597	61,221	80,818
Consumer:								
Credit cards							15,065	15,065

HELOCs			2,457		1,632	4,089	348,673	352,762
Personal			571		835	1,406	111,513	112,919
Auto							73	73
Other			7			7	408	415
Total Consumer			3,035		2,467	5,502	475,732	481,234
Total U.S. mainland	$ 66,250	$ 25,309	$ 75,098	$	$ 2,467	$ 169,124	$ 3,297,213	$ 3,466,337
Popular, Inc.								
Commercial multi-family	$ 13,589	$ 11,839	$ 16,839	$	$	$ 42,267	$ 445,013	$ 487,280
Commercial real estate non-owner occupied	189,195	152,849	183,346			525,390	2,000,756	2,526,146
Commercial real estate owner occupied	236,520	149,243	310,686	3,595		700,044	967,223	1,667,267
Commercial and industrial	426,689	370,382	280,868	849	255	1,079,043	2,374,531	3,453,574
Total Commercial	865,993	684,313	791,739	4,444	255	2,346,744	5,787,523	8,134,267
Construction	4,612	6,204	16,908			27,724	224,096	251,820
Mortgage			241,780			241,780	6,261,106	6,502,886
Legacy	7,902	2,491	9,204			19,597	61,221	80,818
Leasing			3,102			3,102	561,287	564,389
Consumer:								
Credit cards			21,070			21,070	1,134,159	1,155,229
HELOCs			10,643		1,639	12,282	353,880	366,162
Personal			8,951		912	9,863	1,365,589	1,375,452
Auto			11,348		40	11,388	755,981	767,369
Other			2,137		1,735	3,872	202,187	206,059
Total Consumer			54,149		4,326	58,475	3,811,796	3,870,271
Total Popular, Inc.	$ 878,507	$ 693,008	$ 1,116,882	$ 4,444	$ 4,581	$ 2,697,422	$ 16,707,029	$ 19,404,451

58

The following table presents the weighted average obligor risk rating at December 31, 2014 for those classifications that consider a range of rating scales.

Weighted average obligor risk rating	(Scales 11 and 12)	(Scales 1 through 8)
Puerto Rico:[1]	Substandard	Pass
Commercial multi-family	11.69	5.63
Commercial real estate non-owner occupied	11.20	6.83
Commercial real estate owner occupied	11.28	6.96
Commercial and industrial	11.48	6.89
Total Commercial	11.33	6.87
Construction	11.82	7.43
U.S. mainland:	Substandard	Pass
Commercial multi-family	11.00	7.24
Commercial real estate non-owner occupied	11.00	6.83
Commercial real estate owner occupied	11.17	7.04
Commercial and industrial	11.09	6.29
Total Commercial	11.04	6.74
Construction		7.76
Legacy	11.11	7.70

[1] Excludes covered loans acquired in the Westernbank FDIC-assisted transaction.

Table of Contents

Note 13 FDIC loss share asset and true-up payment obligation

In connection with the Westernbank FDIC-assisted transaction, BPPR entered into loss share agreements with the FDIC with respect to the covered loans and other real estate owned. Pursuant to the terms of the loss share agreements, the FDIC s obligation to reimburse BPPR for losses with respect to covered assets begins with the first dollar of loss incurred. The FDIC reimburses BPPR for 80% of losses with respect to covered assets, and BPPR reimburses the FDIC for 80% of recoveries with respect to losses for which the FDIC paid 80% reimbursement under loss share agreements. The loss share agreement applicable to single-family residential mortgage loans provides for FDIC loss and recoveries sharing for ten years expiring at the end of the quarter ending June 30, 2020. The loss share agreement applicable to commercial (including construction) and consumer loans provides for FDIC loss sharing for five years expiring at the end of the quarter ending June 30, 2015 and BPPR reimbursement to the FDIC for eight years expiring at the end of the quarter ending June 30, 2018, in each case, on the same terms and conditions as described above.

The following table sets forth the activity in the FDIC loss share asset for the periods presented.

	Quarters ended March 31,	
(In thousands)	2015	2014
Balance at beginning of period	$ 542,454	$ 909,414
Amortization of loss share indemnification asset	(27,316)	(48,946)
Credit impairment losses to be covered under loss sharing agreements	8,246	15,090
Reimbursable expenses	21,545	12,745
Net payments from FDIC under loss sharing agreements	(132,265)	(81,327)
Other adjustments attributable to FDIC loss sharing agreements	(2,820)	(8,516)
Balance at end of period	$ 409,844	$ 798,460

The following table presents the estimated weighted average life of the loan portfolios subject to the FDIC loss sharing agreement for the quarter ended March 31, 2015 and December 31, 2014.

	Weighted Average Life	
	March 31, 2015	December 31, 2014
Commercial	5.94 years	5.87 years
Consumer	5.91	5.76
Construction	1.06	0.99
Mortgage	7.58	7.30

As part of the loss share agreements, BPPR has agreed to make a true-up payment to the FDIC on the date that is 45 days following the last day (such day, the true-up measurement date) of the final shared-loss month, or upon the final disposition of all covered assets under the loss share agreements, in the event losses on the loss share agreements fail to reach expected levels. The estimated fair value of such true-up payment obligation is recorded as contingent consideration, which is included in the caption of other liabilities in the consolidated statements of financial condition. Under the loss sharing agreements, BPPR will pay to the FDIC 50% of the excess, if any, of: (i) 20% of the intrinsic

loss estimate of $4.6 billion (or $925 million) (as determined by the FDIC) less (ii) the sum of: (A) 25% of the asset discount (per bid) (or ($1.1 billion)); plus (B) 25% of the cumulative shared-loss payments (defined as the aggregate of all of the payments made or payable to BPPR minus the aggregate of all of the payments made or payable to the FDIC); plus (C) the sum of the period servicing amounts for every consecutive twelve-month period prior to and ending on the true-up measurement date in respect of each of the loss sharing agreements during which the loss sharing provisions of the applicable loss sharing agreement is in effect (defined as the product of the simple average of the principal amount of shared loss loans and shared loss assets at the beginning and end of such period times 1%).

Table of Contents

The following table provides the fair value and the undiscounted amount of the true-up payment obligation at March 31, 2015 and December 31, 2014.

(In thousands)	March 31, 2015	December 31, 2014
Carrying amount (fair value)	$ 125,140	$ 129,304
Undiscounted amount	$ 177,998	$ 187,238

The loss share agreements contain specific terms and conditions regarding the management of the covered assets that BPPR must follow in order to receive reimbursement on losses from the FDIC. Under the loss share agreements, BPPR must:

manage and administer the covered assets and collect and effect charge-offs and recoveries with respect to such covered assets in a manner consistent with its usual and prudent business and banking practices and, with respect to single family shared-loss loans, the procedures (including collection procedures) customarily employed by BPPR in servicing and administering mortgage loans for its own account and the servicing procedures established by FNMA or the Federal Home Loan Mortgage Corporation (FHLMC), as in effect from time to time, and in accordance with accepted mortgage servicing practices of prudent lending institutions;

exercise its best judgment in managing, administering and collecting amounts on covered assets and effecting charge-offs with respect to the covered assets;

use commercially reasonable efforts to maximize recoveries with respect to losses on single family shared-loss assets and best efforts to maximize collections with respect to commercial shared-loss assets;

retain sufficient staff to perform the duties under the loss share agreements;

adopt and implement accounting, reporting, record-keeping and similar systems with respect to the commercial shared-loss assets;

comply with the terms of the modification guidelines approved by the FDIC or another federal agency for any single-family shared-loss loan;

provide notice with respect to proposed transactions pursuant to which a third party or affiliate will manage, administer or collect any commercial shared-loss assets;

file monthly and quarterly certificates with the FDIC specifying the amount of losses, charge-offs and recoveries; and

maintain books and records sufficient to ensure and document compliance with the terms of the loss share agreements.

Refer to Note 26, Commitment and Contingencies, for additional information on the settlement of the arbitration proceedings with the FDIC regarding the commercial loss share agreement.

Table of Contents

Note 14 Mortgage banking activities

Income from mortgage banking activities includes mortgage servicing fees earned in connection with administering residential mortgage loans and valuation adjustments on mortgage servicing rights. It also includes gain on sales and securitizations of residential mortgage loans and trading gains and losses on derivative contracts used to hedge the Corporation s securitization activities. In addition, lower-of-cost-or-market valuation adjustments to residential mortgage loans held for sale, if any, are recorded as part of the mortgage banking activities.

The following table presents the components of mortgage banking activities:

	Quarters ended March 31,	
(In thousands)	2015	2014
Mortgage servicing fees, net of fair value adjustments:		
Mortgage servicing fees	$ 12,248	$ 10,748
Mortgage servicing rights fair value adjustments	(4,929)	(8,096)
Total mortgage servicing fees, net of fair value adjustments	7,319	2,652
Net gain on sale of loans, including valuation on loans	7,280	7,176
Trading account (loss):		
Unrealized gains (losses) on outstanding derivative positions	17	(760)
Realized (losses) on closed derivative positions	(1,764)	(5,390)
Total trading account (loss) profit	(1,747)	(6,150)
Total mortgage banking activities	$ 12,852	$ 3,678

62

Table of Contents

Note 15 Transfers of financial assets and mortgage servicing assets

The Corporation typically transfers conforming residential mortgage loans in conjunction with GNMA, FNMA and FHLMC securitization transactions whereby the loans are exchanged for cash or securities and servicing rights. The securities issued through these transactions are guaranteed by the corresponding agency and, as such, under seller/service agreements the Corporation is required to service the loans in accordance with the agencies servicing guidelines and standards. Substantially all mortgage loans securitized by the Corporation in GNMA, FNMA and FHLMC securities have fixed rates and represent conforming loans. As seller, the Corporation has made certain representations and warranties with respect to the originally transferred loans and, in some instances, has sold loans with credit recourse to a government-sponsored entity, namely FNMA. Refer to Note 25 to the consolidated financial statements for a description of such arrangements.

No liabilities were incurred as a result of these securitizations during the quarters ended March 31, 2015 and 2014 because they did not contain any credit recourse arrangements. During the quarter ended March 31, 2015 the Corporation recorded a net gain of $6.4 million (March 31, 2014 - $7.8 million) related to the residential mortgage loans securitized.

The following tables present the initial fair value of the assets obtained as proceeds from residential mortgage loans securitized during the quarters ended March 31, 2015 and 2014.

	Proceeds Obtained During the Quarter Ended March 31, 2015			
(In thousands)	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Trading account securities:				
Mortgage-backed securities - GNMA	$	$ 156,456	$	$ 156,456
Mortgage-backed securities - FNMA		46,958		46,958
Total trading account securities	$	$ 203,414	$	$ 203,414
Mortgage servicing rights			2,562	2,562
Total	$	$ 203,414	$ 2,562	$ 205,976

	Proceeds Obtained During the Quarter Ended March 31, 2014			
(In thousands)	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Trading account securities:				
Mortgage-backed securities - GNMA	$	$ 165,932	$	$ 165,932
Mortgage-backed securities - FNMA		62,583		62,583
Total trading account securities	$	$ 228,515	$	$ 228,515
Mortgage servicing rights			3,198	3,198

Total	$	$	228,515	$	3,198	$	231,713

During the quarter ended March 31, 2015, the Corporation retained servicing rights on whole loan sales involving approximately $22 million in principal balance outstanding (March 31, 2014 - $32 million), with realized gains of approximately $1.0 million (March 31, 2014 - gains of $1.1 million). All loan sales performed during the quarters ended March 31, 2015 and 2014 were without credit recourse agreements.

The Corporation recognizes as assets the rights to service loans for others, whether these rights are purchased or result from asset transfers such as sales and securitizations.

The Corporation uses a discounted cash flow model to estimate the fair value of MSRs. The discounted cash flow model incorporates assumptions that market participants would use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, prepayment and late fees, among other considerations. Prepayment speeds are adjusted for the Corporation s loan characteristics and portfolio behavior.

Table of Contents

The following table presents the changes in MSRs measured using the fair value method for the quarters ended March 31, 2015 and 2014.

Residential MSRs		
(In thousands)	March 31, 2015	March 31, 2014
Fair value at beginning of period	$ 148,694	$ 161,099
Purchases	2,400	
Servicing from securitizations or asset transfers	2,859	3,528
Changes due to payments on loans[1]	(3,789)	(4,151)
Reduction due to loan repurchases	(456)	(922)
Changes in fair value due to changes in valuation model inputs or assumptions	(684)	(3,023)
Other disposals		(2)
Fair value at end of period	$ 149,024	$ 156,529

[1] Represents changes due to collection / realization of expected cash flows over time.
The table above excludes the estimated fair value of $57.6 million of the contingent asset for the probable acquisition from the FDIC of mortgage servicing rights for a portfolio of approximately $5.0 billion in unpaid principal balance as part of the Doral Bank Transaction. Refer to Note 4 for additional information.

Residential mortgage loans serviced for others were $15.6 billion at March 31, 2015 (December 31, 2014 - $15.6 billion).

Net mortgage servicing fees, a component of mortgage banking activities in the consolidated statements of operations, include the changes from period to period in the fair value of the MSRs, including changes due to collection / realization of expected cash flows. Mortgage servicing fees, excluding fair value adjustments, for the quarter ended March 31, 2015 amounted to $12.2 million (March 31, 2014 - $10.8 million). The banking subsidiaries receive servicing fees based on a percentage of the outstanding loan balance. At March 31, 2015, those weighted average mortgage servicing fees were 0.26% (March 31, 2014 0.26%). Under these servicing agreements, the banking subsidiaries do not generally earn significant prepayment penalty fees on the underlying loans serviced.

The section below includes information on assumptions used in the valuation model of the MSRs, originated and purchased.

Key economic assumptions used in measuring the servicing rights derived from loans securitized or sold by the Corporation during the quarters ended March 31, 2015 and 2014 were as follows:

	Quarters ended	
	March 31, 2015	March 31, 2014
Prepayment speed	7.3 %	6.2 %
Weighted average life	13.7 years	16.1 years

Discount rate (annual rate)	10.9 %	10.7 %

Key economic assumptions used to estimate the fair value of MSRs derived from sales and securitizations of mortgage loans performed by the banking subsidiaries and the sensitivity to immediate changes in those assumptions were as follows as of the end of the periods reported:

	Originated MSRs	
(In thousands)	March 31, 2015	December 31, 2014
Fair value of servicing rights	$ 104,060	$ 110,534
Weighted average life	12.4 years	11.7 years
Weighted average prepayment speed (annual rate)	8.1 %	8.6 %
Impact on fair value of 10% adverse change	$ (2,914)	$ (4,089)
Impact on fair value of 20% adverse change	$ (6,502)	$ (7,995)
Weighted average discount rate (annual rate)	11.5 %	11.5 %
Impact on fair value of 10% adverse change	$ (3,487)	$ (4,492)
Impact on fair value of 20% adverse change	$ (7,491)	$ (8,701)

Table of Contents

The banking subsidiaries also own servicing rights purchased from other financial institutions. The fair value of purchased MSRs, their related valuation assumptions and the sensitivity to immediate changes in those assumptions were as follows as of the end of the periods reported:

Purchased MSRs		
(In thousands)	March 31, 2015	December 31, 2014
Fair value of servicing rights	$ 44,964	$ 38,160
Weighted average life	12.4 years	11.0 years
Weighted average prepayment speed (annual rate)	8.1 %	9.1 %
Impact on fair value of 10% adverse change	$ (2,504)	$ (1,620)
Impact on fair value of 20% adverse change	$ (3,863)	$ (2,924)
Weighted average discount rate (annual rate)	10.8 %	10.7 %
Impact on fair value of 10% adverse change	$ (2,703)	$ (1,603)
Impact on fair value of 20% adverse change	$ (4,224)	$ (2,877)

The sensitivity analyses presented in the tables above for servicing rights are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 and 20 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in the sensitivity tables included herein, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments and increased credit losses), which might magnify or counteract the sensitivities.

At March 31, 2015, the Corporation serviced $2.1 billion (December 31, 2014 - $2.1 billion) in residential mortgage loans with credit recourse to the Corporation.

Under the GNMA securitizations, the Corporation, as servicer, has the right to repurchase (but not the obligation), at its option and without GNMA s prior authorization, any loan that is collateral for a GNMA guaranteed mortgage-backed security when certain delinquency criteria are met. At the time that individual loans meet GNMA s specified delinquency criteria and are eligible for repurchase, the Corporation is deemed to have regained effective control over these loans if the Corporation was the pool issuer. At March 31, 2015, the Corporation had recorded $111 million in mortgage loans on its consolidated statements of financial condition related to this buy-back option program (December 31, 2014 - $81 million). As long as the Corporation continues to service the loans that continue to be collateral in a GNMA guaranteed mortgage-backed security, the MSR is recognized by the Corporation. During the quarter ended March 31, 2015, the Corporation repurchased approximately $ 24 million (year ended December 31, 2014 - $145 million) of mortgage loans under the GNMA buy-back option program. The determination to repurchase these loans was based on the economic benefits of the transaction, which results in a reduction of the servicing costs for these severely delinquent loans, mostly related to principal and interest advances. Furthermore, due to their guaranteed nature, the risk associated with the loans is minimal. The Corporation places these loans under its loss mitigation programs and once brought back to current status, these may be either retained in portfolio or re-sold in the secondary market.

Table of Contents

Note 16 Other real estate owned

The following tables present the Other Real Estate Owned Activity, for the quarters ended March 31, 2015 and 2014.

	For the quarter ended March 31, 2015				
(In thousands)	Non-covered OREO Commercial/Construction	Non-covered OREO Mortgage	Covered OREO Commercial/Construction	Covered OREO Mortgage	Total
Balance at beginning of period	$ 38,983	$ 96,517	$ 85,394	$ 44,872	$ 265,766
Write-downs in value	(5,887)	(1,372)	(9,395)	(1,282)	(17,936)
Additions	2,035	21,075	4,038	5,381	32,529
Sales	(9,427)	(13,086)	(9,464)	(5,822)	(37,799)
Other adjustments	(96)	(572)		(165)	(833)
Ending balance	$ 25,608	$ 102,562	$ 70,573	$ 42,984	$ 241,727

	For the quarter ended March 31, 2014				
(In thousands)	Non-covered OREO Commercial/Construction	Non-covered OREO Mortgage	Covered OREO Commercial/Construction	Covered OREO Mortgage	Total
Balance at beginning of period	$ 48,649	$ 86,852	$ 120,215	$ 47,792	$ 303,508
Write-downs in value	(214)	(669)	(4,563)	(207)	(5,653)
Additions	4,668	14,883	13,194	4,491	37,236
Sales	(4,962)	(12,063)	(18,421)	(2,377)	(37,823)
Other adjustments		(179)	(92)	(1,285)	(1,556)
Ending balance	$ 48,141	$ 88,824	$ 110,333	$ 48,414	$ 295,712

Table of Contents

Note 17 Other assets

The caption of other assets in the consolidated statements of financial condition consists of the following major categories:

(In thousands)	March 31, 2015	December 31, 2014
Net deferred tax assets (net of valuation allowance)	$ 788,105	$ 812,819
Investments under the equity method	226,124	225,625
Prepaid FDIC insurance assessment	359	360
Prepaid taxes	186,173	198,120
Other prepaid expenses	82,926	83,719
Derivative assets	22,485	25,362
Trades receivable from brokers and counterparties	112,287	66,949
Contingent asset	57,643	
Others	366,832	233,489
Total other assets	$ 1,842,934	$ 1,646,443

Prepaid taxes at March 31, 2015 and December 31, 2014 includes a payment of $45 million in income taxes in connection with the Closing Agreement signed with the Puerto Rico Department of Treasury on June 30, 2014.

Other assets include the fair value estimate of a contingent asset for the probable acquisition of approximately $57.6 million of mortgage servicing rights from the FDIC on three pools of residential mortgage loans of approximately $5.0 billion in unpaid principal balance as part of the Doral Bank Transaction. As indicated in Note 4, at March 31, 2015, these mortgage servicing rights were subject to a number of closing conditions.

Table of Contents

Note 18 Goodwill and other intangible assets

Goodwill

The changes in the carrying amount of goodwill for the three months ended March 31, 2015 and 2014, allocated by reportable segments, were as follows (refer to Note 38 for the definition of the Corporation s reportable segments):

(In thousands)	2015 Balance at January 1, 2015	Goodwill on acquisition	Purchase accounting adjustments	Other	Balance at March 31, 2015
Banco Popular de Puerto Rico	$ 250,109	$ 3,899	$	$	$ 254,008
Banco Popular North America	215,567	38,735			254,302
Total Popular, Inc.	$ 465,676	$ 42,634	$	$	$ 508,310

(In thousands)	2014 Balance at January 1, 2014	Goodwill on acquisition	Purchase accounting adjustments	Other	Balance at March 31, 2014
Banco Popular de Puerto Rico	$ 245,679	$	$	$	$ 245,679
Banco Popular North America	402,078				402,078
Total Popular, Inc.	$ 647,757	$	$	$	$ 647,757

The goodwill acquired during 2015 in the reportable segments of Banco Popular de Puerto Rico and Banco Popular North America of $3.9 million and $38.7 million, respectively, was related to the Doral Bank Transaction. Refer to note 4, Business Combination, for additional information.

The following table presents the gross amount of goodwill and accumulated impairment losses by reportable segments.

	March 31, 2015					
(In thousands)	Balance at January 1, 2015 (gross amounts)	Accumulated impairment losses	Balance at January 1, 2015 (net amounts)	Balance at March 31, 2015 (gross amounts)	Accumulated impairment losses	Balance at March 31, 2015 (net amounts)
Banco Popular de Puerto Rico	$ 250,109	$	$ 250,109	$ 254,008	$	$ 254,008
Banco Popular North America	379,978	164,411	215,567	418,713	164,411	254,302
Total Popular, Inc.	$ 630,087	$ 164,411	$ 465,676	$ 672,721	$ 164,411	$ 508,310

	December 31, 2014					
(In thousands)	Balance at January 1, 2014 (gross amounts)	Accumulated impairment losses	Balance at January 1, 2014 (net amounts)	Balance at December 31, 2014 (gross amounts)	Accumulated impairment losses	Balance at December 31, 2014 (net amounts)
Banco Popular de Puerto Rico	$ 245,679	$	$ 245,679	$ 250,109	$	$ 250,109
Banco Popular North America	566,489	164,411	402,078	379,978	164,411	215,567
Total Popular, Inc.	$ 812,168	$ 164,411	$ 647,757	$ 630,087	$ 164,411	$ 465,676

Table of Contents

Other Intangible Assets

At March 31, 2015 and December 31, 2014, the Corporation had $ 6 million of identifiable intangible assets, with indefinite useful lives, mostly associated with E-LOAN s trademark.

The following table reflects the components of other intangible assets subject to amortization:

(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
March 31, 2015			
Core deposits	$ 74,252	$ 33,550	$ 40,702
Other customer relationships	19,203	6,955	12,248
Total other intangible assets	$ 93,455	$ 40,505	$ 52,950
December 31, 2014			
Core deposits	$ 50,679	$ 32,006	$ 18,673
Other customer relationships	19,452	6,644	12,808
Total other intangible assets	$ 70,131	$ 38,650	$ 31,481

During the first quarter of 2015, the Corporation also acquired $23.6 million in core deposits intangibles related to the Doral Bank Transaction.

There were $249 thousand in other customer relationships intangibles that became fully amortized during the quarter ended March 31, 2015.

During the quarter ended March 31, 2015, the Corporation recognized $ 2.1 million in amortization expense related to other intangible assets with definite useful lives (March 31, 2014 - $ 2.0 million).

The following table presents the estimated amortization of the intangible assets with definite useful lives for each of the following periods:

(In thousands)	
Remaining 2015	$ 7,467
Year 2016	9,679
Year 2017	6,931
Year 2018	6,838
Year 2019	6,642
Year 2020	4,694

Table of Contents

Note 19 Deposits

Total interest bearing deposits as of the end of the periods presented consisted of:

(In thousands)	March 31, 2015	December 31, 2014
Savings accounts	$ 6,969,101	$ 6,737,370
NOW, money market and other interest bearing demand deposits	5,251,314	4,811,972
Total savings, NOW, money market and other interest bearing demand deposits	12,220,415	11,549,342
Certificates of deposit:		
Under $100,000	4,532,314	4,211,180
$100,000 and over	4,235,758	3,263,265
Total certificates of deposit	8,768,072	7,474,445
Total interest bearing deposits	$ 20,988,487	$ 19,023,787

A summary of certificates of deposit by maturity at March 31, 2015 follows:

(In thousands)	
2015	$ 4,762,004
2016	1,909,397
2017	769,086
2018	474,511
2019	472,085
2020 and thereafter	380,989
Total certificates of deposit	$ 8,768,072

At March 31, 2015, the Corporation had brokered deposits amounting to $ 1.9 billion (December 31, 2014 - $ 1.9 billion).

The aggregate amount of overdrafts in demand deposit accounts that were reclassified to loans was $8 million at March 31, 2015 (December 31, 2014 - $9 million).

Table of Contents

Note 20 Borrowings

The following table presents the composition of fed funds purchased and assets sold under agreements to repurchase at March 31, 2015 and December 31, 2014.

(In thousands)	March 31, 2015	December 31, 2014
Federal funds purchased	$	$ 100,000
Assets sold under agreements to repurchase	1,132,643	1,171,657
Total federal funds purchased and assets sold under agreements to repurchase	$ 1,132,643	$ 1,271,657

The following table presents information related to the Corporation s repurchase transactions accounted for as secured borrowings that are collateralized with investment securities available-for-sale, other assets held-for-trading purposes or which have been obtained under agreements to resell. It is the Corporation s policy to maintain effective control over assets sold under agreements to repurchase; accordingly, such securities continue to be carried on the consolidated statements of financial condition.

Repurchase agreements accounted for as secured borrowings

(Dollars in thousands)	March 31, 2015 Repurchase liability	December 31, 2014 Repurchase liability
Obligations of U.S. government sponsored entities		
Overnight	$ 8,150	$
Within 30 days	220,664	289,545
After 30 to 90 days	113,779	25,761
After 90 days	140,320	420,176
Total obligations of U.S. government sponsored entities	482,913	735,482
Obligations of Puerto Rico, states and political subdivisions		
Overnight	93	23,397
Within 30 days	2,954	5,199
Total Obligations of Puerto Rico, states and political subdivisions	3,047	28,596
Mortgage-backed securities		
Overnight	6,071	4,850
Within 30 days	96,791	54,311

After 30 to 90 days	83,206	
After 90 days	291,315	195,629
Total mortgage-backed securities	477,383	254,790
Collateralized mortgage obligations		
Overnight	219	
Within 30 days	37,682	16,700
After 30 to 90 days	48,650	55,338
After 90 days	72,079	71,281
Total collateralized mortgage obligations	158,630	143,319
Other		
Overnight	2,489	1,353
Within 30 days	8,181	8,117
Total other	10,670	9,470
Total	$ 1,132,643	$ 1,171,657

Repurchase agreements in portfolio are generally short-term, often overnight and Popular acts as borrowers transferring assets to the counterparty. As such our risk is very limited. We manage the liquidity risks arising from secured funding by sourcing funding globally from a diverse group of counterparties, providing a range of securities collateral and pursuing longer durations, when appropriate.

Table of Contents

The following table presents the composition of other short-term borrowings at March 31, 2015 and December 31, 2014.

(In thousands)	March 31, 2015	December 31, 2014
Advances with the FHLB paying interest at maturity	$	$ 20,000
Others	1,200	1,200
Total other short-term borrowings	$ 1,200	$ 21,200

Note: Refer to the Corporation s 2014 Annual Report for rates information at December 31, 2014.

The following table presents the composition of notes payable at March 31, 2015 and December 31, 2014.

(In thousands)	March 31, 2015	December 31, 2014
Advances with the FHLB with maturities ranging from 2015 through 2025 paying interest at monthly fixed rates ranging from 0.41% to 4.19 %	$ 847,884	$ 802,198
Unsecured senior debt securities maturing on 2019 paying interest semiannually at a fixed rate of 7.00%	450,000	450,000
Junior subordinated deferrable interest debentures (related to trust preferred securities) with maturities ranging from 2027 to 2034 with fixed interest rates ranging from 6.125% to 8.327% (Refer to Note 22)	439,800	439,800
Others	19,629	19,830
Total notes payable	$ 1,757,313	$ 1,711,828

Note: Refer to the Corporation s 2014 Annual Report for rates information at December 31, 2014.

A breakdown of borrowings by contractual maturities at March 31, 2015 is included in the table below.

(In thousands)	Assets sold under agreements to repurchase	Short-term borrowings	Notes payable	Total
Year				
2015	$ 963,092	$ 1,200	$ 328,716	$ 1,293,008
2016	169,551		251,966	421,517

2017			83,983	83,983
2018			107,840	107,840
2019			464,121	464,121
Later years			520,687	520,687
Total borrowings	$ 1,132,643	$ 1,200	$ 1,757,313	$ 2,891,156

Table of Contents

Note 21 Offsetting of financial assets and liabilities

The following tables present the potential effect of rights of setoff associated with the Corporation s recognized financial assets and liabilities at March 31, 2015 and December 31, 2014.

As of March 31, 2015

(In thousands)	Gross Amount of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Securities Collateral Received	Cash Collateral Received	Net Amount
Derivatives	$ 22,485	$	$ 22,485	$ 224	$	$	$ 22,261
Reverse repurchase agreements	139,422		139,422		139,422		
Total	$ 161,907	$	$ 161,907	$ 224	$ 139,422	$	$ 22,261

As of March 31, 2015

(In thousands)	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Securities Collateral Pledged	Cash Collateral Pledged	Net Amount
Derivatives	$ 21,376	$	$ 21,376	$ 224	$ 7,953	$	$ 13,199
Repurchase agreements	1,132,643		1,132,643		1,132,643		
Total	$ 1,154,019	$	$ 1,154,019	$ 224	$ 1,140,596	$	$ 13,199

As of December 31, 2014

(In thousands)	Gross Amount of Recognized Assets	Gross Amounts Offset in the	Net Amounts of Assets Presented in the	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Securities Collateral Received	Cash Collateral Received	Net Amount

		Statement of Financial Position	Statement of Financial Position				
Derivatives	$ 25,361	$	$ 25,361	$ 320	$	$	$ 25,041
Reverse repurchase agreements	151,134		151,134		151,134		
Total	$ 176,495	$	$ 176,495	$ 320	$ 151,134	$	$ 25,041

Table of Contents

As of December 31, 2014

(In thousands)	Gross Amount of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Securities Collateral Pledged	Cash Collateral Received	Net Amount
Derivatives	$ 23,032	$	$ 23,032	$ 320	$ 8,781	$	$ 13,931
Repurchase agreements	1,171,657		1,171,657		1,171,657		
Total	$ 1,194,689	$	$ 1,194,689	$ 320	$ 1,180,438	$	$ 13,931

The Corporation s derivatives are subject to agreements which allow a right of set-off with each respective counterparty. In addition, the Corporation s Repurchase Agreements and Reverse Repurchase Agreements have a right of set-off with the respective counterparty under the supplemental terms of the Master Repurchase Agreements. In an event of default each party has a right of set-off against the other party for amounts owed in the related agreement and any other amount or obligation owed in respect of any other agreement or transaction between them.

74

Table of Contents

Note 22 Trust preferred securities

At March 31, 2015 and December 31, 2014, statutory trusts established by the Corporation (BanPonce Trust I, Popular Capital Trust I, Popular North America Capital Trust I and Popular Capital Trust II) had issued trust preferred securities (also referred to as capital securities) to the public. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts (the common securities), were used by the trusts to purchase junior subordinated deferrable interest debentures (the junior subordinated debentures) issued by the Corporation.

The sole assets of the trusts consisted of the junior subordinated debentures of the Corporation and the related accrued interest receivable. These trusts are not consolidated by the Corporation pursuant to accounting principles generally accepted in the United States of America.

The junior subordinated debentures are included by the Corporation as notes payable in the consolidated statements of financial condition, while the common securities issued by the issuer trusts are included as other investment securities. The common securities of each trust are wholly-owned, or indirectly wholly-owned, by the Corporation.

The following table presents financial data pertaining to the different trusts at March 31, 2015 and December 31, 2014.

(Dollars in thousands)

Issuer	BanPonce Trust I	Popular Capital Trust I	Popular North America Capital Trust I	Popular Capital Trust II
Capital securities	$ 52,865	$ 181,063	$ 91,651	$ 101,023
Distribution rate	8.327%	6.700%	6.564%	6.125%
Common securities	$ 1,637	$ 5,601	$ 2,835	$ 3,125
Junior subordinated debentures aggregate liquidation amount	$ 54,502	$ 186,664	$ 94,486	$ 104,148
Stated maturity date	February 2027	November 2033	September 2034	December 2034
Reference notes	[1],[3],[6]	[2],[4],[5]	[1],[3],[5]	[2],[4],[5]

[1] Statutory business trust that is wholly-owned by Popular North America and indirectly wholly-owned by the Corporation.

[2] Statutory business trust that is wholly-owned by the Corporation.

[3] The obligations of PNA under the junior subordinated debentures and its guarantees of the capital securities under the trust are fully and unconditionally guaranteed on a subordinated basis by the Corporation to the extent set forth in the applicable guarantee agreement.

[4] These capital securities are fully and unconditionally guaranteed on a subordinated basis by the Corporation to the extent set forth in the applicable guarantee agreement.

[5] The Corporation has the right, subject to any required prior approval from the Federal Reserve, to redeem after certain dates or upon the occurrence of certain events mentioned below, the junior subordinated debentures at a

redemption price equal to 100% of the principal amount, plus accrued and unpaid interest to the date of redemption. The maturity of the junior subordinated debentures may be shortened at the option of the Corporation prior to their stated maturity dates (i) on or after the stated optional redemption dates stipulated in the agreements, in whole at any time or in part from time to time, or (ii) in whole, but not in part, at any time within 90 days following the occurrence and during the continuation of a tax event, an investment company event or a capital treatment event as set forth in the indentures relating to the capital securities, in each case subject to regulatory approval.

[6] Same as [5] above, except that the investment company event does not apply for early redemption.

The Basel III Capital Rules require that capital instruments such as trust preferred securities be phased-out of Tier 1 capital. The Corporation s Tier I capital level at March 31, 2015 included $ 427 million of trust preferred securities that are subject to the phase-out provisions of the Basel III Capital Rules. The Corporation is allowed to include only 25% of such trust preferred securities in Tier I capital as of January 1, 2015 and would be allowed 0% as of January 1, 2016 and thereafter. The Basel III Capital Rules also permanently grandfathers as Tier 2 capital such trust preferred securities.

75

Table of Contents

Note 23 Stockholders equity

BPPR statutory reserve

The Banking Act of the Commonwealth of Puerto Rico requires that a minimum of 10% of BPPR s net income for the year be transferred to a statutory reserve account until such statutory reserve equals the total of paid-in capital on common and preferred stock. Any losses incurred by a bank must first be charged to retained earnings and then to the reserve fund. Amounts credited to the reserve fund may not be used to pay dividends without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The failure to maintain sufficient statutory reserves would preclude BPPR from paying dividends. BPPR s statutory reserve fund amounted to $469 million at March 31, 2015 (December 31, 2014 - $469 million). There were no transfers between the statutory reserve account and the retained earnings account during the quarters ended March 31, 2015 and March 31, 2014.

Table of Contents

Note 24 Other comprehensive loss

The following table presents changes in accumulated other comprehensive loss by component for the quarters ended March 31, 2015 and 2014.

Changes in Accumulated Other Comprehensive Loss by Component [1]

(In thousands)		Quarters ended March 31, 2015	2014
Foreign currency translation	Beginning Balance	$ (32,832)	$ (36,099)
	Other comprehensive loss before reclassifications	(581)	(2,115)
	Amounts reclassified from accumulated other comprehensive loss		7,718
	Net change	(581)	5,603
	Ending balance	$ (33,413)	$ (30,496)
Adjustment of pension and postretirement benefit plans	Beginning Balance	$ (205,187)	$ (104,302)
	Amounts reclassified from accumulated other comprehensive income for amortization of net losses	3,065	1,298
	Amounts reclassified from accumulated other comprehensive income for amortization of prior service cost	(579)	(580)
	Net change	2,486	718
	Ending balance	$ (202,701)	$ (103,584)
Unrealized net holding gains (losses) on investments	Beginning Balance	$ 8,465	$ (48,344)
	Other comprehensive income before reclassifications	34,285	26,089
	Net change	34,285	26,089

	Ending balance	$	42,750	$	(22,255)
Unrealized net gains (losses) on cash flow hedges	Beginning Balance	$	(318)	$	
	Other comprehensive loss before reclassifications		(1,546)		(1,053)
	Amounts reclassified from other accumulated other comprehensive loss		828		1,113
	Net change		(718)		60
	Ending balance	$	(1,036)	$	60
	Total	$	(194,400)	$	(156,275)

[1] All amounts presented are net of tax.

Table of Contents

The following table presents the amounts reclassified out of each component of accumulated other comprehensive loss during the quarters ended March 31, 2015 and 2014.

	Reclassifications Out of Accumulated Other Comprehensive Loss		
	Affected Line Item in the Consolidated Statements of Operations	Quarters ended March 31,	
(In thousands)		2015	2014
Foreign Currency Translation			
Cumulative translation adjustment reclassified into earnings	Other operating income	$	$ (7,718)
	Total net of tax	$	$ (7,718)
Adjustment of pension and postretirement benefit plans			
Amortization of net losses	Personnel costs	$ (5,025)	$ (2,126)
Amortization of prior service cost	Personnel costs	950	950
	Total before tax	(4,075)	(1,176)
	Income tax (expense) benefit	1,589	458
	Total net of tax	$ (2,486)	$ (718)
Unrealized net losses on cash flow hedges			
Forward contracts	Mortgage banking activities	$ (1,358)	$ (1,824)
	Total before tax	(1,358)	(1,824)
	Income tax (expense) benefit	530	711
	Total net of tax	$ (828)	$ (1,113)
	Total reclassification adjustments, net of tax	$ (3,314)	$ (9,549)

78

Table of Contents

Note 25 Guarantees

At March 31, 2015 the Corporation recorded a liability of $0.9 million (December 31, 2014 - $0.4 million), which represents the unamortized balance of the obligations undertaken in issuing the guarantees under the standby letters of credit. Management does not anticipate any material losses related to these instruments.

From time to time, the Corporation securitized mortgage loans into guaranteed mortgage-backed securities subject to limited, and in certain instances, lifetime credit recourse on the loans that serve as collateral for the mortgage-backed securities. The Corporation has not sold any mortgage loans subject to credit recourse since 2009. At March 31, 2015 the Corporation serviced $ 2.1 billion (December 31, 2014 - $ 2.1 billion) in residential mortgage loans subject to credit recourse provisions, principally loans associated with FNMA and FHLMC residential mortgage loan securitization programs. In the event of any customer default, pursuant to the credit recourse provided, the Corporation is required to repurchase the loan or reimburse the third party investor for the incurred loss. The maximum potential amount of future payments that the Corporation would be required to make under the recourse arrangements in the event of nonperformance by the borrowers is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. During the quarter ended March 31, 2015, the Corporation repurchased approximately $ 16 million of unpaid principal balance in mortgage loans subject to the credit recourse provisions (March 31, 2014 **-** $ 27 million). In the event of nonperformance by the borrower, the Corporation has rights to the underlying collateral securing the mortgage loan. The Corporation suffers ultimate losses on these loans when the proceeds from a foreclosure sale of the property underlying a defaulted mortgage loan are less than the outstanding principal balance of the loan plus any uncollected interest advanced and the costs of holding and disposing the related property. At March 31, 2015 the Corporation s liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to $ 59 million (December 31, 2014 - $ 59 million).

The following table shows the changes in the Corporation s liability of estimated losses related to loans serviced with credit recourse provisions during the quarters ended March 31, 2015 and 2014.

	March 31,	
(In thousands)	2015	2014
Balance as of beginning of period	$ 59,438	$ 41,463
Provision for recourse liability	6,500	11,042
Net charge-offs	(6,553)	(6,697)
Balance as of end of period	$ 59,385	$ 45,808

The probable losses to be absorbed under the credit recourse arrangements are recorded as a liability when the loans are sold or credit recourse is assumed as part of acquired servicing rights, and are updated by accruing or reversing expense (categorized in the line item adjustments (expense) to indemnity reserves on loans sold in the consolidated statements of operations) throughout the life of the loan, as necessary, when additional relevant information becomes available. The methodology used to estimate the recourse liability is a function of the recourse arrangements given and considers a variety of factors, which include actual defaults and historical loss experience, foreclosure rate, estimated future defaults and the probability that a loan would be delinquent. Statistical methods are used to estimate the recourse liability. Expected loss rates are applied to different loan segmentations. The expected loss, which represents the amount expected to be lost on a given loan, considers the probability of default and loss severity. The probability of default represents the probability that a loan in good standing would become 90 days delinquent within

the following twelve-month period. Regression analysis quantifies the relationship between the default event and loan-specific characteristics, including credit scores, loan-to-value ratios, and loan aging, among others.

When the Corporation sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. The Corporation s mortgage operations in Puerto Rico group conforming mortgage loans into pools which are exchanged for FNMA and GNMA mortgage-backed securities, which are generally sold to private investors, or are sold directly to FNMA or other private investors for cash. As required under the government agency programs, quality review procedures are performed by the Corporation to ensure that asset guideline qualifications are met. To the extent the loans do not meet specified characteristics, the Corporation may be required to repurchase such loans or indemnify for losses and bear any subsequent loss related to the loans. During the quarter ended March 31, 2015, BPPR did not repurchase loans under representation and warranty arrangements, compared to $2.1 million during the quarter ended March 31, 2014. A substantial amount of these loans reinstate to performing status or have mortgage insurance, and thus the ultimate losses on the loans are not deemed significant.

Table of Contents

As discussed on Note 5 Discontinued operations, on November 8, 2014, the Corporation completed the sale of the California regional operations. In connection with this transaction, the Corporation agreed to provide, subject to certain limitations, customary indemnification to the purchaser, including with respect to certain pre-closing liabilities and violations of representations and warranties. The Corporation also agreed to indemnify the purchaser for up to 1.5% of credit losses on transferred loans for a period of two years after the closing. Pursuant to this indemnification provision, the Corporation s maximum exposure is approximately $16.0 million. The Corporation recognized a reserve of approximately $2.2 million, representing its best estimate of the loss that would be incurred in connection with this indemnification. This reserve is included within the liabilities from discontinued operations.

During the quarter ended June 30, 2013, the Corporation established a reserve for certain specific representation and warranties made in connection with BPPR s sale of non-performing mortgage loans. The purchaser s sole remedy under the indemnity clause is to seek monetary damages from BPPR, for a maximum of $16.3 million. BPPR recognized a reserve of approximately $3.0 million, representing its best estimate of the loss that would be incurred in connection with this indemnification. BPPR s obligations under this clause end one year after the closing except to any claim asserted prior to such termination date. At March 31, 2015, the Corporation has a reserve balance of $2.8 million to cover claims received from the purchaser, which are currently being evaluated.

During the quarter ended March 31, 2013, the Corporation established a reserve for certain specific representations and warranties made in connection with BPPR s sale of commercial and construction loans, and commercial and single family real estate owned. The purchaser s sole remedy under the indemnity clause is to seek monetary damages from BPPR, for a maximum of $18.0 million. BPPR is not required to repurchase any of the assets. BPPR recognized a reserve of approximately $10.7 million, representing its best estimate of the loss that would be incurred in connection with this indemnification. During the quarters ended March 31, 2015 and March 31, 2014, the Corporation released $ 3.2 million and $2.0 million, respectively, based on an evaluation of claims received under this clause. At March 31, 2015, the Corporation has a reserve balance of $4.2 million to cover claims received from the purchaser, which are currently being evaluated.

The following table presents the changes in the Corporation s liability for estimated losses associated with indemnifications and representations and warranties related to loans sold by BPPR for the quarters ended March 31, 2015 and 2014.

	March 31,	
(In thousands)	2015	2014
Balance as of beginning of period	$ 15,959	$ 19,277
Additions for new sales		
Net reversal of provision for representation and warranties	(1,901)	(1,064)
Net charge-offs	(14)	(1,389)
Balance as of end of period	$ 14,044	$ 16,824

In addition, at March 31, 2015, the Corporation has reserves for customary representations and warranties related to loans sold by its U.S. subsidiary E-LOAN prior to 2009. These loans were sold to investors on a servicing released basis subject to certain representation and warranties. Although the risk of loss or default was generally assumed by the investors, the Corporation made certain representations relating to borrower creditworthiness, loan documentation and collateral, which if not correct, may result in requiring the Corporation to repurchase the loans or indemnify investors for any related losses associated with these loans. At March 31, 2015, the Corporation s reserve for estimated

losses from such representation and warranty arrangements amounted to $ 5 million, which was included as part of other liabilities in the consolidated statement of financial condition (December 31, 2014 - $ 5 million). E-LOAN is no longer originating and selling loans since the subsidiary ceased these activities in 2008 and most of the outstanding agreements with major counterparties were settled during 2010 and 2011.

Servicing agreements relating to the mortgage-backed securities programs of FNMA and GNMA, and to mortgage loans sold or serviced to certain other investors, including FHLMC, require the Corporation to advance funds to make scheduled payments of principal, interest, taxes and insurance, if such payments have not been received from the borrowers. At March 31, 2015, the Corporation serviced $ 15.6 billion in mortgage loans for third-parties, including the loans serviced with credit recourse (December 31, 2014 - $ 15.6 billion). The Corporation generally recovers funds advanced pursuant to these arrangements from the mortgage

Table of Contents

owner, from liquidation proceeds when the mortgage loan is foreclosed or, in the case of FHA/VA loans, under the applicable FHA and VA insurance and guarantees programs. However, in the meantime, the Corporation must absorb the cost of the funds it advances during the time the advance is outstanding. The Corporation must also bear the costs of attempting to collect on delinquent and defaulted mortgage loans. In addition, if a defaulted loan is not cured, the mortgage loan would be canceled as part of the foreclosure proceedings and the Corporation would not receive any future servicing income with respect to that loan. At March 31, 2015, the outstanding balance of funds advanced by the Corporation under such mortgage loan servicing agreements was approximately $31 million (December 31, 2014 - $36 million). To the extent the mortgage loans underlying the Corporation s servicing portfolio experience increased delinquencies, the Corporation would be required to dedicate additional cash resources to comply with its obligation to advance funds as well as incur additional administrative costs related to increases in collection efforts.

Popular, Inc. Holding Company (PIHC) fully and unconditionally guarantees certain borrowing obligations issued by certain of its wholly-owned consolidated subsidiaries amounting to $ 0.2 billion at March 31, 2015 (December 31, 2014 - $ 0.2 billion). In addition, at March 31, 2015 and December 31, 2014, PIHC fully and unconditionally guaranteed on a subordinated basis $ 0.4 billion and $ 0.4 billion, respectively, of capital securities (trust preferred securities) issued by wholly-owned issuing trust entities to the extent set forth in the applicable guarantee agreement. Refer to Note 22 to the consolidated financial statements for further information on the trust preferred securities.

Table of Contents

Note 26 Commitments and contingencies

Off-balance sheet risk

The Corporation is a party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financial needs of its customers. These financial instruments include loan commitments, letters of credit, and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition.

The Corporation s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit and financial guarantees written is represented by the contractual notional amounts of those instruments. The Corporation uses the same credit policies in making these commitments and conditional obligations as it does for those reflected on the consolidated statements of financial condition.

Financial instruments with off-balance sheet credit risk, whose contract amounts represent potential credit risk as of the end of the periods presented were as follows:

(In thousands)	March 31, 2015	December 31, 2014
Commitments to extend credit:		
Credit card lines	$ 4,658,206	$ 4,450,284
Commercial lines of credit	2,259,044	2,415,843
Other unused credit commitments	390,351	269,225
Commercial letters of credit	2,278	2,820
Standby letters of credit	65,849	46,362
Commitments to originate or fund mortgage loans	26,860	25,919

At March 31, 2015, the Corporation maintained a reserve of approximately $11 million for potential losses associated with unfunded loan commitments related to commercial and consumer lines of credit, as compared to $13 million at December 31, 2014.

Other commitments

At March 31, 2015, the Corporation also maintained other non-credit commitments for approximately $9 million, primarily for the acquisition of other investments, as compared to $9 million at December 31, 2014.

Business concentration

Since the Corporation s business activities are currently concentrated primarily in Puerto Rico, its results of operations and financial condition are dependent upon the general trends of the Puerto Rico economy and, in particular, the residential and commercial real estate markets. The concentration of the Corporation s operations in Puerto Rico exposes it to greater risk than other banking companies with a wider geographic base. Its asset and revenue composition by geographical area is presented in Note 38 to the consolidated financial statements.

At March 31, 2015, the Corporation s direct exposure to the Puerto Rico government and its instrumentalities and municipalities amounted to $ 995 million, of which approximately $ 813 million is outstanding ($ 1.0 billion and $

811 million at December 31, 2014). Of the amount outstanding, $ 698 million consists of loans and $ 115 million are securities ($ 689 million and $ 122 million at December 31, 2014). Of this amount, $ 336 million represents obligations from the Government of Puerto Rico and public corporations that have a specific source of income or revenues identified for their repayment ($ 336 million at December 31, 2014). Some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services or products, such as public utilities. Public corporations have varying degrees of independence from the central Government and many receive appropriations or other payments from it. The remaining $ 477 million represents obligations from various municipalities in Puerto Rico for which, in most cases, the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment ($ 475 million at December 31, 2014). These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all of its general obligation bonds and loans. These loans have seniority to the payment of operating cost and expenses of the municipality.

Table of Contents

In addition, at March 31, 2015, the Corporation had $376 million in indirect exposure to loans or securities that are payable by non-governmental entities, but which carry a government guarantee to cover any shortfall in collateral in the event of borrower default ($370 million at December 31, 2014). These included $296 million in residential mortgage loans that are guaranteed by the Puerto Rico Housing Finance Authority (December 31, 2014 - $289 million). These mortgage loans are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default. Also, the Corporation had $49 million in Puerto Rico pass-through housing bonds backed by FNMA, GNMA or residential loans CMO s, and $31 million of industrial development notes ($49 million and $32 million at December 31, 2014, respectively).

Other contingencies

As indicated in Note 13 to the consolidated financial statements, as part of the loss sharing agreements related to the Westernbank FDIC-assisted transaction, the Corporation agreed to make a true-up payment to the FDIC on the date that is 45 days following the last day of the final shared loss month, or upon the final disposition of all covered assets under the loss sharing agreements in the event losses on the loss sharing agreements fail to reach expected levels. The fair value of the true-up payment obligation was estimated at $ 125 million at March 31, 2015 (December 31, 2014 - $ 129 million).

Legal Proceedings

The nature of Popular s business ordinarily results in a certain number of claims, litigation, investigations, and legal and administrative cases and proceedings. When the Corporation determines it has meritorious defenses to the claims asserted, it vigorously defends itself. The Corporation will consider the settlement of cases (including cases where it has meritorious defenses) when, in management s judgment, it is in the best interest of both the Corporation and its shareholders to do so.

On at least a quarterly basis, Popular assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. For matters where it is probable that the Corporation will incur a material loss and the amount can be reasonably estimated, the Corporation establishes an accrual for the loss. Once established, the accrual is adjusted on at least a quarterly basis as appropriate to reflect any relevant developments. For matters where a material loss is not probable or the amount of the loss cannot be estimated, no accrual is established.

In certain cases, exposure to loss exists in excess of the accrual to the extent such loss is reasonably possible, but not probable. Management believes and estimates that the aggregate range of reasonably possible losses (with respect to those matters where such limits may be determined, in excess of amounts accrued), for current legal proceedings ranges from $0 to approximately $35 million as of March 31, 2015. For certain other cases, management cannot reasonably estimate the possible loss at this time. Any estimate involves significant judgment, given the varying stages of the proceedings (including the fact that many of them are currently in preliminary stages), the existence of multiple defendants in several of the current proceedings whose share of liability has yet to be determined, the numerous unresolved issues in many of the proceedings, and the inherent uncertainty of the various potential outcomes of such proceedings. Accordingly, management s estimate will change from time-to-time, and actual losses may be more or less than the current estimate.

While the final outcome of legal proceedings is inherently uncertain, based on information currently available, advice of counsel, and available insurance coverage, management believes that the amount it has already accrued is adequate and any incremental liability arising from the Corporation s legal proceedings will not have a material adverse effect on the Corporation s consolidated financial position as a whole. However, in the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the

Corporation s consolidated financial position in a particular period.

Ongoing Class Action Litigation

Banco Popular de Puerto Rico (BPPR) and Banco Popular North America (BPNA) are currently defendants in various class action lawsuits:

On November 21, 2012, BPNA was served with a putative class action complaint captioned *Josefina Valle, et al. v. Popular Community Bank,* filed in the New York State Supreme Court (New York County). Plaintiffs, existing BPNA customers, allege among other things that BPNA has engaged in unfair and deceptive acts and trade practices in connection with the assessment of overdraft fees and payment processing on consumer deposit accounts. The complaint further alleges that BPNA improperly disclosed its consumer overdraft policies and, additionally, that the overdraft rates and fees assessed by BPNA violate New York s usury laws. The complaint seeks unspecified damages, including punitive damages, interest, disbursements, and attorneys fees and costs.

BPNA removed the case to federal court (S.D.N.Y.) and plaintiffs subsequently filed a motion to remand the action to state court, which the Court granted on August 6, 2013. A motion to dismiss was filed on September 9, 2013. On October 25, 2013, plaintiffs filed an amended complaint seeking to limit the putative class to New York account holders. A motion to dismiss the amended complaint was filed in February 2014. In August 2014, the Court entered an order granting in part BPNA s motion to dismiss. The sole surviving claim relates to BPNA s item processing policy. On September 10, 2014, plaintiffs filed a motion for leave to file a second amended complaint to correct certain deficiencies noted in the court s decision and order. BPNA subsequently filed a motion in opposition to plaintiff s motion for leave to amend and further sought to compel arbitration. The matter has been stayed pending a ruling on such motions.

Between December 2013 and January 2014, BPPR, BPNA and Popular, Inc., along with two executive officers, were served with a putative class action complaint captioned *Neysha Quiles et al. v. Banco Popular de Puerto Rico et al.* Plaintiffs essentially alleged that they and others, who have been employed by the Defendants as bank tellers and other similarly titled positions, were generally paid only for scheduled work time, rather than time actually worked. The Complaint sought to maintain a collective action under the Fair Labor Standards Act (FLSA) on behalf of all individuals who were employed or were currently employed by the Defendants in Puerto Rico, the Virgin Islands, New York, New Jersey, Florida, California, and Illinois as hourly paid, non-exempt, bank tellers or other similarly titled positions at any time during the past three years and alleged the following claims under the FLSA against all Defendants: (i) failure to pay overtime premiums; and (ii) that the failure to pay was willful. Similar claims were brought under Puerto Rico law on behalf of all individuals who were employed or are currently employed by BPPR in Puerto Rico as hourly paid, non-exempt, bank tellers or other similarly titled positions at any time during the past three years. On January 31, 2014, the Popular defendants filed an answer to the complaint. On February 24, 2014, the parties reached an agreement to dismiss the complaint against BPNA and the named BPNA executive officer without prejudice. On January 9, 2015, plaintiffs submitted a motion for conditional class certification, which BPPR opposed. On February 18, 2015, the Court entered an order whereby it granted plaintiffs request for conditional certification of the FLSA action.

On May 5, 2014, a putative class action captioned *Nora Fernandez, et al. v. UBS, et al*. was filed in the United States District Court for the Southern District of New York on behalf of investors in 23 Puerto Rico closed-end investment companies against various UBS entities, BPPR and Popular Securities. UBS Financial Services Incorporated of Puerto Rico is the sponsor and co-sponsor of all 23 funds, while BPPR was co-sponsor, together with UBS, of nine (9) of those funds. The plaintiffs allege breach of fiduciary duties, aiding and abetting breach of fiduciary duty and breach of contract against all defendants. The complaint seeks unspecified damages, including disgorgement of fees and attorneys fees. On May 30, 2014, plaintiffs voluntarily dismissed their class action in the SDNY and on that same date, they filed a virtually identical complaint in the US District Court for the District of Puerto Rico (USDC-PR) and requested that the case be consolidated with the matter of *In re: UBS Financial Services Securities Litigation*, a class action currently pending before the USDC-PR in which neither BPPR nor Popular Securities are parties. The UBS defendants filed an opposition to the consolidation request and moved to transfer the case back to the SDNY on the ground that the relevant agreements between the parties contain a choice of forum clause, with New York as the selected forum. The Popular defendants joined this motion. By order dated January 30, 2015, the court denied the plaintiffs motion to consolidate. By order dated March 30, 2015, the court granted defendants motion to transfer. The case currently remains pending in the SDNY.

On May 6, 2014, a putative class action captioned *David Alvarez, et al. v. Banco Popular North America* was filed in the Superior Court of the State of California for the County of Los Angeles. Plaintiffs generally assert that BPNA has engaged in purported violations of §2954.8(a) of the California Civil Code and §17200 et seq. of the California Business Professions Code, which allegedly require financial institutions that make loans secured by certain types of real property located within the state of California to pay interest to borrowers on impound account deposits at a

statutory rate of not less than two percent (2%). Plaintiffs maintain that BPNA has not paid interest on such deposits and demand that BPNA be enjoined from engaging in further violations of these provisions and pay an unspecified amount of damages sufficient to repay the unpaid interest on these deposits. PHH Corporation, which acquired the loans at issue in this complaint, has agreed to indemnify and tender a defense on behalf of BPNA. On March 11, 2015, the parties executed a settlement agreement and release to fully and finally resolve the litigation and dismiss the case in its entirety and on March 24, 2015, the court approved the dismissal of the case. The terms of the settlement do not require that BPNA make any payment in connection thereof.

On October 7, 2014, BPNA was served with a putative class action complaint captioned *Josefina Valle, et al. v. BPNA,* filed in the United States District Court for the Southern District of New York. The complaint names the same plaintiffs who filed the above-described overdraft fee class action suit. Plaintiffs allege, among other things, that BPNA engages in unfair and deceptive acts and trade practices relative to the assessment of ATM fees on ATM transactions initialed at Allpoint branded ATMs. The complaint further alleges that BPNA is in violation of the Electronic Fund Transfer Act and Regulation E with respect to ATM fees. On December 2, 2014, BPNA filed a motion to compel arbitration, which plaintiffs opposed. On February 2, 2015, the court entered an

opinion and order granting defendant s motion to compel arbitration. On February 23, 2015, plaintiffs filed a notice of appeal with the United States Court of Appeals for the Second Circuit demanding that the court reverse the district court s ruling. On April 17, 2015, the parties reached an agreement in principle to settle this matter for approximately $25,000. This settlement is not yet final.

On October 3, 2014, BPNA received notice of a potential class action submitted by two former assistant branch managers. The purported action alleges various wage and hour violations arising from what they contend is an improper job classification under the FLSA and applicable state law equivalents. In December 2014, BPNA accepted plaintiffs offer to mediate this dispute, and mediation took place on February 19, 2015. As a result of the mediation, the parties entered into an agreement in principle to settle this claim. Under the terms of the agreement in principle, subject to certain customary conditions including court approval of a final settlement agreement in consideration for the full settlement and release of all defendants, defendant will pay the amount of $800,000.

On March 20, 2015, BPPR was served with a class action complaint titled *In re 2014 RadioShack ERISA Litigation*, filed in U.S. District Court for the Northern District of Texas. The complaint alleges that certain employees of RadioShack incurred losses in their 401(k) plans because various fiduciaries elected to retain RadioShack s company stock in the portfolio of potential investment options. The complaint further asserts that once RadioShack s financial situation began to deteriorate in 2011, the fiduciaries of the RadioShack 401(k) Plan and the RadioShack Puerto Rico 1165(e) Plan (collectively, the Plans) should have removed RadioShack company stock from the portfolio of potential investment options.

Popular was a directed trustee, and therefore a fiduciary, of the RadioShack Puerto Rico 1165(e) Plan (P.R. Plan). Even though the P.R. Plan directed Popular to retain RadioShack company stock within the portfolio of investment options, the complaint alleges that a trustee s duty of prudence requires it to disregard plan documents or directives that it knows or reasonably should know would lead to an imprudent result or would otherwise harm plan participants or beneficiaries. It further alleges that Popular breached its fiduciary duties by (i) failing to take any meaningful steps to protect plan participants from losses that it knew would occur; (ii) failing to divest the P.R. Plan of Company Stock; and (iii) participating in the decisions of another trustee (Wells Fargo) to protect the Plans from inevitable losses.

Other Matters

The volatility in prices and declines in value that Puerto Rico municipal bonds and closed-end investment companies that invest primarily in Puerto Rico municipal bonds have experienced since August 2013 have led to regulatory inquiries, customer complaints and arbitrations for most broker-dealers in Puerto Rico, including Popular Securities LLC, a wholly owned subsidiary of the Corporation (Popular Securities). Popular Securities has received customer complaints and is named as a respondent (among other broker-dealers) in 41 arbitration proceedings with aggregate claimed damages of approximately $99 million, including one arbitration with claimed damages of $78 million in which two other Puerto Rico broker-dealers are co-defendants. The proceedings are in their early stages and it is the view of the Corporation that Popular Securities has meritorious defenses to the claims asserted. An adverse result in the matters described above could have a material and adverse effect on Popular Securities.

Other Significant Proceedings

As described under Note 13 FDIC loss share asset and true-up payment obligation , in connection with the Westernbank FDIC-assisted transaction, on April 30, 2010, BPPR entered into loss share agreements with the FDIC with respect to the covered loans and other real estate owned that it acquired in the transaction. Pursuant to the terms of the loss share agreements, the FDIC s obligation to reimburse BPPR for losses with respect to covered assets begins with the first dollar of loss incurred. The FDIC reimburses BPPR for 80% of losses with respect to covered assets, and

BPPR reimburses the FDIC for 80% of recoveries with respect to losses for which the FDIC paid 80% reimbursement under those loss share agreements. The loss share agreements contain specific terms and conditions regarding the management of the covered assets that BPPR must follow in order to receive reimbursement for losses from the FDIC. BPPR believes that it has complied with such terms and conditions. The loss share agreement applicable to the commercial late stage real-estate-collateral-dependent loans described below provides for loss sharing by the FDIC through the quarter ending June 30, 2015 and for reimbursement to the FDIC through the quarter ending June 30, 2018.

For the quarters ended June 30, 2010 through March 31, 2012, BPPR received reimbursement for loss-share claims submitted to the FDIC, including charge-offs for certain commercial late stage real-estate-collateral-dependent loans and OREO calculated in accordance with BPPR s charge-off policy for non-covered assets. When BPPR submitted its shared-loss claim in connection with the June 30, 2012 quarter, however, the FDIC refused to reimburse BPPR for a portion of the claim because of a difference related

to the methodology for the computation of charge-offs for certain commercial late stage real-estate-collateral-dependent loans and OREO. In accordance with the terms of the commercial loss share agreement, BPPR applied a methodology for charge-offs for late stage real-estate-collateral-dependent loans that conforms to its regulatory supervisory criteria and is calculated in accordance with BPPR s charge-off policy for non-covered assets. The FDIC stated that it believed that BPPR should use a different methodology for those charge-offs. Notwithstanding the FDIC s refusal to reimburse BPPR for certain shared-loss claims, BPPR had continued to calculate shared-loss claims for quarters subsequent to June 30, 2012 in accordance with its charge-off policy for non-covered assets.

BPPR s loss share agreements with the FDIC specify that disputes can be submitted to arbitration before a review board under the commercial arbitration rules of the American Arbitration Association. On July 31, 2013, BPPR filed a statement of claim with the American Arbitration Association requesting that the review board determine certain matters relating to the loss-share claims under its commercial loss share agreement with the FDIC, including that the review board award BPPR the amounts owed under its unpaid quarterly certificates. The statement of claim also included requests for reimbursement of certain valuation adjustments for discounts to appraised values, costs to sell troubled assets and other items. The review board was comprised of one arbitrator appointed by BPPR, one arbitrator appointed by the FDIC and a third arbitrator selected by agreement of those arbitrators.

On October 17, 2014, BPPR and the FDIC settled all claims and counterclaims that had been submitted to the review board. The settlement provides for an agreed valuation methodology for reimbursement of charge-offs for late stage real-estate-collateral-dependent loans and resulting OREO. Although the terms of the settlement could delay the timing of reimbursement of certain loss-share claims from the FDIC, the settlement is not expected to have a material adverse impact on BPPR s current estimate of expected reimbursable losses for the covered portfolio through the end of the commercial loss share agreement in the quarter ending June 30, 2015.

As of March 31, 2015, BPPR had unreimbursed losses and expenses of $243.2 million under the commercial loss share agreement with the FDIC. On April 9, 2015, BPPR received reimbursement of $27.9 million from the FDIC covering claims filed prior to March 31, 2015. Taking into consideration this payment and claims submitted through that date, the total unreimbursed losses totaled $215.3 million, of which $80.1 million was submitted to the FDIC on April 30, 2015. BPPR continues to work on processing claims, including those which had previously not been reimbursed by the FDIC and expects to complete this process before the expiration of BPPR s ability to submit claims under the commercial loss share agreement in the quarter ending June 30, 2015. After giving effect to the claim submitted on April 30, 2015, the amount of claims pending to be submitted for reimbursement to the FDIC amounted to $135.2 million.

On November 25, 2014, the FDIC notified BPPR that it (a) would not reimburse BPPR under the commercial loss share agreement for a $66.6 million loss claim on eight related real estate loans that BPPR restructured and consolidated (collectively, the Disputed Asset), and (b) would no longer treat the Disputed Asset as a Shared-Loss Asset under the commercial loss share agreement. The FDIC alleged that BPPR s restructure and modification of the underlying loans did not constitute a Permitted Amendment under the commercial loss share agreement, thereby causing the bank to breach Article III of the commercial loss share agreement.

BPPR disagrees with the FDIC s determinations relating to the Disputed Asset, and accordingly, on December 19, 2014, delivered to the FDIC a notice of dispute under the commercial loss share agreement.

The commercial loss share agreement provides that certain disputes be submitted to arbitration before a review board, to include two party-appointed members, under the commercial arbitration rules of the American Arbitration Association. On March 19, 2015, BPPR filed a statement of claim with the American Arbitration Association

requesting that a review board determine BPPR and the FDIC s disputes concerning the Disputed Asset. The statement of claim requests a declaration that the Disputed Asset is a Shared-Loss Asset under the commercial loss share agreement, a declaration that the restructuring is a Permitted Amendment under the commercial shared loss agreement, and an order that the FDIC reimburse the Bank for approximately $53.3 million for the Charge-Off of the Disputed Asset, plus interest at the applicable rate. On April 1, 2015, the FDIC-R notified BPPR that it is clawing back approximately $1.7 million in reimbursable expenses relating to the Disputed Asset that the FDIC-R had previously paid to BPPR. Thus, on April 13, 2015, BPPR notified the American Arbitration Association and the FDIC of an increase in the amount of its damages by approximately $1.7 million.

To the extent we are not able to successfully resolve this matter through negotiation or the arbitration process described above, a write-off in the amount of approximately $53.3 million plus expenses incurred in connection with the Disputed Asset, which at March 31, 2015 amounted to $1.4 million of the aforementioned pending claims would be recorded.

Table of Contents

In addition, in November and December 2014, BPPR proposed separate portfolio sales to the FDIC. The FDIC has refused to consent to either sale, stating that those sales did not represent best efforts to maximize collections on Shared-Loss Assets under the commercial loss share agreement. In March 2015, BPPR proposed a third portfolio sale to the FDIC. The FDIC has not yet responded to that proposal.

BPPR disagrees with the FDIC s characterization of the November and December 2014 portfolio sale proposals and with the FDIC s interpretation of the commercial shared loss agreement provision governing portfolio sales. Accordingly, BPPR has informed the FDIC of the existence of a dispute, and negotiations are continuing.

No assurance can be given that we will receive reimbursement from the FDIC with respect to the foregoing items, which could require us to make a material adjustment to the value of our loss share asset and the related true up payment obligation to the FDIC and could have a material adverse effect on our financial results for the period in which such adjustment is taken.

The loss sharing agreement applicable to single-family residential mortgage loans provides for FDIC loss sharing and BPPR reimbursement to the FDIC for ten years (ending on June 30, 2020), and the loss sharing agreement applicable to commercial and other assets provides for FDIC loss sharing and BPPR reimbursement to the FDIC for five years (ending on June 30, 2015), with additional recovery sharing for three years thereafter. As of March 31, 2015, the carrying value of covered loans approximated $2.5 billion, of which approximately 64% pertained to commercial loans, 3% to construction loans, 32% to mortgage loans and 1% to consumer loans. To the extent that estimated losses on covered loans are not realized before the expiration of the applicable loss sharing agreement, such losses would not be subject to reimbursement from the FDIC and, accordingly, would require us to make a material reduction in the value of our loss share asset and the related true up payment obligation to the FDIC and could have a material adverse effect on our financial results for the period in which such adjustment is taken.

Note 27 Non-consolidated variable interest entities

The Corporation is involved with four statutory trusts which it established to issue trust preferred securities to the public. These trusts are deemed to be variable interest entities (VIEs) since the equity investors at risk have no substantial decision-making rights. The Corporation does not hold any variable interest in the trusts, and therefore, cannot be the trusts primary beneficiary. Furthermore, the Corporation concluded that it did not hold a controlling financial interest in these trusts since the decisions of the trusts are predetermined through the trust documents and the guarantee of the trust preferred securities is irrelevant since in substance the sponsor is guaranteeing its own debt.

Also, the Corporation is involved with various special purpose entities mainly in guaranteed mortgage securitization transactions, including GNMA, FNMA and FHLMC. These special purpose entities are deemed to be VIEs since they lack equity investments at risk. The Corporation s continuing involvement in these guaranteed loan securitizations includes owning certain beneficial interests in the form of securities as well as the servicing rights retained. The Corporation is not required to provide additional financial support to any of the variable interest entities to which it has transferred the financial assets. The mortgage-backed securities, to the extent retained, are classified in the Corporation s consolidated statements of financial condition as available-for-sale or trading securities. The Corporation concluded that, essentially, these entities (FNMA, GNMA, and FHLMC) control the design of their respective VIEs, dictate the quality and nature of the collateral, require the underlying insurance, set the servicing standards via the servicing guides and can change them at will, and can remove a primary servicer with cause, and without cause in the case of FNMA and FHLMC. Moreover, through their guarantee obligations, agencies (FNMA, GNMA, and FHLMC) have the obligation to absorb losses that could be potentially significant to the VIE.

ASU 2009-17 requires that an ongoing primary beneficiary assessment should be made to determine whether the Corporation is the primary beneficiary of any of the VIEs it is involved with. The conclusion on the assessment of these trusts and guaranteed mortgage securitization transactions has not changed since their initial evaluation. The Corporation concluded that it is still not the primary beneficiary of these VIEs, and therefore, these VIEs are not required to be consolidated in the Corporation s financial statements at March 31, 2015.

The Corporation holds variable interests in these VIEs in the form of agency mortgage-backed securities and collateralized mortgage obligations, including those securities originated by the Corporation and those acquired from third parties. Additionally, the Corporation holds agency mortgage-backed securities, agency collateralized mortgage obligations and private label collateralized mortgage obligations issued by third party VIEs in which it has no other form of continuing involvement. Refer to Note 29 to the consolidated financial statements for additional information on the debt securities outstanding at March 31, 2015 and December 31, 2014, which are classified as available-for-sale and trading securities in the Corporation s consolidated statements of financial condition. In addition, the Corporation may retain the right to service the transferred loans in those government-sponsored special purpose entities (SPEs) and may also purchase the right to service loans in other government-sponsored SPEs that were transferred to those SPEs by a third-party. Pursuant to ASC Subtopic 810-10, the servicing fees that the Corporation receives for its servicing role are considered variable interests in the VIEs since the servicing fees are subordinated to the principal and interest that first needs to be paid to the mortgage-backed securities investors and to the guaranty fees that need to be paid to the federal agencies.

The following table presents the carrying amount and classification of the assets related to the Corporation s variable interests in non-consolidated VIEs and the maximum exposure to loss as a result of the Corporation s involvement as servicer with non-consolidated VIEs at March 31, 2015 and December 31, 2014.

(In thousands)	March 31, 2015	December 31, 2014
Assets		
Servicing assets:		
Mortgage servicing rights	$ 102,301	$ 103,828
Total servicing assets	$ 102,301	$ 103,828
Other assets:		
Servicing advances	$ 2,253	$ 8,974
Total other assets	$ 2,253	$ 8,974
Total assets	$ 104,554	$ 112,802
Maximum exposure to loss	$ 104,554	$ 112,802

The size of the non-consolidated VIEs, in which the Corporation has a variable interest in the form of servicing fees, measured as the total unpaid principal balance of the loans, amounted to $8.9 billion at March 31, 2015 (December 31, 2014 - $9 billion).

Maximum exposure to loss represents the maximum loss, under a worst case scenario, that would be incurred by the Corporation, as servicer for the VIEs, assuming all loans serviced are delinquent and that the value of the Corporation s interests and any associated collateral declines to zero, without any consideration of recovery. The Corporation determined that the maximum exposure to loss includes the fair value of the MSRs and the assumption that the servicing advances at March 31, 2015 and December 31, 2014, will not be recovered. The agency debt securities are not included as part of the maximum exposure to loss since they are guaranteed by the related agencies.

In September of 2011, BPPR sold construction and commercial real estate loans with a fair value of $148 million, and most of which were non-performing, to a newly created joint venture, PRLP 2011 Holdings, LLC. The joint venture is majority owned by Caribbean Property Group (CPG), Goldman Sachs & Co. and East Rock Capital LLC. The joint venture was created for the limited purpose of acquiring the loans from BPPR; servicing the loans through a third-party servicer; ultimately working out, resolving and/or foreclosing the loans; and indirectly owning, operating, constructing, developing, leasing and selling any real properties acquired by the joint venture through deed in lieu of foreclosure, foreclosure, or by resolution of any loan.

BPPR provided financing to the joint venture for the acquisition of the loans in an amount equal to the sum of 57% of the purchase price of the loans, or $84 million, and $2 million of closing costs, for a total acquisition loan of $86 million (the acquisition loan). The acquisition loan has a 5-year maturity and bears a variable interest at 30-day LIBOR plus 300 basis points and is secured by a pledge of all of the acquiring entity s assets. In addition, BPPR provided the joint venture with a non-revolving advance facility (the advance facility) of $68.5 million to cover unfunded commitments and costs-to-complete related to certain construction projects, and a revolving working capital line (the working capital line) of $20 million to fund certain operating expenses of the joint venture. Cash proceeds

received by the joint venture are first used to cover debt service payments for the acquisition loan, advance facility, and the working capital line described above which must be paid in full before proceeds can be used for other purposes. The distributable cash proceeds are determined based on a pro-rata basis in accordance with the respective equity ownership percentages. BPPR s equity interest in the joint venture ranks pari-passu with those of other parties involved. As part of the transaction executed in September 2011, BPPR received $ 48 million in cash and a 24.9% equity interest in the joint venture. The Corporation is not required to provide any other financial support to the joint venture.

BPPR accounted for this transaction as a true sale pursuant to ASC Subtopic 860-10 and thus recognized the cash received, its equity investment in the joint venture, and the acquisition loan provided to the joint venture and derecognized the loans sold.

The Corporation has determined that PRLP 2011 Holdings, LLC is a VIE but the Corporation is not the primary beneficiary. All decisions are made by CPG (or an affiliate thereof) (the Manager), except for certain limited material decisions which would require the unanimous consent of all members. The Manager is authorized to execute and deliver on behalf of the joint venture any and all documents, contracts, certificates, agreements and instruments, and to take any action deemed necessary in the benefit of the joint venture.

89

The Corporation holds variable interests in this VIE in the form of the 24.9% equity interest (the Investment in PRLP 2011 Holdings, LLC) and the financing provided to the joint venture. The equity interest is accounted for under the equity method of accounting pursuant to ASC Subtopic 323-10.

The initial fair value of the Corporation s equity interest in the joint venture was determined based on the fair value of the loans and real estate owned transferred to the joint venture of $148 million which represented the purchase price of the loans agreed by the parties and was an arm s-length transaction between market participants in accordance with ASC Topic 820, reduced by the acquisition loan provided by BPPR to the joint venture, for a total net equity of $63 million. Accordingly, the 24.9% equity interest held by the Corporation was valued at $16 million. Thus, the fair value of the equity interest is considered a Level 2 fair value measurement since the inputs were based on observable market inputs.

The following table presents the carrying amount and classification of the assets and liabilities related to the Corporation s variable interests in the non-consolidated VIE, PRLP 2011 Holdings, LLC, and its maximum exposure to loss at March 31, 2015 and December 31, 2014.

(In thousands)	March 31, 2015	December 31, 2014
Assets		
Loans held-in-portfolio:		
Advances under the working capital line	$ 752	$ 426
Advances under the advance facility	2,525	4,226
Total loans held-in-portfolio	$ 3,277	$ 4,652
Accrued interest receivable	$ 19	$ 22
Other assets:		
Investment in PRLP 2011 Holdings LLC	$ 24,683	$ 23,650
Total assets	$ 27,979	$ 28,324
Deposits	$ (3,171)	$ (2,685)
Total liabilities	$ (3,171)	$ (2,685)
Total net assets	$ 24,808	$ 25,639
Maximum exposure to loss	$ 24,808	$ 25,639

The Corporation determined that the maximum exposure to loss under a worst case scenario at March 31, 2015 would be not recovering the carrying amount of the acquisition loan, the advances on the advance facility and working capital line, if any, and the equity interest held by the Corporation, net of the deposits.

On March 25, 2013, BPPR completed a sale of assets with a book value of $509.0 million, of which $500.6 million were in non-performing status, comprised of commercial and construction loans, and commercial and single family real estate owned, with a combined unpaid principal balance on loans and appraised value of other real estate owned of approximately $987.0 million to a newly created joint venture, PR Asset Portfolio 2013-1 International, LLC. The

joint venture is majority owned by Caribbean Property Group LLC (CPG) and certain affiliates of Perella Weinberg Partners Asset Based Value Strategy. The joint venture was created for the limited purpose of acquiring the loans from BPPR; servicing the loans through a third-party servicer; ultimately working out, resolving and/or foreclosing the loans; and indirectly owning, operating, constructing, developing, leasing and selling any real properties acquired by the joint venture through deed in lieu of foreclosure, foreclosure, or by resolution of any loan.

BPPR provided financing to the joint venture for the acquisition of the assets in an amount equal to the sum of 57% of the purchase price of the assets, and closing costs, for a total acquisition loan of $182.4 million (the acquisition loan). The acquisition loan has a 5-year maturity and bears a variable interest at 30-day LIBOR plus 300 basis points and is secured by a pledge of all of the acquiring entity s assets. In addition, BPPR provided the joint venture with a non-revolving advance facility (the advance facility) of $35.0 million to cover unfunded commitments and costs-to-complete related to certain construction projects, and a revolving working capital line (the working capital line) of $30.0 million to fund certain operating expenses of the joint venture. Cash proceeds received by the joint venture are first used to cover debt service payments for the acquisition loan, advance facility, and the working capital line described above which must be paid in full before proceeds can be used for other purposes. The distributable cash proceeds are determined based on a pro-rata basis in accordance with the respective equity ownership percentages. BPPR s equity

interest in the joint venture ranks pari-passu with those of other parties involved. As part of the transaction executed in March 2013, BPPR received $92.3 million in cash and a 24.9% equity interest in the joint venture. The Corporation is not required to provide any other financial support to the joint venture.

BPPR accounted for this transaction as a true sale pursuant to ASC Subtopic 860-10 and thus recognized the cash received, its equity investment in the joint venture, and the acquisition loan provided to the joint venture and derecognized the loans and real estate owned sold.

The Corporation has determined that PR Asset Portfolio 2013-1 International, LLC is a VIE but the Corporation is not the primary beneficiary. All decisions are made by CPG (or an affiliate thereof) (the Manager), except for certain limited material decisions which would require the unanimous consent of all members. The Manager is authorized to execute and deliver on behalf of the joint venture any and all documents, contracts, certificates, agreements and instruments, and to take any action deemed necessary in the benefit of the joint venture. Also, the Manager delegates the day-to-day management and servicing of the loans to PR Asset Portfolio Servicing International, LLC, an affiliate of CPG.

The initial fair value of the Corporation s equity interest in the joint venture was determined based on the fair value of the loans and real estate owned transferred to the joint venture of $306 million which represented the purchase price of the loans agreed by the parties and was an arm s-length transaction between market participants in accordance with ASC Topic 820, reduced by the acquisition loan provided by BPPR to the joint venture, for a total net equity of $124 million. Accordingly, the 24.9% equity interest held by the Corporation was valued at $31 million. Thus, the fair value of the equity interest is considered a Level 2 fair value measurement since the inputs were based on observable market inputs.

The Corporation holds variable interests in this VIE in the form of the 24.9% equity interest (the Investment in PR Asset Portfolio 2013-1 International, LLC) and the financing provided to the joint venture. The equity interest is accounted for under the equity method of accounting pursuant to ASC Subtopic 323-10.

The following table presents the carrying amount and classification of the assets and liabilities related to the Corporation s variable interests in the non-consolidated VIE, PR Asset Portfolio 2013-1 International, LLC, and its maximum exposure to loss at March 31, 2015 and December 31, 2014.

(In thousands)	March 31, 2015	December 31, 2014
Assets		
Loans held-in-portfolio:		
Acquisition loan	$ 78,582	$ 97,193
Advances under the working capital line	1,618	990
Advances under the advance facility	15,319	12,460
Total loans held-in-portfolio	$ 95,519	$ 110,643
Accrued interest receivable	$ 274	$ 314
Other assets:		
Investment in PR Asset Portfolio 2013-1 International, LLC	$ 27,039	$ 31,374

Total assets	$	122,832	$	142,331
Deposits	$	(10,685)	$	(12,960)
Total liabilities	$	(10,685)	$	(12,960)
Total net assets	$	112,147	$	129,371
Maximum exposure to loss	$	112,147	$	129,371

The Corporation determined that the maximum exposure to loss under a worst case scenario at March 31, 2015 would be not recovering the carrying amount of the acquisition loan, the advances on the advance facility and working capital line, if any, and the equity interest held by the Corporation, net of the deposits.

Table of Contents

Note 28 Related party transactions with affiliated company / joint venture

EVERTEC

The Corporation has an investment in EVERTEC, Inc. (EVERTEC), which provides various processing and information technology services to the Corporation and its subsidiaries and gives BPPR access to the ATH network owned and operated by EVERTEC. As of March 31, 2015, the Corporation s stake in EVERTEC was 15.05%. The Corporation continues to have significant influence over EVERTEC. Accordingly, the investment in EVERTEC is accounted for under the equity method and is evaluated for impairment if events or circumstances indicate that a decrease in value of the investment has occurred that is other than temporary. Refer to Note 34 Related party transactions to the consolidated financial statements included in the Corporation s 2014 Annual Report for details.

The Corporation received $ 1.2 million in dividend distributions during the quarter ended March 31, 2015 from its investments in EVERTEC s holding company (March 31, 2014 - $ 1.2 million). The Corporation s equity in EVERTEC is presented in the table which follows and is included as part of other assets in the consolidated statements of financial condition.

(In thousands)	March 31, 2015	December 31, 2014
Equity investment in EVERTEC	$ 27,329	$ 25,146

The Corporation had the following financial condition balances outstanding with EVERTEC at March 31, 2015 and December 31, 2014. Items that represent liabilities to the Corporation are presented with parenthesis.

(In thousands)	March 31, 2015	December 31, 2014
Accounts receivable (Other assets)	$ 2,825	$ 5,065
Deposits	(16,146)	(15,481)
Accounts payable (Other liabilities)	(17,214)	(15,511)
Net total	$ (30,535)	$ (25,927)

The Corporation s proportionate share of income or loss from EVERTEC is included in other operating income in the consolidated statements of operations. The following table presents the Corporation s proportionate share of EVERTEC s income (loss) and changes in stockholders equity for the quarters ended March 31, 2015 and 2014.

	Quarter ended March 31,	
(In thousands)	2015	2014
Share of income from investment in EVERTEC	$ 2,869	$ 2,779
Share of other changes in EVERTEC s stockholders equity	351	238
Share of EVERTEC s changes in equity recognized in income	$ 3,220	$ 3,017

The following tables present the impact of transactions and service payments between the Corporation and EVERTEC (as an affiliate) and their impact on the results of operations for the quarters ended March 31, 2015 and 2014. Items

that represent expenses to the Corporation are presented with parenthesis.

(In thousands)	Quarter ended March 31, 2015	Quarter ended March 31, 2014	Category
Interest expense on deposits	$ (11)	$ (20)	Interest expense
ATH and credit cards interchange income from services to EVERTEC	6,487	6,419	Other service fees
Rental income charged to EVERTEC	1,724	1,677	Net occupancy
Processing fees on services provided by EVERTEC	(39,504)	(38,762)	Professional fees
Other services provided to EVERTEC	324	221	Other operating expenses
Total	$ (30,980)	$ (30,465)	

92

Table of Contents

EVERTEC has a letter of credit issued by BPPR, for an amount of $ 3.6 million at March 31, 2015 and December 31, 2014. The Corporation also agreed to maintain outstanding this letter of credit for a 5-year period which expires on September 30, 2015. EVERTEC and the Corporation entered into a Reimbursement Agreement, in which EVERTEC will reimburse the Corporation for any losses incurred by the Corporation in connection with the performance bonds and the letter of credit. Possible losses resulting from these agreements are considered insignificant.

PRLP 2011 Holdings, LLC

As indicated in Note 27 to the consolidated financial statements, the Corporation holds a 24.9% equity interest in PRLP 2011 Holdings, LLC and currently provides certain financing to the joint venture as well as holds certain deposits from the entity.

The Corporation s equity in PRLP 2011 Holdings, LLC is presented in the table which follows and is included as part of other assets in the consolidated statements of financial condition.

(In thousands)	March 31, 2015	December 31, 2014
Equity investment in PRLP 2011 Holdings, LLC	$ 24,683	$ 23,650

The Corporation had the following financial condition balances outstanding with PRLP 2011 Holdings, LLC at March 31, 2015 and December 31, 2014.

(In thousands)	March 31, 2015	December 31, 2014
Loans	$ 3,277	$ 4,652
Accrued interest receivable	19	22
Deposits (non-interest bearing)	(3,171)	(2,685)
Net total	$ 125	$ 1,989

The Corporation s proportionate share of income or loss from PRLP 2011 Holdings, LLC is included in other operating income in the consolidated statements of operations. The following table presents the Corporation s proportionate share of income (loss) from PRLP 2011 Holdings, LLC for the quarters ended March 31, 2015 and 2014.

	Quarters ended March 31,	
(In thousands)	2015	2014
Share of income (loss) from the equity investment in PRLP 2011 Holdings, LLC	$ 1,033	$ (1,746)

The following table presents transactions between the Corporation and PRLP 2011 Holdings, LLC and their impact on the Corporation s results of operations for the quarters ended March 31, 2015 and 2014.

Quarters ended March 31,

(In thousands)	2015	2014	Category
Interest (loss) income on loan to PRLP 2011 Holdings, LLC	$ (62)	$ 172	Interest income

PR Asset Portfolio 2013-1 International, LLC

As indicated in Note 27 to the consolidated financial statements, effective March 2013 the Corporation holds a 24.9% equity interest in PR Asset Portfolio 2013-1 International, LLC and currently provides certain financing to the joint venture as well as holds certain deposits from the entity.

Table of Contents

The Corporation s equity in PR Asset Portfolio 2013-1 International, LLC is presented in the table which follows and is included as part of other assets in the consolidated statements of financial condition.

(In thousands)	March 31, 2015	December 31, 2014
Equity investment in PR Asset Portfolio 2013-1 International, LLC	$ 27,039	$ 31,374

The Corporation had the following financial condition balances outstanding with PR Asset Portfolio 2013-1 International, LLC, at March 31, 2015 and December 31, 2014.

(In thousands)	March 31, 2015	December 31, 2014
Loans	$ 95,519	$ 110,643
Accrued interest receivable	274	314
Deposits	(10,685)	(12,960)
Net total	$ 85,108	$ 97,997

The Corporation s proportionate share of income or loss from PR Asset Portfolio 2013-1 International, LLC is included in other operating income in the consolidated statements of operations. The following table presents the Corporation s proportionate share of income (loss) from PR Asset Portfolio 2013-1 International, LLC for quarters ended March 31, 2015 and 2014.

	Quarters ended March 31,	
(In thousands)	2015	2014
Share of (loss) income from the equity investment in PR Asset Portfolio 2013-1 International, LLC	$ (4,335)	$ 1,288

The following table presents transactions between the Corporation and PR Asset Portfolio 2013-1 International, LLC and their impact on the Corporation s results of operations for the quarters ended March 31, 2015 and 2014.

	Quarters ended March 31,		
(In thousands)	2015	2014	Category
Interest income on loan to PR Asset Portfolio 2013-1 International, LLC	$ 866	$ 1,262	Interest income
Servicing fee paid by PR Asset Portfolio 2013-1 International, LLC		70	Other service fees
Total	$ 866	$ 1,332	

Note 29 Fair value measurement

ASC Subtopic 820-10 Fair Value Measurements and Disclosures establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels in order to increase consistency and comparability in fair value measurements and disclosures. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date. Valuation on these instruments does not necessitate a significant degree of judgment since valuations are based on quoted prices that are readily available in an active market.

Level 2 - Quoted prices other than those included in Level 1 that are observable either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or that can be corroborated by observable market data for substantially the full term of the financial instrument.

Level 3 - Inputs are unobservable and significant to the fair value measurement. Unobservable inputs reflect the Corporation s own assumptions about assumptions that market participants would use in pricing the asset or liability.

The Corporation maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Fair value is based upon quoted market prices when available. If listed prices or quotes are not available, the Corporation employs internally-developed models that primarily use market-based inputs including yield curves, interest rates, volatilities, and credit curves, among others. Valuation adjustments are limited to those necessary to ensure that the financial instrument s fair value is adequately representative of the price that would be received or paid in the marketplace. These adjustments include amounts that reflect counterparty credit quality, the Corporation s credit standing, constraints on liquidity and unobservable parameters that are applied consistently. There have been no changes in the Corporation s methodologies used to estimate the fair value of assets and liabilities since December 31, 2014.

The estimated fair value may be subjective in nature and may involve uncertainties and matters of significant judgment for certain financial instruments. Changes in the underlying assumptions used in calculating fair value could significantly affect the results.

Fair Value on a Recurring and Nonrecurring Basis

The following fair value hierarchy tables present information about the Corporation s assets and liabilities measured at fair value on a recurring basis at March 31, 2015 and December 31, 2014 and on a nonrecurring basis in periods subsequent to initial recognition at March 31, 2015 and 2014:

	At March 31, 2015			
(In thousands)	Level 1	Level 2	Level 3	Total

RECURRING FAIR VALUE MEASUREMENTS				
Assets				
Investment securities available-for-sale:				
U.S. Treasury securities	$	$ 784,274	$	$ 784,274
Obligations of U.S. Government sponsored entities		1,502,134		1,502,134
Obligations of Puerto Rico, States and political subdivisions		57,364		57,364
Collateralized mortgage obligations - federal agencies		1,849,026		1,849,026
Mortgage-backed securities		1,340,938	1,435	1,342,373
Equity securities	325	2,306		2,631
Other		10,901		10,901
Total investment securities available-for-sale	$ 325	$ 5,546,943	$ 1,435	$ 5,548,703
Trading account securities, excluding derivatives:				
Obligations of Puerto Rico, States and political subdivisions	$	$ 6,766	$	$ 6,766
Collateralized mortgage obligations		244	1,242	1,486
Mortgage-backed securities - federal agencies		102,836	6,221	109,057
Other		15,441	1,544	16,985
Total trading account securities	$	$ 125,287	$ 9,007	$ 134,294
Mortgage servicing rights	$	$	$ 149,024	$ 149,024
Derivatives		22,485		22,485
Total assets measured at fair value on a recurring basis	$ 325	$ 5,694,715	$ 159,466	$ 5,854,506
Liabilities				
Derivatives	$	$ (21,376)	$	$ (21,376)
Contingent consideration			(129,470)	(129,470)
Total liabilities measured at fair value on a recurring basis	$	$ (21,376)	$ (129,470)	$ (150,846)

Table of Contents

	At December 31, 2014			
(In thousands)	Level 1	Level 2	Level 3	Total
RECURRING FAIR VALUE MEASUREMENTS				
Assets				
Investment securities available-for-sale:				
U.S. Treasury securities	$	$ 700,154	$	$ 700,154
Obligations of U.S. Government sponsored entities		1,724,973		1,724,973
Obligations of Puerto Rico, States and political subdivisions		61,712		61,712
Collateralized mortgage obligations - federal agencies		1,910,030		1,910,030
Mortgage-backed securities		903,037	1,325	904,362
Equity securities	323	2,299		2,622
Other		11,306		11,306
Total investment securities available-for-sale	$ 323	$ 5,313,511	$ 1,325	$ 5,315,159
Trading account securities, excluding derivatives:				
Obligations of Puerto Rico, States and political subdivisions	$	$ 7,954	$	$ 7,954
Collateralized mortgage obligations		261	1,375	1,636
Mortgage-backed securities - federal agencies		104,463	6,229	110,692
Other		16,682	1,563	18,245
Total trading account securities	$	$ 129,360	$ 9,167	$ 138,527
Mortgage servicing rights	$	$	$ 148,694	$ 148,694
Derivatives		25,362		25,362
Total assets measured at fair value on a recurring basis	$ 323	$ 5,468,233	$ 159,186	$ 5,627,742
Liabilities				
Derivatives	$	$ (23,032)	$	$ (23,032)
Contingent consideration			(133,634)	(133,634)
Total liabilities measured at fair value on a recurring basis	$	$ (23,032)	$ (133,634)	$ (156,666)

Table of Contents

	Quarter ended March 31, 2015				
(In thousands)	Level 1	Level 2	Level 3	Total	
NONRECURRING FAIR VALUE MEASUREMENTS					
Assets					Write-downs
Loans[1]	$	$	$ 132,007	$ 132,007	$ (26,817)
Other real estate owned[3]		6,098	30,304	36,402	(17,936)
Other foreclosed assets[3]		20	131	151	(608)
Total assets measured at fair value on a nonrecurring basis	$	$ 6,118	$ 162,442	$ 168,560	$ (45,361)

[1] Relates mostly to certain impaired collateral dependent loans. The impairment was measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with the provisions of ASC Section 310-10-35. Costs to sell are excluded from the reported fair value amount.

[2] Relates to lower of cost or fair value adjustments on loans held-for-sale and loans transferred from loans held-in-portfolio to loans held-for-sale. Costs to sell are excluded from the reported fair value amount.

[3] Represents the fair value of foreclosed real estate and other collateral owned that were written down to their fair value. Costs to sell are excluded from the reported fair value amount.

	Quarter ended March 31, 2014				
(In thousands)	Level 1	Level 2	Level 3	Total	
NONRECURRING FAIR VALUE MEASUREMENTS					
Assets					Write-downs
Loans[1]	$	$	$ 66,189	$ 66,189	$ (11,680)
Loans held-for-sale[2]					(2,176)
Other real estate owned[3]			17,295	17,295	(5,598)
Other foreclosed assets[3]			533	533	(271)
Total assets measured at fair value on a nonrecurring basis	$	$	$ 84,017	$ 84,017	$ (19,725)

[1] Relates mostly to certain impaired collateral dependent loans. The impairment was measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with the provisions of ASC Section 310-10-35. Costs to sell are excluded from the reported fair value amount.

[2] Relates to lower of cost or fair value adjustments on loans held-for-sale and loans transferred from loans held-in-portfolio to loans held-for-sale. Costs to sell are excluded from the reported fair value amount.

[3] Represents the fair value of foreclosed real estate and other collateral owned that were written down to their fair value. Costs to sell are excluded from the reported fair value amount.

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the quarters ended March 31, 2015 and 2014.

	Quarter ended March 31, 2015							
(In thousands)	MBS classified as investment securities available-for-sale	CMOs classified as trading account securities	MBS classified as trading account securities	Other securities classified as trading account securities	Mortgage servicing rights	Total assets	Contingent consideration	Total liabilities
Balance at January 1, 2015	$ 1,325	$ 1,375	$ 6,229	$ 1,563	$ 148,694	$ 159,186	$ (133,634)	$ (133,634)
Gains (losses) included in earnings	(8)	(2)	16	(19)	(4,929)	(4,942)	4,164	4,164
Additions	118		130		5,259	5,507		
Sales		(44)	(80)			(124)		
Settlements		(87)	(74)			(161)		
Balance at March 31, 2015	$ 1,435	$ 1,242	$ 6,221	$ 1,544	$ 149,024	$ 159,466	$ (129,470)	$ (129,470)
Changes in unrealized gains (losses) included in earnings relating to assets still held at March 31, 2015	$	$ (2)	$ 18	$ 23	$ (684)	$ (645)	$ 4,164	$ 4,164

97

Table of Contents

	Quarter ended March 31, 2014							
(In thousands)	MBS classified as investment securities available-for-sale	CMOs classified as trading account securities	MBS classified as trading account securities	Other securities classified as trading account securities	Mortgage servicing rights	Total assets	Contingent consideration	Total liabilities
Balance at January 1, 2014	$ 6,523	$ 1,423	$ 9,799	$ 1,929	$ 161,099	$ 180,773	$ (128,299)	$ (128,299)
Gains (losses) included in earnings	(2)	(10)	(39)	(214)	(8,096)	(8,361)	1,168	1,168
Gains (losses) included in OCI	(42)					(42)		
Additions		263	150		3,528	3,941		
Sales			(1,109)			(1,109)		
Settlements	(100)	(115)	(500)		(2)	(717)	786	786
Balance at March 31, 2014	$ 6,379	$ 1,561	$ 8,301	$ 1,715	$ 156,529	$ 174,485	$ (126,345)	$ (126,345)
Changes in unrealized gains (losses) included in earnings relating to assets still held at March 31, 2014	$	$ (6)	$ (25)	$ (136)	$ (3,023)	$ (3,190)	$ 1,168	$ 1,168

There were no transfers in and/or out of Level 1, Level 2, or Level 3 for financial instruments measured at fair value on a recurring basis during the quarter ended March 31, 2015 and 2014.

Gains and losses (realized and unrealized) included in earnings for the quarters ended March 31, 2015 and 2014 for Level 3 assets and liabilities included in the previous tables are reported in the consolidated statements of operations as follows:

	Quarter ended March 31, 2015		Quarter ended March 31, 2014	
(In thousands)	Total gains (losses) included in earnings	Changes in unrealized gains (losses) relating to assets still held at reporting date	Total gains (losses) included in earnings	Changes in unrealized gains (losses) relating to assets still held at reporting date
Interest income	$ (8)	$	$ (2)	$
FDIC loss share (expense) income	4,164	4,164	1,168	1,168
Other service fees	(4,929)	(684)	(8,096)	(3,023)
Trading account loss	(5)	39	(263)	(167)

Total	$	(778)	$	3,519	$	(7,193)	$	(2,022)

Table of Contents

The following table includes quantitative information about significant unobservable inputs used to derive the fair value of Level 3 instruments, excluding those instruments for which the unobservable inputs were not developed by the Corporation such as prices of prior transactions and/or unadjusted third-party pricing sources.

(In thousands)	Fair value at March 31, 2015	Valuation technique	Unobservable inputs	Weighted average (range)
CMO s - trading	$ 1,242	Discounted cash flow model	Weighted average life	2.2 years (0.6 - 2.6 years)
			Yield	4.0% (1.3% - 4.7%)
			Constant prepayment rate	23.6% (19.5% - 26.1%)
Other - trading	$ 740	Discounted cash flow model	Weighted average life	5.5 years
			Yield	12.1%
			Constant prepayment rate	10.8%
Mortgage servicing rights	$ 149,024	Discounted cash flow model	Prepayment speed	8.1% (4.8% - 22.8%)
			Weighted average life	12.4 years (4.4 - 20.8 years)
			Discount rate	11.3% (9.5% - 15.0%)
Contingent consideration	$ (129,470)	Discounted cash flow model	Credit loss rate on covered loans	5.1% (0.0% - 100.0%)
			Risk premium component of discount rate	5.3%
Loans held-in-portfolio	$ 132,007[1]	External appraisal	Haircut applied on external appraisals	26.3% (25.0% - 35.0%)
Other real estate owned	$ 15,945[2]	External appraisal	Haircut applied on external appraisals	18.4% (12.0% - 30.0%)
Other foreclosed assets	$ 131[3]	External appraisal	Haircut applied on external appraisals	1.00%

[1] Loans held-in-portfolio in which haircuts were not applied to external appraisals were excluded from this table.
[2] Other real estate owned in which haircuts were not applied to external appraisals were excluded from this table.
[3] Other foreclosed assets in which haircuts were not applied to external appraisals were excluded from this table.

The significant unobservable inputs used in the fair value measurement of the Corporation s collateralized mortgage obligations and interest-only collateralized mortgage obligation (reported as other), which are classified in the trading category, are yield, constant prepayment rate, and weighted average life. Significant increases (decreases) in any of those inputs in isolation would result in significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the constant prepayment rate will generate a directionally opposite change in the weighted average life. For example, as the average life is reduced by a higher constant prepayment rate, a lower yield will be realized, and when there is a reduction in the constant prepayment rate, the average life of these collateralized mortgage obligations will extend, thus resulting in a higher yield. These particular financial instruments are valued internally by the Corporation s investment banking and broker-dealer unit utilizing internal valuation techniques. The unobservable inputs incorporated into the internal discounted cash flow models used to derive the fair value of collateralized mortgage obligations and interest-only collateralized mortgage obligation (reported as other), which are classified in the trading category, are reviewed by the Corporation s Corporate Treasury unit on a quarterly basis. In the case of Level 3 financial instruments which fair value is based on broker quotes, the Corporation s Corporate Treasury unit reviews the inputs used by the broker-dealers for reasonableness utilizing information available from

other published sources and validates that the fair value measurements were developed in accordance with ASC Topic 820. The Corporate Treasury unit also substantiates the inputs used by validating the prices with other broker-dealers, whenever possible.

The significant unobservable inputs used in the fair value measurement of the Corporation s mortgage servicing rights are constant prepayment rates and discount rates. Increases in interest rates may result in lower prepayments. Discount rates vary according to products and / or portfolios depending on the perceived risk. Increases in discount rates result in a lower fair value measurement. The Corporation s Corporate Comptroller s unit is responsible for determining the fair value of MSRs, which is based on discounted cash flow methods based on assumptions developed by an external service provider, except for prepayment speeds, which are adjusted internally for the local market based on historical experience. The Corporation s Corporate Treasury unit validates the economic assumptions developed by the external service provider on a quarterly basis. In addition, an analytical review of prepayment speeds is performed quarterly by the Corporate Comptroller s unit. Significant variances in prepayment speeds are investigated by the Corporate Treasury unit. The Corporation s MSR Committee analyzes changes in fair value measurements of MSRs and approves the valuation assumptions at each reporting period. Changes in valuation assumptions must also be approved by the MSR Committee. The fair value of MSRs are compared with those of the external service provider on a quarterly basis in order to validate if the fair values are within the materiality thresholds established by management to monitor and investigate material deviations. Back-testing is performed to compare projected cash flows with actual historical data to ascertain the reasonability of the projected net cash flow results.

Table of Contents

Note 30 Fair value of financial instruments

The fair value of financial instruments is the amount at which an asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time based on the type of financial instrument and relevant market information. Many of these estimates involve various assumptions and may vary significantly from amounts that could be realized in actual transactions.

The information about the estimated fair values of financial instruments presented hereunder excludes all nonfinancial instruments and certain other specific items.

For those financial instruments with no quoted market prices available, fair values have been estimated using present value calculations or other valuation techniques, as well as management s best judgment with respect to current economic conditions, including discount rates, estimates of future cash flows, and prepayment assumptions.

The fair values reflected herein have been determined based on the prevailing interest rate environment at March 31, 2015 and December 31, 2014, as applicable. In different interest rate environments, fair value estimates can differ significantly, especially for certain fixed rate financial instruments. In addition, the fair values presented do not attempt to estimate the value of the Corporation s fee generating businesses and anticipated future business activities, that is, they do not represent the Corporation s value as a going concern. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation.

Following is a description of the Corporation s valuation methodologies and inputs used to estimate the fair values for each class of financial assets and liabilities not measured at fair value, but for which the fair value is disclosed. The disclosure requirements exclude certain financial instruments and all non-financial instruments. Accordingly, the aggregate fair value amounts of the financial instruments disclosed do not represent management s estimate of the underlying value of the Corporation. For a description of the valuation methodologies and inputs used to estimate the fair value for each class of financial assets and liabilities measured at fair value, refer to Note 29.

Cash and due from banks

Cash and due from banks include cash on hand, cash items in process of collection, and non-interest bearing deposits due from other financial institutions. The carrying amount of cash and due from banks is a reasonable estimate of its fair value. Cash and due from banks are classified as Level 1.

Money market investments

Investments in money market instruments include highly liquid instruments with an average maturity of three months or less. For this reason, they carry a low risk of changes in value as a result of changes in interest rates, and the carrying amount approximates their fair value. Money market investments include federal funds sold, securities purchased under agreements to resell, time deposits with other banks, and cash balances, including those held at the Federal Reserve. These money market investments are classified as Level 2, except for cash balances which generate interest, including those held at the Federal Reserve, which are classified as Level 1.

Investment securities held-to-maturity

Obligations of Puerto Rico, States and political subdivisions: Municipal bonds include Puerto Rico public municipalities debt and bonds collateralized by second mortgages under the Home Purchase Stimulus Program. Puerto Rico public municipalities debt was valued internally based on benchmark treasury notes and a credit spread derived from comparable Puerto Rico government trades and recent issuances. Puerto Rico public municipalities debt is classified as Level 3. Given that the fair value of municipal bonds collateralized by second mortgages was based on internal yield and prepayment speed assumptions, these municipal bonds are classified as Level 3.

Agency collateralized mortgage obligation: The fair value of the agency collateralized mortgage obligation (CMO), which is guaranteed by GNMA, was based on internal yield and prepayment speed assumptions. This agency CMO is classified as Level 3.

Other: Other securities include foreign and corporate debt. Given that the fair value was based on quoted prices for similar instruments, foreign debt is classified as Level 2. The fair value of corporate debt, which is collateralized by municipal bonds of Puerto Rico, was internally derived from benchmark treasury notes and a credit spread based on comparable Puerto Rico government trades, similar securities, and/or recent issuances. Corporate debt is classified as Level 3.

Table of Contents

Other investment securities

Federal Home Loan Bank capital stock: Federal Home Loan Bank (FHLB) capital stock represents an equity interest in the FHLB of New York. It does not have a readily determinable fair value because its ownership is restricted and it lacks a market. Since the excess stock is repurchased by the FHLB at its par value, the carrying amount of FHLB capital stock approximates fair value. Thus, these stocks are classified as Level 2.

Federal Reserve Bank capital stock: Federal Reserve Bank (FRB) capital stock represents an equity interest in the FRB of New York. It does not have a readily determinable fair value because its ownership is restricted and it lacks a market. Since the canceled stock is repurchased by the FRB for the amount of the cash subscription paid, the carrying amount of FRB capital stock approximates fair value. Thus, these stocks are classified as Level 2.

Trust preferred securities: These securities represent the equity-method investment in the common stock of these trusts. Book value is the same as fair value for these securities since the fair value of the junior subordinated debentures is the same amount as the fair value of the trust preferred securities issued to the public. The equity-method investment in the common stock of these trusts is classified as Level 2, except for that of Popular Capital Trust III (Troubled Asset Relief Program) which is classified as Level 3. Refer to Note 22 for additional information on these trust preferred securities.

Other investments: Other investments include private equity method investments and Visa Class B common stock held by the Corporation. Since there are no observable market values, private equity method investments are classified as Level 3. The Visa Class B common stock was priced by applying the quoted price of Visa Class A common stock, net of a liquidity adjustment, to the as converted number of Class A common shares since these Class B common shares are restricted and not convertible to Class A common shares until pending litigation is resolved. Thus, these stocks are classified as Level 3.

Loans held-for-sale

The fair value of certain impaired loans held-for-sale was based on a discounted cash flow model that assumes that no principal payments are received prior to the effective average maturity date, that the outstanding unpaid principal balance is reduced by a monthly net loss rate, and that the remaining unpaid principal balance is received as a lump sum principal payment at the effective average maturity date. The remaining unpaid principal balance expected to be received, which is based on the prior 12-month cash payment experience of these loans and their expected collateral recovery, was discounted using the interest rate currently offered to clients for the origination of comparable loans. These loans were classified as Level 3. As of March 31, 2015, no loans were valued under this methodology. For loans held-for-sale originated with the intent to sell in the secondary market, its fair value was determined using similar characteristics of loans and secondary market prices assuming the conversion to mortgage-backed securities. Given that the valuation methodology uses internal assumptions based on loan level data, these loans are classified as Level 3. The fair value of certain other loans held-for-sale is based on bids received from potential buyers; binding offers; or external appraisals, net of internal adjustments and estimated costs to sell. Loans held-for-sale based on binding offers are classified as Level 2. Loans held-for-sale based on indicative offers and/or external appraisals are classified as Level 3.

Loans held-in-portfolio

The fair values of the loans held-in-portfolio have been determined for groups of loans with similar characteristics. Loans were segregated by type such as commercial, construction, residential mortgage, consumer, and credit cards. Each loan category was further segmented based on loan characteristics, including interest rate terms, credit quality and vintage. Generally, fair values were estimated based on an exit price by discounting expected cash flows for the segmented groups of loans using a discount rate that considers interest, credit and expected return by market participant under current market conditions. Additionally, prepayment, default and recovery assumptions have been applied in the mortgage loan portfolio valuations. Generally accepted accounting principles do not require a fair valuation of the lease financing portfolio, therefore it is included in the loans total at its carrying amount. Loans held-in-portfolio are classified as Level 3.

Table of Contents

FDIC loss share asset

Fair value of the FDIC loss share asset was estimated using projected net losses related to the loss sharing agreements, which are expected to be reimbursed by the FDIC. The projected net losses were discounted using the U.S. Government agency curve. The loss share asset is classified as Level 3.

Deposits

Demand deposits: The fair value of demand deposits, which have no stated maturity, was calculated based on the amount payable on demand as of the respective dates. These demand deposits include non-interest bearing demand deposits, savings, NOW, and money market accounts. Thus, these deposits are classified as Level 2.

Time deposits: The fair value of time deposits was calculated based on the discounted value of contractual cash flows using interest rates being offered on time deposits with similar maturities. The non-performance risk was determined using internally-developed models that consider, where applicable, the collateral held, amounts insured, the remaining term, and the credit premium of the institution. For certain 5-year certificates of deposit in which customers may withdraw their money anytime with no penalties or charges, the fair value of these certificates of deposit incorporate an early cancellation estimate based on historical experience. Time deposits are classified as Level 2.

Assets sold under agreements to repurchase

Securities sold under agreements to repurchase (structured and non-structured): Securities sold under agreements to repurchase with short-term maturities approximate fair value because of the short-term nature of those instruments. Resell and repurchase agreements with long-term maturities were valued using discounted cash flows based on the three-month LIBOR. In determining the non-performance credit risk valuation adjustment, the collateralization levels of these long-term securities sold under agreements to repurchase were considered. In the case of callable structured repurchase agreements, the callable feature is not considered when determining the fair value of those repurchase agreements, since there is a remote possibility, based on forward rates, that the investor will call back these agreements before maturity since it is not expected that the interest rates would rise more than the specified interest rate of these agreements. Securities sold under agreements to repurchase (structured and non-structured) are classified as Level 2.

Other short-term borrowings

The carrying amount of other short-term borrowings approximate fair value because of the short-term maturity of those instruments or because they carry interest rates which approximate market. Thus, these other short-term borrowings are classified as Level 2.

Notes payable

FHLB advances: The fair value of FHLB advances was based on the discounted value of contractual cash flows over their contractual term. In determining the non-performance credit risk valuation adjustment, the collateralization levels of these advances were considered. These advances are classified as Level 2.

Medium-term notes: The fair value of publicly-traded medium-term notes was determined using recent trades of similar transactions. Publicly-traded medium-term notes are classified as Level 2. The fair value of non-publicly traded debt was based on remaining contractual cash outflows, discounted at a rate commensurate with the non-performance credit risk of the Corporation, which is subjective in nature. Non-publicly traded debt is classified as Level 3.

Junior subordinated deferrable interest debentures (related to trust preferred securities): The fair value of junior subordinated interest debentures was determined using recent trades of similar transactions. Thus, these junior subordinated deferrable interest debentures are classified as Level 2.

Junior subordinated deferrable interest debentures (Troubled Asset Relief Program): The fair value of junior subordinated deferrable interest debentures was based on the discounted value of contractual cash flows over their contractual term. The discount rate was based on the rate at which a similar security was priced in the open market. Thus, these junior subordinated deferrable interest debentures are classified as Level 3.

Others: The other category includes capital lease obligations. Generally accepted accounting principles do not require a fair valuation of capital lease obligations, therefore; it is included at its carrying amount. Capital lease obligations are classified as Level 3.

Commitments to extend credit and letters of credit

Commitments to extend credit were valued using the fees currently charged to enter into similar agreements. For those commitments where a future stream of fees is charged, the fair value was estimated by discounting the projected cash flows of fees on commitments. Since the fair value of commitments to extend credit varies depending on the undrawn amount of the credit facility, fees are subject to constant change, and cash flows are dependent on the creditworthiness of borrowers, commitments to extend credit are classified as Level 3. The fair value of letters of credit was based on fees currently charged on similar agreements. Given that the fair value of letters of credit constantly vary due to fees being subject to constant change and whether the fees are received depends on the creditworthiness of the account parties, letters of credit are classified as Level 3.

The following tables present the carrying or notional amounts, as applicable, and estimated fair values for financial instruments with their corresponding level in the fair value hierarchy.

	March 31, 2015				
(In thousands)	Carrying amount	Level 1	Level 2	Level 3	Fair value
Financial Assets:					
Cash and due from banks	$ 495,776	$ 495,776	$	$	$ 495,776
Money market investments	2,307,215	2,167,930	139,285		2,307,215
Trading account securities, excluding derivatives[1]	134,294		125,287	9,007	134,294
Investment securities available-for-sale[1]	5,548,703	325	5,546,943	1,435	5,548,703
Investment securities held-to-maturity:					
Obligations of Puerto Rico, States and political subdivisions	100,004			87,708	87,708
Collateralized mortgage obligation-federal agency	91			96	96
Other	1,500		1,500		1,500
Total investment securities held-to-maturity	$ 101,595	$	$ 1,500	$ 87,804	$ 89,304
Other investment securities:					
FHLB stock	$ 67,929	$	$ 67,929	$	$ 67,929
FRB stock	80,001		80,001		80,001
Trust preferred securities	13,197		12,197	1,000	13,197
Other investments	1,911			3,260	3,260
Total other investment securities	$ 163,038	$	$ 160,127	$ 4,260	$ 164,387
Loans held-for-sale	$ 160,602	$	$ 9,335	$ 158,544	$ 167,879
Loans not covered under loss sharing agreement with the FDIC	20,496,706			19,760,668	19,760,668
	2,384,079			2,853,801	2,853,801

Loans covered under loss sharing agreements with the FDIC				
FDIC loss share asset	409,844		404,735	404,735
Mortgage servicing rights	149,024		149,024	149,024
Derivatives	22,485	22,485		22,485

Table of Contents

	March 31, 2015				
(In thousands)	Carrying amount	Level 1	Level 2	Level 3	Fair value
Financial Liabilities:					
Deposits:					
Demand deposits	$ 18,505,618	$	$ 18,505,618	$	$ 18,505,618
Time deposits	8,768,071		8,801,498		8,801,498
Total deposits	$ 27,273,689	$	$ 27,307,116	$	$ 27,307,116
Assets sold under agreements to repurchase:					
Securities sold under agreements to repurchase	$ 1,132,643	$	$ 1,136,302	$	$ 1,136,302
Total assets sold under agreements to repurchase	$ 1,132,643	$	$ 1,136,302	$	$ 1,136,302
Other short-term borrowings[2]	$ 1,200	$	$ 1,200	$	$ 1,200
Notes payable:					
FHLB advances	847,884		864,038		864,038
Unsecured senior debt securities	450,000		454,122		454,122
Junior subordinated deferrable interest debentures (related to trust preferred securities)	439,800		381,302		381,302
Others	19,629			19,629	19,629
Total notes payable	$ 1,757,313	$	$ 1,699,462	$ 19,629	$ 1,719,091
Derivatives	$ 21,376	$	$ 21,376	$	$ 21,376
Contingent consideration	$ 129,470	$	$	$ 129,470	$ 129,470

(In thousands)	Notional amount	Level 1	Level 2	Level 3	Fair value
Commitments to extend credit	$ 7,307,601	$	$	$ 1,073	$ 1,073
Letters of credit	68,127			976	976

[1] Refer to Note 29 to the consolidated financial statements for the fair value by class of financial asset and its hierarchy level.

[2] Refer to Note 20 to the consolidated financial statements for the composition of short-term borrowings.

Table of Contents

(In thousands)	Carrying amount	Level 1	Level 2	Level 3	Fair value
	December 31, 2014				
Financial Assets:					
Cash and due from banks	$ 381,095	$ 381,095	$	$	$ 381,095
Money market investments	1,822,386	1,671,477	150,909		1,822,386
Trading account securities, excluding derivatives[1]	138,527		129,360	9,167	138,527
Investment securities available-for-sale[1]	5,315,159	323	5,313,511	1,325	5,315,159
Investment securities held-to-maturity:					
Obligations of Puerto Rico, States and political subdivisions	101,573			92,597	92,597
Collateralized mortgage obligation-federal agency	97			102	102
Other	1,500		1,500		1,500
Total investment securities held-to-maturity	$ 103,170	$	$ 1,500	$ 92,699	$ 94,199
Other investment securities:					
FHLB stock	$ 66,773	$	$ 66,773	$	$ 66,773
FRB stock	80,025		80,025		80,025
Trust preferred securities	13,197		12,197	1,000	13,197
Other investments	1,911			5,028	5,028
Total other investment securities	$ 161,906	$	$ 158,995	$ 6,028	$ 165,023
Loans held-for-sale	$ 106,104	$	$ 27,074	$ 87,862	$ 114,936
Loans not covered under loss sharing agreement with the FDIC	18,884,732			18,079,609	18,079,609
Loans covered under loss sharing agreements with the FDIC	2,460,589			2,947,909	2,947,909
FDIC loss share asset	542,454			481,420	481,420
Mortgage servicing rights	148,694			148,694	148,694
Derivatives	25,362		25,362		25,362

105

Table of Contents

(In thousands)	Carrying amount	Level 1	Level 2	Level 3	Fair value
	December 31, 2014				
Financial Liabilities:					
Deposits:					
Demand deposits	$ 17,333,090	$	$ 17,333,090	$	$ 17,333,090
Time deposits	7,474,445		7,512,683		7,512,683
Total deposits	$ 24,807,535	$	$ 24,845,773	$	$ 24,845,773
Assets sold under agreements to repurchase:					
Securities sold under agreements to repurchase	$ 1,271,657	$	$ 1,269,398	$	$ 1,269,398
Total assets sold under agreements to repurchase	$ 1,271,657	$	$ 1,269,398	$	$ 1,269,398
Other short-term borrowings[2]	$ 21,200	$	$ 20,200	$ 1,000	$ 21,200
Notes payable:					
FHLB advances	802,198		814,877		814,877
Unsecured senior debt	450,000		460,530		460,530
Junior subordinated deferrable interest debentures (related to trust preferred securities)	439,800		379,400		379,400
Others	19,830			19,830	19,830
Total notes payable	$ 1,711,828	$	$ 1,654,807	$ 19,830	$ 1,674,637
Derivatives	$ 23,032	$	$ 23,032	$	$ 23,032
Contingent consideration	$ 133,634	$	$	$ 133,634	$ 133,634

(In thousands)	Notional amount	Level 1	Level 2	Level 3	Fair value
Commitments to extend credit	$ 7,135,352	$	$	$ 1,716	$ 1,716
Letters of credit	49,182			486	486

[1] Refer to Note 29 to the consolidated financial statements for the fair value by class of financial asset and its hierarchy level.

[2] Refer to Note 20 to the consolidated financial statements for the composition of short-term borrowings.

Table of Contents

Note 31 Net income per common share

The following table sets forth the computation of net income per common share (EPS), basic and diluted, for the quarters ended March 31, 2015 and 2014:

	Quarters ended March 31,	
(In thousands, except per share information)	2015	2014
Net income from continuing operations	$ 73,485	$ 66,504
Net income from discontinued operations	1,341	19,905
Preferred stock dividends	(930)	(931)
Net income applicable to common stock	$ 73,896	$ 85,478
Average common shares outstanding	102,939,928	102,799,752
Average potential dilutive common shares	196,381	398,350
Average common shares outstanding - assuming dilution	103,136,309	103,198,102
Basic EPS from continuing operations	$ 0.71	$ 0.64
Basic EPS from discontinued operations	$ 0.01	$ 0.19
Total Basic EPS	$ 0.72	$ 0.83
Diluted EPS from continuing operations	$ 0.71	$ 0.64
Diluted EPS from discontinued operations	$ 0.01	$ 0.19
Total Diluted EPS	$ 0.72	$ 0.83

Potential common shares consist of common stock issuable under the assumed exercise of stock options and restricted stock awards using the treasury stock method. This method assumes that the potential common shares are issued and the proceeds from exercise, in addition to the amount of compensation cost attributed to future services, are used to purchase common stock at the exercise date. The difference between the number of potential shares issued and the shares purchased is added as incremental shares to the actual number of shares outstanding to compute diluted earnings per share. Warrants, stock options, and restricted stock awards that result in lower potential shares issued than shares purchased under the treasury stock method are not included in the computation of dilutive earnings per share since their inclusion would have an antidilutive effect in earnings per common share.

For the quarter ended March 31, 2015, there were no antidilutive stock options outstanding (March 31, 2014 46,453).

Table of Contents

Note 32 Other service fees

The caption of other services fees in the consolidated statements of operations consists of the following major categories:

	Quarters ended March 31,	
(In thousands)	2015	2014
Insurance fees	$ 12,041	$ 11,719
Credit card fees	16,149	16,083
Debit card fees	11,125	10,544
Sale and administration of investment products	5,930	6,457
Trust fees	4,602	4,463
Other fees	3,779	3,552
Total other service fees	$ 53,626	$ 52,818

Table of Contents

Note 33 FDIC loss share income (expense)

The caption of FDIC loss share income (expense) in the consolidated statements of operations consists of the following major categories:

	Quarters ended March 31,	
(In thousands)	2015	2014
Amortization of loss share indemnification asset	$ (27,316)	$ (48,946)
80% mirror accounting on credit impairment losses[1]	8,246	15,090
80% mirror accounting on reimbursable expenses	21,545	12,745
80% mirror accounting on recoveries on covered assets, including rental income on OREOs, subject to reimbursement to the FDIC	(2,619)	(4,392)
Change in true-up payment obligation	4,164	1,168
Other	119	129
Total FDIC loss share income (expense)	$ 4,139	$ (24,206)

[1] Reductions in expected cash flows for ASC 310-30 loans, which may impact the provision for loan losses, may consider reductions in both principal and interest cash flow expectations. The amount covered under the FDIC loss sharing agreements for interest not collected from borrowers is limited under the agreements (approximately 90 days); accordingly, these amounts are not subject fully to the 80% mirror accounting.

Table of Contents

Note 34 Pension and postretirement benefits

The Corporation has a non-contributory defined benefit pension plan and supplementary pension benefit restoration plans for regular employees of certain of its subsidiaries. The accrual of benefits under the plans is frozen to all participants.

The components of net periodic pension cost for the periods presented were as follows:

(In thousands)	Pension Plan Quarters ended March 31, 2015	Pension Plan Quarters ended March 31, 2014	Benefit Restoration Plans Quarters ended March 31, 2015	Benefit Restoration Plans Quarters ended March 31, 2014
Interest cost	$ 7,403	$ 7,461	$ 407	$ 415
Expected return on plan assets	(11,056)	(11,630)	(589)	(606)
Amortization of net loss	4,465	2,018	311	108
Total net periodic pension cost (benefit)	$ 812	$ (2,151)	$ 129	$ (83)

During the quarter ended March 31, 2015 the Corporation made a contribution to the benefit restoration plans of $43 thousand. The total contributions expected to be paid during the year 2015 for the pension and benefit restoration plans amount to approximately $173 thousand.

The Corporation also provides certain postretirement health care benefits for retired employees of certain subsidiaries. The table that follows presents the components of net periodic postretirement benefit cost.

(In thousands)	Quarters ended March 31, 2015	Quarters ended March 31, 2014
Service cost	$ 368	$ 364
Interest cost	1,589	1,712
Amortization of prior service cost	(950)	(950)
Amortization of net loss	249	
Total postretirement cost	$ 1,256	$ 1,126

Contributions made to the postretirement benefit plan for the quarter ended March 31, 2015 amounted to approximately $1.2 million. The total contributions expected to be paid during the year 2015 for the postretirement benefit plan amount to approximately $5.8 million.

Table of Contents

Note 35 Stock-based compensation

The Corporation maintained a Stock Option Plan (the Stock Option Plan), which permitted the granting of incentive awards in the form of qualified stock options, incentive stock options, or non-statutory stock options of the Corporation. In April 2004, the Corporation s shareholders adopted the Popular, Inc. 2004 Omnibus Incentive Plan (the Incentive Plan), which replaced and superseded the Stock Option Plan. The adoption of the Incentive Plan did not alter the original terms of the grants made under the Stock Option Plan prior to the adoption of the Incentive Plan.

Stock Option Plan

Employees and directors of the Corporation or any of its subsidiaries were eligible to participate in the Stock Option Plan. The Board of Directors or the Compensation Committee of the Board had the absolute discretion to determine the individuals that were eligible to participate in the Stock Option Plan. This plan provided for the issuance of Popular, Inc. s common stock at a price equal to its fair market value at the grant date, subject to certain plan provisions. The shares are to be made available from authorized but unissued shares of common stock or treasury stock. The Corporation s policy has been to use authorized but unissued shares of common stock to cover each grant. The maximum option term is ten years from the date of grant. Unless an option agreement provides otherwise, all options granted are 20% exercisable after the first year and an additional 20% is exercisable after each subsequent year, subject to an acceleration clause at termination of employment due to retirement.

There was no intrinsic value of options outstanding at March 31, 2014. As of March 31, 2015 all options outstanding expired.

The following table summarizes the stock option activity and related information:

(Not in thousands)	Options Outstanding	Weighted-Average Exercise Price
Outstanding at December 31, 2013	100,437	$ 253.64
Granted		
Exercised		
Forfeited		
Expired	(55,640)	238.85
Outstanding at December 31, 2014	44,797	$ 272.00
Granted		
Exercised		
Forfeited		
Expired	(44,797)	272.00
Outstanding at March 31, 2015		$

There was no stock option expense recognized for the quarters ended March 31, 2015 and 2014.

Incentive Plan

The Incentive Plan permits the granting of incentive awards in the form of Annual Incentive Awards, Long-term Performance Unit Awards, Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Units or Performance Shares. Participants in the Incentive Plan are designated by the Compensation Committee of the Board of Directors (or its delegate as determined by the Board). Employees and directors of the Corporation and/or any of its subsidiaries are eligible to participate in the Incentive Plan.

Under the Incentive Plan, the Corporation has issued restricted shares, which become vested based on the employees continued service with Popular. Unless otherwise stated in an agreement, the compensation cost associated with the shares of restricted stock is determined based on a two-prong vesting schedule. The first part is vested ratably over five years commencing at the date of grant and the second part is vested at termination of employment after attainment of 55 years of age and 10 years of service. The five-year vesting part is accelerated at termination of employment after attaining 55 years of age and 10 years of service. The vesting schedule for restricted shares granted on 2014 was modified as follows, the first part ratably over four years commencing at the date of the grant and the second part is vested at termination of employment after attainment of the earlier of 55 years of age and 10 years of service or 60 years of age and 5 years of service. The four year vesting part is accelerated at termination of employment after attaining the earlier of 55 years of age and 10 years of service or 60 years of age and 5 years of service. The restricted shares granted consistent with the requirements of the TARP Interim Final Rule vest in two years from grant date.

Table of Contents

The following table summarizes the restricted stock activity under the Incentive Plan for members of management.

(Not in thousands)	Restricted Stock	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2013	585,247	$ 21.16
Granted	365,831	29.86
Vested	(311,078)	19.02
Forfeited	(11,991)	29.33
Non-vested at December 31, 2014	628,009	$ 27.13
Granted		
Vested	(105,874)	28.01
Forfeited	(19,305)	28.41
Non-vested at March 31, 2015	502,830	$ 26.90

During the quarter ended March 31, 2015, no shares of restricted stock (March 31, 2014   105,783) were awarded to management under the Incentive Plan. For 2014 all shares were awarded consistent with the requirements of the TARP Interim Final Rule.

During the quarter ended March 31, 2015, the Corporation recognized $ 2.0 million of restricted stock expense related to management incentive awards, with a tax benefit of $ 0.3 million (March 31, 2014 - $ 1.3 million, with a tax benefit of $ 0.4 million). For the quarter ended March 31, 2015, the fair market value of the restricted stock vested was $2.9 million at grant date and $3.5 million at vesting date. This triggers a windfall, net of shortfalls, of $0.2 million of which $69 thousand was recorded as a windfall pool in additional paid in capital. No windfall pool was recorded for the remaining $0.1 million due to the valuation allowance of the deferred tax asset. The total unrecognized compensation cost related to non-vested restricted stock awards and performance shares to members of management at March 31, 2015 was $ 11.7 million and is expected to be recognized over a weighted-average period of 1.4 years.

The following table summarizes the restricted stock activity under the Incentive Plan for members of the Board of Directors:

(Not in thousands)	Restricted Stock	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2013		$
Granted	23,135	30.43
Vested	(23,135)	30.43
Forfeited		
Non-vested at December 31, 2014		$

Granted	2,643	32.16
Vested	(2,643)	32.16
Forfeited		
Non-vested at March 31, 2015		$

During the quarter ended March 31, 2015, the Corporation granted 2,643 shares of restricted stock to members of the Board of Directors of Popular, Inc., which became vested at grant date (March 31, 2014 3,085). During this period, the Corporation recognized $0.1 million of restricted stock expense related to these restricted stock grants, with a tax benefit of $16 thousand (March 31, 2014 - $0.1 million, with a tax benefit of $49 thousand). The fair value at vesting date of the restricted stock vested during the quarter ended March 31, 2015 for directors was $ 85 thousand.

Table of Contents

Note 36 Income taxes

The reason for the difference between the income tax expense applicable to income before provision for income taxes and the amount computed by applying the statutory tax rate in Puerto Rico, were as follows:

	Quarters ended			
	March 31, 2015		March 31, 2014	
(In thousands)	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax expense at statutory rates	$ 41,361	39%	$ 35,010	39%
Net benefit of tax exempt interest income	(13,693)	(12)	(11,386)	(13)
Deferred tax asset valuation allowance	5,639	5	(6,972)	(8)
Non-deductible expenses			8,319	9
Difference in tax rates due to multiple jurisdictions	(1,609)	(3)	(6,195)	(7)
Effect of income subject to preferential tax rate	(2,471)	(1)	2,278	3
Others	3,341	3	2,210	3
Income tax expense	$ 32,568	31%	$ 23,264	26%

The following table presents a breakdown of the significant components of the Corporation s deferred tax assets and liabilities.

(In thousands)	March 31, 2015	December 31, 2014
Deferred tax assets:		
Tax credits available for carryforward	$ 12,730	$ 12,056
Net operating loss and other carryforward available	1,268,170	1,261,413
Postretirement and pension benefits	109,958	111,677
Deferred loan origination fees	7,396	7,720
Allowance for loan losses	696,577	710,666
Deferred gains	7,012	7,500
Accelerated depreciation	7,590	7,915
Intercompany deferred gains	2,707	2,988
Other temporary differences	25,519	27,755
Total gross deferred tax assets	2,137,659	2,149,690
Deferred tax liabilities:		
Differences between the assigned values and the tax basis of assets and liabilities recognized in purchase business combinations	38,877	37,804

FDIC-assisted transaction	83,380	81,335
Unrealized net gain on trading and available-for-sale securities	28,376	20,817
Other temporary differences	21,639	18,093
Total gross deferred tax liabilities	172,272	158,049
Valuation allowance	1,212,085	1,212,748
Net deferred tax asset	$ 753,302	$ 778,893

The net deferred tax asset shown in the table above at March 31, 2015 is reflected in the consolidated statements of financial condition as $788 million in net deferred tax assets in the Other assets caption (December 31, 2014 - $813 million) and $35 million in deferred tax liabilities in the Other liabilities caption (December 31, 2014 - $34 million), reflecting the aggregate deferred tax assets or liabilities of individual tax-paying subsidiaries of the Corporation.

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

113

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 analysis considers all sources of taxable income available to realize the deferred tax asset, including the future reversal of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in prior carryback years and tax-planning strategies.

The Corporations maintains a valuation allowance on its deferred tax asset for the U.S. operations, since in consideration of the requirement of ASC 740 management considered that it is more likely than not that all of this deferred tax asset will not be realized. For purposes of assessing the realization of the deferred tax assets in the U.S. mainland management evaluates and weights all available positive and negative evidence. The Corporation s U.S. mainland operations are no longer in a cumulative loss position for the three-year period ended March 31, 2015 taking into account taxable income exclusive of reversing temporary differences (adjusted book income). This represents positive evidence within management s evaluation. The book income for the years 2013, 2014 and for the quarter ended March 31,2015 was significantly impacted by a reversal of the loan loss provision due to the improved credit quality of the loan portfolios. In addition, the adjusted book income for the quarter ended March 31, 2015 was also significantly impacted by the incremental income resulting from the Doral Bank Transaction, which was effective as of February 27, 2015. This incremental income is considered additional positive evidence for management s evaluation of the realization of the deferred tax asset. However this incremental income only reflected one month of operations, which is not enough data to create a trend in order to be considered objectively verifiable evidence. Also, the U.S. mainland operations did not report taxable income for the years 2011, 2012 and 2013, although it did report taxable income for the year ended December 31, 2014. Future realization of the deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character within the carryforward period available under the tax law. The lack of a sustained level of taxable income together with the uncertainties regarding the estimated future normalized level of profitability including the Doral Bank Transaction incremental earnings and the impact of the restructuring plan represent strong negative evidence within management s evaluation. This determination is updated each quarter and adjusted as any changes arise. After weighting of all positive and negative evidence management concluded, as of the reporting date, that it is more likely than not that the Corporation will not be able to realize any portion of the deferred tax assets related to the U.S. mainland operations, considering the criteria of ASC Topic 740. If the Corporation is able to meet its operating targets in the U.S. including the incremental earnings associated with the Doral Bank Transaction it would be considered additional positive evidence within management s evaluation which could outweigh the negative evidence and result in the realization of a portion of the fully reserved deferred tax asset recorded at PCB.

At March 31, 2015, the Corporation s net deferred tax assets related to its Puerto Rico operations amounted to $787 million net of the valuation allowance recorded in the Holding Company.

The Corporation s Puerto Rico Banking operation is not in a cumulative loss position for the three year period ended March 31, 2015. This is considered a strong piece of objectively verifiable positive evidence that out weights any negative evidence considered by management in the evaluation of the realization of the deferred tax asset. Based on this evidence and management s estimate of future taxable income, the Corporation has concluded that it is more likely than not that such net deferred tax asset of the Puerto Rico Banking operations will be realized.

The Holding Company operation is not in a cumulative loss position for the three year period ended March 31, 2015. However, after the payment of TARP, the interest expense that will be paid on the $450 million subordinated notes which partially funded the repayment of TARP funds in 2014, bearing interest at 7%, is tax deductible contrary to the interest expense payable on the note issued to the U.S. Treasury under TARP. Based on this fact pattern the Holding

Company is expecting to have losses for income tax purposes exclusive of reversing temporary differences. Since as required by ASC 740 the historical information should be supplemented by all currently available information about future years, the expected losses in future years is considered by management a strong negative evidence that will suggest that income in future years will be insufficient to support the realization of all deferred tax asset. After weighting of all positive and negative evidence management concluded, as of the reporting date, that it is more likely than not that the Holding Company will not be able to realize any portion of the deferred tax assets, considering the criteria of ASC Topic 740. Accordingly, a valuation allowance on the deferred tax asset was recorded during the year 2014.

Table of Contents

The reconciliation of unrecognized tax benefits was as follows:

(In millions)	2015	2014
Balance at January 1	$ 8.0	$ 9.8
Additions for tax positions -January through March	0.3	0.3
Reduction as a result of settlements - January through March	(0.5)	
Balance at March 31	$ 7.8	$ 10.1

At March 31, 2015, the total amount of interest recognized in the statement of financial condition approximated $2.7 million (December 31, 2014 - $3.1 million). The total interest expense recognized at March 2015 was $143 thousand (December 31, 2014 - $540 thousand). Management determined that at March 31, 2015 and December 31, 2014 there was no need to accrue for the payment of penalties. The Corporation s policy is to report interest related to unrecognized tax benefits in income tax expense, whiles the penalties, if any, are reported in other operating expenses in the consolidated statements of operations.

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, would affect the Corporation s effective tax rate, was approximately $9.6 million at March 31, 2015 (December 31, 2014 - $9.8 million).

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.

The Corporation and its subsidiaries file income tax returns in Puerto Rico, the U.S. federal jurisdiction, various U.S. states and political subdivisions, and foreign jurisdictions. At March 31, 2015, the following years remain subject to examination in the U.S. Federal jurisdiction: 2011 and thereafter; and in the Puerto Rico jurisdiction, 2010 and thereafter. The Corporation anticipates a reduction in the total amount of unrecognized tax benefits within the next 12 months, which could amount to approximately $5.8 million.

Note 37 Supplemental disclosure on the consolidated statements of cash flows

Additional disclosures on cash flow information and non-cash activities for the quarters ended March 31, 2015 and March 31, 2014 are listed in the following table:

(In thousands)	March 31, 2015	March 31, 2014
Non-cash activities:		
Loans transferred to other real estate	$ 30,802	$ 35,272
Loans transferred to other property	8,979	10,538
Total loans transferred to foreclosed assets	39,781	45,810
Transfers from loans held-in-portfolio to loans held-for-sale	10,839	29,896
Transfers from loans held-for-sale to loans held-in-portfolio	4,858	1,919
Loans securitized into investment securities[1]	203,414	228,515
Trades receivable from brokers and counterparties	112,287	74,603
Trades payable to brokers and counterparties	19,097	222,297
Recognition of mortgage servicing rights on securitizations or asset transfers	2,859	3,528

[1] Includes loans securitized into trading securities and subsequently sold before quarter end.

As previously disclosed in Note 4, Business Combination, on February 27, 2015, the Corporation s Puerto Rico banking subsidiary, BPPR, in an alliance with co-bidders, including the Corporation s U.S. mainland banking subsidiary, PCB, acquired certain assets and all deposits (other than certain brokered deposits) of Doral Bank from the FDIC as receiver. As part of this transaction, BPPR received net cash proceeds of approximately $711 million for consideration of the assets and liabilities acquired.

Table of Contents

Note 38 Segment reporting

The Corporation s corporate structure consists of two reportable segments Banco Popular de Puerto Rico and Banco Popular North America. These reportable segments pertain only to the continuing operations of Popular, Inc. As previously indicated in Note 5 to the consolidated financial statements, the regional operations in California, Illinois and Central Florida were classified as discontinued operations in the second quarter of 2014, and the assets and liabilities of these regions were subsequently sold during the third and fourth quarters of 2014.

As indicated in Note 4 to the consolidated financial statements, Business Combination, on February 27, 2015, Banco Popular de Puerto Rico, in an alliance with co-bidders, including BPNA, acquired certain assets and all deposits of Doral Bank from the FDIC as receiver. The financial results for the first quarter of 2015 of both reportable segments include the results from the operations acquired as part of the Doral Bank transaction.

Management determined the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. The segments were determined based on the organizational structure, which focuses primarily on the markets the segments serve, as well as on the products and services offered by the segments.

Banco Popular de Puerto Rico:

Given that Banco Popular de Puerto Rico constitutes a significant portion of the Corporation s results of operations and total assets at March 31, 2015, additional disclosures are provided for the business areas included in this reportable segment, as described below:

Commercial banking represents the Corporation s banking operations conducted at BPPR, which are targeted mainly to corporate, small and middle size businesses. It includes aspects of the lending and depository businesses, as well as other finance and advisory services. BPPR allocates funds across business areas based on duration matched transfer pricing at market rates. This area also incorporates income related with the investment of excess funds, as well as a proportionate share of the investment function of BPPR.

Consumer and retail banking represents the branch banking operations of BPPR which focus on retail clients. It includes the consumer lending business operations of BPPR, as well as the lending operations of Popular Auto and Popular Mortgage. Popular Auto focuses on auto and lease financing, while Popular Mortgage focuses principally on residential mortgage loan originations. The consumer and retail banking area also incorporates income related with the investment of excess funds from the branch network, as well as a proportionate share of the investment function of BPPR.

Other financial services include the trust and asset management service units of BPPR, the brokerage and investment banking operations of Popular Securities, and the insurance agency and reinsurance businesses of Popular Insurance, Popular Insurance V.I., Popular Risk Services, and Popular Life Re. Most of the services that are provided by these subsidiaries generate profits based on fee income.

Banco Popular North America:

Banco Popular North America s reportable segment consists of the banking operations of BPNA, E-LOAN, Popular Equipment Finance, Inc. and Popular Insurance Agency, U.S.A. BPNA operates through a retail branch network in the

U.S. mainland under the name of Popular Community Bank, while E-LOAN supports BPNA s deposit gathering through its online platform. All direct lending activities at E-LOAN were ceased during the fourth quarter of 2008. Popular Equipment Finance, Inc. also holds a running-off loan portfolio as this subsidiary ceased originating loans during 2009. Popular Insurance Agency, U.S.A. offers investment and insurance services across the BPNA branch network.

The Corporate group consists primarily of the holding companies: Popular, Inc., Popular North America, Popular International Bank and certain of the Corporation s investments accounted for under the equity method, including EVERTEC and Centro Financiero BHD, S.A. The Corporate group also includes the expenses of certain corporate areas that are identified as critical to the organization: Finance, Risk Management and Legal.

The accounting policies of the individual operating segments are the same as those of the Corporation. Transactions between reportable segments are primarily conducted at market rates, resulting in profits that are eliminated for reporting consolidated results of operations.

Table of Contents

The tables that follow present the results of operations and total assets by reportable segments:

2015

(In thousands)	For the quarter ended March 31, 2015 Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	$ 306,611	$ 52,101	$
Provision for loan losses	42,237	(2,202)	
Non-interest income	103,529	6,167	
Amortization of intangibles	1,998	106	
Depreciation expense	10,108	1,617	
Other operating expenses	227,576	54,484	
Income tax expense	37,448	937	
Net income (loss)	$ 90,773	$ 3,326	$
Segment assets	$ 28,803,521	$ 6,717,758	$ (128,481)

(In thousands)	For the quarter ended March 31, 2015 Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	$ 358,712	$ (15,517)	$	$ 343,195
Provision (reversal of provision) for loan losses	40,035			40,035
Non-interest income	109,696	5,643	(104)	115,235
Amortization of intangibles	2,104			2,104
Depreciation expense	11,725	194		11,919
Other operating expenses	282,061	16,990	(732)	298,319
Income tax expense (benefit)	38,385	(6,062)	245	32,568
Net income (loss)	$ 94,098	$ (20,996)	$ 383	$ 73,485
Segment assets	$ 35,392,798	$ 4,905,585	$ (4,673,543)	$ 35,624,840

2014

For the quarter ended March 31, 2014

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations
Net interest income	$ 327,870	$ 51,431	$
Provision (reversal of provision) for loan losses	79,837	207	
Non-interest income	68,089	10,602	
Amortization of intangibles	1,824	202	
Depreciation expense	9,498	1,721	
Other operating expenses	209,839	37,992	
Income tax expense	29,943	846	
Net income	$ 65,018	$ 21,065	$

For the quarter ended March 31, 2014

(In thousands)	Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	$ 379,301	$ (28,130)	$	$ 351,171
Provision for loan losses	80,044	(208)		79,836
Non-interest income	78,691	17,408	(67)	96,032
Amortization of intangibles	2,026			2,026
Depreciation expense	11,219	157		11,376
Other operating expenses	247,831	17,076	(710)	264,197
Income tax expense (benefit)	30,789	(7,776)	251	23,264
Net income	$ 86,083	$ (19,971)	$ 392	$ 66,504

Table of Contents

Additional disclosures with respect to the Banco Popular de Puerto Rico reportable segment are as follows:

2015

	For the quarter ended March 31, 2015				
	Banco Popular de Puerto Rico				
(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$ 118,475	$ 186,252	$ 1,880	$ 4	$ 306,611
Provision for loan losses	(3,556)	45,793			42,237
Non-interest (expense) income	27,150	56,004	20,470	(95)	103,529
Amortization of intangibles	29	1,772	197		1,998
Depreciation expense	4,320	5,512	276		10,108
Other operating expenses	65,856	145,068	16,747	(95)	227,576
Income tax expense	26,053	9,778	1,617		37,448
Net income	$ 52,923	$ 34,333	$ 3,513	$ 4	$ 90,773
Segment assets	$ 10,056,505	$ 20,053,145	$ 486,998	$ (1,793,127)	$ 28,803,521

2014

	For the quarter ended March 31, 2014				
	Banco Popular de Puerto Rico				
(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$ 136,460	$ 188,677	$ 2,733	$	$ 327,870
Provision for loan losses	31,189	48,648			79,837
Non-interest income	7,684	37,979	22,444	(18)	68,089
Amortization of intangibles	1	1,709	114		1,824
Depreciation expense	3,899	5,312	287		9,498
Other operating expenses	56,439	137,601	15,817	(18)	209,839
Income tax expense	18,008	8,828	3,107		29,943
Net income	$ 34,608	$ 24,558	$ 5,852	$	$ 65,018

Additional disclosures with respect to the Banco Popular North America reportable segments are as follows:

2015

For the quarter ended March 31, 2015
Banco Popular North America

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 51,441	$ 660	$	$ 52,101
Provision for loan losses	(1,655)	(547)		(2,202)
Non-interest income	5,813	354		6,167
Amortization of intangibles	106			106
Depreciation expense	1,617			1,617
Other operating expenses	53,912	572		54,484
Income tax expense	937			937
Net (loss) income	$ 2,337	$ 989	$	$ 3,326
Segment assets	$ 7,432,512	$ 241,561	$ (956,315)	$ 6,717,758

Table of Contents

2014

(In thousands)	For the quarter ended March 31, 2014 Banco Popular North America Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 50,746	$ 685	$	$ 51,431
Reversal of provision for loan losses	(8)	215		207
Non-interest income	10,493	109		10,602
Amortization of intangibles	202			202
Depreciation expense	1,721			1,721
Other operating expenses	37,458	534		37,992
Income tax expense	846			846
Net income	$ 21,020	$ 45	$	$ 21,065

Geographic Information

(In thousands)	Quarter ended March 31, 2015	March 31, 2014
Revenues:[1]		
Puerto Rico	$ 385,054	$ 357,037
United States	56,710	62,483
Other	16,666	27,683
Total consolidated revenues	$ 458,430	$ 447,203

[1] Total revenues include net interest income (expense), service charges on deposit accounts, other service fees, mortgage banking activities, net gain (loss) and valuation adjustments on investment securities, trading account (loss) profit, net (loss) gain on sale of loans and valuation adjustments on loans held-for-sale, adjustments to indemnity reserves on loans sold, FDIC loss share (expense) income and other operating income.

Selected Balance Sheet Information:

(In thousands)	March 31, 2015	December 31, 2014
Puerto Rico		
Total assets	$ 27,646,641	$ 26,276,561
Loans	18,349,897	17,704,170

Deposits		21,395,931		20,365,445
United States				
Total assets	$	6,850,262	$	5,689,604
Loans		4,504,157		3,568,564
Deposits		4,836,699		3,442,084
Other				
Total assets	$	1,127,937	$	1,130,530
Loans		776,030		780,483
Deposits [1]		1,041,059		1,000,006

[1] Represents deposits from BPPR operations located in the U.S. and British Virgin Islands.

Note 39 Subsequent events

Subsequent events are events and transactions that occur after the balance sheet date but before the financial statements are issued. The effects of subsequent events and transactions are recognized in the financial statements when they provide additional evidence about conditions that existed at the balance sheet date. The Corporation has evaluated events and transactions occurring subsequent to March 31, 2015.

As discussed in Note 4, on April 23, 2015, BPPR closed the acquisition of Ginnie Mae mortgage servicing rights, for a loan portfolio of approximately $2.7 billion in unpaid principal balance in connection with the Doral Bank Transaction. BPPR is in negotiations for the transfers of the Fannie Mae and Freddie Mac mortgage servicing rights which are expected to be completed during the second quarter of 2015.

Note 40 Condensed consolidating financial information of guarantor and issuers of registered guaranteed securities

The following condensed consolidating financial information presents the financial position of Popular, Inc. Holding Company (PIHC) (parent only), Popular North America, Inc. (PNA) and all other subsidiaries of the Corporation at March 31, 2015 and December 31, 2014, and the results of their operations and cash flows for periods ended March 31, 2015 and 2014.

PNA is an operating, wholly-owned subsidiary of PIHC and is the holding company of its wholly-owned subsidiaries: Equity One, Inc. and Banco Popular North America (BPNA), including BPNA s wholly-owned subsidiaries Popular Equipment Finance, Inc., Popular Insurance Agency, U.S.A., and E-LOAN, Inc.

PIHC fully and unconditionally guarantees all registered debt securities issued by PNA.

Popular International Bank, Inc. (PIBI) is a wholly-owned subsidiary of PIHC and is the holding company of its wholly-owned subsidiaries Popular Insurance V.I., Inc. In July 2013, the Corporation completed the sale of Tarjetas y Transacciones en Red Tranred, C.A., which was a wholly owned subsidiary of PIBI prior to that date, became a direct wholly-owned subsidiary of PIHC after an internal reorganization. Since the internal reorganization, PIBI is no longer a bank holding company and is no longer a potential issuer of the Corporation s debt securities. PIBI has no outstanding registered debt securities that would also be guaranteed by PIHC.

A potential source of income for PIHC consists of dividends from BPPR and BPNA. Under existing federal banking regulations any dividend from BPPR or BPNA to the PIHC could be made if the total of all dividends declared by each entity during the calendar year would not exceed the total of its net income for that year, as defined by the Federal Reserve Board, 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. At March 31, 2015, BPPR could have declared a dividend of approximately $402 million (December 31, 2014 - $542 million).

Table of Contents

Condensed Consolidating Statement of Financial Condition (Unaudited)

	At March 31, 2015				
(In thousands)	Popular Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Assets:					
Cash and due from banks	$ 3,573	$ 606	$ 495,667	$ (4,070)	$ 495,776
Money market investments	19,785	1,814	2,288,430	(2,814)	2,307,215
Trading account securities, at fair value	1,766		132,528		134,294
Investment securities available-for-sale, at fair value	239		5,548,464		5,548,703
Investment securities held-to-maturity, at amortized cost			101,595		101,595
Other investment securities, at lower of cost or realizable value	9,850	4,492	148,696		163,038
Investment in subsidiaries	4,995,835	1,369,517		(6,365,352)	
Loans held-for-sale, at lower of cost or fair value			160,602		160,602
Loans held-in-portfolio:					
Loans not covered under loss sharing agreements with the FDIC	45,093		21,108,438	(43,384)	21,110,147
Loans covered under loss sharing agreements with the FDIC			2,456,552		2,456,552
Less - Unearned income			97,217		97,217
Allowance for loan losses	49		588,648		588,697
Total loans held-in-portfolio, net	45,044		22,879,125	(43,384)	22,880,785
FDIC loss share asset			409,844		409,844
Premises and equipment, net	2,558		489,733		492,291
Other real estate not covered under loss sharing agreements with the FDIC	98		128,072		128,170
Other real estate covered under loss sharing agreements with the FDIC			113,557		113,557
Accrued income receivable	132	31	129,558	(82)	129,639
Mortgage servicing assets, at fair value			149,024		149,024
Other assets	67,342	25,657	1,764,436	(14,501)	1,842,934
Goodwill			508,311	(1)	508,310
Other intangible assets	554		58,509		59,063
Total assets	$ 5,146,776	$ 1,402,117	$ 35,506,151	$ (6,430,204)	$ 35,624,840

Liabilities and Stockholders Equity

Liabilities:					
Deposits:					
Non-interest bearing	$	$	$ 6,289,272	$ (4,070)	$ 6,285,202
Interest bearing			20,991,301	(2,814)	20,988,487
Total deposits			27,280,573	(6,884)	27,273,689
Federal funds purchased and assets sold under agreements to repurchase			1,132,643		1,132,643
Other short-term borrowings		15,384	29,200	(43,384)	1,200
Notes payable	740,812	148,988	867,513		1,757,313
Other liabilities	28,844	4,235	1,062,895	(15,029)	1,080,945
Liabilities from discontinued operations			1,930		1,930
Total liabilities	769,656	168,607	30,374,754	(65,297)	31,247,720
Stockholders equity:					
Preferred stock	50,160				50,160
Common stock	1,037	2	56,307	(56,309)	1,037
Surplus	4,189,405	4,269,208	5,931,230	(10,191,911)	4,197,932
Retained earnings (accumulated deficit)	336,140	(3,044,927)	(662,460)	3,698,860	327,613
Treasury stock, at cost	(5,222)				(5,222)
Accumulated other comprehensive loss, net of tax	(194,400)	9,227	(193,680)	184,453	(194,400)
Total stockholders equity	4,377,120	1,233,510	5,131,397	(6,364,907)	4,377,120
Total liabilities and stockholders equity	$ 5,146,776	$ 1,402,117	$ 35,506,151	$ (6,430,204)	$ 35,624,840

Table of Contents

Condensed Consolidating Statement of Financial Condition (Unaudited)

	At December 31, 2014				
(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Assets:					
Cash and due from banks	$ 20,448	$ 608	$ 380,890	$ (20,851)	$ 381,095
Money market investments	19,747	357	1,803,639	(1,357)	1,822,386
Trading account securities, at fair value	1,640		136,887		138,527
Investment securities available-for-sale, at fair value	231		5,314,928		5,315,159
Investment securities held-to-maturity, at amortized cost			103,170		103,170
Other investment securities, at lower of cost or realizable value	9,850	4,492	147,564		161,906
Investment in subsidiaries	4,878,866	1,353,616		(6,232,482)	
Loans held-for-sale, at lower of cost or fair value			106,104		106,104
Loans held-in-portfolio:					
Loans not covered under loss sharing agreements with the FDIC	55,486		19,496,569	(53,769)	19,498,286
Loans covered under loss sharing agreements with the FDIC			2,542,662		2,542,662
Less - Unearned income			93,835		93,835
Allowance for loan losses	41		601,751		601,792
Total loans held-in-portfolio, net	55,445		21,343,645	(53,769)	21,345,321
FDIC loss share asset			542,454		542,454
Premises and equipment, net	2,512		492,069		494,581
Other real estate not covered under loss sharing agreements with the FDIC	90		135,410		135,500
Other real estate covered under loss sharing agreements with the FDIC			130,266		130,266
Accrued income receivable	75	112	121,657	(26)	121,818
Mortgage servicing assets, at fair value			148,694		148,694
Other assets	67,962	26,514	1,570,094	(18,127)	1,646,443
Goodwill			465,677	(1)	465,676
Other intangible assets	555		37,040		37,595
Total assets	$ 5,057,421	$ 1,385,699	$ 32,980,188	$ (6,326,613)	$ 33,096,695

Liabilities and Stockholders Equity

Liabilities:					
Deposits:					
Non-interest bearing	$	$	$ 5,804,599	$ (20,851)	$ 5,783,748
Interest bearing			19,025,144	(1,357)	19,023,787
Total deposits			24,829,743	(22,208)	24,807,535
Assets sold under agreements to repurchase			1,271,657		1,271,657
Other short-term borrowings		8,169	66,800	(53,769)	21,200
Notes payable	740,812	148,988	822,028		1,711,828
Other liabilities	49,226	6,872	974,147	(18,216)	1,012,029
Liabilities from discontinued operations			5,064		5,064
Total liabilities	790,038	164,029	27,969,439	(94,193)	28,829,313
Stockholders equity:					
Preferred stock	50,160				50,160
Common stock	1,036	2	56,307	(56,309)	1,036
Surplus	4,187,931	4,269,208	5,931,161	(10,191,842)	4,196,458
Retained earnings (accumulated deficit)	262,244	(3,043,476)	(747,702)	3,782,651	253,717
Treasury stock, at cost	(4,116)		(1)		(4,117)
Accumulated other comprehensive loss, net of tax	(229,872)	(4,064)	(229,016)	233,080	(229,872)
Total stockholders equity	4,267,383	1,221,670	5,010,749	(6,232,420)	4,267,382
Total liabilities and stockholders equity	$ 5,057,421	$ 1,385,699	$ 32,980,188	$ (6,326,613)	$ 33,096,695

Table of Contents

Condensed Consolidating Statement of Operations (Unaudited)

	Quarter ended March 31, 2015				
(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Interest income:					
Dividend income from subsidiaries	$ 1,500	$	$	$ (1,500)	$
Loans	140		355,613	(122)	355,631
Money market investments	2	2	1,444	(2)	1,446
Investment securities	143	81	30,077		30,301
Trading account securities			2,696		2,696
Total interest income	1,785	83	389,830	(1,624)	390,074
Interest expense:					
Deposits			25,866	(2)	25,864
Short-term borrowings		101	1,755	(122)	1,734
Long-term debt	13,118	2,695	3,468		19,281
Total interest expense	13,118	2,796	31,089	(124)	46,879
Net interest (expense) income	(11,333)	(2,713)	358,741	(1,500)	343,195
Provision for loan losses- non-covered loans			29,711		29,711
Provision for loan losses- covered loans			10,324		10,324
Net interest (expense) income after provision for loan losses	(11,333)	(2,713)	318,706	(1,500)	303,160
Service charges on deposit accounts			39,017		39,017
Other service fees			53,714	(88)	53,626
Mortgage banking activities			12,852		12,852
Trading account profit	40		374		414
Net gain on sale of loans, including valuation adjustments on loans held-for-sale			(79)		(79)
Adjustments (expense) to indemnity reserves on loans sold			(4,526)		(4,526)
FDIC loss share income			4,139		4,139
Other operating income	2,968	(828)	7,668	(16)	9,792
Total non-interest income (expense)	3,008	(828)	113,159	(104)	115,235
Operating expenses:					
Personnel costs	11,908		104,550		116,458
Net occupancy expenses	980		20,729		21,709
Equipment expenses	545		12,866		13,411

Other taxes	(1,458)		10,032		8,574
Professional fees	2,774	410	72,432	(88)	75,528
Communications	117		6,059		6,176
Business promotion	436		10,377		10,813
FDIC deposit insurance			6,398		6,398
Other real estate owned (OREO) expenses			23,069		23,069
Other operating expenses	(16,935)	109	34,819	(644)	17,349
Amortization of intangibles			2,104		2,104
Restructuring cost			10,753		10,753
Total operating expenses	(1,633)	519	314,188	(732)	312,342
(Loss) income before income tax and equity in earnings of subsidiaries	(6,692)	(4,060)	117,677	(872)	106,053
Income tax expense	47		32,276	245	32,568
(Loss) income before equity in earnings of subsidiaries	(6,739)	(4,060)	85,401	(1,117)	73,485
Equity in undistributed earnings of subsidiaries	80,224	1,269		(81,493)	
Income (loss) from continuing operations	73,485	(2,791)	85,401	(82,610)	73,485
Income from discontinued operations, net of tax			1,341		1,341
Equity in undistributed income of discontinued operations	1,341	1,341		(2,682)	
Net income (loss)	$ 74,826	$ (1,450)	$ 86,742	$ (85,292)	$ 74,826
Comprehensive income, net of tax	$ 110,298	$ 11,841	$ 122,078	$ (133,919)	$ 110,298

Table of Contents

Condensed Consolidating Statement of Operations (Unaudited)

	Quarter ended March 31, 2014				
(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Interest income:					
Loans	$ 562	$	$ 377,581	$ (541)	$ 377,602
Money market investments	7	3	972	(9)	973
Investment securities	166	80	34,881		35,127
Trading account securities			5,257		5,257
Total interest income	735	83	418,691	(550)	418,959
Interest expense:					
Deposits			26,860	(2)	26,858
Short-term borrowings		217	9,371	(548)	9,040
Long-term debt	26,054	2,707	3,129		31,890
Total interest expense	26,054	2,924	39,360	(550)	67,788
Net interest (expense) income	(25,319)	(2,841)	379,331		351,171
Provision for loan losses- non-covered loans	(208)		54,330		54,122
Provision for loan losses- covered loans			25,714		25,714
Net interest (expense) income after provision for loan losses	(25,111)	(2,841)	299,287		271,335
Service charges on deposit accounts			39,359		39,359
Other service fees			52,885	(67)	52,818
Mortgage banking activities			3,678		3,678
Trading account loss	21		1,956		1,977
Net gain on sale of loans, including valuation adjustments on loans held-for-sale			4,393		4,393
Adjustments (expense) to indemnity reserves on loans sold			(10,347)		(10,347)
FDIC loss share expense			(24,206)		(24,206)
Other operating income	3,401	661	24,298		28,360
Total non-interest income	3,422	661	92,016	(67)	96,032
Operating expenses:					
Personnel costs	8,309		95,992		104,301
Net occupancy expenses	932		20,428		21,360
Equipment expenses	941		10,471		11,412
Other taxes	184		13,479		13,663

Professional fees	3,046	1,004	63,016	(67)	66,999
Communications	127		6,558		6,685
Business promotion	411		10,975		11,386
FDIC deposit insurance			10,978		10,978
Other real estate owned (OREO) expenses			6,440		6,440
Other operating expenses	(13,768)	109	36,651	(643)	22,349
Amortization of intangibles			2,026		2,026
Total operating expenses	182	1,113	277,014	(710)	277,599
(Loss) income before income tax and equity in earnings of subsidiaries	(21,871)	(3,293)	114,289	643	89,768
Income tax (benefit) expense	(834)		23,847	251	23,264
(Loss) income before equity in earnings of subsidiaries	(21,037)	(3,293)	90,442	392	66,504
Equity in undistributed earnings of subsidiaries	87,541	17,692		(105,233)	
Income from continuing operations	66,504	14,399	90,442	(104,841)	66,504
Income from discontinued operations, net of tax			19,905		19,905
Equity in undistributed earnings of discontinued operations	19,905	19,905		(39,810)	
Net Income	$ 86,409	$ 34,304	$ 110,347	$ (144,651)	$ 86,409
Comprehensive income, net of tax	$ 118,879	$ 45,871	$ 144,132	$ (190,003)	$ 118,879

Table of Contents

Condensed Consolidating Statement of Cash Flows (UNAUDITED)

	Quarter ended March 31, 2015				
(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Cash flows from operating activities:					
Net income (loss)	$ 74,826	$ (1,450)	$ 86,742	$ (85,292)	$ 74,826
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:					
Equity in undistributed (earnings) losses of subsidiaries	(81,565)	(2,610)		84,175	
Provision for loan losses			40,035		40,035
Amortization of intangibles			2,104		2,104
Depreciation and amortization of premises and equipment	194		11,725		11,919
Net accretion of discounts and amortization of premiums and deferred fees			(19,100)		(19,100)
Fair value adjustments on mortgage servicing rights			4,929		4,929
FDIC loss share income			(4,139)		(4,139)
Adjustments (expense) to indemnity reserves on loans sold			4,526		4,526
Earnings from investments under the equity method	(2,968)	828	(161)		(2,301)
Deferred income tax expense			23,135	245	23,380
Loss (gain) on:					
Disposition of premises and equipment			(978)		(978)
Sale of loans, including valuation adjustments on loans held for sale and mortgage banking activities			(7,222)		(7,222)
Sale of foreclosed assets, including write-downs			14,851		14,851
Acquisitions of loans held-for-sale			(121,929)		(121,929)
Proceeds from sale of loans held-for-sale			27,547		27,547
Net originations on loans held-for-sale			(179,604)		(179,604)
Net (increase) decrease in:					
Trading securities	(126)		178,068		177,942
Accrued income receivable	(56)	81	(94)	56	(13)
Other assets	3,716	28	(27,900)	(3,871)	(28,027)
Net (decrease) increase in:					
Interest payable	(7,875)	(2,629)	344	(56)	(10,216)
			1,019		1,019

Pension and other postretirement benefits obligations					
Other liabilities	(12,816)	(7)	(9,797)	3,243	(19,377)
Total adjustments	(101,496)	(4,309)	(62,641)	83,792	(84,654)
Net cash (used in) provided by operating activities	(26,670)	(5,759)	24,101	(1,500)	(9,828)
Cash flows from investing activities:					
Net (increase) decrease in money market investments	(38)	(1,457)	(484,791)	1,457	(484,829)
Purchases of investment securities:					
Available-for-sale			(411,189)		(411,189)
Held-to-maturity			(250)		(250)
Other			(2,520)		(2,520)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:					
Available-for-sale			385,672		385,672
Held-to-maturity			2,231		2,231
Other			30,785		30,785
Proceeds from sale of investment securities:					
Other			1,388		1,388
Net repayments on loans	10,392		154,788	(10,386)	154,794
Proceeds from sale of loans			19,127		19,127
Acquisition of loan portfolios			(49,510)		(49,510)
Net payments from FDIC under loss sharing agreements			132,265		132,265
Net cash received and acquired from business combination			711,051		711,051
Mortgage servicing rights purchased			(2,400)		(2,400)
Acquisition of premises and equipment	(242)		(9,989)		(10,231)
Proceeds from sale of:					
Premises and equipment	3		3,090		3,093
Foreclosed assets			40,161		40,161
Net cash provided by (used in) investing activities	10,115	(1,457)	519,909	(8,929)	519,638
Cash flows from financing activities:					
Net increase (decrease) in:					
Deposits			250,582	15,324	265,906
Federal funds purchased and assets sold under agreements to repurchase			(139,013)		(139,013)
Other short-term borrowings		7,214	(165,815)	10,386	(148,215)
Payments of notes payable			(419,487)		(419,487)
Proceeds from issuance of notes payable			46,000		46,000
Proceeds from issuance of common stock	1,405				1,405
Dividends paid to parent company			(1,500)	1,500	
Dividends paid	(620)				(620)
Net payments for repurchase of common stock	(1,105)				(1,105)

Net cash (used in) provided by financing activities	(320)	7,214	(429,233)	27,210	(395,129)
Net (decrease) increase in cash and due from banks	(16,875)	(2)	114,777	16,781	114,681
Cash and due from banks at beginning of period	20,448	608	380,890	(20,851)	381,095
Cash and due from banks at end of period	$ 3,573	$ 606	$ 495,667	$ (4,070)	$ 495,776

The Condensed Consolidating Statements of Cash Flows include the cash flows from operating, investing and financing activities associated with discontinued operations.

Table of Contents

Condensed Consolidating Statement of Cash Flows (UNAUDITED)

	Quarter ended March 31, 2014				
(In thousands)	Popular, Inc. Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Cash flows from operating activities:					
Net income	$ 86,409	$ 34,304	$ 110,347	$ (144,651)	$ 86,409
Adjustments to reconcile net income to net cash (used in) provided by operating activities:					
Equity in undistributed earnings of subsidiaries	(107,446)	(37,597)		145,043	
Provision for loan losses	(208)		73,280		73,072
Amortization of intangibles			2,504		2,504
Depreciation and amortization of premises and equipment	157		11,808		11,965
Net accretion of discounts and amortization of premiums and deferred fees	265		(39,836)		(39,571)
Fair value adjustments on mortgage servicing rights			8,096		8,096
FDIC loss share expense			24,206		24,206
Adjustments (expense) to indemnity reserves on loans sold			10,347		10,347
Earnings from investments under the equity method	(3,401)	(661)	(12,868)		(16,930)
Deferred income tax (benefit) expense	(1,577)		15,224	251	13,898
Loss (gain) on:					
Disposition of premises and equipment			(1,671)		(1,671)
Sale of loans, including valuation adjustments on loans held for sale and mortgage banking activities			(18,953)		(18,953)
Sale of foreclosed assets, including write-downs			(1,199)		(1,199)
Acquisitions of loans held-for-sale			(76,125)		(76,125)
Proceeds from sale of loans held-for-sale			45,115		45,115
Net originations on loans held-for-sale			(179,057)		(179,057)
Net (increase) decrease in:					
Trading securities	(107)		219,104		218,997
Accrued income receivable	(58)	83	5,564	52	5,641
Other assets	1,488	(7,096)	30,505	(26,360)	(1,463)
Net increase (decrease) in:					
Interest payable	2,080	(2,632)	(2,076)	(52)	(2,680)
Pension and other postretirement benefits obligations			(1,562)		(1,562)

Other liabilities	(3,245)	(31,708)	8,043	25,717	(1,193)
Total adjustments	(112,052)	(79,611)	120,449	144,651	73,437
Net cash (used in) provided by operating activities	(25,643)	(45,307)	230,796		159,846
Cash flows from investing activities:					
Net (increase) decrease in money market investments	(11,192)	3,986	(763,988)	7,214	(763,980)
Purchases of investment securities:					
Available-for-sale			(436,233)		(436,233)
Other			(34,768)		(34,768)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:					
Available-for-sale			194,949		194,949
Held-to-maturity			1,888		1,888
Other			49,964		49,964
Net repayments on loans	27,886		205,955	(28,181)	205,660
Proceeds from sale of loans			42,238		42,238
Acquisition of loan portfolios			(201,385)		(201,385)
Net payments from FDIC under loss sharing agreements			81,327		81,327
Acquisition of premises and equipment	(72)		(10,945)		(11,017)
Proceeds from sale of:					
Premises and equipment	13		6,372		6,385
Foreclosed assets			38,830		38,830
Net cash provided by (used in) investing activities	16,635	3,986	(825,796)	(20,967)	(826,142)
Cash flows from financing activities:					
Net increase (decrease) in:					
Deposits			547,943	12,029	559,972
Federal funds purchased and assets sold under agreements to repurchase			560,121	(11,200)	548,921
Other short-term borrowings		41,319	(469,500)	28,181	(400,000)
Payments of notes payable			(110,514)		(110,514)
Proceeds from issuance of notes payable			31,905		31,905
Proceeds from issuance of common stock	1,666				1,666
Dividends paid	(931)				(931)
Net payments for repurchase of common stock	(17)				(17)
Net cash provided by financing activities	718	41,319	559,955	29,010	631,002
Net decrease in cash and due from banks	(8,290)	(2)	(35,045)	8,043	(35,294)
Cash and due from banks at beginning of period	10,595	616	422,967	(10,967)	423,211
Cash and due from banks at end of period	$ 2,305	$ 614	$ 387,922	$ (2,924)	$ 387,917

The Condensed Consolidating Statements of Cash Flows include the cash flows from operating, investing and financing activities associated with discontinued operations.

128

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report includes management s discussion and analysis (MD&A) of the consolidated financial position and financial performance of Popular, Inc. (the Corporation or Popular). All accompanying tables, financial statements and notes included elsewhere in this report should be considered an integral part of this analysis.

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, including residential mortgage loan originations, 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 operates Banco Popular North America (BPNA), including its wholly-owned subsidiary E-LOAN. BPNA focuses efforts and resources on the core community banking business. BPNA, under the name Popular Community Bank (PCB), operates branches in New York, New Jersey and Southern Florida. E-LOAN markets deposit accounts under its name for the benefit of BPNA. Note 38 to the consolidated financial statements presents information about the Corporation s business segments. As of March 31, 2015, the Corporation had a 15.05% interest in the holding company of EVERTEC, which provides transaction processing services throughout the Caribbean and Latin America, including servicing many of the Corporation s system infrastructures and transaction processing businesses. During the quarter ended March 31, 2015, the Corporation recorded $3.2 million in earnings from its investment in EVERTEC, which had a carrying amount of $27.3 million as of the end of the quarter. Also, the Corporation had a 15.82% stake in Centro Financiero BHD Leon, S.A. (BHD Leon), one of the largest banking and financial services groups in the Dominican Republic. During the quarter ended March 31, 2015 the Corporation recorded $3.5 million in earnings from its investment in BHD Leon, which had a carrying amount of $110.6 million, as of the end of the quarter.

OVERVIEW

Recent significant events

On February 27, 2015, BPPR, in an alliance with co-bidders, including BPNA, acquired certain assets and assumed all non-brokered deposits of Doral Bank (Doral) from the Federal Deposit Insurance Corporation (FDIC), as receiver (the Doral Bank Transaction).

Under the FDIC s bidding format, BPPR was the lead bidder and party to the purchase and assumption agreement with the FDIC covering all assets and deposits acquired by it and its alliance co-bidders. BPPR entered into back to back purchase and assumption agreements with the alliance co-bidders for the transferred assets and deposits that were not retained by BPPR. The other co-bidders other than PCB which formed part of the alliance led by BPPR were First Bank Puerto Rico, Centennial Bank, and a vehicle formed by J.C. Flowers III L.P. BPPR has entered into transition service agreements with each of the alliance co-bidders.

Table of Contents

After taking into account the transfers to the unaffiliated alliance co-bidders, BPPR and PCB assumed deposits amounting to approximately $2.2 billion and acquired commercial and residential loans amounting to approximately $1.7 billion, substantially all of which were in performing status. Additionally, the acquisition included approximately $0.6 billion in investment securities, cash and other assets. There is no loss-sharing arrangement with the FDIC on the acquired assets.

On February 27, 2015, the FDIC, as receiver for Doral Bank, accepted BPPR s bid for the purchase of the mortgage servicing rights related to approximately $5.0 billion in unpaid principal balance of residential mortgage loans, for a purchase price currently estimated at $48.6 million. The transfers of the mortgage servicing rights are subject to a number of specified closing conditions, including the consent of each of Ginnie Mae, Fannie Mae and Freddie Mac in a form acceptable to BPPR, and other customary closing conditions. On April 23, 2015, BPPR closed the acquisition of approximately $2.7 billion in Ginnie Mae mortgage servicing rights. BPPR is in negotiations for the transfers of the Fannie Mae and Freddie Mac mortgage servicing rights which are expected to be completed during the second quarter of 2015.

As a result of the Doral Bank Transaction, the Corporation recorded preliminary goodwill of approximately $43 million and a core deposit intangible asset of approximately $24 million. Refer to the statement of condition section of this MD&A for a detail of the assets and liabilities of the business acquired from Doral Bank, as part of the FDIC assisted transaction, as of March 31, 2015. Refer to Note 4, Business Combination, to the consolidated financial statements for additional information on the initial fair value estimates and goodwill recorded in connection with the Doral Bank Transaction.

The Corporation continues its centralization of certain back office operations of PCB in Puerto Rico and New York. The Corporation incurred $10.7 million in restructuring charges during the first quarter of 2015. The Corporation expect to incur an additional $12.7 million in restructuring charges during the year 2015.

As discussed in Note 5 to the consolidated financial statements, during the year 2014 the Company completed the sale of its U.S. regional operations in California, Illinois and Central Florida. Current and prior periods financial information covering income and expense amounts presented in this MD&A has been retrospectively adjusted for the impact of the discontinued operations of the U.S. operations for comparative purposes.

Financial highlights for the quarter ended March 31, 2015

For the quarter ended March 31, 2015, the Corporation recorded net income of $74.8 million. Excluding the impact of certain revenue and expense items directly associated with the Doral Bank Transaction, restructuring charges incurred related to the reorganization of the U.S. operations and the impact of discontinued operations the adjusted net income for the quarter was $90.3 million, compared to a net income of $86.4 million for the same quarter of the previous year. In connection with the Doral Bank Transaction the Corporation incurred in professional services, which were partially offset by fees charged for services provided to the alliance co-bidders, resulting in a net negative impact of $6.0 million in the results for the quarter. During the quarter ended March 31, 2015, the Corporation incurred $10.7 million in restructuring charges related to the reorganization of its U.S. operations and reflected income from its discontinued operations of $1.3 million.

Taxable equivalent net interest income was $364.2 million for the first quarter of 2015, compared to $369.3 million for the same quarter of the previous year. Net interest margin, on a taxable equivalent basis, for the first quarter of 2015 was 4.85% compared to 4.94% in the same quarter of 2014, a decrease of 9 basis points or approximately $5.0 million in net interest income. The decrease in net interest income and margin is mostly related to lower volume of covered loans and lower income from investment securities, partially offset by lower cost of borrowings due to the repayment of TARP funds during the third quarter of 2014, higher yield from commercial and construction loans and higher yield from consumer loans. Refer to the Net Interest Income section of this MD&A for a discussion of the major variances in net interest income, including yields and costs.

Table of Contents

The provision for loan losses for the non-covered portfolio totaled $29.7 million for the quarter ended March 31, 2015, compared to $54.1 million for the same quarter of the previous year, a decrease of $24.4 million, reflecting improvements in credit quality. The provision for the covered portfolio amounted to $10.3 million for the first quarter of 2015, compared to $25.7 million for the same quarter of the previous year, a decrease of $15.4 million.

Non-performing loans held-in-portfolio, excluding covered loans, increased by $34.5 million during the first quarter of 2015 driven by $27.9 million from the failure and acquisition of Doral Bank. The annualized net charge-off ratio for the first quarter of 2015 was 0.72%, compared to 0.80% for the same quarter of the previous year. Refer to the Credit Risk Management and Loan Quality section of this MD&A for an explanation of the main factors impacting the provision for loan losses and a detailed analysis of net charge-offs, non-performing assets, the allowance for loan losses and selected loan losses statistics.

Non-interest income increased by $19.2 million during the quarter ended March 31, 2015, compared with the same quarter of the previous year. Excluding the impact of the $1.1 million in other income related to servicing the Doral Bank Transaction s co-bidders assets during this quarter, non-interest income increased $18.1 million. The increase in adjusted non-interest income was principally due to:

- a positive variance in the FDIC loss share income (expense) of $28.3 million
- higher mortgage banking activities revenues by $9.2 million and
- lower provision for loans sold with credit recourse by $5.8 million, partially offset by,
- lower other operating income by $17.4 million driven by lower aggregated net earnings from investments accounted under the equity method
- a negative variance in net gains (loss) on sale of loans by $4.5 million principally at the BPNA segment; and
- lower trading account profit by $1.6 million mainly at the broker dealer business in Puerto Rico.

Refer to the Non-Interest Income section of this MD&A for additional information on the main variances that affected the non-interest income categories.

Operating expenses for the quarter ended March 31, 2015 increased by $ 34.7 million when compared with the same quarter of 2014. Excluding the impact of the Doral Transaction, described in the Operating Expenses section of this MD&A and the BPNA restructuring charges amounting to $10.7 million, operating expenses increased by $13.9 million. The increase was mainly due to:

- Higher OREO expenses by $16.6 million due to higher write-downs and lower gains on sales of commercial properties at BPPR

- Higher personnel cost by $9.7 million due to higher incentive compensation at BPPR and BPNA and higher pension costs at BPPR related to adjustments in actuarial assumptions, partially offset by

- lower FDIC deposit insurance expense due to improvements in asset quality and earnings trends

- lower other taxes due to the elimination of the Puerto Rico gross receipts tax and

- lower sundry losses at BPPR and BPNA.

Refer to the Operating Expenses section of this MD&A for additional information.

Income tax expense amounted to $32.6 million for the quarter ended March 31,2015, compared with an income tax expense of $23.3 million for the same quarter of 2014. The increase in income tax expense was primarily due to higher income before tax on the Puerto Rico operations partially offset by higher net exempt interest income. As a result of the Doral Bank Transaction, the Corporation incurred expenses and recorded revenues, which resulted in a net decrease in the income tax expense of approximately $2.9 million. On an adjusted basis, the income tax expense for the first quarter of 2015 was $35.5 million.

Total assets were $35.6 billion at March 31, 2015 and $33.1 billion at December 31, 2014. Excluding the impact of the Doral Bank Transaction, total assets increased by approximately $0.3 million due to:

- An increase of $485 million in money market investments due mostly to increases in liquidity at BPPR of $256 million and BPNA of $229 million.

- An increase of $63 million in investment securities available-for-sale mainly due to a $125 million increase at BPPR mostly from MBS and government securities, which were partially offset by a decrease of $62 million at BPNA due to sales of agency securities and CMOs.

Table of Contents

These increases were partially offset by:

- A decrease of $133 million in the FDIC loss share asset mainly due to amortization, collections from the FDIC and recoveries on covered assets subject to reimbursement to the FDIC. Refer to Table O for the activity in the carrying amount of the FDIC indemnity asset

- A decrease of $86 million in loans covered under loss sharing agreements with the FDIC due to the normal run-off of the portfolio.

Excluding approximately $2.1 billion in liabilities acquired from Doral, total liabilities increased by $319 million from the fourth quarter of 2014, driven by:

- An increase of $439 million in deposits from both BPPR and BPNA.

offset by:

- A decrease of $139 million in federal funds purchased and assets sold under agreements to repurchase, largely at BPNA by $215 million, which was partially offset by an increase at BPPR of $76 million.

Stockholders equity increased by $110 million from the fourth quarter of 2014, mainly as a result of net income for the quarter of $75 million, and a decrease in accumulated other comprehensive loss of $35 million. Capital ratios continued to be strong. The Corporation s Common equity Tier 1 Capital ratio stood at 15.74% at March 31, 2015, while the tangible common equity ratio at March 31, 2015 was 10.72%. Refer to Table 18 for capital ratios and Table 19 for Non-GAAP reconciliations.

Table 1 provides selected financial data and performance indicators for the quarters ended March 31, 2015 and 2014.

As a financial services company, the Corporation s earnings are significantly affected by general business and economic conditions. Lending and deposit activities and fee income generation are influenced by the level of business spending and investment, consumer income, spending and savings, capital market activities, competition, customer preferences, interest rate conditions and prevailing market rates on competing products.

The Corporation continuously monitors general business and economic conditions, industry-related indicators and trends, competition, interest rate volatility, credit quality indicators, loan and deposit demand, operational and systems efficiencies, revenue enhancements and changes in the regulation of financial services companies.

The Corporation operates in a highly regulated environment and may be adversely affected by changes in federal and local laws and regulations. Also, competition with other financial institutions could adversely affect its profitability.

The description of the Corporation s business contained in Item 1 of the Corporation s 2014 Annual Report, while not all inclusive, discusses additional information about the business of the Corporation and risk factors, many beyond the

Corporation s control that, in addition to the other information in this Form 10-Q, readers should consider.

132

Table of Contents

The Corporation s common stock is traded on the NASDAQ Global Select Market under the symbol BPOP.

Table 1 - Financial highlights

Financial Condition Highlights				**Average for the First Quarter**		
(In thousands)	March 31, 2015	December 31, 2014	Variance	March 31, 2015	March 31, 2014	Variance
Money market investments	$ 2,307,215	$ 1,822,386	$ 484,829	$ 1,930,393	$ 1,314,838	$ 615,555
Investment and trading securities	5,947,630	5,718,762	228,868	5,836,371	6,251,167	(414,796)
Loans	23,630,084	22,053,217	1,576,867	22,504,974	22,603,530	(98,556)
Earning assets	31,884,929	29,594,365	2,290,564	30,271,738	30,169,535	102,203
Assets from discontinued operations				10	1,954,755	(1,954,745)
Total assets	35,624,840	33,096,695	2,528,145	33,806,058	36,196,323	(2,390,265)
Deposits*	27,273,689	24,807,535	2,466,154	25,585,108	24,549,507	1,035,601
Borrowings	2,891,156	3,004,685	(113,529)	2,876,718	3,867,834	(991,116)
Stockholders equity	4,377,120	4,267,382	109,738	4,321,095	4,739,141	(418,046)
Liabilities from discontinued operations	1,930	5,064	(3,134)	2,894	2,145,887	(2,142,993)

* Average deposits exclude average derivatives.

Operating Highlights	**First Quarter**		
(In thousands, except per share information)	2015	2014	Variance
Net interest income	$ 343,195	$ 351,171	$ (7,976)
Provision for loan losses - non-covered loans	29,711	54,122	(24,411)
Provision for loan losses - covered loans	10,324	25,714	(15,390)
Non-interest income	115,235	96,032	19,203
Operating expenses	312,342	277,599	34,743
Income from continuing operations before income tax	106,053	89,768	16,285
Income tax expense	32,568	23,264	9,304
Income from continuing operations	$ 73,485	$ 66,504	$ 6,981
Income from discontinued operation, net of tax	$ 1,341	$ 19,905	$ (18,564)
Net income	$ 74,826	$ 86,409	$ (11,583)
Net income applicable to common stock	$ 73,896	$ 85,478	$ (11,582)
Net income from continuing operations	$ 0.71	$ 0.64	$ 0.07
Net income from discontinued operations	$ 0.01	$ 0.19	$ (0.18)

Net income per common share - Basic	$ 0.72	$ 0.83	$ (0.11)
Net income from continuing operations	$ 0.71	$ 0.64	$ 0.07
Net income from discontinued operations	$ 0.01	$ 0.19	$ (0.18)
Net income per common share - Diluted	$ 0.72	$ 0.83	$ (0.11)

	First Quarter	
Selected Statistical Information	2015	2014
Common Stock Data		
Market price		
High	$ 35.58	$ 31.50
Low	30.52	25.50
End	34.39	30.99
Book value per common share at period end	41.81	45.39
Profitability Ratios		
Return on assets	0.90%	0.97%
Return on common equity	7.02	7.39
Net interest spread (taxable equivalent)	4.64	4.65
Net interest margin (taxable equivalent)	4.85	4.94
Capitalization Ratios		
Average equity to average assets	12.78%	13.09%
Tier I capital	16.11	19.35
Total capital	18.71	20.62
Tier 1 leverage	11.80	13.07

CRITICAL ACCOUNTING POLICIES / ESTIMATES

The accounting and reporting policies followed by the Corporation and its subsidiaries conform to generally accepted accounting principles in the United States of America and general practices within the financial services industry. Various elements of the Corporation s accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. 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.

Management has discussed the development and selection of the critical accounting policies and estimates with the Corporation s Audit Committee. The Corporation has identified as critical accounting policies those related to: (i) Fair Value Measurement of Financial Instruments; (ii) Loans and Allowance for Loan Losses; (iii) Acquisition Accounting for Loans and Related Indemnification Asset; (iv) Income Taxes; (v) Goodwill, and (vi) Pension and Postretirement Benefit Obligations. For a summary of these critical accounting policies and estimates, refer to that particular section in the MD&A included in Popular, Inc. s 2014 Financial Review and Supplementary Information to Stockholders, incorporated by reference in Popular, Inc. s Annual Report on Form 10-K for the year ended December 31, 2014 (the 2014 Annual Report). Also, refer to Note 2 to the consolidated financial statements included in the 2014 Annual Report for a summary of the Corporation s significant accounting policies.

Business Combination

The Corporation determined that the acquisition of certain assets and assumption of certain liabilities in connection with the Doral Bank Transaction constitutes a business combination as defined by the Financial Accounting Standards Board (FASB) Codification (ASC) Topic 805 Business Combinations . The assets and liabilities, both tangible and intangible, were initially recorded at their estimated fair values. Fair values were determined based on the requirements of FASB Codification Topic 820 Fair Value Measurements . These fair value estimates are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair value becomes available. Acquisition-related costs are expensed as incurred. Refer to Note 3, Business Combination, for additional information of assets acquired and liabilities assumed in connection with this transaction.

Loans acquired as part of the Doral Bank Transaction

Loans acquired in a business acquisition are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan losses is not recorded at the acquisition date.

Approximately $162 million in unpaid principal balance of residential mortgage loans acquired as part of the Doral Bank Transaction were considered impaired. Accordingly, the Corporation applied the guidance of ASC Subtopic 310-30. Under this guidance, the loans acquired from the FDIC were aggregated into pools based on similar characteristics, including factors such as loan type, interest rate type, accruing status, and amortization type. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. 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, is 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 is reasonably estimable. The non-accretable difference represents the difference between contractually required principal and interest and the cash flows expected to be collected. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date are recognized as interest income prospectively. Decreases in expected cash flows after the

acquisition date are recognized by recording an allowance for loan losses.

Table of Contents

NET INTEREST INCOME

Net interest income on a taxable equivalent basis-Non-GAAP financial measure

Net interest income, on a taxable equivalent basis, is presented with its different components on Table 2 for the quarter ended March 31, 2015 as compared with the same period in 2014, 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 this 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. The increase in the taxable equivalent adjustment in the quarter ended March 31, 2015 as compared to the same quarter in 2014 is mainly due to a higher yield on loans to the Puerto Rico Public Sector, higher volume of US Treasury securities higher taxable equivalent yield on US Agency securities and higher exempt income from investments at the International Banking entities.

Average outstanding securities balances are based on 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 quarter ended March 31, 2015 included a favorable impact, excluding the discount accretion on covered loans accounted for under Subtopic ASC 310-30, of $1.6 million, related to those items, compared with a favorable impact of $2.0 million in the same period in 2014.

Net interest margin, on a taxable equivalent basis, for the first quarter of 2015 was 4.85% compared to 4.94% in the same quarter of 2014, a decrease of 9 basis points or $5 million in net interest income. The decrease in net interest income/margin is mostly related to:

Negative variances:

- Lower volume of covered loans as part of the normal portfolio run-off and lower yields, reflecting the impact on the quarterly recast process.
- Lower interest income from investment and trading securities due to a decreased volume of collateralized mortgage obligations and lower mortgage backed securities related to a decline in mortgage loan origination activity.

Positive variances:

Lower cost of borrowings due to the early repayment of TARP funds, on July 2014, and the refinancing of US structured repos, partially offset by the issuance of $450 million Senior notes with an average cost of 7%, which were used to partially fund the repayment of TARP.

Higher yield from commercial loans due to new or repriced loans given at higher yields, particularly loans to the Puerto Rico Public Sector and the impact of interest income on loans acquired from Doral that carry a higher yield.

Higher interest income from consumer loans related to purchased loans at the end of the first quarter 2014 and higher volume of auto loans due to improved lending activity at Popular Auto.

A lower average cost of interest bearing deposits by four basis points, mainly from lower cost certificates on deposits and Individual Retirement Accounts as these mature and are renewed and substituted by lower rates; also lower volume of brokered CDs due to lower funding needs. Partially offsetting these positive impacts to interest expense is the increase in deposits at higher costs acquired from Doral.

Table of Contents

Table 2 - Analysis of Levels & Yields on a Taxable Equivalent Basis for Continuing Operations

Quarters ended March 31,

Average Volume			Average Yields / Costs				Interest			Variance Attributable to	
2015	2014	Variance	2015	2014	Variance		2015	2014	Variance	Rate	Volume
($ in millions)									(In thousands)		
$ 1,930	$ 1,315	$ 615	0.30%	0.30%	%	Money market investments	$ 1,447	$ 973	$ 474	$ 122	$ 352
5,637	5,837	(200)	2.67	2.82	(0.15)	Investment securities	37,643	41,117	(3,474)	(352)	(3,122)
200	414	(214)	6.77	5.88	0.89	Trading securities	3,344	5,998	(2,654)	799	(3,453)
7,767	7,566	201	2.19	2.55	(0.36)	Total money market, investment and trading securities	42,434	48,088	(5,654)	569	(6,223)
						Loans:					
8,383	8,487	(104)	5.17	5.02	0.15	Commercial	106,887	105,129	1,758	3,053	(1,295)
435	186	249	5.67	10.54	(4.87)	Construction	6,076	4,837	1,239	(3,005)	4,244
569	544	25	7.01	7.57	(0.56)	Leasing	9,974	10,305	(331)	(792)	461
6,733	6,691	42	5.35	5.45	(0.10)	Mortgage	90,042	91,183	(1,141)	(1,709)	568
3,845	3,761	84	10.36	10.40	(0.04)	Consumer	98,249	96,433	1,816	287	1,529
19,965	19,669	296	6.29	6.32	(0.03)	Sub-total loans	311,228	307,887	3,341	(2,166)	5,507
2,540	2,934	(394)	9.14	11.18	(2.04)	Covered loans	57,431	81,098	(23,667)	(14,306)	(9,361)
22,505	22,603	(98)	6.62	6.95	(0.33)	Total loans	368,659	388,985	(20,326)	(16,472)	(3,854)
$ 30,272	$ 30,169	$ 103	5.48%	5.85%	(0.37)%	Total earning assets	$ 411,093	$ 437,073	$ (25,980)	$ (15,903)	$ (10,077)
						Interest bearing deposits:					
$ 4,983	$ 4,736	$ 247	0.34%	0.32%	0.02%	NOW and money	$ 4,219	$ 3,779	$ 440	$ 327	$ 113

						market [1]					
6,892	6,691	201	0.23	0.22	0.01	Savings	3,924	3,559	365	270	95
7,747	7,538	209	0.93	1.05	(0.12)	Time deposits	17,721	19,520	(1,799)	(1,771)	(28)
19,622	18,965	657	0.53	0.57	(0.04)	Total deposits	25,864	26,858	(994)	(1,174)	180
1,114	2,306	(1,192)	0.63	1.59	(0.96)	Short-term borrowings	1,734	9,040	(7,306)	(4,363)	(2,943)
	532	(532)		16.05	(16.05)	TARP funds [2]		21,331	(21,331)		(21,331)
1,763	1,030	733	4.39	4.12	0.27	Other medium and long-term debt	19,281	10,559	8,722	(985)	9,707
22,499	22,833	(334)	0.84	1.20	(0.36)	Total interest bearing liabilities	46,879	67,788	(20,909)	(6,522)	(14,387)
5,963	5,584	379				Non-interest bearing demand deposits					
1,810	1,752	58				Other sources of funds					
$ 30,272	$ 30,169	$ 103	0.63%	0.91%	(0.28)%	Total source of funds	46,879	67,788	(20,909)	(6,522)	(14,387)
			4.85%	4.94%	(0.09)%	Net interest margin					
						Net interest income on a taxable equivalent basis	364,214	369,285	(5,071)	$ (9,381)	$ 4,310
			4.64%	4.65%	(0.01)%	Net interest spread					
						Taxable equivalent adjustment	21,019	18,114	2,905		
						Net interest income	$ 343,195	$ 351,171	$ (7,976)		

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

Table of Contents

Provision for Loan Losses

The Corporation s total provision for loan losses was $40.0 million for the quarter ended March 31, 2015, compared with $79.8 million for the quarter ended March 31, 2014.

The provision for loan losses for the non-covered loan portfolio totaled $29.7 million, compared to $54.1 million for the same quarter in 2014, a decrease of $24.4 million. The provision for loan losses for the non-covered loan portfolio at the BPPR segment decreased by $22.0 million mainly due to lower net charge-offs in the commercial and construction loan portfolios, partially offset by higher provision for the mortgage portfolio, reflective of the risk profile of this particular portfolio.

The provision for covered loan portfolio totaled $10.3 million in the first quarter of 2015, compared to $25.7 million for the same quarter in 2014, reflecting a decrease of $15.4 million mainly due to lower net charge-offs in the construction loan covered portfolio.

Refer to the Credit Risk Management and Loan Quality sections of this MD&A for a detailed analysis of net charge-offs, non-performing assets, the allowance for loan losses and selected loan losses statistics.

NON-INTEREST INCOME

Refer to Table 3 for a breakdown on non-interest income by major categories for the quarters ended March 31, 2015 and 2014.

Table 3 - Non-interest income

	Quarters ended March 31,		
(In thousands)	2015	2014	Variance
Service charges on deposit accounts	$ 39,017	$ 39,359	$ (342)
Other service fees:			
Insurance fees	12,041	11,719	322
Credit card fees	16,149	16,083	66
Debit card fees	11,125	10,544	581
Sale and administration of investment products	5,930	6,457	(527)
Trust fees	4,602	4,463	139
Other fees	3,779	3,552	227
Total other service fees	53,626	52,818	808
Mortgage banking activities	12,852	3,678	9,174
Trading account profit (loss)	414	1,977	(1,563)
Net (loss) gain on sale of loans, including valuation adjustment on loans held-for-sale	(79)	4,393	(4,472)
Adjustment (expense) to indemnity reserves on loans sold	(4,526)	(10,347)	5,821
FDIC loss share expense	4,139	(24,206)	28,345

Other operating income	9,792	28,360	(18,568)
Total non-interest income	$ 115,235	$ 96,032	$ 19,203

Table of Contents

Table 4 - Mortgage Banking Activities

(In thousands)	Quarters ended March 31, 2015	2014	Variance
Mortgage servicing fees, net of fair value adjustments:			
Mortgage servicing fees	$ 12,248	$ 10,748	$ 1,500
Mortgage servicing rights fair value adjustments	(4,929)	(8,096)	3,167
Total mortgage servicing fees, net of fair value adjustments	7,319	2,652	4,667
Net gain on sale of loans, including valuation on loans	7,280	7,176	104
Trading account (loss):			
Unrealized gains (losses) on outstanding derivative positions	17	(760)	777
Realized (losses) on closed derivative positions	(1,764)	(5,390)	3,626
Total trading account (loss) profit	(1,747)	(6,150)	4,403
Total mortgage banking activities	$ 12,852	$ 3,678	$ 9,174

Non-interest income increased by $19.2 million during the quarter ended March 31, 2015, compared with the same quarter of the previous year. Excluding the impact of the $1.1 million in other income related to servicing the Doral Acquisition s co-bidders assets during this quarter, non-interest income increased $18.1 million. The increase in adjusted non-interest income was principally due to:

Positive variance in the FDIC loss share income (expense) of $28.3 million mostly due to lower amortization of the indemnification asset of $21.6 million and higher mirror accounting on reimbursable expenses, partially offset by lower mirror accounting on credit impairment losses expenses. Refer to Table 6 for a breakdown of FDIC loss share income (expenses) by major categories;

Higher mortgage banking activities revenues by $9.2 million due to a favorable variance in realized gains/(losses) on closed derivative positions, a favorable variance in the valuation adjustment on mortgage servicing rights at the BPPR segment and higher mortgage servicing fees. Refer to Table 5 for details of mortgage banking activities; and

Positive variance in the adjustments to indemnity reserves on loans sold by $5.8 million mainly due to the reversal of $3.2 million in the indemnity reserve related to the bulk sale of non-performing assets completed during the first quarter of 2013 and lower provision on loans previously sold with recourse.

These favorable variances were partially offset by:

Lower other operating income by $19.7 million due to lower aggregated net earnings from investments accounted under the equity method, including a net gain of $6.5 million recorded during the first quarter of 2014 as a result of the acquisition of another financial institution completed by Centro Financiero BHD, the Corporation s equity method investee based in the Dominican Republic;

Negative variance in net gains (loss) on sale of loans by $4.5 million principally at the BPNA segment primarily due to gains realized from individual commercial loan sales during the first quarter of 2014; and

Lower trading account profit by $1.6 million mainly at the broker dealer business in Puerto Rico mostly due to the unrealized losses on Puerto Rico municipalities obligations held in the trading account.

Table of Contents

The following table provides a summary of the revenues and expenses derived from the assets acquired in the FDIC-assisted transaction during the quarters ended March 31, 2015 and 2014.

Table 5 - Financial Information - Westernbank FDIC-Assisted Transaction

	Quarters ended March 31,	
(In thousands)	2015	2014
Interest income on covered loans	57,431	81,098
FDIC loss share income (expense):		
Amortization of loss share indemnification asset	(27,316)	(48,946)
80% mirror accounting on credit impairment losses[1]	8,246	15,090
80% mirror accounting on reimbursable expenses	21,545	12,745
80% mirror accounting on recoveries on covered assets, including rental income on OREOs, subject to reimbursement to the FDIC	(2,619)	(4,392)
Change in true-up payment obligation	4,164	1,168
Other	119	129
Total FDIC loss share income (expense)	4,139	(24,206)
Total revenues	61,570	56,892
Provision for loan losses	10,324	25,714
Total revenues less provision for loan losses	$ 51,246	$ 31,178

[1] Reductions in expected cash flows for ASC 310-30 loans, which may impact the provision for loan losses, may consider reductions in both principal and interest cash flow expectations. The amount covered under the FDIC loss sharing agreements for interest not collected from borrowers is limited under the agreements (approximately 90 days); accordingly, these amounts are not subject fully to the 80% mirror accounting.

Average balances

	Quarters ended March 31,	
(In millions)	2015	2014
Covered loans	$ 2,540	$ 2,934
FDIC loss share asset	429	899

Operating Expenses

Operating expenses for the quarter ended March 31, 2015 increased by $ 34.7 million when compared with the same quarter of 2014. Excluding the impact of the Doral Transaction, which included $1.1 million on fees charged for services provided to the alliance co-bidders, personnel cost of $2.4 million, building rent expense of $0.6 million and

professional services of approximately $7.0 million and the BPNA restructuring charges amounting to $10.7 million, operating expenses increased by $13.9 million due to the following main factors:

- Higher other real estate owned expenses by $16.6 million due to higher write-downs on commercial properties and lower gains on sale of commercial OREOs, mainly at BPPR.

- Higher personnel cost by $9.7 million due to higher incentive compensation at BPPR and BPNA and higher pension costs at BPPR related to adjustments to the mortality table and discount rate used for actuarial assumptions.

These increases were partially offset by the following decreases:

- Lower other taxes by $5.1 million due to the elimination of the Puerto Rico gross receipts tax.

- Lower other operating expenses by $5.0 million due to lower sundry losses, at BPPR and BPNA.

- Lower FDIC deposit insurance by $4.6 million mainly driven by improvements in the asset quality and earnings trends.

Table of Contents

Table 6 - Operating Expenses

	Quarters ended March 31,		
(In thousands)	2015	2014	Variance
Personnel costs:			
Salaries	$ 72,394	$ 69,038	$ 3,356
Commissions, incentives and other bonuses	18,458	13,099	5,359
Pension, postretirement and medical insurance	12,013	8,701	3,312
Other personnel costs, including payroll taxes	13,593	13,463	130
Total personnel costs	116,458	104,301	12,157
Net occupancy expenses	21,709	21,360	349
Equipment expenses	13,411	11,412	1,999
Other taxes	8,574	13,663	(5,089)
Professional fees:			
Collections, appraisals and other credit related fees	5,923	6,320	(397)
Programming, processing and other technology services	45,161	42,685	2,476
Other professional fees	24,444	17,994	6,450
Total professional fees	75,528	66,999	8,529
Communications	6,176	6,685	(509)
Business promotion	10,813	11,386	(573)
FDIC deposit insurance	6,398	10,978	(4,580)
Other real estate owned (OREO) expenses	23,069	6,440	16,629
Other operating expenses:			
Credit and debit card processing, volume and interchange expenses	4,821	5,196	(375)
Transportation and travel	1,739	1,590	149
Printing and supplies	819	690	129
Operational losses	3,249	5,535	(2,286)
All other	6,721	9,338	(2,617)
Total other operating expenses	17,349	22,349	(5,000)
Amortization of intangibles	2,104	2,026	78
Restructuring Cost	10,753		10,753
Total operating expenses	$ 312,342	$ 277,599	$ 34,743

INCOME TAXES

Income tax expense amounted to $32.6 million for the quarter ended March 31, 2015, compared with an income tax expense of $23.3 million for the same quarter of 2014. The increase in income tax expense was primarily due to higher income before tax on the Puerto Rico operations partially offset by higher net exempt interest income. As a

result of the Doral Bank Transaction, the Corporation incurred expenses and recorded revenues, which resulted in a net decrease in the income tax expense of approximately $2.9 million. On an adjusted basis, the income tax expense for the first quarter of 2015 was $35.5 million.

The components of income tax expense for the quarters ended March 31, 2015 and 2014 are included in the following table:

Table 7 Components of Income Tax Expense

	Quarters ended			
	March 31, 2015		March 31, 2014	
(In thousands)	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax expense at statutory rates	$ 41,361	39%	$ 35,010	39%
Net benefit of tax exempt interest income	(13,693)	(12)	(11,386)	(13)
Deferred tax asset valuation allowance	5,639	5	(6,972)	(8)
Non-deductible expenses			8,319	9
Difference in tax rates due to multiple jurisdictions	(1,609)	(3)	(6,195)	(7)
Effect of income subject to preferential tax rate	(2,471)	(1)	2,278	3
Others	3,341	3	2,210	3
Income tax expense	$ 32,568	31%	$ 23,264	26%

Refer to Note 36 to the consolidated financial statements for a breakdown of the Corporation s deferred tax assets as of March 31, 2015.

REPORTABLE SEGMENT RESULTS

The Corporation s reportable segments for managerial reporting purposes consist of Banco Popular de Puerto Rico and Banco Popular North America. These reportable segments pertain only to the continuing operations of Popular, Inc. As previously indicated in Note 5 to the consolidated financial statements, the regional operations in California, Illinois and Central Florida were classified as discontinued operations in the second quarter of 2014, and the assets and liabilities of these regions were subsequently sold during the third and fourth quarters of 2014.

As indicated in Note 4 to the consolidated financial statements, Business Combination, on February 27, 2015, Banco Popular de Puerto Rico, in an alliance with co-bidders, including BPNA, acquired certain assets and all deposits of Doral Bank from the FDIC as receiver. The financial results for the first quarter of 2015 of both reportable segments include the results from the operations acquired as part of the Doral Bank transaction.

A Corporate group has been defined to support the reportable segments. For managerial reporting purposes, the costs incurred by the Corporate group are not allocated to 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 38 to the consolidated financial statements.

The Corporate group reported a net loss of $21.0 million for the quarter ended March 31, 2015, compared with a net loss of $20.0 million for the quarter ended March 31, 2014. The unfavorable variance was in part due to lower other

operating income by $11.8 million, which was mainly driven by the net pre-tax gain of $6.5 million recorded during the first quarter of 2014 as a result of the acquisition completed by BHD, and higher personnel costs by $2.8 million due to executive incentive accruals, which was partially offset by lower long-term debt interest expense by $12.9 million as the March 31, 2014 results include interest expense from the TARP funds that were repaid in July 2014, which carried a yield of 16%, as compared to the interest of 7% from the Senior Notes issued in July 2014, issued to partially fund the repayment of TARP.

Table of Contents

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 $90.8 million for the quarter ended March 31, 2015, compared with a net income of $65.0 million for the same quarter of the previous year. The principal factors that contributed to the variance in the financial results included the following:

- lower net interest income by $21.3 million mostly due to:
  - a decrease of $23.7 million, or 204 basis points in income from loans mainly due to lower average balances of covered loans as part of the normal portfolio run-off and lower yields; and
  - a decrease of $2.6 million in income from trading account securities due mainly to lower levels by $214 million;

partially offset by:

  - an increase of $4.3 million in income from non-covered loans mainly from commercial, mortgage and consumer loans, largely due to higher volume of loans by $254 million.

The unfavorable net interest income variance was partially offset by a reduction of approximately $0.9 million in interest expense, mainly from short term borrowings due to lower average balances by $1.2 billion. The net interest margin was 5.00% for the quarter ended March 31, 2015, compared to 5.49% for the same period in 2014.

- lower provision for loan losses by $37.4 million, $22.0 million from the non-covered portfolio and $15.4 million from the covered loans portfolio. The declines were predominantly driven by net charge-offs activity from the commercial and construction loan portfolios;
- higher non-interest income by $35.4 million mainly due to:
  - positive variance in the FDIC loss share income (expense) of $28.3 million mostly due to lower amortization of the indemnification asset of $21.6 million and higher mirror accounting on reimbursable expenses, partially offset by lower mirror accounting on credit impairment losses expenses. Refer to Table 5 for a breakdown of FDIC loss share income (expenses) by major categories;
  - higher mortgage banking activities revenues by $9.3 million mainly due to lower realized losses on closed derivative positions by $3.6 million, a positive variance in the valuation adjustments for

- mortgage servicing rights by $3.2 million, and higher servicing fees by $1.5 million; and

- positive variance in the adjustments to indemnity reserves on loans sold by $5.6 million mainly due to the reversal of $3.2 million in the indemnity reserve related to the bulk sale of non-performing assets completed during the first quarter of 2013 and lower provision on loans previously sold with recourse;

partially offset by:

- lower other operating income by $6.7 million mainly due to a decrease of $5.6 million from net earnings from the equity investment in PR Asset Portfolio 2013.

- higher operating expenses by $18.5 million mainly due to:

  - higher OREO expenses by $12.7 million due to higher write-downs on commercial properties and lower gains on sale of commercial OREOs;

  - higher personnel costs by $9.8 million due to incentive compensation and higher pension costs related to adjustments to the mortality table and discount rate used for actuarial assumptions; and

  - higher professional fees by $6.5 million largely due to costs incurred as part of the Doral Bank Transaction.

The negative variances in operating expenses detailed above were partially offset by:

  - lower FDIC deposit insurances expenses by $4.2 million resulting from improvements in assets quality and earnings trends;

  - lower other operating expenses by $4.7 million mainly due to lower sundry losses; and

  - lower other operating taxes by $3.5 million mainly due to the elimination of the Puerto Rico gross receipts tax.

- higher income tax expense of $7.5 million due mainly to higher taxable income.

142

Table of Contents

Banco Popular North America

For the quarter ended March 31, 2015, the reportable segment of Banco Popular North America reported net income from continuing operations of $3.3 million, compared with a net income $21.1 million for the same quarter of the previous year. The principal factors that contributed to the variance in the financial results included the following:

- net interest income improved by $0.7 million, mainly due to lower interest expense from repos by $6.8 million as $638 million in high cost structured repos were cancelled in late 2014 and lower interest expense from deposits by $0.4 million, which was partially offset by lower interest income from MBS and CMOs by $4.1 million due to portfolio sales in 2014 following the sale of the regions classified as discontinued operations in 2014, and lower interest income from mortgage loans by $2.6 million due to lower average balances as a result of loan sales in late 2014 which included $40 million in non-conventional mortgage TDRs. Net interest margin was 3.82% compared to 3.41% for the same quarter of the previous year;

- a favorable variance in the provision for loan losses by $2.4 million principally as a result of improved credit performance, which yielded $0.9 million in net recoveries during the first quarter of 2015 compared to net charge-offs of $2.8 million in the first quarter of 2014. Refer to the Credit Risk Management and Loan Quality section of this MD&A for certain quality indicators and further explanations corresponding to the BPNA reportable segment;

- lower non-interest income by $4.4 million, mostly due to lower gains on sale of loans by $4.5 million due to lower volume of sales of non-performing commercial loans; and

- higher operating expenses by $16.3 million, mainly due to $10.8 million in restructuring costs incurred during the first quarter of 2015, higher OREO expenses by $3.9 million mainly due to a write-down of $4.0 million from a commercial property, and higher professional fees by $3.0 million due in part to the Doral Bank Transaction.

FINANCIAL CONDITION ANALYSIS

Assets

The Corporation s total assets were $35.6 billion at March 31, 2015 and $33.1 billion at December 31, 2014. Refer to the consolidated financial statements included in this report for the Corporation s consolidated statements of financial condition as of such dates.

Money market investments, trading and investment securities

Money market investments totaled $2.3 billion at March 31, 2015, compared to $1.8 billion at December 31, 2014. The increase in liquidity was at BPPR by $256 million and BPNA by $229 million.

Trading account securities amounted to $134 million at March 31, 2015, compared to $139 million at December 31, 2014. Refer to the Market Risk section of this MD&A for a table that provides a breakdown of the trading portfolio by security type.

Investment securities available-for-sale and held-to-maturity amounted to $5.6 billion at March 31, 2015, compared with $5.4 billion at December 31, 2014. The increase in investment securities available-for-sale is mainly due to $170 million in securities acquired as part of the Doral Bank Transaction. Excluding the impact from the Doral Bank Transaction, investment securities available-for-sale increased by $63 million due to a $125 million increase at BPPR mostly from MBS and government securities, which were partially offset by a decrease of $62 million at BPNA due mainly to pay downs and maturities.

Table 8 provides a breakdown of the Corporation s portfolio of investment securities available-for-sale (AFS) and held-to-maturity (HTM) on a combined basis. Also, Notes 9 and 10 to the consolidated financial statements provide additional information with respect to the Corporation s investment securities AFS and HTM. The portfolio of Obligations of the Puerto Rico Government is comprised of securities with specific sources of income or revenues identified for repayments. The Corporation performs periodic credit quality review on these issuers.

Table of Contents

Table 8 - Breakdown of Investment Securities Available-for-Sale and Held-to-Maturity

(In thousands)	March 31, 2015	December 31, 2014	Variance
U.S. Treasury securities	$ 784,274	$ 700,154	$ 84,120
Obligations of U.S. Government sponsored entities	1,502,134	1,724,973	(222,839)
Obligations of Puerto Rico, States and political subdivisions	157,368	163,285	(5,917)
Collateralized mortgage obligations	1,849,117	1,910,127	(61,010)
Mortgage-backed securities	1,342,373	904,362	438,011
Equity securities	2,631	2,622	9
Others	12,401	12,806	(405)
Total investment securities AFS and HTM	$ 5,650,298	$ 5,418,329	$ 231,969

Loans

Refer to Table 9, for a breakdown of the Corporation s loan portfolio, the principal category of earning assets. Loans covered under the FDIC loss sharing agreements are presented separately in Table 9. The risks on covered loans are significantly different as a result of the loss protection provided by the FDIC. The loss share agreement applicable to commercial (including construction) and consumer loans provides for FDIC loss sharing for five years expiring at the end of the quarter ended June 30, 2015. Also, refer to Note 11 for detailed information about the Corporation s loan portfolio composition and loan purchases and sales.

The Corporation s total loan portfolio amounted to $23.6 billion at March 31, 2015, compared to $22.1 billion at December 31, 2014. Excluding the balance at March 31, 2015 of $1.6 billion in loans acquired as part of the Doral Bank Transaction, the total loan portfolio decreased by $113 million mainly in the covered loan portfolio which decreased by $86 million due to the continuation of loan resolutions and the normal portfolio run-off.

Table 9 - Loans Ending Balances

(In thousands)	March 31, 2015	December 31, 2014	Variance
Loans not covered under FDIC loss sharing agreements:			
Commercial	$ 8,653,561	$ 8,134,267	$ 519,294
Construction	690,728	251,820	438,908
Legacy[1]	77,675	80,818	(3,143)
Lease financing	581,119	564,389	16,730
Mortgage	7,189,227	6,502,886	686,341
Consumer	3,820,620	3,870,271	(49,651)
Total non-covered loans held-in-portfolio	21,012,930	19,404,451	1,608,479

Loans covered under FDIC loss sharing agreements:			
Commercial	1,571,147	1,614,781	(43,634)
Construction	57,825	70,336	(12,511)
Mortgage	795,477	822,986	(27,509)
Consumer	32,103	34,559	(2,456)
Total covered loans held-in-portfolio	2,456,552	2,542,662	(86,110)
Total loans held-in-portfolio	23,469,482	21,947,113	1,522,369
Loans held-for-sale:			
Commercial	8,240	309	7,931
Legacy[1]		319	(319)
Mortgage	152,362	100,166	52,196
Consumer		5,310	(5,310)
Total loans held-for-sale	160,602	106,104	54,498
Total loans	$ 23,630,084	$ 22,053,217	$ 1,576,867

[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 BPNA segment.

144

Table of Contents

Non-covered loans

The non-covered loans held-in-portfolio increased by $1.6 billion to $21.0 billion at March 31, 2015. Excluding the balance at March 31, 2015 of $1.6 billion loans acquired as part of the Doral Bank Transaction, non-covered loans held-in-portfolio decreased by $27 million, driven by a decrease of $110 million at BPPR, partially offset by an increase in BPNA of $83 million, driven by commercial loans which grew by $107 million, or 6%.

The loans held-for-sale portfolio reflected an increase of $54 million from December 31, 2014 to March 31, 2015; the increase was reflective of a higher volume of originations during the quarter from branches acquired from Doral Bank by approximately $17 million.

Covered loans

The covered loans portfolio amounted to $2.4 billion at March 31, 2015, compared to $2.5 billion at December 31, 2014. The decrease of $86 million was mainly due to loan resolutions and the normal portfolio run-off. Refer to Table 9 for a breakdown of the covered loans by major loan type categories. Tables 10 and 11 provide the activity in the carrying amount and outstanding discount on the covered loans accounted for under ASC 310-30. The outstanding accretable discount is impacted by increases in cash flow expectations on the loan pool based on quarterly revisions of the portfolio. The increase in the accretable discount is recognized as interest income using the effective yield method over the estimated life of each applicable loan pool.

Table 10 - Activity in the Carrying Amount of Covered Loans Accounted for Under ASC 310-30

	Quarters ended March 31,	
(In thousands)	2015	2014
Beginning balance	$ 2,444,172	$ 2,827,947
Accretion	55,697	79,118
Collections / charge-offs	(132,773)	(173,943)
Ending balance	$ 2,367,096	$ 2,733,122
Allowance for loan losses (ALLL)	(68,386)	(90,371)
Ending balance, net of ALLL	$ 2,298,710	$ 2,642,751

Table 11 - Activity in the Accretable Yield on Covered Loans Accounted for Under ASC 310-30

	Quarters ended March 31,	
(In thousands)	2015	2014
Beginning balance	$ 1,271,337	$ 1,309,205
Accretion [1]	(55,697)	(79,118)
Change in expected cash flows	43,308	(11,875)
Ending balance	$ 1,258,948	$ 1,218,212

[1] Positive to earnings, which is included in interest income.

FDIC loss share asset

Table 12 sets forth the activity in the FDIC loss share asset for the quarters and three months ended March 31, 2015 and 2014.

Table 12 Activity of Loss Share Asset

	Quarters ended March 31,	
(In thousands)	2015	2014
Balance at beginning of period	$ 542,454	$ 909,414
Amortization of loss share indemnification asset	(27,316)	(48,946)
Credit impairment losses to be covered under loss sharing agreements	8,246	15,090
Reimbursable expenses	21,545	12,745
Net payments from FDIC under loss sharing agreements	(132,265)	(81,327)
Other adjustments attributable to FDIC loss sharing agreements	(2,820)	(8,516)
Balance at end of period	$ 409,844	$ 798,460

Table of Contents

The FDIC loss share indemnification asset is recognized on the same basis as the assets subject to the loss share protection from the FDIC, except that the amortization / accretion terms differ. Decreases in expected reimbursements from the FDIC due to improvements in expected cash flows to be received from borrowers, as compared with the initial estimates, are recognized as a reduction to non-interest income prospectively over the life of the loss share agreements. This is because the indemnification asset balance is being reduced to the expected reimbursement amount from the FDIC. Table 13 presents the activity associated with the outstanding balance of the FDIC loss share asset amortization (or negative discount) for the periods presented.

Table 13 - Activity in the Remaining FDIC Loss Share Asset Discount

	Quarters ended March 31,	
(In thousands)	2015	2014
Balance at beginning of period[1]	$ 53,095	$ 103,691
Amortization of negative discount[2]	(27,316)	(48,946)
Impact of lower projected losses	12,908	16,889
Balance at end of period	$ 38,687	$ 71,634

[1] Positive balance represents negative discount (debit to assets), while a negative balance represents a discount (credit to assets).
[2] Amortization results in a negative impact to non-interest income, while a positive balance results in a positive impact to non-interest income, particularly FDIC loss share income / expense.

The Corporation revises its expected cash flows and estimated credit losses on a quarterly basis. The lowered loss estimates requires the Corporation to amortize the loss share asset to its currently lower expected collectible balance, thus resulting in negative accretion. Due to the shorter life of the indemnity asset compared with the expected life of the covered loans, this negative accretion temporarily offsets the benefit of higher cash flows accounted through the accretable yield on the loans.

Other real estate owned

Other real estate owned represents real estate property received in satisfaction of debt. At March 31, 2015, OREO decreased to $242 million from $266 million at December 31, 2014. Refer to Table 14 for the activity in other real estate owned. The amounts included as covered other real estate are subject to the FDIC loss sharing agreements.

Table 14 - Other Real Estate Owned Activity

	For the quarter ended March 31, 2015				
(In thousands)	Non-covered OREO Commercial/Construction	Non-covered OREO Mortgage	Covered OREO Commercial/Construction	Covered OREO Mortgage	Total
Balance at beginning of period	$ 38,983	$ 96,517	$ 85,394	$ 44,872	$ 265,766

Write-downs in value	(5,887)	(1,372)	(9,395)	(1,282)	(17,936)
Additions	2,035	21,075	4,038	5,381	32,529
Sales	(9,427)	(13,086)	(9,464)	(5,822)	(37,799)
Other adjustments	(96)	(572)		(165)	(833)
Ending balance	$ 25,608	$ 102,562	$ 70,573	$ 42,984	$ 241,727

	For the quarter ended March 31, 2014				
(In thousands)	Non-covered OREO Commercial/Construction	Non-covered OREO Mortgage	Covered OREO Commercial/Construction	Covered OREO Mortgage	Total
Balance at beginning of period	$ 48,649	$ 86,852	$ 120,215	$ 47,792	$ 303,508
Write-downs in value	(214)	(669)	(4,563)	(207)	(5,653)
Additions	4,668	14,883	13,194	4,491	37,236
Sales	(4,962)	(12,063)	(18,421)	(2,377)	(37,823)
Other adjustments		(179)	(92)	(1,285)	(1,556)
Ending balance	$ 48,141	$ 88,824	$ 110,333	$ 48,414	$ 295,712

Table of Contents

Other assets

Table 15 provides a breakdown of the principal categories that comprise the caption of Other assets in the consolidated statements of financial condition at March 31, 2015 and December 31, 2014.

Table 15 - Breakdown of Other Assets

(In thousands)	March 31, 2015	December 31, 2014	Variance
Net deferred tax assets (net of valuation allowance)	$ 788,105	$ 812,819	$ (24,714)
Investments under the equity method	226,124	225,625	499
Prepaid FDIC insurance assessment	359	360	(1)
Prepaid taxes	186,173	198,120	(11,947)
Other prepaid expenses	82,926	83,719	(793)
Derivative assets	22,485	25,362	(2,877)
Trades receivable from brokers and counterparties	112,287	66,949	45,338
Contingent asset	57,643		57,643
Others	366,832	233,489	133,343
Total other assets	$ 1,842,934	$ 1,646,443	$ 196,491

Other assets include the estimated fair value of the contingent asset for the probable acquisition from the FDIC of approximately $57.6 million of mortgage servicing rights on three pools of residential mortgage loans of approximately $5 billion in unpaid principal balance. At March 31, 2015, these MSRs were subject to certain closing conditions, as indicated in Note 4, Business Combination, to the accompanying consolidated financial statements. Excluding the balance at March 31, 2015 of $183 million in other assets acquired as part of the Doral Bank Transaction, other assets increased by $13 million mainly due to a $45 million increase in trades receivables from brokers and counterparties, partially offset by decreases in net deferred tax asset of $25 million and prepaid taxes of $12 million.

Goodwill

Goodwill increased by $43 million from December 31, 2014 to March 31, 2015, due to the goodwill recorded as part of the Doral Bank Transaction.

Deposits and Borrowings

The composition of the Corporation s financing sources to total assets at March 31, 2015 and December 31, 2014 is included in Table 16.

Table 16 - Financing to Total Assets

	March 31,	December 31	% increase (decrease)	% of total assets

(In millions)	2015	2014	from 2014 to 2015	2015	2014
Non-interest bearing deposits	$ 6,285	$ 5,784	8.7%	17.7%	17.5%
Interest-bearing core deposits	16,809	14,775	13.8	47.2	44.6
Other interest-bearing deposits	4,180	4,249	(1.6)	11.7	12.8
Fed funds purchased and repurchase agreements	1,133	1,272	(10.9)	3.2	3.8
Other short-term borrowings	1	21	(95.2)		0.1
Notes payable	1,757	1,712	2.6	4.9	5.2
Other liabilities	1,081	1,012	6.8	3.0	3.1
Liabilities from discontinued operations	2	5	(60.0)		
Stockholders equity	4,377	4,267	2.6	12.3	12.9

Table of Contents

Deposits

The Corporation s deposits totaled $27.3 billion at March 31, 2015 compared to $24.8 billion at December 31, 2014. Excluding the balance at March 31, 2015 of $2.0 billion in deposits acquired as part of the Doral Bank Transaction, deposits increased by $439 million due to increases of $220 million at BPPR largely due to higher commercial time deposits, government deposits and private management accounts, and of $219 million at BPNA mainly due to higher brokered deposits and government deposits. Refer to Table 17 for a breakdown of the Corporation s deposits at March 31, 2015 and December 31, 2014.

Table 17 - Deposits Ending Balances

(In thousands)	March 31, 2015	December 31, 2014	Variance
Demand deposits [1]	$ 7,163,635	$ 6,606,060	$ 557,575
Savings, NOW and money market deposits (non-brokered)	10,932,870	10,320,782	612,088
Savings, NOW and money market deposits (brokered)	409,113	406,248	2,865
Time deposits (non-brokered)	7,243,414	5,960,401	1,283,013
Time deposits (brokered CDs)	1,524,657	1,514,044	10,613
Total deposits	$ 27,273,689	$ 24,807,535	$ 2,466,154

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

Borrowings

The Corporation s borrowings amounted to $2.9 billion at March 31, 2015, compared to $3.0 billion at December 31, 2014. The decrease is mainly due to lower federal funds purchased by $100 million and lower repos by $39 million, offset by an increase in notes payable of $45 million due to advances with the Federal Home Loan Bank of New York. Refer to Note 20 to the consolidated financial statements for detailed information on the Corporation s borrowings. Also, refer to the Liquidity section in this MD&A for additional information on the Corporation s funding sources.

Other liabilities

Other liabilities increased from $1.0 billion at December 31, 2014 to $1.1 billion at March 31, 2015 largely due to $73 million in other liabilities related to the Doral Bank Transaction, of which approximately $48 million related to the probable acquisition of mortgage servicing rights, as discussed in Note 4 to the consolidated financial statements.

Stockholders Equity

Stockholders equity totaled $4.4 billion at March 31, 2015, compared with $4.3 billion at December 31, 2014. The increase resulted from the Corporation s net income of $75 million for the three months ended March 31, 2015 and a decrease in accumulated other comprehensive loss of $35 million. Refer to the consolidated statements of financial condition, comprehensive income and of changes in stockholders equity for information on the composition of stockholders equity.

REGULATORY CAPITAL

On January 1, 2015, the Corporation, BPPR and BPNA became subject to Basel III capital requirements, including also revised minimum and well capitalized regulatory capital ratios and compliance with the standardized approach for determining risk-weighted assets. As of March 31, 2015, the Corporation continues to exceed the well-capitalized adequacy requirements promulgated by the U.S. federal bank regulatory agencies.

Basel III capital rules require the phase out of non-qualifying Tier 1 capital instruments such as trust preferred securities. At March 31, 2015, the Corporation had $427 million in trust preferred securities outstanding, of which $320 million no longer qualify for Tier 1 capital treatment, but instead qualify for Tier 2 capital treatment. By January 1, 2016, all $427 million of its outstanding trust preferred securities will lose Tier 1 capital treatment, and will be reclassified to Tier 2 capital.

Table of Contents

On January 1, 2015, the Corporation, as well as its banking subsidiaries, made the one-time permanent election to exclude the effects on regulatory capital computations of certain accumulated other comprehensive income (loss) (AOCI) items as permitted under the Basel III capital rules.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires banking institutions with total consolidated assets of more than $10 billion to conduct annual stress tests. Accordingly, on March 30, 2015, the Corporation submitted its annual stress test based on the scenarios prescribed by the Federal Reserve Board. The results of the stress test under the severely adverse scenario will be made public by June 30, 2015, in accordance with the Dodd-Frank Act.

Risk-based capital ratios presented in Table 18, which include common equity tier 1, Tier 1 capital, total capital and leverage capital as of March 31, 2015, are calculated based on the Basel III regulatory transitional guidance related to the measurement of capital, risk-weighted assets and average assets. Capital ratios for December 31, 2014 were calculated based on the then applicable Basel I rules. Common equity tier 1 capital was not formally codified in the federal banking regulations in effect as of December 31, 2014; thus, common equity tier 1 capital presented in the table below as of year-end 2014 is considered a management internally-defined measurement. Since common equity tier 1 capital was not defined by GAAP or, unlike Tier 1 capital, codified in the Basel I federal banking regulations, it was considered a non-GAAP financial measure as of December 31, 2014.

Table 18 - Capital Adequacy Data

(Dollars in thousands)	March 31, 2015	December 31, 2014
Common equity tier 1 capital:		
Common stockholders equity - GAAP basis	$ 4,326,960	$ 4,217,222
AOCI related adjustments due to opt-out election	160,987	197,040
Goodwill, net of associated deferred tax liability (DTL)	(454,288)	(412,455)
Intangible assets, net of associated DTLs	(22,713)	(35,315)
Deferred tax assets and other deductions	(184,491)	(593,363)
Common equity tier 1 capital	$ 3,826,455	$ 3,373,129
Additional tier 1 capital:		
Preferred stock	50,160	50,160
Trust preferred securities subject to phase out of additional tier 1	106,651	426,602
Other additional tier 1 capital deductions	(67,652)	
Additional tier 1 capital	$ 89,159	$ 476,762
Tier 1 capital	$ 3,915,614	$ 3,849,891
Tier 2 capital:		
Trust preferred securities subject to phase in as tier 2	$ 319,952	$

Other inclusions (deductions), net		311,409		272,347
Tier 2 capital	$	631,361	$	272,347
Total risk-based capital	$	4,546,975	$	4,122,238
Minimum total capital requirement to be well capitalized	$	2,430,773	$	2,123,390
Excess total capital over minimum well capitalized	$	2,116,202	$	1,998,848
Total risk-weighted assets	$	24,307,729	$	21,233,902
Total assets for leverage ratio	$	33,177,714	$	32,250,173
Risk-based capital ratios:				
Common equity tier 1 capital		15.74%		15.89%
Tier 1 capital		16.11		18.13
Total capital		18.71		19.41
Tier 1 leverage		11.80		11.94

Rules adopted by the federal banking agencies, as applicable to the Corporation s banking subsidiaries as of March 31, 2015, provide that a depository institution will be deemed to be well capitalized under prompt corrective action if it maintains a leverage ratio of at least 5%, a common equity Tier 1 ratio of at least 6.5%, a Tier 1 capital ratio of at least 8% and a total risk-based ratio of at least 10%. Management has determined that as of March 31, 2015, BPPR and BPNA were well-capitalized under the regulatory framework for prompt corrective action.

The increase in total capital was mostly due to a favorable impact in the deferred tax asset deduction under the transitional Basel III capital rules as compared to the previous Basel I rules, which generally limited the amount allowed as capital for deferred tax assets that were dependable upon future taxable income. Also, the increase in total risk-based capital was due to earnings for the quarter and a reduction in the deduction for other intangible assets due to the Basel III transitional rules and despite the core deposit intangible booked for the Doral Bank acquisition. The favorable impact of these items was partially offset by a higher goodwill deduction as it relates to the Doral Bank acquisition.

Table of Contents

The regulatory capital ratios declined despite the increase in regulatory capital mostly because of the increase in risk-weighted assets driven by the Doral Bank acquired assets and to particular assets and off-balance sheet items which are assigned a higher-risk-weight percentage under the Basel III rules, including, for example, certain exposures past due 90 days or more, high volatility commercial real estate loans and unused commitments with an original maturity of one year or less.

Non-GAAP financial measures

The tangible common equity ratio, tangible assets 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 19 provides a reconciliation of total stockholders equity to tangible common equity and total assets to tangible assets at March 31, 2015 and December 31, 2014.

Table 19 - Reconciliation of Tangible Common Equity and Tangible Assets

(In thousands, except share or per share information)	March 31, 2015	December 31, 2014
Total stockholders equity	$ 4,377,120	$ 4,267,382
Less: Preferred stock	(50,160)	(50,160)
Less: Goodwill	(508,310)	(465,676)
Less: Other intangibles	(59,063)	(37,595)
Total tangible common equity	$ 3,759,587	$ 3,713,951
Total assets	$ 35,624,840	$ 33,096,695
Less: Goodwill	(508,310)	(465,676)
Less: Other intangibles	(59,063)	(37,595)
Total tangible assets	$ 35,057,467	$ 32,593,424
Tangible common equity to tangible assets	10.72%	11.39%
Common shares outstanding at end of period	103,486,927	103,476,847
Tangible book value per common share	$ 36.33	$ 35.89

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. Also, in the normal course of business, the

Corporation enters into contractual arrangements whereby it commits to future purchases of products or services from third parties. Obligations that are legally binding agreements, whereby the Corporation agrees to purchase products or services with a specific minimum quantity defined at a fixed, minimum or variable price over a specified period of time, are defined as purchase obligations.

Purchase obligations include major legal and binding contractual obligations outstanding at March 31, 2015, primarily for services, equipment and real estate construction projects. Services include software licensing and maintenance, facilities maintenance, supplies purchasing, and other goods or services used in the operation of the business. Generally, these contracts are renewable or cancelable at least annually, although in some cases the Corporation has committed to contracts that may extend for several years to secure favorable pricing concessions. Purchase obligations amounted to $192 million at March 31, 2015 of which approximately 58% matures in 2015, 21% in 2016, 8% in 2017 and 13% thereafter.

Table of Contents

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 statement 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.

Refer to Note 20 for a breakdown of long-term borrowings by maturity.

The Corporation 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 may expire without being drawn upon, the total contractual amounts are not representative of the Corporation s actual future credit exposure or liquidity requirements for these commitments.

Table 20 presents the contractual amounts related to the Corporation s off-balance sheet lending and other activities at March 31, 2015.

Table 20 - Off-Balance Sheet Lending and Other Activities

	Amount of commitment - Expiration Period				
(In millions)	Remaining 2015	Years 2016 - 2017	Years 2018 - 2019	Years 2020 - thereafter	Total
Commitments to extend credit	$ 6,206	$ 875	$ 170	$ 57	$ 7,308
Commercial letters of credit	2				2
Standby letters of credit	49	17			66
Commitments to originate or fund mortgage loans	20	7			27
Unfunded investment obligations		9			9
Total	$ 6,277	$ 908	$ 170	$ 57	$ 7,412

At March 31, 2015 and December 31, 2014, the Corporation maintained a reserve of approximately $11 million and $13 million, respectively, for probable losses associated with unfunded loan commitments related to commercial and consumer lines of credit. The estimated reserve is principally based on the expected draws on these facilities using historical trends and the application of the corresponding reserve factors determined under the Corporation s allowance for loan losses methodology. This reserve for unfunded loan commitments remains separate and distinct from the allowance for loan losses and is reported as part of other liabilities in the consolidated statement of financial condition.

Refer to Note 26 to the consolidated financial statements for additional information on credit commitments and contingencies.

Guarantees associated with loans sold / serviced

At March 31, 2015, the Corporation serviced $2.1 billion in residential mortgage loans subject to lifetime credit recourse provisions, principally loans associated with FNMA and FHLMC residential mortgage loan securitization programs, compared with $2.1 billion at December 31, 2014. The Corporation has not sold any mortgage loan subject to credit recourse since 2010.

In the event of any customer default, pursuant to the credit recourse provided, the Corporation is required to repurchase the loan or reimburse the third party investor for the incurred loss. The maximum potential amount of future payments that the Corporation would be required to make under the recourse arrangements in the event of nonperformance by the borrowers is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. In the event of nonperformance by the borrower, the Corporation has rights to the underlying collateral securing the mortgage loan. The Corporation suffers losses on these loans when the proceeds from a foreclosure sale of the property underlying a defaulted mortgage loan are less than the outstanding principal balance of the loan plus any uncollected interest advanced and the costs of holding and disposing the related property.

In the case of Puerto Rico, most claims are settled by repurchases of delinquent loans, the majority of which are greater than 90 days past due. The average time period to prepare an initial response to a repurchase request is from 30 to 120 days from the initial written notice depending on the type of repurchase request. Failure by the Corporation to respond to a request for repurchase on a timely basis could result in a deterioration of the seller/servicer relationship and the seller/servicer s overall standing. In certain instances, investors could require additional collateral to ensure compliance with the servicer s repurchase obligation or cancel the seller/servicer license and exercise their rights to transfer the servicing to an eligible seller/servicer.

The following table presents the delinquency status of the residential mortgage loans serviced by the Corporation that are subject to lifetime credit recourse provisions.

Table 21 - Delinquency of Residential Mortgage Loans Subject to Lifetime Credit Recourse

(In thousands)	March 31, 2015	December 31, 2014
Total portfolio	$ 2,070,587	$ 2,138,705
Days past due:		
30 days and over	$ 274,633	$ 302,992
90 days and over	$ 118,517	$ 129,590
As a percentage of total portfolio:		
30 days past due or more	13.26%	14.17%
90 days past due or more	5.72%	6.06%

During the quarter ended March 31, 2015, the Corporation repurchased approximately $16 million, (unpaid principal balance) in mortgage loans subject to the credit recourse provisions, compared with $27 million, during the same period of 2014. There are no particular loan characteristics, such as loan vintages, loan type, loan-to-value ratio, or other criteria that denote any specific trend or concentration of repurchases on any particular segment. Based on historical repurchase experience, the loan delinquency status is the main factor which causes the repurchase request. Once the loans are repurchased, they are put through the Corporation s loss mitigation programs.

At March 31, 2015, the Corporation s liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to $59 million, compared with $59 million at December 31, 2014.

The following table presents the changes in the Corporation s liability for estimated losses related to loans serviced with credit recourse provisions for the quarters ended March 31, 2015 and 2014.

Table 22 Changes in Liability of Estimated Losses from Credit Recourse Agreements

	March 31,	
(In thousands)	2015	2014
Balance as of beginning of period	$ 59,438	$ 41,463
Provision for recourse liability	6,500	11,042
Net charge-offs	(6,553)	(6,697)
Balance as of end of period	$ 59,385	$ 45,808

The provision for credit recourse liability decreased by $4.5 million during the three months ended March 31, 2015, when compared with the same period in 2014, due to certain enhancements in the estimated losses for credit recourse methodology at BPPR.

The estimated losses to be absorbed under the credit recourse arrangements are recorded as a liability when the loans are sold or credit recourse is assumed as part of acquired servicing rights and are updated by accruing or reversing expense (categorized in the line item adjustments (expense) to indemnity reserves on loans sold in the consolidated statements of operations) throughout the life of the loan, as necessary, when additional relevant information becomes available. The methodology used to estimate the recourse liability is a function of the recourse arrangements given and considers a variety of factors, which include actual defaults

and historical loss experience, foreclosure rate, estimated future defaults and the probability that a loan would be delinquent. Statistical methods are used to estimate the recourse liability. Expected loss rates are applied to different loan segmentations. The expected loss, which represents the amount expected to be lost on a given loan, considers the probability of default and loss severity. The probability of default represents the probability that a loan in good standing would become 90 days delinquent within the following twelve-month period. Regression analysis quantifies the relationship between the default event and loan-specific characteristics, including credit scores, loan-to-value ratios and loan aging, among others.

Servicing agreements relating to the mortgage-backed securities programs of FNMA and GNMA, and to mortgage loans sold or serviced to certain other investors, including FHLMC, require the Corporation to advance funds to make scheduled payments of principal, interest, taxes and insurance, if such payments have not been received from the borrowers. At March 31, 2015, the Corporation serviced $15.6 billion in mortgage loans for third-parties, including the loans serviced with credit recourse, compared with $15.6 billion at December 31, 2014. The Corporation generally recovers funds advanced pursuant to these arrangements from the mortgage borrower, from liquidation proceeds when the mortgage loan is foreclosed or, in the case of FHA/VA loans, under the applicable FHA and VA insurance and guarantees programs. However, in the meantime, the Corporation must absorb the cost of the funds it advances during the time the advance is outstanding. The Corporation must also bear the costs of attempting to collect on delinquent and defaulted mortgage loans. In addition, if a defaulted loan is not cured, the mortgage loan would be canceled as part of the foreclosure proceedings and the Corporation would not receive any future servicing income with respect to that loan. At March 31, 2015, the outstanding balance of funds advanced by the Corporation under such mortgage loan servicing agreements was approximately $31 million, compared with $23 million at March 31, 2014. To the extent the mortgage loans underlying the Corporation s servicing portfolio experience increased delinquencies, the Corporation would be required to dedicate additional cash resources to comply with its obligation to advance funds as well as incur additional administrative costs related to increases in collection efforts.

When the Corporation sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. The Corporation s mortgage operations in Puerto Rico conform mortgage loans into pools which are exchanged for FNMA and GNMA mortgage-backed securities, which are generally sold to private investors, or are sold directly to FNMA for cash. As required under the government agency programs, quality review procedures are performed by the Corporation to ensure that asset guideline qualifications are met. To the extent the loans do not meet specified characteristics, the Corporation may be required to repurchase such loans or indemnify for losses and bear any subsequent loss related to the loans. During the quarter ended March 31, 2015, there were no repurchases under representation and warranty arrangements. A substantial amount of these loans reinstate to performing status or have mortgage insurance, and thus the ultimate losses on the loans are not deemed significant.

As discussed on Note 5 Discontinued operations, on November 8, 2014, the Corporation completed the sale of the California regional operations. In connection with this transaction, the Corporation agreed to provide, subject to certain limitations, customary indemnification to the purchaser, including with respect to certain pre-closing liabilities and violations of representations and warranties. The Corporation also agreed to indemnify the purchaser for up to 1.5% of credit losses on transferred loans for a period of two years after the closing. Pursuant to this indemnification provision, the Corporation s maximum exposure is approximately $16.0 million. The Corporation recognized a reserve of approximately $2.2 million, representing its best estimate of the loss that would be incurred in connection with this indemnification. This reserve is included within the liabilities from discontinued operations.

During the quarter ended June 30, 2013, the Corporation established a reserve for certain specific representation and warranties made in connection with BPPR s sale of non-performing mortgage loans. The purchaser s sole remedy under the indemnity clause is to seek monetary damages from BPPR, for a maximum of $16.3 million. BPPR recognized a

reserve of approximately $3.0 million, representing its best estimate of the loss that would be incurred in connection with this indemnification. BPPR s obligations under this clause end one year after the closing except with respect to any claim asserted prior to such termination date. At March 31, 2015, the Corporation has a reserve balance of $2.8 million to cover claims received from the purchaser, which are currently being evaluated.

During the quarter ended March 31, 2013, the Corporation established a reserve for certain specific representation and warranties made in connection with BPPR s sale of commercial and construction loans, and commercial and single family real estate owned. The purchaser s sole remedy under the indemnity clause is to seek monetary damages from BPPR, for a maximum of $18.0 million. BPPR is not required to repurchase any of the assets. BPPR recognized a reserve of approximately $10.7 million, representing its best estimate of the loss that would be incurred in connection with this indemnification. During the quarter ended March 31, 2015, the Corporation released $3.2 million of this reserve based on an evaluation of claims received under this clause. At March 31, 2015, the Corporation has a reserve balance of $4.2 million to cover claims received from the purchaser, which are currently evaluated.

The following table presents the changes in the Corporation s liability for estimated losses associated with indemnifications and customary representations and warranties related to loans sold by BPPR during the quarters ended March 31, 2015 and 2014.

Table 23 Changes in Liability of Estimated Losses from Indemnifications and Customary Representations and Warranties Agreements

	March 31,	
(In thousands)	2015	2014
Balance as of beginning of period	$ 15,959	$ 19,277
Additions for new sales		
Net reversal of provision for representation and warranties	(1,901)	(1,064)
Net charge-offs	(14)	(1,389)
Balance as of end of period	$ 14,044	$ 16,824

In addition, at March 31, 2015, the Corporation has reserves for customary representations and warranties related to loans sold by its U.S. subsidiary E-LOAN prior to 2009. Loans were sold to investors on a servicing released basis subject to certain representations and warranties. Although the risk of loss or default was generally assumed by the investors, the Corporation made certain representations relating to borrower creditworthiness, loan documentation and collateral, which if not correct, may result in requiring the Corporation to repurchase the loans or indemnify investors for any related losses associated with these loans. At March 31, 2015 and December 31, 2014, the Corporation s reserve for estimated losses from such representation and warranty arrangements amounted to $5 million. E-LOAN is no longer originating and selling loans since the subsidiary ceased these activities in 2008 and most of the outstanding agreements with major counterparties were settled during 2010 and 2011.

MARKET RISK

The financial results and capital levels of the Corporation are constantly exposed to market risk. Market risk represents the risk of loss due to adverse movements in market rates or financial asset prices, which include interest rates, foreign exchange rates, and bond and equity security prices; the failure to meet financial obligations coming due because of the inability to liquidate assets or obtain adequate funding; and the inability to easily unwind or offset specific exposures without significantly lowering prices because of inadequate market depth or market disruptions.

While the Corporation is exposed to various business risks, the risks relating to interest rate risk and liquidity are major risks that can materially impact future results of operations and financial condition due to their complexity and dynamic nature.

The Asset Liability Management Committee (ALCO) and the Corporate Finance Group are responsible for planning and executing the Corporation s market, interest rate risk, funding activities and strategy, and for implementing the policies and procedures approved by the Corporation s Risk Management Committee. In addition, the Risk Management Group independently monitors and reports adherence with established market and liquidity policies and recommends actions to enhance and strengthen controls surrounding interest, liquidity, and market risks. The ALCO meets mostly on a weekly basis and reviews the Corporation s current and forecasted asset and liability levels as well as desired pricing strategies and other relevant financial management and interest rate and risks topics. Also, on a monthly basis the ALCO reviews various interest rate risk sensitivity metrics, ratios and portfolio information,

including but not limited to, the Corporation s liquidity positions, projected sources and uses of funds, interest rate risk positions and economic conditions.

Interest rate risk (IRR), a component of market risk, is considered by management as a predominant market risk in terms of its potential impact on profitability or market value. Management utilizes various tools to assess IRR, including 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. 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.

It also incorporates assumptions on balance sheet growth and expected changes in its composition, estimated prepayments in accordance with projected interest rates, pricing and maturity expectations on new volumes and other non-interest related data. It is a dynamic process, emphasizing future performance under diverse economic conditions.

Management assesses interest rate risk by comparing various net interest income simulations under different interest rate scenarios that differ in direction of interest rate changes, the degree of change over time, the speed of change and the projected shape of the yield curve. For example, the types of rate scenarios processed during the year included economic most likely scenarios, flat rates, yield curve twists, + 200 and + 400 basis points parallel ramps and + 200 basis points parallel shocks. Management also performs analyses to isolate and measure basis and prepayment risk exposures.

The asset and liability management group performs validation procedures on various assumptions used as part of the sensitivity analysis as well as validations of results on a monthly basis. In addition, the model and processes used to assess IRR are subject to third-party validations according to the guidelines established in the Model Governance and Validation policy. Due to the importance of critical assumptions in measuring market risk, the risk models incorporate third-party developed data for critical assumptions such as prepayment speeds on mortgage loans and mortgage-backed securities, estimates on the duration of the Corporation s deposits and interest rate scenarios. These interest rate simulations exclude the impact on loans accounted pursuant to ASC Subtopic 310-30, whose yields are based on management s current expectation of future cash flows.

The Corporation processes net interest income simulations under interest rate scenarios in which the yield curve is assumed to rise and decline gradually by the same amount. The rising rate scenarios considered in these market risk simulations reflect gradual parallel changes of 200 and 400 basis points during the twelve-month period ending March 31, 2016. Under a 200 basis points rising rate scenario, 2015 projected net interest income increases by $57 million, while under a 400 basis points rising rate scenario, 2015 projected net interest income increases by $101 million. These scenarios were compared against the Corporation s flat or unchanged interest rates forecast scenario. Simulation analyses are based on many assumptions, including relative levels of market interest rates, interest rate spreads, loan prepayments and deposit decay. 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 Corporation estimates the sensitivity of economic value of equity (EVE) to changes in interest rates. EVE is equal to the estimated present value of the Corporation s assets minus the estimated present value of the liabilities. This sensitivity analysis is a useful tool to measure long-term IRR because it captures the impact of up or down rate changes in expected cash flows, including principal and interest, from all future periods.

EVE sensitivity calculated using interest rate shock scenarios is estimated on a quarterly basis. The shock scenarios consist of a +/- 200 and 400 basis point parallel shocks. Management has defined limits for the increases/decreases in EVE sensitivity resulting from the shock scenarios.

The Corporation maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in net interest income or market value that are caused by interest rate volatility. The market value of these derivatives is subject to interest rate fluctuations and counterparty credit risk adjustments which could have a positive or negative effect in the Corporation s earnings.

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.

Trading

The Corporation engages in trading activities in the ordinary course of business at its subsidiaries, Banco Popular de Puerto Rico (BPPR) and Popular Securities. Popular Securities trading activities consist primarily of market-making activities to meet expected customers needs related to its retail securities 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 is hedged with TBAs that have characteristics similar to that of the forecasted security and its conversion timeline.

Table of Contents

At March 31, 2015, the Corporation held trading securities with a fair value of $134 million, representing approximately 0.4% of the Corporation s total assets, compared with $139 million and 0.4% at December 31, 2014. As shown in Table 24, the trading portfolio consists principally of mortgage-backed securities relating to BPPR s mortgage activities described above, which at March 31, 2015 were investment grade securities. As of March 31, 2015, the trading portfolio also included $8.6 million in Puerto Rico government obligations and shares of Closed-end funds that invest primarily in Puerto Rico government obligations (December 31, 2014 - $9.9 million). 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 $0.4 million for the quarter ended March 31, 2015 and a trading account gain of $2.0 million for the quarter ended March 31, 2014. Table 24 provides the composition of the trading portfolio at March 31, 2015 and December 31, 2014.

Table 24 - Trading Portfolio

	March 31, 2015		December 31, 2014	
(Dollars in thousands)	Amount	Weighted Average Yield [1]	Amount	Weighted Average Yield [1]
Mortgage-backed securities	$ 109,057	6.16%	$ 110,692	6.19%
Collateralized mortgage obligations	1,486	5.01	1,636	5.01
Puerto Rico government obligations	6,766	5.32	7,954	5.23
Interest-only strips	740	12.15	769	12.11
Other	16,245	2.24	17,476	3.26
Total	$ 134,294	5.66%	$ 138,527	5.78%

[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 $1.6 million for the last week in March 2015. 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.

FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The Corporation currently measures at fair value on a recurring basis its trading assets, available-for-sale securities, derivatives, mortgage servicing rights and contingent consideration. Occasionally, the Corporation may be required to record at fair value other assets on a nonrecurring basis, such as loans held-for-sale, impaired 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.

Refer to Note 29 to the consolidated financial statements for information on the Corporation s fair value measurement disclosures required by the applicable accounting standard. At March 31, 2015, approximately $ 5.7 billion, or 97%, of the assets measured at fair value on a recurring basis used market-based or market-derived valuation inputs in their valuation methodology and, therefore,

were classified as Level 1 or Level 2. The majority of instruments measured at fair value were classified as Level 2, including U.S. Treasury securities, obligations of U.S. Government sponsored entities, obligations of Puerto Rico, States and political subdivisions, most mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs), and derivative instruments.

At March 31, 2015, the remaining 3% of assets measured at fair value on a recurring basis were classified as Level 3 since their valuation methodology considered significant unobservable inputs. The financial assets measured as Level 3 included mostly tax-exempt GNMA mortgage-backed securities and mortgage servicing rights (MSRs). Additionally, the Corporation reported $ 132 million of financial assets that were measured at fair value on a nonrecurring basis at March 31, 2015, all of which were classified as Level 3 in the hierarchy.

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 $ 21 million at March 31, 2015, of which $ 9 million were Level 3 assets and $ 12 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 an average of two indicative 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.

There were no transfers from Level 2 to Level 3 and no transfers from Level 3 to Level 2 for financial instruments measured at fair value on a recurring basis during the quarter ended March 31, 2015. There were no transfers in and/or out of Level 1 during the quarter ended March 31, 2015. Refer to Note 29 to the consolidated financial statements for a description of the Corporation s valuation methodologies used for the assets and liabilities measured at fair value at March 31, 2015. Also, refer to the Critical Accounting Policies / Estimates in the 2014 Annual Report for additional information on the accounting guidance and the Corporation s policies or procedures related to fair value measurements.

Trading Account Securities and Investment Securities Available-for-Sale

The majority of the values for trading account securities and investment 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 quarter ended March 31, 2015, 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 quarter ended March 31, 2015, none of the Corporation s investment 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, which includes analyzing changes in fair value that have resulted in losses that may be considered other-than-temporary. Factors considered include, for example, the nature of the investment, severity and duration of possible impairments, industry reports, sector credit ratings, economic environment, creditworthiness of the issuers and any guarantees.

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.

At March 31, 2015, the Corporation s portfolio of trading and investment securities available-for-sale amounted to $ 5.7 billion and represented 97% of the Corporation s assets measured at fair value on a recurring basis. At March 31, 2015, net unrealized gains

on the trading securities approximated $6 million and net unrealized losses on available-for-sale investment securities portfolios approximated $ 43 million. Fair values for most of the Corporation s trading and investment securities available-for-sale were classified as Level 2. Trading and investment securities available-for-sale classified as Level 3, which were the securities that involved the highest degree of judgment, represented less than 1% of the Corporation s total portfolio of trading and investment securities available-for-sale.

Mortgage Servicing Rights

Mortgage servicing rights (MSRs), which amounted to $ 149 million at March 31, 2015, do not trade in an active, open market with readily observable prices. Fair value is estimated based upon discounted net cash flows calculated from a combination of loan level data and market assumptions. The valuation model combines loans with common characteristics that impact servicing cash flows (e.g. investor, remittance cycle, interest rate, product type, etc.) in order to project net cash flows. Market valuation assumptions include prepayment speeds, discount rate, cost to service, escrow account earnings, and contractual servicing fee income, among other considerations. Prepayment speeds are derived from market data that is more relevant to the U.S. mainland loan portfolios and, thus, are adjusted for the Corporation s loan characteristics and portfolio behavior since prepayment rates in Puerto Rico have been historically lower. Other assumptions are, in the most part, directly obtained from third-party providers. Disclosure of two of the key economic assumptions used to measure MSRs, which are prepayment speed and discount rate, and a sensitivity analysis to adverse changes to these assumptions, is included in Note 15 to the consolidated financial statements.

Derivatives

Derivatives, such as interest rate swaps, interest rate caps and indexed options, are traded in over-the-counter active markets. These derivatives are indexed to an observable interest rate benchmark, such as LIBOR or equity indexes, and are priced using an income approach based on present value and option pricing models using observable inputs. Other derivatives are liquid and have quoted prices, such as forward contracts or to be announced securities (TBAs). All of these derivatives held by the Corporation were classified as Level 2. Valuations of derivative assets and liabilities reflect the values associated with counterparty risk and nonperformance risk, respectively. The non-performance risk, which measures the Corporation s own credit risk, is determined using internally-developed models that consider the net realizable value of the collateral posted, remaining term, and the creditworthiness or credit standing of the Corporation. The counterparty risk is also determined using internally-developed models which incorporate the creditworthiness of the entity that bears the risk, net realizable value of the collateral received, and available public data or internally-developed data to determine their probability of default. To manage the level of credit risk, the Corporation employs procedures for credit approvals and credit limits, monitors the counterparties credit condition, enters into master netting agreements whenever possible and, when appropriate, requests additional collateral. During the quarter ended March 31, 2015, inclusion of credit risk in the fair value of the derivatives resulted in a net loss of $0.1 million recorded in the other operating income and interest expense captions of the consolidated statement of operations, which consisted of a loss of $0.1 million resulting from the Corporation s own credit standing adjustment and a gain of $31 thousand from the assessment of the counterparties credit risk.

Loans held-in-portfolio considered impaired under ASC Section 310-10-35 that are collateral dependent

The impairment is based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, size and supply and demand. Continued deterioration of the housing markets and the economy in general have adversely impacted and continue to affect the market activity related to real estate properties. These collateral dependent impaired loans are classified as Level 3 and are reported as a nonrecurring fair value measurement.

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 and maintain a reasonable safety margin for cash commitments under both normal and stressed market conditions. The Board is responsible for establishing the Corporation s tolerance for liquidity risk, including approving relevant risk limits and policies. The Board has delegated the monitoring of these risks to the RMC and the ALCO. 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 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, its credit rating is downgraded, it experiences a sudden and unexpected substantial cash outflow, 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. 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.

As discussed in Note 4 - Business Combinations, on February 27, 2015 the Corporation acquired certain assets and all deposits (except brokered deposits) from Doral Bank. This included approximately $ 1.7 billion in loans, approximately $ 173 million in securities available for sale and $ 2.2 billion in deposits.

Deposits, including customer deposits, brokered deposits and public funds deposits, continue to be the most significant source of funds for the Corporation, funding 77% of the Corporation s total assets at March 31, 2015, compared with 75% at December 31, 2014. The ratio of total ending loans to deposits was 87% at March 31, 2015, compared to 89% at December 31, 2014. In addition to traditional deposits, the Corporation maintains borrowing arrangements. At March 31, 2015, these borrowings consisted primarily of $ 1.1 billion in assets sold under agreement to repurchase, $848 million in advances with the FHLB, $440 million in junior subordinated deferrable interest debentures related to trust preferred securities and $450 million in term notes issued to partially fund the repayment of TARP funds. A detailed description of the Corporation s borrowings, including their terms, is included in Note 20 to the consolidated financial statements. Also, the consolidated statements of cash flows in the accompanying consolidated financial statements provide information on the Corporation s cash inflows and outflows.

The following sections provide further information on the Corporation s major funding activities and needs, as well as the risks involved in these activities. A detailed description of the Corporation s borrowings and available lines of credit, including its terms, is included in Note 20 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.

Banking Subsidiaries

Primary sources of funding for the Corporation s banking subsidiaries (BPPR and BPNA), or the banking subsidiaries, include retail and commercial deposits, brokered deposits, unpledged investment securities, and, to a lesser extent, loan sales. In addition, the Corporation maintains borrowing facilities with the FHLB and at the discount window of the Fed, and has a considerable amount of collateral pledged that can be used to quickly raise funds under these facilities.

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), 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.

Note 40 to the consolidated financial statements provides a consolidating statement of cash flows which includes the Corporation s banking subsidiaries as part of the All other subsidiaries and eliminations column.

The banking subsidiaries maintain sufficient funding capacity to address large increases in funding requirements such as deposit outflows. This capacity is comprised mainly of available liquidity derived from secured funding sources, as well as on-balance sheet liquidity in the form of cash balances maintained at the Fed and unused secured lines held at the Fed and FHLB, in addition to liquid unpledged securities. 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 17 for a breakdown of deposits by major types. Core deposits are generated from a large base of consumer, corporate and institutional 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 $ 23.1 billion, or 85% of total deposits, at March 31, 2015, compared with $20.6 billion, or 83% of total deposits, at December 31, 2014. Core deposits financed 72% of the Corporation s earning assets at March 31, 2015, compared with 69% at December 31, 2014.

Certificates of deposit with denominations of $100,000 and over at March 31, 2015 totaled $4.2 billion, or 16% of total deposits (December 31, 2014 - $3.3 billion, or 13% of total deposits). Their distribution by maturity at March 31, 2015 is presented in the table that follows:

Table 25 - Distribution by Maturity of Certificate of Deposits of $100,000 and Over

(In thousands)	
3 months or less	$ 1,755,664
3 to 6 months	512,514
6 to 12 months	920,570
Over 12 months	1,047,010
Total	$ 4,235,758

At March 31, 2015 approximately 5% of the Corporation s assets were financed by brokered deposits, as compared to 6% at December 31, 2014. The Corporation had $ 1.9 billion in brokered deposits at March 31, 2015 and December 31, 2014. 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.

To the extent that the banking subsidiaries are unable to obtain sufficient liquidity through core deposits, the Corporation may meet its liquidity needs through short-term borrowings by pledging securities for borrowings under repurchase agreements, by pledging additional loans and securities through the available secured lending facilities, or by selling liquid assets. These measures are subject to availability of collateral.

The Corporation s banking subsidiaries have the ability to borrow funds from the FHLB. At March 31, 2015 and December 31, 2014, the banking subsidiaries had credit facilities authorized with the FHLB aggregating to $3.6 billion and $3.7 billion, respectively, based on assets pledged with the FHLB at those dates. Outstanding borrowings under these credit facilities totaled $848 million at March 31, 2015 and $822 million at December 31, 2014. Such advances are collateralized by loans held-in-portfolio, do not have restrictive covenants and do not have any callable

features. At March 31, 2015 and December 31, 2014 the credit facilities authorized with the FHLB were collateralized by $ 4.5 billion in loans held-in-portfolio. Refer to Note 20 to the consolidated financial statements for additional information on the terms of FHLB advances outstanding.

At March 31, 2015 and December 31, 2014, the Corporation s borrowing capacity at the Fed s Discount Window amounted to approximately $2.1 billion which remained unused as of both dates. This facility is a collateralized source of credit that is highly reliable even under difficult market conditions. The amount available under this borrowing facility is dependent upon the balance of performing loans, securities pledged as collateral and the haircuts assigned to such collateral. At March 31, 2015 and December 31, 2014, this credit facility with the Fed was collateralized by $ 4.2 billion and $4.1 billion, respectively, in loans held-in-portfolio.

At March 31, 2015, 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 if desired, 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 its 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.

Westernbank FDIC-assisted Transaction and Impact on Liquidity

The effects of the loss sharing agreements on cash flows and operating results will depend primarily on the ability of the borrowers whose loans are covered by the loss sharing agreements to make payments over time and our ability to receive reimbursements for losses from the FDIC. As the loss sharing agreements are in effect for a period of ten years for one-to-four family loans and five years for commercial, construction and consumer loans (with periods commencing on April 30, 2010), changing economic conditions will likely impact the timing of future charge-offs and the resulting reimbursements from the FDIC. Management believes that any recapture of interest income and recognition of cash flows from the borrowers or received from the FDIC on the claims filed may be recognized unevenly over this period, as management exhausts its collection efforts under the Corporation s normal practices.

BPPR s liquidity may also be impacted by the loan payment performance and timing of claims made and receipt of reimbursements under the FDIC loss sharing agreements. Please refer to the Legal Proceedings section of Note 26 to the consolidated financial statements and to Part II, Item 1A- Risk factors herein for a discussion of the settlement of a contractual dispute between BPPR and the FDIC which has impacted the timing of the payment of claims under the loss share agreements.

Bank Holding Companies

The principal sources of funding for the holding companies include cash on hand, investment securities, dividends received from banking and non-banking subsidiaries (subject to regulatory limits and authorizations) asset sales, credit facilities available from affiliate banking subsidiaries and proceeds from potential securities offerings.

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

During the three months ended March 31, 2015, PIHC received $ 1.2 million in dividends from EVERTEC s parent company. PIHC received $1.5 million in dividends from its non-banking subsidiaries.

Another use of liquidity at the parent holding company is the payment of dividends on preferred stock. At the end of 2010, the Corporation resumed paying dividends on its Series A and B preferred stock. The preferred stock dividends amounted to $930 thousand for the three months ended March 31, 2015. The preferred stock dividends paid were financed by issuing new shares of common stock to the participants of the Corporation s qualified employee savings plans. The Corporation anticipates that any future preferred stock dividend payments would continue to be financed with the issuance of new common stock in connection with its qualified employee savings plans. The Corporation is not paying dividends to holders of its common stock.

The BHC s 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 reductions in the Corporation s credit ratings. The Corporation s principal credit ratings are 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.

Note 40 to the consolidated financial statements provides a statement of condition, of operations and of cash flows for the two BHC s. The loans held-in-portfolio in such financial statements is principally associated with intercompany transactions.

The outstanding balance of notes payable at the BHC s amounted to $890 million at March 31, 2015 and December 31, 2014. The repayment of the BHC s obligations represents a potential cash need which is expected to be met with a combination of internal liquidity resources stemming mainly from future dividend receipts and new borrowings.

Table of Contents

The contractual maturities of the BHC s notes payable at March 31, 2015 are presented in Table 26.

Table 26 - Distribution of BHC s Notes Payable by Contractual Maturity

Year	(In thousands)
2015	$
2016	
2017	
2018	
2019	450,000
Later years	439,800
Total	889,800

As indicated previously, the BHC did not issue new registered debt in the capital markets during the quarter ended March 31, 2014.

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.

Non-banking subsidiaries

The principal sources of funding for the non-banking subsidiaries include internally generated cash flows from operations, loan sales, repurchase agreements, 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 from their holding companies, BPPR or BPNA.

Other Funding Sources and Capital

The investment securities portfolio provides an additional source of liquidity, which may be realized through either securities sales or repurchase agreements. The Corporation s investment securities portfolio consists primarily of liquid U.S. government investment securities, sponsored U.S. agency securities, government sponsored mortgage-backed securities, and 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 investment and trading securities, excluding other investment securities, amounted to $ 2.8 billion at March 31, 2015 and $2.7 billion at December 31, 2014. A substantial portion of these securities could be used to raise financing quickly 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.

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 conditions in Puerto Rico, the credit quality of the Corporation could be affected and result in higher credit costs. The Puerto Rico economy continues to face various challenges, including significant pressures in some sectors of the residential real estate market. Refer to the Geographic and Government Risk section of this MD&A for some highlights on the current status of the Puerto Rico economy.

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 Fed.

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

Table of Contents

quality and concentrations in the loan portfolio, the level and volatility of earnings, capital adequacy, the quality of management, 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.

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. At the BHCs, the volume of capital market borrowings has declined substantially, as the non-banking lending businesses that it had historically funded have been shut down and the need to raise unsecured senior debt has been substantially reduced.

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 $20 million in deposits at March 31, 2015 that are subject to rating triggers.

Some of the Corporation s derivative instruments include financial covenants tied to the bank s well-capitalized status and certain formal regulatory actions. These agreements could require exposure collateralization, early termination or both. The fair value of derivative instruments in a liability position subject to financial covenants approximated $8 million at March 31, 2015, with the Corporation providing collateral totaling $15 million to cover the net liability position with counterparties on these derivative instruments.

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 the Guarantees section of this MD&A, 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 $87 million at March 31, 2015. 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 MANAGEMENT AND LOAN QUALITY

Non-Performing Assets

Non-performing assets 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 27.

The Corporation s non-accruing and charge-off policies by major categories of loan portfolios are as follows:

Commercial and construction loans - recognition of interest income on commercial and construction loans is discontinued when the loans are 90 days or more in arrears on payments of principal or interest or when

other factors indicate that the collection of principal and interest is doubtful. The impaired portions of secured loans past due as to principal and interest is charged-off not later than 365 days past due. However, in the case of collateral dependent loans individually evaluated for impairment, the excess of the recorded investment over the fair value of the collateral (portion deemed uncollectible) is generally promptly charged-off, but in any event, not later than the quarter following the quarter in which such excess was first recognized. Commercial unsecured loans are charged-off no later than 180 days past due. Overdrafts are generally charged-off no later than 60 days past their due date.

Lease financing - recognition of interest income for lease financing is ceased when loans are 90 days or more in arrears. Leases are charged-off when they are 120 days in arrears.

Mortgage loans - recognition of interest income on mortgage loans is generally discontinued when loans are 90 days or more in arrears on payments of principal or interest. The impaired portion of a mortgage loan is charged-off when the loan is 180 days past due. The Corporation discontinues the recognition of interest income on residential mortgage loans insured by the Federal Housing Administration (FHA) or guaranteed by the U.S. Department of Veterans Affairs (VA) when 18 months delinquent as to principal or interest. The principal repayment on these loans is insured.

Table of Contents

Consumer loans - recognition of interest income on closed-end consumer loans and home-equity lines of credit is discontinued when the loans are 90 days or more in arrears on payments of principal or interest. Income is generally recognized on open-end consumer loans, except for home equity lines of credit, until the loans are charged-off. Closed-end consumer loans are charged-off when they are 120 days in arrears. Open-end consumer loans are charged-off when they are 180 days in arrears. Overdrafts in excess of 60 days are generally charged-off no later than 60 days past their due date.

Troubled debt restructurings (TDRs) - loans classified as TDRs are typically in non-accrual status at the time of the modification. The TDR loan continues in non-accrual status until the borrower has demonstrated a willingness and ability to make the restructured loan payments (generally at least six months of sustained performance after the modification (or one year for loans providing for quarterly or semi-annual payments)) and management has concluded that it is probable that the borrower would not be in payment default in the foreseeable future.

Loans accounted for under ASC Subtopic 310-30 by the Corporation, are not considered non-performing and will continue to have an accretable yield as long as there is a reasonable expectation about the timing and amount of cash flows expected to be collected.

Covered loans acquired in the Westernbank FDIC-assisted transaction, except for revolving lines of credit, are accounted for by the Corporation in accordance with ASC Subtopic 310-30. Under ASC Subtopic 310-30, the acquired loans were aggregated into pools based on similar characteristics. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. The covered loans, which are accounted for under ASC Subtopic 310-30 by the Corporation, are not considered non-performing and will continue to have an accretable yield as long as there is a reasonable expectation about the timing and amount of cash flows expected to be collected. Also, loans charged-off against the non-accretable difference established in purchase accounting are not reported as charge-offs. Charge-offs will be recorded only to the extent that losses exceed the purchase accounting estimates.

Because of the application of ASC Subtopic 310-30 to the Westernbank acquired loans and the loss protection provided by the FDIC which limits the risks on the covered loans, the Corporation has determined to provide certain quality metrics in this MD&A that exclude such covered loans to facilitate the comparison between loan portfolios and across periods. Given the significant amount of covered loans that are past due but still accruing due to the accounting under ASC Subtopic 310-30, the Corporation believes the inclusion of these loans in certain asset quality ratios in the numerator or denominator (or both) would result in a significant distortion to these ratios. In addition, because charge-offs related to the acquired loans are recorded against the non-accretable balance, the net charge-off ratio including the acquired loans is lower for portfolios that have significant amounts of covered loans. The inclusion of these loans in the asset quality ratios could result in a lack of comparability across periods, and could negatively impact comparability with other portfolios that were not impacted by acquisition accounting. The Corporation believes that the presentation of asset quality measures, excluding covered loans and related amounts from both the numerator and denominator, provides a better perspective into underlying trends related to the quality of its loan portfolio.

Total non-performing non-covered assets were $802 million at March 31, 2015, increasing by $17 million, or 2% from December 31, 2014. Non-covered non-performing loans held-in-portfolio stand at $665 million, increasing by $34 million, or 5%, from December 31, 2014. The increase includes $28 million attributable to Doral Bank s failure and acquisition, mostly comprised of $17 million of mortgage loans previously serviced by Doral under a servicing

agreement that required Doral to advance principal and interest payments irrespective of borrower delinquencies, and $7 million of acquired commercial loans placed in NPL status following the acquisition. The ratio of non-performing loans to loans held-in-portfolio, excluding covered loans, decreased to 3.16% at March 31, 2015 from 3.25% at December 31, 2014. The decrease in the ratio was primarily due to the impact of the Doral portfolio on the total loans base.

At March 31, 2015, non-performing loans secured by real estate held-in-portfolio, excluding covered loans, amounted to $511 million in the Puerto Rico operations and $25 million in the U.S. mainland operations. These figures compare to $482 million in the Puerto Rico operations and $35 million in the U.S. mainland operations at December 31, 2014. In addition to the non-performing loans included in Table 27, at March 31, 2015, there were $200 million of non-covered performing loans, mostly commercial loans, which in management s opinion, are currently subject to potential future classification as non-performing and are considered impaired, compared with $146 million at December 31, 2014.

Table of Contents

Table 27 - Non-Performing Assets

(Dollars in thousands)	March 31, 2015	As a % of loans HIP by category [4]	December 31, 2014	As a % of loans HIP by category [4]
Commercial	$ 274,438	3.2%	$ 260,225	3.2%
Construction	13,214	1.9	13,812	5.5
Legacy [1]	2,288	2.9	1,545	1.9
Leasing	2,506	0.4	3,102	0.5
Mortgage	328,615	4.6	304,913	4.7
Consumer	43,892	1.1	46,886	1.2
Total non-performing loans held-in- portfolio, excluding covered loans	664,953	3.2%	630,483	3.3%
Non-performing loans held-for-sale [2]	8,404		18,899	
Other real estate owned (OREO), excluding covered OREO	128,170		135,500	
Total non-performing assets, excluding covered assets	$ 801,527		$ 784,882	
Covered loans and OREO [3]	133,211		148,099	
Total non-performing assets	$ 934,738		$ 932,981	
Accruing loans past due 90 days or more[5] [6]	$ 451,035		$ 447,990	
Ratios excluding covered loans:[7]				
Non-performing loans held-in-portfolio to loans held-in-portfolio	3.16%		3.25%	
Allowance for loan losses to loans held-in-portfolio	2.46		2.68	
Allowance for loan losses to non-performing loans, excluding held-for-sale	77.63		82.43	
Ratios including covered loans:				
Non-performing assets to total assets	2.62%		2.82%	
Non-performing loans held-in-portfolio to loans held-in-portfolio	2.92		2.95	
Allowance for loan losses to loans held-in-portfolio	2.51		2.74	
Allowance for loan losses to non-performing loans, excluding held-for-sale	85.99		92.82	

HIP = held-in-portfolio

[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 BPNA segment.

[2] Non-performing loans held-for-sale consist $225 thousand in mortgage loans and $8.2 million in commercial loans as of March 31, 2015 (December 31, 2014 - $14.0 million in mortgage loans, $309 thousand in commercial loans and $4.5 million in consumer loans).

[3] The amount consists of $20 million in non-performing covered loans accounted for under ASC Subtopic 310-20 and $114 million in covered OREO as of March 31, 2015 (December 31, 2014 - $18 million and $130 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] Loans held-in-portfolio used in the computation exclude $2.5 billion in covered loans at March 31, 2015 (December 31, 2014 - 2.5 billion).

[5] The carrying value of covered loans accounted for under ASC Sub-topic 310-30 that are contractually 90 days or more past due was $0.5 billion at March 31, 2015 (December 31, 2014 - $0.5 billion). This amount is excluded from the above table as the covered loans accretable yield interest recognition is independent from the underlying contractual loan delinquency status.

[6] 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 $134 million of residential mortgage loans insured by FHA or guaranteed by the VA that are no longer accruing interest as of March 31, 2015 (December 31, 2014 - $125 million). Furthermore, the Corporation has approximately $69 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, 2014 - $66 million).

[7] These asset quality ratios have been adjusted to remove the impact of covered loans and covered foreclosed property. 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 of Contents

Table 28 - Activity in Non-Performing Loans Held-in-Portfolio (Excluding Consumer and Covered Loans)

	For the quarter ended March 31, 2015	
(Dollars in thousands)	BPPR	BPNA
Beginning balance	$ 567,351	$ 13,144
Plus:		
New non-performing loans	135,267	15,262
Advances on existing non-performing loans		33
Less:		
Non-performing loans transferred to OREO	(5,914)	
Non-performing loans charged-off	(16,533)	(690)
Loans returned to accrual status / loan collections	(82,172)	(9,231)
Loans transferred to held-for-sale		2,038
Ending balance NPLs	$ 597,999	$ 20,556

Table 29 - Activity in Non-Performing Loans Held-in-Portfolio (Excluding Consumer and Covered Loans)

	For the quarter ended March 31, 2014	
(Dollars in thousands)	BPPR	BPNA
Beginning balance	$ 410,594	$ 139,961
Plus:		
New non-performing loans	183,147	22,814
Advances on existing non-performing loans		11
Less:		
Non-performing loans transferred to OREO	(5,451)	(1,195)
Non-performing loans charged-off	(17,387)	(7,527)
Loans returned to accrual status / loan collections	(72,707)	(29,144)
Loans transferred to held-for-sale		(30,094)
Ending balance NPLs	$ 498,196	$ 94,826

For the quarter ended March 31, 2015, total non-performing loan inflows, excluding consumer loans, amounted to $151 million, a decrease of $55 million, or 27%, when compared to the inflows for the same quarter in 2014. Inflows of non-performing loans held-in-portfolio at the BPPR segment amounted to $135 million, a decrease of $48 million, or 26%, compared to the inflows for the first quarter of 2014. Inflows of non-performing loans held-in-portfolio at the BPNA segment amounted to $15 million, a decrease of $8 million, or 33%, compared to the inflows for the first quarter of 2014. These reductions were mostly concentrated in the commercial portfolios. Refer to the following table for more information on non-performing held-in-portfolio inflows, excluding consumer loans.

Refer to Table 30 for a summary of the activity in the allowance for loan losses and selected loan losses statistics for the quarters ended March 31, 2015 and 2014.

166

Table of Contents

Table 30 - Allowance for Loan Losses and Selected Loan Losses Statistics - Quarterly Activity

	Quarters ended March 31,					
(Dollars in thousands)	2015 Non-covered loans	2015 Covered loans	2015 Total	2014 Non-covered loans	2014 Covered loans	2014 Total
Balance at beginning of period	$ 519,719	$ 82,073	$ 601,792	$ 538,463	$ 102,092	$ 640,555
Provision for loan losses - Continuing operations	29,711	10,324	40,035	54,122	25,714	79,836
Provision for loan losses - Discontinued operations				(6,764)		(6,764)
	549,430	92,397	641,827	585,821	127,806	713,627
Charged-offs:						
Commercial	10,022	14,239	24,261	27,108	7,968	35,076
Construction		9,046	9,046	416	22,981	23,397
Leases	1,237		1,237	967		967
Legacy[1]	474		474	2,984		2,984
Mortgage	11,194	3,385	14,579	10,264	1,656	11,920
Consumer	32,217		32,217	34,272	(295)	33,977
Discontinued operations				4,452		4,452
	55,144	26,670	81,814	80,463	32,310	112,773
Recoveries:						
Commercial	5,699	2,640	8,339	9,948	320	10,268
Construction	2,925	3,275	6,200	1,970	1,889	3,859
Leases	468		468	311		311
Legacy[1]	2,302		2,302	7,193		7,193
Mortgage	567	104	671	878		878
Consumer	7,297	727	8,024	6,920	68	6,988
Discontinued operations				9,997		9,997
	19,258	6,746	26,004	37,217	2,277	39,494
Net loans charged-offs (recovered):						
Commercial	4,323	11,599	15,922	17,160	7,648	24,808
Construction	(2,925)	5,771	2,846	(1,554)	21,092	19,538
Leases	769		769	656		656
Legacy[1]	(1,828)		(1,828)	(4,209)		(4,209)
Mortgage	10,627	3,281	13,908	9,386	1,656	11,042
Consumer	24,920	(727)	24,193	27,352	(363)	26,989
Discontinued operations				(5,545)		(5,545)
	35,886	19,924	55,810	43,246	30,033	73,279

Net recoveries (write-downs)	2,680		2,680			
Balance at end of period	$ 516,224	$ 72,473	$ 588,697	$ 542,575	$ 97,773	$ 640,348
Ratios:						
Annualized net charge-offs to average loans held-in-portfolio[2]	0.72%		1.00%	0.80%		1.20%
Provision for loan losses to net charge-offs[2]	0.83x		0.72x	1.10x		1.00x

[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 BPNA segment.

[2] Excluding provision for loan losses and net recoveries (write-down) related to loans sold during the quarter ended March 31, 2015.

Refer to the Allowance for Loan Losses subsection in this MD&A for tables detailing the composition of the allowance for loan losses between general and specific reserves, and for qualitative information on the main factors driving the variances.

167

Table of Contents

The following table presents annualized net charge-offs to average loans held-in-portfolio (HIP) for the non-covered portfolio by loan category for the quarters ended March 31, 2015 and 2014.

Table 31 - Annualized Net Charge-offs (Recoveries) to Average Loans Held-in-Portfolio (Non-Covered Loans)

	Quarters ended March 31,	
	2015	2014
Commercial	0.21%	0.46%
Construction	(2.79)	(3.58)
Leases	0.54	0.48
Legacy	(9.23)	(9.50)
Mortgage	0.64	0.57
Consumer	2.59	2.87
Total annualized net charge-offs to average loans held-in-portfolio	0.72%	0.80%

Average loans held-in-portfolio excludes covered loans acquired in the Westernbank FDIC-assisted transaction which were recorded at fair value on date of acquisition, and thus, considered a credit discount component.

The Corporation s annualized net charge-offs to average non-covered loans held-in-portfolio ratio was 0.72% for the quarter ended March 31, 2015, down from 0.80% for the same period in 2014. Net charge-offs, excluding covered loans, for the quarter ended March 31, 2015, decreased by $7.4 million, compared to the quarter ended March 31, 2014, mostly driven by the commercial portfolio in the BPPR segment.

The Corporation maintained stable credit quality during the first quarter of 2015, in spite of the challenging economic conditions that persist in Puerto Rico, reflective of the improved risk profile of the loan portfolios and the result of strategic initiatives to reduce high risk assets executed by the Corporation over the past several years. These results were impacted by the addition of certain non-performing loans related to the failure and loan acquisition of Doral Bank. The US region continued to exhibit strong asset quality, with low levels of delinquencies and charge-offs.

The discussions in the sections that follow assess credit quality performance for the first quarter of 2015 for each of the Corporation s non-covered loan portfolios, including $1.6 billion of Doral Bank acquired loans.

Commercial loans

Non-covered non-performing commercial loans held-in-portfolio were $274 million at March 31, 2015, compared with $260 million at December 31, 2014. The increase of $14 million, or 5%, from December 31, 2014 includes $9 million attributable to Doral Bank s failure and loan acquisition. The percentage of non-performing commercial loans held-in-portfolio to commercial loans held-in-portfolio decreased to 3.17% at March 31, 2015 from 3.20% at December 31, 2014, primarily due to the impact of the Doral portfolio on the total loan base.

Commercial non-covered non-performing loans held-in-portfolio at the BPPR segment increased by $7 million from December 31, 2014, of which $1 million were related to commercial loans acquired in the Doral acquisition. Commercial non-performing loans held-in-portfolio at the BPNA segment increased by $7 million from December 31, 2014, which stemmed from $7 million of acquired commercial loans placed in NPL status following the acquisition.

Tables 32 and 33 present the changes in the non-performing commercial loans held-in-portfolio for the quarters ended March 31, 2015 and 2014 for the BPPR (excluding covered loans) and BPNA segments.

Table of Contents

Table 32 - Activity in Non-Performing Commercial Loans Held-In-Portfolio (Excluding Covered Loans)

	For the quarter ended March 31, 2015		
(In thousands)	BPPR	BPNA	Popular, Inc.
Beginning Balance - NPLs	$ 257,910	$ 2,315	$ 260,225
Plus:			
New non-performing loans[1]	27,426	8,030	35,456
Less:			
Non-performing loans transferred to OREO	(1,069)		(1,069)
Non-performing loans charged-off	(8,375)	(426)	(8,801)
Loans returned to accrual status / loan collections	(11,261)	(112)	(11,373)
Ending balance - NPLs	$ 264,631	$ 9,807	$ 274,438

[1] New non-performing loans includes $1.2 million at BPPR and $7.4 million at BPNA from Doral Acquisition.

Table 33 - Activity in Non-Performing Commercial Loans Held-In-Portfolio (Excluding Covered Loans)

	For the quarter ended March 31, 2014		
(In thousands)	BPPR	BPNA	Popular, Inc.
Beginning Balance - NPLs	$ 186,097	$ 92,956	$ 279,053
Plus:			
New non-performing loans	86,045	17,156	103,201
Advances on existing non-performing loans		6	6
Less:			
Non-performing loans transferred to OREO	(3,700)		(3,700)
Non-performing loans charged-off	(10,278)	(4,092)	(14,370)
Loans returned to accrual status / loan collections	(12,233)	(14,934)	(27,167)
Loans in accrual status transfer to held-for-sale		(30,094)	(30,094)
Ending balance - NPLs	$ 245,931	$ 60,998	$ 306,929

For the quarter ended March 31, 2015, inflows of commercial non-performing loans held-in-portfolio at the BPPR segment amounted to $27 million, a decrease of $59 million, or 68%, when compared to inflows for the same period in 2014. The first quarter of 2014 included the addition of a $52 million single borrower which returned to accrual status during the fourth quarter of 2014. Inflows of commercial non-performing loans held-in-portfolio at the BPNA segment amounted to $8 million, a decrease of $9 million, or 53%, compared to inflows for the same quarter in 2014. The reduction was driven by improvements in the underlying quality of the loan portfolio, in part offset by $7 million of Doral Bank loans placed in NPL status following the acquisition.

Table 34 provides information on commercial non-performing loans and net charge-offs for the BPPR (excluding the Westernbank covered loan portfolio) and BPNA segments.

Table of Contents

Table 34 - Non-Performing Commercial Loans and Net Charge-offs (Excluding Covered Loans)

	BPPR		BPNA		Popular, Inc.	
(Dollars in thousands)	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Non-performing commercial loans	$ 264,631	$ 257,910	$ 9,807	$ 2,315	$ 274,438	$ 260,225
Non-performing commercial loans to commercial loans HIP	4.13%	4.05%	0.44%	0.13%	3.17%	3.20%

	BPPR For the quarters ended		BPNA For the quarters ended		Popular, Inc. For the quarters ended	
(Dollars in thousands)	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Commercial loan net charge-offs (recoveries)	$ 4,802	$ 15,173	$ (479)	$ (3,691)	$ 4,323	$ 11,482
Commercial loan net charge-offs (recoveries) (annualized) to average commercial loans HIP	0.30%	0.94%	(0.10)%	(0.41)%	0.21%	0.46%

There are two commercial loan relationships greater than $10 million in non-accrual status with an outstanding aggregate balance of $87 million at March 31, 2015, compared with two commercial loan relationships with an outstanding aggregate balance of $88 million at December 31, 2014.

Commercial loan net charge-offs, excluding net charge-offs for covered loans, amounted to $4.3 million for the quarter ended March 31, 2015, compared to $11.5 million for the same period in 2014. The decline of $7.2 million, or 62%, for the quarter ended March 31, 2015, when compared with the same quarter in 2014, primarily reflects improvements in the risk profile of the portfolio and the result of initiatives taken by the Corporation to address problem loans. Commercial loans annualized net charge-offs to average non-covered loans held-in-portfolio decreased to 0.21% for the quarter ended March 31, 2015 from 0.46% for the quarter ended March 31, 2014.

Commercial loan net charge-offs in the BPPR segment amounted to $4.8 million for the quarter ended March 31, 2015, compared to $15.2 million for the quarter ended March 31, 2014. The decline of $10.4 million for the for the quarter ended March 31, 2015, when compared with the same period in 2014 was mainly reflective of the improved risk profile of the portfolio. Notwithstanding, Puerto Rico s fiscal and economic conditions continue to present a challenging operating environment. Commercial loans annualized net charge-offs to average non-covered loans held-in-portfolio decreased to 0.30% for the quarter ended March 31, 2015 from 0.94% for the quarter ended March 31, 2014. For the quarter ended March 31, 2015, the charge-offs associated with collateral dependent impaired commercial loans amounted to approximately $4.3 million at the BPPR segment.

Commercial loan net charge-offs (recoveries) in the BPNA segment amounted to recoveries of $0.5 million for quarter ended March 31, 2015, compared to recoveries of $3.7 million for the quarter ended March 31, 2014. Commercial loans annualized net charge-offs to average non-covered loans held-in-portfolio was (0.10%) for the quarter ended March 31, 2015, and (0.41%) for the quarter ended March 31, 2014. Low levels of net charge-offs reflect improvements in credit quality, further strengthened by the divestiture of its regional operations in California, Illinois,

and Florida in the second half of 2014. For the quarter ended March 31, 2015, there were no charge-offs associated with collateral dependent impaired commercial loans from continuing operations at the BPNA segment.

The Corporation s commercial loan portfolio secured by real estate (CRE), excluding covered loans, amounted to $5.0 billion at March 31, 2015, of which $1.6 billion was secured with owner occupied properties, compared with $4.7 billion and $1.7 billion, respectively, at December 31, 2014. CRE non-performing loans, excluding covered loans, amounted to $134 million at March 31, 2015, compared with $129 million at December 31, 2014. The CRE non-performing loans ratios for the BPPR and BPNA segments were 3.62% and 0.08%, respectively, at March 31, 2015, compared with 3.60% and 0.07%, respectively, at December 31, 2014.

Construction loans

Non-covered non-performing construction loans held-in-portfolio amounted to $13 million at March 31, 2015, compared to $14 million at December 31, 2014, concentrated in the BPPR segment. Stable credit trends in the construction portfolio were the result of de-risking strategies executed by the Corporation over the past several years. The ratio of non-performing construction loans to construction loans held-in-portfolio, excluding covered loans, decreased to 1.91% at March 31, 2015 from 5.48% at December 31, 2014. The decrease was due mainly to the impact of $475 million of the Doral acquired construction portfolio on the total loan base.

Tables 35 and 36 present changes in non-performing construction loans held-in-portfolio for the quarters ended March 31, 2015 and 2014 for the BPPR (excluding covered loans) and BPNA segments.

Table 35 - Activity in Non-Performing Construction Loans Held-In-Portfolio (Excluding Covered Loans)

	For the quarter ended March 31, 2015		
(In thousands)	BPPR	BPNA	Popular, Inc.
Beginning Balance - NPLs	$ 13,812	$	$ 13,812
Plus:			
New non-performing loans	456		456
Less:			
Non-performing loans charged-off			
Loans returned to accrual status / loan collections	(1,054)		(1,054)
Ending balance - NPLs	$ 13,214	$	$ 13,214

Table 36 - Activity in Non-Performing Construction Loans Held-In-Portfolio (Excluding Covered Loans)

	For the quarter ended March 31, 2014		
(In thousands)	BPPR	BPNA	Popular, Inc.
Beginning Balance - NPLs	$ 18,108	$ 5,663	$ 23,771
Plus:			
New non-performing loans	7,960		7,960
Less:			
Non-performing loans charged-off	(416)		(416)
Loans returned to accrual status / loan collections	(3,188)	(5,663)	(8,851)
Ending balance - NPLs	$ 22,464	$	$ 22,464

For the quarter ended March 31, 2015, inflows of construction non-performing loans held-in-portfolio at the BPPR segment were minimal, amounting to $0.5 million, decreasing by $8 million when compared to additions for the quarter in 2014. There were no additions of construction non-performing loans held-in-portfolio at the BPNA segment during the first quarter of 2015.

There are no construction loan relationships greater than $10 million in non-performing status at March 31, 2015 and December 31, 2014.

Construction loan net charge-offs (recoveries), excluding net charge-offs for covered loans, amounted to recoveries of $2.9 million for the quarter ended March 31, 2015, compared to recoveries of $1.6 million for the quarter ended March 31, 2014. Construction loans annualized net charge-offs (recoveries) to average non-covered loans held-in-portfolio resulted in (2.79%) for the quarter ended March 31, 2015, compared to (3.58%) for the quarter ended March 31, 2014. For quarter ended March 31, 2015, there were no charge-offs associated with collateral dependent impaired construction loans in the BPPR and BPNA segments.

Table 37 provides information on construction non-performing loans and net charge-offs for the BPPR and BPNA (excluding the covered loan portfolio) segments.

171

Table of Contents

Table 37 - Non-Performing Construction Loans and Net Charge-offs (Excluding Covered Loans)

	BPPR		BPNA		Popular, Inc.	
(Dollars in thousands)	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Non-performing construction loans	$ 13,214	$ 13,812	$	$	$ 13,214	$ 13,812
Non-performing construction loans to construction loans HIP	13.39%	8.67%	%	%	1.91%	5.48%

	BPPR		BPNA		Popular, Inc.	
	For the quarters ended		For the quarters ended		For the quarters ended	
(Dollars in thousands)	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Construction loan net charge-offs (recoveries)	$ (2,925)	$ (1,378)	$	$ (176)	$ (2,925)	$ (1,554)
Construction loan net charge-offs (recoveries) (annualized) to average construction loans HIP	(7.76)%	(3.78)%	%	(2.56)%	(2.79)%	(3.58)%

Legacy loans

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 BPNA segment.

Legacy non-performing loans held-in-portfolio remained flat at $2 million at March 31, 2015 and December 31, 2014. The percentage of non-performing legacy loans held-in-portfolio to legacy loans held-in-portfolio increased to 2.95% at March 31, 2015 from 1.91% at December 31, 2014. This increase in the ratio was mostly related to the continued run-off of the legacy portfolio.

For the quarter ended March 31, 2015, additions to legacy loans in non-performing status amounted to $1 million, relatively flat when compared to the same period in 2014.

Tables 38 and 39 present the changes in non-performing legacy loans held in-portfolio.

Table 38 - Activity in Non-Performing Legacy Loans Held-In-Portfolio (Excluding Covered Loans)

	For the quarter ended March 31, 2015	
(In thousands)	BPNA	
Beginning balance - NPLs	$	1,545
Plus:		
New non-performing loans		1,000
Advances on existing non-performing loans		33
Less:		

Non-performing loans charged-off		(141)
Loans returned to accrual status / loan collections		(149)
Ending balance - NPLs	$	2,288

Table of Contents

Table 39 - Activity in Non-Performing Legacy Loans Held-In-Portfolio (Excluding Covered Loans)

	For the quarter ended March 31, 2014	
(Dollars in thousands)	BPNA	
Beginning balance - NPLs	$	15,050
Plus:		
New non-performing loans		1,738
Advances on existing non-performing loans		5
Less:		
Non-performing loans charged-off		(2,568)
Loans returned to accrual status / loan collections		(2,617)
Ending balance - NPLs	$	11,608

In the loans held-in-portfolio, there was no legacy loan relationship greater than $10 million in non-accrual status at March 31, 2015 and December 31, 2014.

Legacy loan net charge-offs (recoveries) amounted to recoveries of $1.8 million for the quarter ended March 31, 2015, compared to recoveries of $4.9 million for the quarter ended March 31, 2014. Legacy loan net charge-offs (recoveries) to average non-covered loans held-in-portfolio was (9.23%) for the quarter ended March 31, 2015, compared to (9.50%) for the quarter ended March 31, 2014. For the quarter ended March 31, 2015, there were no charge-offs associated with collateral dependent legacy loans from continuing operations.

Low level of delinquencies and charge-offs was mainly driven by lower level of problem loans and the continued run-off of the portfolio.

Table 40 provides information on legacy non-performing loans and net charge-offs.

Table 40 - Non-Performing Legacy Loans and Net Charge-Offs

	BPNA			
(Dollars in thousands)	March 31, 2015		December 31, 2014	
Non-performing legacy loans	$	2,288	$	1,545
Non-performing legacy loans to legacy loans HIP	2.95%		1.91%	

	BPNA			
	For the quarters ended			
(Dollars in thousands)	March 31, 2015		March 31, 2014	
Legacy loan net charge-offs (recoveries)	$	(1,828)	$	(4,882)
Legacy loan net charge-offs (recoveries) (annualized) to average legacy loans HIP	(9.23)%		(9.50)%	

Mortgage loans

Non-covered non-performing mortgage loans held-in-portfolio were $329 million at March 31, 2015, compared to $305 million at December 31, 2014. The increase of $24 million was mainly driven by an increase of $25 million in the BPPR segment, which included the addition of $17 million of loans previously serviced by Doral under servicing agreement that required Doral to advance principal and interest payments irrespective of borrower delinquencies. In addition Doral was required to repurchase or substitute delinquent loans. The percentage of non-performing mortgage loans held-in-portfolio to mortgage loans held-in-portfolio decreased to 4.57% at March 31, 2015 from 4.69% at December 31, 2014. The decrease was due mainly to the impact of the Doral portfolio on the total loan base.

Tables 41 and 42 present changes in non-performing mortgage loans held-in-portfolio for the BPPR (excluding covered loans) and BPNA segments.

Table 41 - Activity in Non-Performing Mortgage Loans Held-in-Portfolio (Excluding Covered Loans)

	For the quarter ended March 31, 2015		
(Dollars in thousands)	BPPR	BPNA	Popular, Inc.
Beginning balance - NPLs	$ 295,629	9,284	304,913
Plus:			
New non-performing loans[1]	107,385	6,232	113,617
Less:			
Non-performing loans transferred to OREO	(4,845)		(4,845)
Non-performing loans charged-off	(8,158)	(123)	(8,281)
Loans returned to accrual status / loan collections	(69,857)	(8,970)	(78,827)
Loans transferred to held-for-sale		2,038	2,038
Ending balance - NPLs	$ 320,154	$ 8,461	$ 328,615

[1] New non-performing loans includes $16.6 million of loans previous serviced by Doral.

Table 42 - Activity in Non-Performing Mortgage Loans Held-in-Portfolio (Excluding Covered Loans)

	For the quarter ended March 31, 2014		
(Dollars in thousands)	BPPR	BPNA	Popular, Inc.
Beginning balance - NPLs	$ 206,389	26,292	232,681
Plus:			
New non-performing loans	89,142	3,920	93,062
Less:			
Non-performing loans transferred to OREO	(1,751)	(1,195)	(2,946)
Non-performing loans charged-off	(6,693)	(867)	(7,560)
Loans returned to accrual status / loan collections	(57,286)	(5,930)	(63,216)
Ending balance - NPLs	$ 229,801	$ 22,220	$ 252,021

For the quarter ended March 31, 2015, inflows of mortgage non-performing loans held-in-portfolio at the BPPR segment amounted to $107 million, an increase of $18 million, when compared to inflows for the same period in 2014, mainly driven by the aforementioned addition of $17 million of loans previously serviced by Doral. Inflows of mortgage non-performing loans held-in-portfolio at the BPNA segment amounted to $6 million, an increase of $2 million, when compared to inflows for the same period in 2014.

Mortgage loan net charge-offs, excluding net charge-offs for covered loans, remained stable at $10.6 million for the quarter ended March 31, 2015, compared to $9.4 million for the quarter ended March 31, 2014. Mortgage loan net charge-offs to average mortgage non-covered loans held-in-portfolio was 0.64% in the quarter ended March 31, 2015, compared to 0.57% for the quarter ended March 31, 2014. Net charge-off activity derived mainly from loans in the BPPR segment. Mortgage loan net charge-offs at the BPNA segment amounted to $0.2 million, or 0.06% of average mortgage loans held-in-portfolio on an annualized basis for the quarter ended March 31, 2015, reflective of the

improved risk profile of the portfolio, further strengthened by the sale of certain non-performing and classified assets. For the quarter ended March 31, 2015, charge-offs associated with mortgage loans individually evaluated for impairment amounted to $2.2 million in the BPPR segment.

Table 43 provides information on mortgage non-performing loans and net charge-offs for the BPPR and BPNA (excluding the covered loan portfolio).

Table of Contents

Table 43 - Non-Performing Mortgage Loans and Net Charge-Offs (Excluding Covered Loans)

(Dollars in thousands)	BPPR March 31, 2015	BPPR December 31, 2014	BPNA March 31, 2015	BPNA December 31, 2014	Popular, Inc. March 31, 2015	Popular, Inc. December 31, 2014
Non-performing mortgage loans	$ 320,154	$ 295,629	$ 8,461	$ 9,284	$ 328,615	$ 304,913
Non-performing mortgage loans to mortgage loans HIP	5.19%	5.42%	0.83%	0.88%	4.57%	4.69%

(Dollars in thousands)	BPPR For the quarters ended March 31, 2015	BPPR For the quarters ended March 31, 2014	BPNA For the quarters ended March 31, 2015	BPNA For the quarters ended March 31, 2014	Popular, Inc. For the quarters ended March 31, 2015	Popular, Inc. For the quarters ended March 31, 2014
Mortgage loan net charge-offs	$ 10,473	$ 8,516	$ 154	$ 870	$ 10,627	$ 9,386
Mortgage loan net charge-offs (annualized) to average mortgage loans HIP	0.75%	0.63%	0.06%	0.28%	0.64%	0.57%

Consumer loans

Non-covered non-performing consumer loans held-in-portfolio were $44 million at March 31, 2015, compared to $47 million at December 31, 2014. Consumer non-covered non-performing loans held-in-portfolio decreased by $3 million when compared to December 31, 2014, primarily as a result of a decrease of $3 million in the BPPR segment, mainly related to personal loans.

For the quarter ended March 31, 2015, the BPPR segment maintained stable inflows of consumer non-performing loans held-in-portfolio, increasing slightly by $0.5 million, or 2%, when compared to inflows for the same period of 2014. Inflows of consumer non-performing loans held-in-portfolio at the BPNA segment amounted to $4 million, a decrease of $2 million, or 32% compared to inflows for 2014.

The Corporation s consumer loan net charge-offs, excluding covered loans, amounted to $24.9 million for the quarter ended March 31, 2015, compared to $28.2 million in the quarter ended March 31, 2014. The decrease of $3.2 million in consumer net charge-offs for the first quarter of 2015, when compared with the same period in 2014, was driven by a decrease of $3.9 million in the BPNA segment. Consumer loan net charge-offs to average consumer non-covered loans held-in-portfolio was 2.59% for the quarter ended March 31, 2015, compared with 2.87% for the same period in 2014.

Table 44 provides information on consumer non-performing loans and net charge-offs by segments.

Table 44 - Non-Performing Consumer Loans and Net Charge-Offs (Excluding Covered Loans)

(Dollars in thousands)	BPPR	BPNA	Popular, Inc.

	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Non-performing consumer loans	$ 37,512	$ 40,930	$ 6,380	$ 5,956	$ 43,892	$ 46,886
Non-performing consumer loans to consumer loans HIP	1.12%	1.21%	1.36%	1.24%	1.15%	1.21%

	BPPR		BPNA		Popular, Inc.	
	For the quarters ended		For the quarters ended		For the quarters ended	
(Dollars in thousands)	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Consumer loan net charge-offs	$ 23,653	$ 22,983	$ 1,267	$ 5,175	$ 24,920	$ 28,158
Consumer loan net charge-offs (annualized) to average consumer loans HIP	2.81%	2.77%	1.07%	3.40%	2.59%	2.87%

Table of Contents

Combined net charge-offs for E-LOAN s home equity lines of credit and closed-end second mortgages amounted to approximately $82 thousand, or 0.15% of those particular average loan portfolios, at March 31, 2015, compared with $1.8 million, or 2.80%, at March 31, 2014. With the downsizing of E-LOAN, this subsidiary ceased originating these types of loans in 2008. Home equity lending includes both home equity loans and lines of credit. This type of lending, which is secured by a first or second mortgage on the borrower s residence, allows customers to borrow against the equity in their home. Real estate market values at the time the loan or line is granted directly affect the amount of credit extended and, in addition, changes in these values impact the severity of losses. E-LOAN s portfolio of home equity lines of credit and closed-end second mortgages outstanding at March 31, 2015 totaled $212 million with a related allowance for loan losses of $6 million, representing 3.04% of that particular portfolio. E-LOAN s portfolio of home equity lines of credit and closed-end second mortgages outstanding at December 31, 2014 totaled $220 million with a related allowance for loan losses of $6 million, representing 2.53% of that particular portfolio. At March 31, 2015, home equity lines of credit and closed-end second mortgages in which E-LOAN holds both the first and second lien amounted to $47 thousand and $232 thousand, respectively, representing 0.01% and 0.05%, respectively, of the consumer loan portfolio of the BPNA segment. At March 31, 2015, 47% are paying the minimum amount due on the home equity lines of credit. At March 31, 2015, the majority of the closed-end second mortgages in which E-LOAN holds the first lien mortgage were in performing status.

Other real estate

Other real estate represents real estate property acquired through foreclosure, part of the Corporation s continuous efforts to aggressively resolve non-performing loans. Other real estate not covered under loss sharing agreements with the FDIC amounted to $128 million at March 31, 2015, compared to $136 million at December 31, 2014. The decrease of $8 million was mainly related to a $12 million reduction in the BPNA segment as a result of a bulk sale.

Other real estate covered under loss sharing agreements with the FDIC, comprised principally of repossessed commercial real estate properties, amounted to $114 million at March 31, 2015, compared with $130 million at December 31, 2014. Generally, 80% of the write-downs taken on these properties based on appraisals or losses on the sale are covered under the loss sharing agreements.

During the first quarter of 2015, the Corporation transferred $33 million of loans to other real estate, sold $38 million of foreclosed properties and recorded write-downs and other adjustments of approximately $19 million.

Updated appraisals or third-party opinions of value (BPOs) are obtained to adjust the values of the other real estate assets. Commencing in 2011, the appraisal for a commercial or construction other real estate property with a book value greater than $1 million is updated annually and if lower than $1 million it is updated at least every two years. For residential other real estate property, the Corporation requests third-party BPOs or appraisals generally on an annual basis. Appraisals may be adjusted due to age, collateral inspections and property profiles or due to general marked conditions. The adjustments applied are based upon internal information like other appraisals for the type of properties and loss severity information that can provide historical trends in the real estate market, and may change from time to time based on market conditions.

For commercial and construction other real estate properties at the BPPR segment, depending on the type of property and/or the age of the appraisal, downward adjustments currently may range between 25% to 45%, including estimated cost to sell. For commercial and construction properties at the BPNA segment, the most typically applied collateral discount rate currently ranges from 10% to 40%, including cost to sell. This discount was determined based on an analysis of other real estate owned and loan sale transactions during a twelve month period, comparing net proceeds received by the lender relative to the most recent appraised value of the properties. However, additional haircuts can be applied depending upon the age of appraisal, the region and the condition of the property or project.

Currently, in the case of the BPPR segment, appraisals of residential properties were subject to downward adjustments of up to approximately 18%, including cost to sell of 5%. In the case of the U.S. mainland residential properties, the downward adjustment approximated 10%, including cost to sell of 10%.

Troubled debt restructurings

The following tables present the loans classified as TDRs according to their accruing status at March 31, 2015 and December 31, 2014.

Table of Contents

The Corporation s TDR loans, excluding covered loans, totaled $1.2 billion at March 31, 2015, an increase of $46 million, or 4%, from December 31, 2014. TDRs in accruing status increased by $39 million from December 31, 2014, due to sustained borrower performance, while non-accruing TDRs increased by $7 million.

Table 45 - TDRs Non-Covered Loans

	March 31, 2015		
(In thousands)	Accruing	Non-Accruing	Total
Commercial	$ 169,883	$ 153,122	$ 323,005
Construction	309	4,919	5,228
Mortgage	578,709	122,674	701,383
Leases	2,125	799	2,924
Consumer	106,574	14,610	121,184
Total	$ 857,600	$ 296,124	$ 1,153,724

Table 46 - TDRs Non-Covered Loans

	December 31, 2014		
(In thousands)	Accruing	Non-Accruing	Total
Commercial	$ 153,380	$ 150,069	$ 303,449
Construction	453	5,488	5,941
Mortgage	556,346	116,465	672,811
Leases	775	2,248	3,023
Consumer	107,530	14,848	122,378
Total	$ 818,484	$ 289,118	$ 1,107,602

Table 47 - TDRs Covered Loans

	March 31, 2015		
(In thousands)	Accruing	Non-Accruing	Total
Commercial	$ 2,632	$ 2,877	$ 5,509
Construction		2,336	2,336
Mortgage	4,174	5,195	9,369
Consumer	15	6	21
Total	$ 6,821	$ 10,414	$ 17,235

Table 48 - TDRs Covered Loans

	December 31, 2014		
(In thousands)	Accruing	Non-Accruing	Total
Commercial	$ 1,689	$ 3,257	$ 4,946
Construction		2,419	2,419
Mortgage	3,629	3,990	7,619
Consumer	26	5	31
Total	$ 5,344	$ 9,671	$ 15,015

At March 31, 2015, the Corporation s commercial loan TDRs, excluding covered loans, for the BPPR amounted to $323 million, of which $153 million were in non-performing status. The BPNA segment had no commercial TDRs as of March 31, 2015. This compares with $303 million for BPPR and $250 thousand for BPNA, respectively, of which $150 million and none were in non-performing status at December 31, 2014. The outstanding commitments for these commercial loan TDRs amounted to $4 million in the BPPR segment at March 31, 2015. Commercial loans that have been modified as part of loss mitigation efforts were evaluated individually for impairment, resulting in a specific reserve of $70 million for the BPPR segment at March 31, 2015, compared with $65 million at December 31, 2014.

At March 31, 2015, the Corporation s construction loan TDRs, excluding covered loans, for the BPPR segment amounted to $5 million, of which $5 million were in non-performing status. This compares with $6 million, of which $5 million were in non-performing status at December 31, 2014. The BPNA segment had no construction TDRs as of March 31, 2015. The outstanding commitments for these construction loan TDRs amounted to $1 million in the BPPR segment at March 31, 2015. These construction loan TDRs were individually evaluated for impairment resulting in a specific reserve of $158 thousand for the BPPR segment at March 31, 2015, compared with $363 thousand at December 31, 2014.

The Corporation s had no legacy loans modifications at March 31, 2015 and December 31, 2014.

At March 31, 2015, the mortgage loan TDRs for the BPPR and BPNA segments amounted to $696 million (including $369 million guaranteed by U.S. sponsored entities) and $5 million, respectively, of which $121 million and $2 million, respectively, were in non-performing

status. This compares with $669 million (including $290 million guaranteed by U.S. sponsored entities) and $4 million, respectively, of which $115 million and $987 thousand were in non-performing status at December 31, 2014. These mortgage loan TDRs were evaluated for impairment resulting in a specific allowance for loan losses of $42 million and $341 thousand for the BPPR and BPNA segments, respectively, at March 31, 2015, compared to $46 million and $273 thousand, respectively, at December 31, 2014.

At March 31, 2015, the consumer loan TDRs for the BPPR and BPNA segments amounted to $119 million and $2 million, respectively, of which $14 million and $180 thousand, respectively, were in non-performing status, compared with $120 million and $2 million, respectively, of which $15 million and $35 thousand, respectively, were in non-performing status at December 31, 2014. These consumer loan TDRs were evaluated for impairment resulting in a specific allowance for loan losses of $25 million and $381 thousand for the BPPR and BPNA segments, respectively, at March 31, 2015, compared with $28 million and $365 thousand, respectively, at December 31, 2014.

Refer to Note 12 to the consolidated financial statements for additional information on modifications considered troubled debt restructurings, including certain qualitative and quantitative data about troubled debt restructurings performed in the past twelve months.

Allowance for Loan Losses

Non-Covered Loan Portfolio

The allowance for loan losses, which represents management s estimate of credit losses inherent in the loan portfolio, is maintained at a sufficient level to provide for estimated credit losses on individually evaluated loans as well as estimated credit losses inherent in the remainder of the loan portfolio. The Corporation s management evaluates the adequacy of the allowance for loan losses on a quarterly basis. In this evaluation, management considers current economic conditions and the resulting impact on Popular Inc. s loan portfolio, the composition of the portfolio by loan type and risk characteristics, historical loss experience, results of periodic credit reviews of individual loans, regulatory requirements and loan impairment measurement, among 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 the years of historical data when estimating 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, in historical loss experience and in the condition of the various markets in which collateral may be sold may all 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.

The Corporation s assessment of the allowance for loan losses is determined in accordance with accounting guidance, specifically guidance of loss contingencies in ASC Subtopic 450-20 (general reserve for inherent losses) and loan impairment guidance in ASC Section 310-10-35 (loans individually assessed for impairment). Decreases in expected cash flows after the acquisition date for loans (pools) accounted for under ASC Subtopic 310-30 are recognized by recording an allowance for loan losses in the current period. For purposes of loans accounted for under ASC Subtopic 310-20 and new loans originated as a result of loan commitments assumed, the Corporation s assessment of the allowance for loan losses is determined in accordance with the accounting guidance of loss contingencies in ASC Subtopic 450-20 (general reserve for inherent losses) and loan impairment guidance in ASC Section 310-10-35 for loans individually evaluated for impairment. Refer to the Critical Accounting Policies / Estimates section of this MD&A for a description of the Corporation s allowance for loan losses methodology.

The following tables set forth information concerning the composition of the Corporation s allowance for loan losses (ALLL) at March 31, 2015 and December 31, 2014 by loan category and by whether the allowance and related provisions were calculated individually pursuant to the requirements for specific impairment or through a general valuation allowance.

Table of Contents

Table 49 - Composition of ALLL

	March 31, 2015						
(Dollars in thousands)	Commercial	Construction	Legacy [3]	Leasing	Mortgage	Consumer	Total[2]
Specific ALLL	$ 69,946	$ 158	$	$ 687	$ 42,570	$ 25,604	$ 138,965
Impaired loans [1]	$ 417,377	$ 9,838	$	$ 2,924	$ 450,612	$ 116,464	$ 997,215
Specific ALLL to impaired loans [1]	16.76%	1.61%	%	23.50%	9.45%	21.98%	13.94%
General ALLL	$ 135,946	$ 3,286	$ 2,962	$ 6,521	$ 86,271	$ 142,273	$ 377,259
Loans held-in-portfolio, excluding impaired loans [1]	$ 8,236,184	$ 680,890	$ 77,675	$ 578,195	$ 6,738,615	$ 3,704,156	$ 20,015,715
General ALLL to loans held-in-portfolio, excluding impaired loans [1]	1.65%	0.48%	3.81%	1.13%	1.28%	3.84%	1.88%
Total ALLL	$ 205,892	$ 3,444	$ 2,962	$ 7,208	$ 128,841	$ 167,877	$ 516,224
Total non-covered loans held-in-portfolio [1]	$ 8,653,561	$ 690,728	$ 77,675	$ 581,119	$ 7,189,227	$ 3,820,620	$ 21,012,930
ALLL to loans held-in-portfolio [1]	2.38%	0.50%	3.81%	1.24%	1.79%	4.39%	2.46%

[1] Excludes covered loans acquired on the Westernbank FDIC-assisted transaction.

[2] Excludes covered loans acquired on the Westernbank FDIC-assisted transaction. At March 31, 2015, the general allowance on the covered loans amounted to $71.0 million, while specific reserve amounted to $1.5 million.

[3] 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 BPNA segment.

Table 50 - Composition of ALLL

	December 31, 2014						
(Dollars in thousands)	Commercial	Construction	Legacy[3]	Leasing	Mortgage	Consumer	Total[2]
Specific ALLL	$ 64,736	$ 363	$	$ 770	$ 46,111	$ 28,161	$ 140,141
Impaired loans [1]	$ 357,161	$ 13,268	$	$ 3,023	$ 435,824	$ 117,732	$ 927,008
Specific ALLL to impaired loans [1]	18.13%	2.74%	%	25.47%	10.58%	23.92%	15.12%
General ALLL	$ 146,501	$ 6,307	$ 2,944	$ 6,361	$ 77,211	$ 140,254	$ 379,578
Loans held-in-portfolio,	$ 7,777,106	$ 238,552	$ 80,818	$ 561,366	$ 6,067,062	$ 3,752,539	$ 18,477,443

excluding impaired loans [1]							
General ALLL to loans held-in-portfolio, excluding impaired loans [1]	1.88%	2.64%	3.64%	1.13%	1.27%	3.74%	2.05%
Total ALLL	$ 211,237	$ 6,670	$ 2,944	$ 7,131	$ 123,322	$ 168,415	$ 519,719
Total non-covered loans held-in-portfolio [1]	$ 8,134,267	$ 251,820	$ 80,818	$ 564,389	$ 6,502,886	$ 3,870,271	$ 19,404,451
ALLL to loans held-in-portfolio [1]	2.60%	2.65%	3.64%	1.26%	1.90%	4.35%	2.68%

[1] Excludes covered loans acquired on the Westernbank FDIC-assisted transaction.

[2] Excludes covered loans acquired on the Westernbank FDIC-assisted transaction. At December 31, 2014, the general allowance on the covered loans amounted to $82.1 million while the specific reserve amounted to $5 thousand.

[3] 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 BPNA segment.

At March 31, 2015, the allowance for loan losses, excluding covered loans, decreased slightly by approximately $4 million when compared with December 31, 2014, mainly driven by the BPPR commercial portfolio. The general and specific reserves related to the non-covered loans totaled $377 million and $139 million, respectively, compared with $380 million and $140 million, respectively, as of December 31, 2014. The ratio of the allowance for loan losses to loans held-in-portfolio decreased to 2.46% of non-covered loans held-in-portfolio at March 31, 2015, compared with 2.68% at December 31, 2014, mostly due to impact of the Doral Bank transaction s acquired portfolio on the total loan base. Excluding the Doral Bank portfolio, the allowance to loans ratio remained stable at 2.66%. The ratio of the allowance to non-performing loans held-in-portfolio was 77.63% at March 31, 2015, compared with 82.43% at December 31, 2014. Excluding the impact of Doral related non-performing loans, the allowance to non-performing loans ratio remained relatively flat at 81.03%.

At March 31, 2015, the allowance for loan losses for non-covered loans at the BPPR segment totaled $484 million, or 2.92% of non-covered loans held-in-portfolio, compared with $489 million, or 3.07% of non-covered loans held-in-portfolio, at December 31, 2014. The decrease in the allowance was mostly prompted by lower reserves for the commercial and construction portfolios, offset by higher reserves for the mortgage portfolio. The ratio of the allowance to non-performing loans held-in-portfolio was 75.90% at March 31, 2015, compared with 80.00% at December 31, 2014. Excluding the impact of Doral related non-performing loans, the allowance to non-performing loans ratio remained relatively flat at 78.37%.

The allowance for loan losses at the BPNA segment increased slightly to $32 million, or 0.72% of loans held-in-portfolio, compared with $31 million, or 0.88% of loans held-in-portfolio, at December 31, 2014, driven by loan growth. The ratio of the allowance to non-performing loans held-in-portfolio was 118.60% at March 31, 2015, compared with 160.13% at December 31, 2014. The decrease in allowance coverage ratios was mainly related to the impact of the Doral portfolio. Excluding Doral, the previously referred ratios stood at 0.90% and 167.15%, respectively.

The allowance for loan losses for commercial loans held-in-portfolio, excluding covered loans, amounted to $206 million, or 2.38% of that portfolio, at March 31, 2015, compared with $211 million, or 2.60%, at December 31, 2014. The allowance for loan losses for the commercial loan portfolio in the BPPR segment, excluding the allowance for covered loans, totaled $195 million, or 3.05% of non-covered commercial loans held-in-portfolio, at March 31, 2015, compared with $202 million, or 3.16%, at December 31, 2014. At the BPNA segment, the allowance for loan losses of the commercial loan portfolio remained flat at $10 million at March 31, 2015, when compared to December 31, 2014. The allowance for loan losses for commercial loans held-in-portfolio at the BPNA segment was 0.46% of commercial loans held-in-portfolio, at March 31, 2015, compared with 0.55%, at December 31, 2014. The ratio of allowance to non-performing loans held-in-portfolio in the commercial loan category was 75.02% at March 31, 2015, compared with 81.18% at December 31, 2014. Excluding Doral non-performing loans, allowance to non-performing loans ratio was 77.45%.

The allowance for loan losses for construction loans held-in-portfolio, excluding covered loans, amounted to $3 million, or 0.50% of that portfolio, at March 31, 2015, compared with $7 million, or 2.65%, at December 31, 2014. The allowance for loan losses corresponding to the construction loan portfolio for the BPPR segment, excluding the allowance for covered loans, totaled $2 million, or 1.62% of non-covered construction loans held-in-portfolio, at March 31, 2015, compared with $5 million, or 3.44%, at December 31, 2014. At the BPNA segment, the allowance for loan losses of the construction loan portfolio totaled $2 million, or 0.31% of construction loans held-in-portfolio, at March 31, 2015, compared with $1 million, or 1.28%, at December 31, 2014. The ratio of allowance to non-performing loans held-in portfolio in the construction loan category was 26.06% at March 31, 2015, compared with 48.29% at December 31, 2014. Stable allowance levels in the construction portfolio result from the de-risking strategies executed by the Corporation over the past several years.

The allowance for loan losses for the legacy loans held-in-portfolio amounted to $3 million, or 3.81% of that portfolio, at March 31, 2015, compared with $3 million, or 3.64%, at December 31, 2014. The ratio of allowance to non-performing loans held-in portfolio in the legacy loan category was 129.46% at March 31, 2015, compared with 190.55% at December 31, 2014.

The allowance for loan losses for mortgage loans held-in-portfolio, excluding covered loans, amounted to $129 million, or 1.79% of that portfolio, at March 31, 2015, compared with $123 million, or 1.90%, at December 31, 2014. The decrease in the ratio was due to the impact of Doral Bank acquired mortgage loans in the loan base. The allowance for loan losses corresponding to the mortgage loan portfolio at the BPPR segment totaled $127 million, or 2.05% of mortgage loans held-in-portfolio, excluding covered loans, at March 31, 2015, compared with $121 million,

or 2.22%, respectively, at December 31, 2014. The increase was consistent with current credit quality trends, including higher non-performing loans. At the BPNA segment, the allowance for loan losses corresponding to the mortgage loan portfolio was unchanged at $2 million, or 0.22% of mortgage loans held-in-portfolio, at March 31, 2015, compared with $2 million, or 0.23%, at December 31, 2014. Low allowance levels corresponds the sale of certain classified loans, including mortgage TDRs and non-performing loans during 2014. The allowance for loan losses for BPNA s non-conventional mortgage loan portfolio amounted to $1 million, or 0.43% of that particular loan portfolio, compared with $2 million, or 0.61%, at December 31, 2014. The Corporation is no longer originating non-conventional mortgage loans at BPNA.

Table of Contents

The allowance for loan losses for the consumer portfolio, excluding covered loans, was unchanged at $168 million, or 4.39% of that portfolio, at March 31, 2015, compared to $168 million, or 4.35%, at December 31, 2014. The allowance for loan losses of the non-covered consumer loan portfolio in the BPPR segment remained stable at $153 million, or 4.58% of that portfolio, at March 31, 2015, compared with $154 million, or 4.55%, at December 31, 2014. At the BPNA segment, the allowance for loan losses of the consumer loan portfolio totaled $14 million, or 3.08% of consumer loans, at March 31, 2015, compared with $14 million, or 2.98%, at December 31, 2014.

The following table presents the Corporation s recorded investment in non-covered loans that were considered impaired and the related valuation allowance at March 31, 2015 and December 31, 2014.

Table 51 - Impaired Loans (Non-Covered Loans) and the Related Valuation Allowance

	March 31, 2015		December 31, 2014	
(In millions)	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
Impaired loans:				
Valuation allowance	$ 900.6	$ 139.0	$ 831.5	$ 140.1
No valuation allowance required	96.6		95.5	
Total impaired loans	$ 997.2	$ 139.0	$ 927.0	$ 140.1

With respect to the $97 million portfolio of the non-covered impaired loans for which no allowance for loan losses was required at March 31, 2015, management followed the guidance for specific impairment of a loan. When a loan is impaired, the measurement of the impairment may be based on: (1) the present value of the expected future cash flows of the impaired loan discounted at the loan s original effective interest rate; (2) the observable market price of the impaired loan; or (3) the fair value of the collateral, if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral. Impaired loans with no valuation allowance were mostly collateral dependent loans for which management charged-off specific reserves based on the fair value of the collateral less estimated costs to sell.

Average non-covered impaired loans for the quarters ended March 31, 2015 and March 31, 2014 were $962.1 million and $927.6 million, respectively. The Corporation recognized interest income on non-covered impaired loans of $12.2 million and $7.5 million for the quarters ended March 31, 2015 and 2014, respectively.

The following tables set forth the activity in the specific reserves for non-covered impaired loans for the quarters ended March 31, 2015 and 2014.

Table 52 - Activity in Specific ALLL for the Quarter Ended March 31, 2015

(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Leasing	Total
Beginning balance	$ 64,736	$ 363	$ 46,111	$	$ 28,161	$ 770	$ 140,141
Provision for impaired loans	9,483	(205)	(1,221)		1,238	(62)	9,233
Less: Net charge-offs	(4,273)		(2,320)		(3,795)	(21)	(10,409)

Specific allowance for loan losses at March 31, 2015	$ 69,946	$ 158	$ 42,570	$	$ 25,604	$ 687	$ 138,965

Table 53 - Activity in Specific ALLL for the Quarter Ended March 31, 2014

(In thousands)	Commercial	Construction	Mortgage	Legacy	Consumer	Leasing	Total
Beginning balance	$ 16,409	$ 177	$ 55,667	$	$ 30,200	$ 1,053	$ 103,506
Provision for impaired loans	22,424	482	348		1,112	(381)	23,985
Less: Net charge-offs	(7,941)	(416)	(2,099)		(1,899)		(12,355)
Specific allowance for loan losses at March 31, 2014	$ 30,892	$ 243	$ 53,916	$	$ 29,413	$ 672	$ 115,136

Table of Contents

For the quarter ended March 31, 2015, total net charge-offs for individually evaluated impaired loans amounted to approximately $10.4 million, of which $10.3 million pertained to the BPPR segment and $115 thousand to the BPNA segment. Most of these net charge-offs were related to the commercial loan portfolio.

The Corporation requests updated appraisal reports from pre-approved appraisers for loans that are considered impaired, and individually analyzes them following the Corporation s reappraisal policy. This policy requires updated appraisals for loans secured by real estate (including construction loans) either annually or every two years depending on the total exposure of the borrower. As a general procedure, the Corporation internally reviews appraisals as part of the underwriting and approval process and also for credits considered impaired. Generally, the specialized appraisal review unit of the Corporation s Credit Risk Management Division internally reviews appraisals following certain materiality benchmarks. In addition to evaluating the reasonability of the appraisal reports, these reviews monitor that appraisals are performed following the Uniform Standards of Professional Appraisal Practice (USPAP).

Appraisals may be adjusted due to age or general market conditions. The adjustments applied are based upon internal information, like other appraisals and/or loss severity information that can provide historical trends in the real estate market. Specifically, in commercial and construction impaired loans for the BPPR segment, and depending on the type of property and/or the age of the appraisal, downward adjustments currently range from 25% to 45% (including costs to sell). At March 31, 2015, the weighted average discount rate for the BPPR segment was 25%.

For commercial and construction loans at the BPNA segment, downward adjustments to the collateral value currently range from 10% to 40% (including costs to sell) depending on the age of the appraisals and the type, location and condition of the property. This discount used was determined based on a study of other real estate owned and loan sale transactions during the past two years, comparing net proceeds received by the bank relative to the most recent appraised value of the properties. However, additional haircuts can be applied depending upon the age of appraisal, the region and the condition of the project. Factors are based on appraisal changes and/or trends in loss severities. Discount rates discussed above include costs to sell and may change from time to time based on market conditions.

For mortgage loans secured by residential real estate properties, a current assessment of value is made not later than 180 days past the contractual due date. Any outstanding balance in excess of the estimated value of the collateral property, less estimated costs to sell, is charged-off. For this purpose, the Corporation requests third-party Broker Price Opinion of Value BPOs of the subject collateral property at least annually. In the case of the mortgage loan portfolio for the BPPR segment, BPOs of the subject collateral properties are currently subject to downward adjustment of up to approximately 30%, including cost to sell of 5%. In the case of the U.S. mortgage loan portfolio, a 10% haircut is taken, which includes costs to sell.

Discount rates discussed above, including costs to sell, are validated twice a year and may change from time to time based on market conditions.

The table that follows presents the approximate amount and percentage of non-covered impaired loans for which the Corporation relied on appraisals dated more than one year old for purposes of impairment requirements at March 31, 2015.

Table 54 - Non-Covered Impaired Loans with Appraisals Dated 1 year or Older

March 31, 2015

	Total Impaired Loans Held-in-portfolio (HIP)		
(In thousands)	Loan Count	Outstanding Principal Balance	Impaired Loans with Appraisals Over One-Year Old [1]
Commercial	143	$ 361,307	15%
Construction	5	7,075	68

[1] Based on outstanding balance of total impaired loans.

182

Table of Contents

	December 31, 2014		
	Total Impaired Loans Held-in-portfolio (HIP)		
(In thousands)	Loan Count	Outstanding Principal Balance	Impaired Loans with Appraisals Over One-Year Old [1]
Commercial	140	$ 303,128	12%
Construction	6	10,693	79

[1] Based on outstanding balance of total impaired loans.

At March 31, 2015, the Corporation accounted for $5 million impaired construction loans under the as developed value. This approach is used since the current plan is that the project will be completed and it reflects the best strategy to reduce potential losses based on the prospects of the project. The costs to complete the project and the related increase in debt are considered an integral part of the individual reserve determination.

Costs to complete are deducted from the subject as developed collateral value on impaired construction loans. Impairment determinations are calculated following the collateral dependent method, comparing the outstanding principal balance of the respective impaired construction loan against the expected realizable value of the subject collateral. Realizable values of subject collaterals have been defined as the as developed appraised value less costs to complete, costs to sell and discount factors. Costs to complete represent an estimate of the amount of money to be disbursed to complete a particular phase of a construction project. Costs to sell have been determined as a percentage of the subject collateral value, to cover related collateral disposition costs (e.g. legal and commission fees). As discussed previously, discount factors may be applied to the appraised amounts due to age or general market conditions.

Table 55 - Impaired Construction Loans Relied Upon As is or As Developed

	March 31, 2015						
	As is			As developed			
(In thousands)	Loan Count	Outstanding Principal Balance	As a % Of Total Construction Impaired Loans HIP	Loan Count	Outstanding Principal Balance	As a % Of Total Construction Impaired Loans HIP	Average % Of Completion
Loans held-in-portfolio	7	$ 5,124	52%	2	$ 4,714	48%	85%

	December 31, 2014						
	As is			As developed			
(In thousands)	Loan Count	Outstanding Principal Balance	As a % Of Total Construction Impaired Loans HIP	Loan Count	Outstanding Principal Balance	As a % Of Total Construction Impaired Loans HIP	Average % Of Completion
Loans held-in-portfolio	7	$ 7,653	58%	2	$ 5,616	42%	87%

Allowance for loan losses Covered loan portfolio

The Corporation s allowance for loan losses for the covered loan portfolio acquired in the Westernbank FDIC-assisted transaction amounted to $72 million at March 31, 2015, compared to $82 million at December 31, 2014. This allowance covers the estimated credit loss exposure related to: (i) acquired loans accounted for under ASC Subtopic 310-30, which required an allowance for loan losses of $68 million at March 31, 2015, compared with $79 million at December 31, 2014; and (ii) acquired loans accounted for under ASC Subtopic 310-20, which required an allowance for loan losses of $4 million at March 31, 2015 and $3 million at December 31, 2014.

183

Decreases in expected cash flows after the acquisition date for loans (pools) accounted for under ASC Subtopic 310-30 are recognized by recording an allowance for loan losses in the current period. For purposes of loans accounted for under ASC Subtopic 310-20 and new loans originated as a result of loan commitments assumed, the Corporation s assessment of the allowance for loan losses is determined in accordance with the accounting guidance of loss contingencies in ASC Subtopic 450-20 (general reserve for inherent losses) and loan impairment guidance in ASC Section 310-10-35 for loans individually evaluated for impairment. Concurrently, the Corporation records an increase in the FDIC loss share asset for the expected reimbursement from the FDIC under the loss sharing agreements.

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 38 to the consolidated financial statements. A significant portion of our financial activities and credit exposure is concentrated in Puerto Rico, which entered into a recession in the second quarter of 2006. Puerto Rico s gross national product contracted in real terms in every year between fiscal year 2007 and fiscal year 2011 (inclusive), grew by 0.9% in fiscal year 2012 and decreased by 0.2% and 0.9% in fiscal years 2013 and 2014. Although the forecast for fiscal years 2015 and 2016 has not been made public, gross national product for fiscal year 2015 is expected to decrease, based on available monthly economic indicators. The latest Government Development Bank for Puerto Rico (GDB) Economic Activity Index, which is a coincident indicator of ongoing economic activity, reflected a 1.6% year-over-year reduction for February 2015, after showing a 2.5% year-over-year reduction for January 2015.

The Commonwealth of Puerto Rico (the Commonwealth) has experienced and continues to experience significant budget deficits, which have been historically covered with bond financings, loans from GDB and extraordinary one-time revenue measures. Following the downgrades of the Commonwealth and its instrumentalities obligations to below investment grade ratings (as described below), the Commonwealth s ability to finance future budget deficits is expected to be very limited in the near future.

The Government currently projects that fiscal year 2015 will end with a budget deficit of $191 million, as a result of an estimated revenue shortfall of $651 million that it expects to be partially offset by certain one-time revenue and expense measures. There is no assurance, however, that the proposed measures, even if successfully implemented, will generate the increases in revenues or reductions in expenditures that are currently projected. In addition, it is possible that material expenses may have been incurred but not yet identified, thus resulting in additional expenses not considered in current projections. The Executive Branch has said that it continues to evaluate additional measures that may be necessary to cover the budget deficit.

The Commonwealth is currently working on a budget for fiscal year 2016, which, according to information publicly available, will start from a revenue base below that of fiscal year 2015 due to the revenue shortfall described above and the exclusion of various non-recurring items (estimated at approximately $810 million) from fiscal year 2015. In addition to the lower revenue base, the Commonwealth will have to address approximately $1.1 billion in additional expenditures in fiscal year 2016, including additional debt service requirements.

In addition, the Commonwealth s and GDB s liquidity is significantly strained. GDB is currently projected to have insufficient liquidity to meet its legal reserve requirement by the first quarter of fiscal year 2016 and may be unable to support the operations and liquidity needs of the Commonwealth, its public corporations and instrumentalities and municipalities. In that scenario, the Commonwealth may also be unable to obtain intra-year short-term financing for fiscal year 2016 through the issuance of Tax Revenue Anticipation Notes (TRANs). The Commonwealth currently projects that absent TRANs financing, the Commonwealth would deplete its cash resources in full during the first

quarter of fiscal year 2016, even after considering the implementation of extraordinary short-term administrative measures to conserve cash. The Government has stated that the Commonwealth and GDB may be unable to honor all of their obligations as they come due and that the Commonwealth may also be unable to fund all necessary governmental programs and services if it does not have sufficient access to the capital markets or alternative sources of financing to satisfy its liquidity needs, or as a result of its fiscal challenges. Although the Executive Branch continues to consider significant expense reduction measures in addition to those already identified and is evaluating alternate revenue measures in order to submit a balanced budget for fiscal year 2016, the Commonwealth has also indicated that it may need to implement administrative and emergency measures in fiscal year 2016 and thereafter, which may include a moratorium on the payment of debt service, a debt adjustment, or other actions affecting creditors rights.

In order to address the fiscal challenges described above, on February 10, 2015, the Governor announced a proposal for a comprehensive tax reform that would include replacing the current 7% sales and use tax with a 16% value-added tax, while significantly lowering income taxes. The proposed bill was introduced on February 11, 2015. The Puerto Rico Treasury Department projected that the tax reform, if approved as proposed, would have generated approximately $1.2 billion in additional recurring revenues to the General Fund. On April 29, 2015, after intense public debate, a substitute bill introduced at the House of Representatives that included, among other things, lower substitute rates for the value added tax, was voted down at the House of Representatives.

Following the failure to approve the proposed tax reform, the Executive Branch has announced that it is considering significant expense reduction measures and is evaluating alternate revenue measures in order to submit a balanced budget for fiscal year 2016. It is currently uncertain whether such measures will be successful.

Table of Contents

The Commonwealth s public corporations and instrumentalities are also facing fiscal challenges. On June 28, 2014, Governor Alejandro García Padilla signed into law the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the Recovery Act) which provides a framework for certain public corporations, including the Puerto Rico Electric Power Authority (PREPA), the Puerto Rico Aqueduct and Sewer Authority and the Puerto Rico Highways and Transportation Authority, to restructure their debt obligations in order to ensure that the services they provide to the public are not interrupted.

In July 2014, certain holders of PREPA bonds and an investment manager, on behalf of funds which hold PREPA bonds, filed separate lawsuits in the United States District Court for the District of Puerto Rico (the District Court) seeking a declaratory judgment that the Recovery Act violates several provisions of the United States Constitution. The District Court consolidated the actions. On February 6, 2015, the District Court issued an opinion and order declaring the Recovery Act unconstitutional and stating that it was preempted by the federal Bankruptcy Code. The District Court permanently enjoined the Commonwealth officers from enforcing the Recovery Act. The Commonwealth filed an expedited appeal before the United States Court of Appeals for the First Circuit. Oral arguments were held on May 6, 2015.

On February 11, 2015, the Puerto Rico Resident Commissioner introduced a bill in the U.S. Congress that would empower the government of Puerto Rico to authorize Puerto Rico municipalities and public corporations to restructure their debt obligations under Chapter 9 of the United States Bankruptcy Code. The Commonwealth and GDB have expressed their support for this amendment to the United States Bankruptcy Code. On February 26, 2015, public hearings were held to consider the bill. At this time it is unclear if and when the bill will be approved and, if it is approved, whether its effects will be retroactive or not.

Since February 2014, the three principal rating agencies (Moody s, S&P and Fitch) have lowered their ratings on the General Obligation bonds of the Commonwealth and the bonds of several other Commonwealth instrumentalities to non-investment grade ratings. In connection with their rating actions, the rating agencies noted various factors, including high levels of public debt, the lack of a clear economic growth catalyst, recurring fiscal budget deficits, the financial condition of the public sector employee pension plans and, more recently, liquidity concerns regarding the Commonwealth and the GDB and their ability to access the capital markets. Currently, the Commonwealth s general obligation ratings are as follows: S&P, CCC+ , Moody s, Caaa1 , and Fitch, B .

The lingering effects of the prolonged recession are still reflected in limited loan demand, an increase in the rate of foreclosures and delinquencies on mortgage loans granted in Puerto Rico. If global or local economic conditions worsen or the Government is unable to access the capital markets, manage its fiscal problems in an orderly manner and honor its obligations as they come due, those adverse effects could continue or worsen in ways that we are not able to predict. Any reduction in consumer spending as a result of these issues may also adversely impact our non-interest revenues.

At March 31, 2015, the Corporation s direct exposure to the Puerto Rico government and its instrumentalities and municipalities amounted to $995 million, of which approximately $813 million is outstanding ($1.0 billion and $811 million, respectively, at December 31, 2014). Of the amount outstanding, $698 million consists of loans and $ 115 million are securities ($ 689 million and $ 122 million, respectively, at December 31, 2014). Of the loans outstanding, $336 million represents obligations from the Government of Puerto Rico and public corporations that are either collateralized loans or obligations that have a specific source of income or revenues identified for their repayment ($ 336 million at December 31, 2014). Some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services or products, such as public utilities. Public corporations have varying degrees of independence from the central Government and many receive appropriations or other payments from it. The remaining $ 477 million represents obligations from various municipalities in Puerto Rico

for which, in most cases, the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment ($475 million at December 31, 2014). These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all of its general obligation bonds and loans. These loans have seniority to the payment of operating cost and expenses of the municipality. The Corporation performs periodic credit quality reviews on these issuers. Table 56 has a summary of the Corporation s direct exposure to the Puerto Rico government and its instrumentalities and municipalities.

Table 56 - Direct Exposure to the Puerto Rico Government

(In thousands)	Investment Portfolio	Loans	Total Outstanding	Total Exposure
Central Government	$ 49,286	$ 20,000	$ 69,286	$ 179,559
Government Development Bank (GDB)	6,111	100,000	106,111	106,111
Public Corporations:				
Puerto Rico Aqueduct and Sewer Authority	487	85,000	85,487	116,177
Puerto Rico Electric Power Authority	20	74,993	75,013	75,013
Puerto Rico Highways and Transportation Authority	4		4	4
Other				1,500
Municipalities	58,660	418,405	477,065	516,305
Total Direct Government Exposure	$ 114,568	$ 698,398	$ 812,966	$ 994,669

185

Table of Contents

In addition, at March 31, 2015, the Corporation had $376 million in indirect exposure to loans or securities that are payable by non-governmental entities, but which carry a government guarantee to cover any shortfall in collateral in the event of borrower default ($370 million at December 31, 2014). These included $296 million in residential mortgage loans that are guaranteed by the Puerto Rico Housing Finance Authority (December 31, 2014 - $289 million). These mortgage loans are secured by the underlying properties and the guarantees serve to cover shortfalls in collateral in the event of a borrower default. Also, the Corporation had $49 million in Puerto Rico pass-through housing bonds backed by FNMA, GNMA or residential loans CMO s, and $31 million of industrial development notes ($49 million and $32 million, respectively, at December 31, 2014).

On October 10, 2014, GDB entered into a note purchase, revolving credit and term loan agreement with a syndicate of banks and other financial institutions providing for the issuance of up to $900 million of GDB short-term senior notes, guaranteed by the Commonwealth, the proceeds of which will be used to fund the purchase of an equal amount of TRANs of the Commonwealth. The TRANs, which also serve as collateral for the GDB notes, provide intra-year financing to the central Government to address timing differences between expected disbursements and receipts of taxes and revenues for fiscal year 2015. The GDB notes and the related Commonwealth s tax and revenue anticipation notes mature on June 30, 2015. As of May 1, 2015, $500 million of TRANs remain outstanding, with $55.6 million payable to BPPR. Of the four remaining scheduled principal payments due under the facility, two in the amount of $11.1 million each are payable on May 15, 2015 and June 15, 2015, and two of $16.7 million each on May 29, 2015 and June 30, 2015, respectively, to BPPR.

As further detailed in Notes 9 and 10 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, $903 million of residential mortgages and $116 million in commercial loans were insured or guaranteed by the U.S. Government or its agencies at March 31, 2015. The Corporation does not have any exposure to European sovereign debt.

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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures for the current period can be found in the Market Risk section of this report, which includes changes in market risk exposures from disclosures presented in the Corporation s 2014 Annual Report.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Corporation s management, with the participation of the Corporation s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Corporation s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, the Corporation s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Corporation s disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Corporation in the reports that it files or submits under the Exchange Act and such information is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosures.

Internal Control Over Financial Reporting

There have been no changes in the Corporation s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Corporation s internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

For a discussion of Legal Proceedings, see Note 26, Commitments and Contingencies , to the Consolidated Financial Statements.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under Part I - Item 1A - Risk Factors in our 2014 Annual Report. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report. Also refer to the discussion in Part I - Item 2 - Management s Discussion and Analysis of Financial Condition and Results of Operations in this report for additional information that may supplement or update the discussion of risk factors in our 2014 Annual Report.

There have been no material changes to the risk factors previously disclosed under Item 1A of the Corporation s 2014 Annual Report, except for the risks described below.

The risks described in our 2014 Annual Report and in this report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

Table of Contents

RISKS RELATING TO THE BUSINESS ENVIRONMENT AND OUR INDUSTRY

Weakness in the economy and in the real estate market in our geographic footprint has adversely impacted and may continue to adversely impact us.

Popular is exposed to geographical and government risk. A significant portion of our financial activities and credit exposure is concentrated in Puerto Rico, which entered into a recession in the second quarter of 2006. Puerto Rico s gross national product contracted in real terms in every year between fiscal year 2007 and fiscal year 2011 (inclusive), grew by 0.9% in fiscal year 2012 and decreased by 0.2% and 0.9% in fiscal years 2013 and 2014. Although the forecast for fiscal years 2015 and 2016 has not been made public, gross national product for fiscal year 2015 is expected to decrease, based on available monthly economic indicators. The latest Government Development Bank for Puerto Rico (GDB) Economic Activity Index, which is a coincident indicator of ongoing economic activity, reflected a 1.6% year-over-year reduction for February 2015, after showing a 2.5% year-over-year reduction for January 2015.