

POPULAR INC
Form 10-Q
November 09, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2016**

Commission File Number: 001-34084

POPULAR, INC.

(Exact name of registrant as specified in its charter)

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

66-0667416
(IRS Employer
Identification Number)

**Popular Center Building
209 Muñoz Rivera Avenue
Hato Rey, Puerto Rico
(Address of principal executive offices)**

**00918
(Zip code)**

**(787) 765-9800
(Registrant's telephone number, including area code)**

**NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)**

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, \$0.01 par value, 103,779,136 shares outstanding as of November 4, 2016.

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Forward-Looking Information

The information included in this Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may relate to Popular, Inc.'s (the Corporation, Popular, we, us, our) financial condition, results of operations, plans, objectives, future performance of our business, including, but not limited to, statements with respect to the adequacy of the allowance for loan losses, delinquency trends, market risk and the impact of interest rate changes, capital markets conditions, capital adequacy and liquidity, and the effect of legal proceedings and new accounting standards on the Corporation's financial condition and results of operations. All statements contained herein that are not clearly historical in nature are forward-looking, and the words anticipate, believe, continues, expect, estimate, intend, project and similar and future or conditional verbs such as will, would, should, could, might, can, may or similar expressions generally intended to identify forward-looking statements.

These statements are not guarantees of future performance and involve certain risks, uncertainties, estimates and assumptions by management that are difficult to predict.

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

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

changes in interest rates, as well as the magnitude of such changes;

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

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

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

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

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

the impact of the Commonwealth of Puerto Rico's fiscal crisis, and the measures taken and to be taken by the Puerto Rico Government, on the economy and our business, and the ability of the Government to manage this crisis in an orderly manner;

the performance of the stock and bond markets;

competition in the financial services industry;

additional Federal Deposit Insurance Corporation (FDIC) assessments;

possible legislative, tax or regulatory changes; and

risks related to the Doral Transaction, including (a) our ability to maintain customer relationships and (b) risks associated with the limited amount of diligence able to be conducted by a buyer in an FDIC transaction.

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

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

risks associated with maintaining customer relationships from our acquisition of certain assets and deposits (other than certain brokered deposits) of Doral Bank from the FDIC as receiver;

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

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

liabilities resulting from litigation and regulatory investigations;

changes in accounting standards, rules and interpretations;

our ability to grow our core businesses;

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

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

Moreover, the outcome of legal proceedings, as discussed in Part II, Item I. Legal Proceedings, is inherently uncertain and depends on judicial interpretations of law and the findings of regulators, judges and juries. Investors should refer to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2015 as well as Part II, Item 1A of this Form 10-Q for a discussion of such factors and certain risks and uncertainties to which the Corporation is subject.

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

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

(In thousands, except share information)	September 30, 2016	December 31, 2015
Assets:		
Cash and due from banks	\$ 350,545	\$ 363,674
Money market investments:		
Securities purchased under agreements to resell	22,380	96,338
Time deposits with other banks	3,941,115	2,083,754
Total money market investments	3,963,495	2,180,092
Trading account securities, at fair value:		
Pledged securities with creditors right to repledge	22,848	19,506
Other trading securities	49,736	52,153
Investment securities available-for-sale, at fair value:		
Pledged securities with creditors right to repledge	785,124	739,045
Other investment securities available-for-sale	6,843,532	5,323,947
Investment securities held-to-maturity, at amortized cost (fair value 2016 - \$79,410; 2015 - \$82,889)	97,973	100,903
Other investment securities, at lower of cost or realizable value (realizable value 2016 - \$172,077; 2015 - \$175,291)	168,791	172,248
Loans held-for-sale, at lower of cost or fair value	72,076	137,000
Loans held-in-portfolio:		
Loans not covered under loss-sharing agreements with the FDIC	22,714,358	22,453,813
Loans covered under loss-sharing agreements with the FDIC	588,211	646,115
Less Unearned income	118,386	107,698
Allowance for loan losses	555,855	537,111
Total loans held-in-portfolio, net	22,628,328	22,455,119
FDIC loss-share asset	152,467	310,221
Premises and equipment, net	537,975	502,611
Other real estate not covered under loss-sharing agreements with the FDIC	184,828	155,231
Other real estate covered under loss-sharing agreements with the FDIC	37,414	36,685
Accrued income receivable	119,691	124,234
Mortgage servicing assets, at fair value	200,354	211,405
Other assets	2,163,939	2,193,162
Goodwill	627,294	626,388

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Other intangible assets	47,886	58,109
Total assets	\$ 39,054,296	\$ 35,761,733
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 6,950,287	\$ 6,401,515
Interest bearing	23,376,758	20,808,208
Total deposits	30,327,045	27,209,723
Federal funds purchased and assets sold under agreements to repurchase	765,251	762,145
Other short-term borrowings	1,200	1,200
Notes payable	1,598,533	1,662,508
Other liabilities	980,057	1,019,018
Liabilities from discontinued operations (Refer to Note 4)	1,815	1,815
Total liabilities	33,673,901	30,656,409
Commitments and contingencies (Refer to Note 23)		
Stockholders' equity:		
Preferred stock, 30,000,000 shares authorized; 2,006,391 shares issued and outstanding	50,160	50,160
Common stock, \$0.01 par value; 170,000,000 shares authorized; 104,014,381 shares issued (2015 - 103,816,185) and 103,762,596 shares outstanding (2015 - 103,618,976)	1,040	1,038
Surplus	4,234,842	4,229,156
Retained earnings	1,259,295	1,087,957
Treasury stock - at cost, 251,785 shares (2015 - 197,209)	(7,647)	(6,101)
Accumulated other comprehensive loss, net of tax	(157,295)	(256,886)
Total stockholders' equity	5,380,395	5,105,324
Total liabilities and stockholders' equity	\$ 39,054,296	\$ 35,761,733

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

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

(In thousands, except per share information)	Quarters ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Interest income:				
Loans	\$ 363,550	\$ 364,458	\$ 1,096,468	\$ 1,094,222
Money market investments	4,568	2,003	11,320	5,294
Investment securities	37,732	31,671	110,728	93,269
Trading account securities	1,449	3,150	5,013	8,872
Total interest income	407,299	401,282	1,223,529	1,201,657
Interest expense:				
Deposits	32,362	28,357	92,835	80,479
Short-term borrowings	2,132	2,222	6,051	5,819
Long-term debt	19,118	19,968	57,993	58,876
Total interest expense	53,612	50,547	156,879	145,174
Net interest income	353,687	350,735	1,066,650	1,056,483
Provision for loan losses - non-covered loans	42,594	69,568	130,202	159,747
Provision (reversal) for loan losses - covered loans	750	(2,890)	(1,551)	23,200
Net interest income after provision for loan losses	310,343	284,057	937,999	873,536
Service charges on deposit accounts	40,776	40,960	120,934	120,115
Other service fees (Refer to Note 29)	59,169	56,115	169,496	169,162
Mortgage banking activities (Refer to Note 12)	15,272	24,195	42,050	58,372
Net gain on sale of investment securities	349	136	1,932	141
Other-than-temporary impairment losses on investment securities			(209)	(14,445)
Trading account (loss) profit	(113)	(398)	842	(3,092)
Net gain on sale of loans, including valuation adjustments on loans held-for-sale	8,549		8,245	602
Adjustments (expense) to indemnity reserves on loans sold	(4,390)	(5,874)	(14,234)	(9,981)
FDIC loss-share (expense) income (Refer to Note 30)	(61,723)	1,207	(77,445)	24,421
Other operating income	18,089	14,768	46,500	41,808
Total non-interest income	75,978	131,109	298,111	387,103
Operating expenses:				
Personnel costs	121,224	120,863	365,023	358,298
Net occupancy expenses	21,626	21,277	63,770	66,272

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Equipment expenses	15,922	14,739	45,731	44,075
Other taxes	11,324	9,951	31,689	29,638
Professional fees	81,266	77,154	237,350	231,131
Communications	5,785	6,058	18,117	18,387
Business promotion	12,726	12,325	37,541	36,914
FDIC deposit insurance	5,854	7,300	18,586	22,240
Other real estate owned (OREO) expenses	11,295	7,686	33,416	75,571
Other operating expenses	29,752	25,551	70,432	73,981
Amortization of intangibles	3,097	3,512	9,308	8,497
Goodwill impairment charge	3,801		3,801	
Restructuring costs (Refer to Note 4)		481		17,408
Total operating expenses	323,672	306,897	934,764	982,412
Income from continuing operations before income tax	62,649	108,269	301,346	278,227
Income tax expense (benefit)	15,839	22,620	80,550	(478,344)
Income from continuing operations	46,810	85,649	220,796	756,571
(Loss) income from discontinued operations, net of tax (Refer to Note 4)		(9)		1,347
Net Income	\$ 46,810	\$ 85,640	\$ 220,796	\$ 757,918

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Net Income Applicable to Common Stock	\$ 45,880	\$ 84,709	\$ 218,004	\$ 755,126
Net Income per Common Share Basic				
Net income from continuing operations	\$ 0.44	\$ 0.82	\$ 2.11	\$ 7.33
Net income from discontinued operations				0.01
Net Income per Common Share Basic	\$ 0.44	\$ 0.82	\$ 2.11	\$ 7.34
Net Income per Common Share Diluted				
Net income from continuing operations	\$ 0.44	\$ 0.82	\$ 2.11	\$ 7.31
Net income from discontinued operations				0.01
Net Income per Common Share Diluted	\$ 0.44	\$ 0.82	\$ 2.11	\$ 7.32
Dividends Declared per Common Share	\$ 0.15	\$ 0.15	\$ 0.45	\$ 0.15

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

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

(In thousands)	Quarters ended, September 30,		Nine months ended, September 30,	
	2016	2015	2016	2015
Net income	\$ 46,810	\$ 85,640	\$ 220,796	\$ 757,918
Other comprehensive (loss) income before tax:				
Foreign currency translation adjustment	(325)	(31)	(2,465)	(1,704)
Amortization of net losses of pension and postretirement benefit plans	5,488	5,025	16,461	15,075
Amortization of prior service cost of pension and postretirement benefit plans	(950)	(950)	(2,850)	(2,850)
Unrealized holding (losses) gains on investments arising during the period	(15,428)	28,669	98,900	22,820
Other-than-temporary impairment included in net income			209	14,445
Reclassification adjustment for gains included in net income	(349)	(136)	(349)	(141)
Unrealized net losses on cash flow hedges	(1,123)	(2,575)	(4,662)	(4,106)
Reclassification adjustment for net losses included in net income	1,650	1,664	4,466	3,973
Other comprehensive (loss) income before tax	(11,037)	31,666	109,710	47,512
Income tax expense	(646)	(2,441)	(10,119)	(7,446)
Total other comprehensive (loss) income, net of tax	(11,683)	29,225	99,591	40,066
Comprehensive income, net of tax	\$ 35,127	\$ 114,865	\$ 320,387	\$ 797,984

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

(In thousands)	Quarters ended September 30,		Nine months ended, September 30,	
	2016	2015	2016	2015
Amortization of net losses of pension and postretirement benefit plans	\$ (2,140)	\$ (1,961)	\$ (6,420)	\$ (5,880)
Amortization of prior service cost of pension and postretirement benefit plans	370	371	1,110	1,112
Unrealized holding (losses) gains on investments arising during the period	1,297	(1,234)	(4,877)	(272)
Other-than-temporary impairment included in net income			(42)	(2,486)
Reclassification adjustment for gains included in net income	33	27	33	28
Unrealized net losses on cash flow hedges	438	1,004	1,819	1,601

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Reclassification adjustment for net losses included in net income	(644)	(648)	(1,742)	(1,549)
Income tax expense	\$ (646)	\$ (2,441)	\$ (10,119)	\$ (7,446)

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

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

(in thousands)	Common stock	Preferred stock	Surplus	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total
Balance at December 31, 2014	\$ 1,036	\$ 50,160	\$ 4,196,458	\$ 253,717	\$ (4,117)	\$ (229,872)	\$ 4,267,382
Net income				757,918			757,918
Issuance of stock	1		4,176				4,177
Tax windfall benefit on vesting of restricted stock			171				171
Dividends declared:							
Common stock				(15,534)			(15,534)
Preferred stock				(2,792)			(2,792)
Common stock purchases					(1,798)		(1,798)
Common stock reissuance					46		46
Other comprehensive income, net of tax						40,066	40,066
Balance at September 30, 2015	\$ 1,037	\$ 50,160	\$ 4,200,805	\$ 993,309	\$ (5,869)	\$ (189,806)	\$ 5,049,636
Balance at December 31, 2015	\$ 1,038	\$ 50,160	\$ 4,229,156	\$ 1,087,957	\$ (6,101)	\$ (256,886)	\$ 5,105,324
Net income				220,796			220,796
Issuance of stock	2		5,716				5,718
Tax windfall shortfall on vesting of restricted stock			(30)				(30)
Dividends declared:							
Common stock				(46,666)			(46,666)
Preferred stock				(2,792)			(2,792)
Common stock purchases					(1,563)		(1,563)
Common stock reissuance					17		17
Other comprehensive income, net of tax						99,591	99,591
Balance at September 30, 2016	\$ 1,040	\$ 50,160	\$ 4,234,842	\$ 1,259,295	\$ (7,647)	\$ (157,295)	\$ 5,380,395

Disclosure of changes in number of shares:

	September 30, 2016	September 30, 2015
Preferred Stock:		
Balance at beginning and end of period	2,006,391	2,006,391
Common Stock Issued:		
Balance at beginning of period	103,816,185	103,614,553

Balance of stock	198,196	131,400
Balance at end of the period	104,014,381	103,745,950
Treasury stock	(251,785)	(189,670)
Common Stock Outstanding	103,762,596	103,556,280

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

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

(In thousands)	Nine months ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 220,796	\$ 757,918
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	128,651	182,947
Goodwill impairment losses	3,801	
Amortization of intangibles	9,308	8,497
Depreciation and amortization of premises and equipment	34,725	35,459
Net accretion of discounts and amortization of premiums and deferred fees	(36,753)	(58,637)
Other-than-temporary impairment on investment securities	209	14,445
Fair value adjustments on mortgage servicing rights	18,879	5,808
FDIC loss share expense (income)	77,445	(24,421)
Adjustments (expense) to indemnity reserves on loans sold	14,234	9,981
Earnings from investments under the equity method	(23,812)	(17,085)
Deferred income tax expense (benefit)	61,918	(496,279)
Loss (gain) on:		
Disposition of premises and equipment and other productive assets	3,603	(2,939)
Sale and valuation adjustments of investment securities	(1,932)	(141)
Sale of loans, including valuation adjustments on loans held-for-sale and mortgage banking activities	(32,982)	(24,657)
Sale of foreclosed assets, including write-downs	13,160	56,391
Acquisitions of loans held-for-sale	(223,189)	(331,860)
Proceeds from sale of loans held-for-sale	58,003	71,296
Net originations on loans held-for-sale	(365,353)	(574,942)
Net decrease (increase) in:		